

OKLAHOMA 2003

Single Audit Report For The Fiscal Year Ended June 30, 2003

Prepared by
Office of State Auditor and Inspector

Jeff A. McMahan
State Auditor and Inspector



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

April 16, 2004

**TO THE HONORABLE BRAD HENRY, GOVERNOR
OF THE STATE OF OKLAHOMA AND MEMBERS
OF THE LEGISLATURE OF THE STATE OF OKLAHOMA**

Transmitted herewith is the Single Audit Report of the State of Oklahoma for the fiscal year ended June 30, 2003. The audit was conducted in accordance with the requirements of the Single Audit Act Amendments of 1996 and the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office by various state officials and employees during the course of the audit.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMahan".

Jeff A. McMahan
State Auditor and Inspector

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**Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards***

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards*

**To the Honorable Brad Henry, Governor
and Members of the Legislature of the
State of Oklahoma**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Oklahoma as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements and have issued our report thereon dated February 20, 2004, which included emphasis paragraphs on the unfunded actuarial accrued liability of the Teachers' Retirement System. We did not audit:

- the financial statements of the Commissioners of the Land Office, the Oklahoma Department of Commerce, the Oklahoma Insurance Department, the Oklahoma Department of Wildlife Conservation, or the Oklahoma Sorghum Commission, which in the aggregate represent eleven percent and four percent, respectively, of the assets and revenues of the governmental activities;
- the financial statements of the Water Resources Board which in the aggregate represent sixty-one percent and fourteen percent, respectively, of the assets and revenues of the business-type activities;
- the financial statements of the aggregate discretely presented component units;
- the financial statements of the Commissioners of the Land Office, the Oklahoma Department of Commerce, the Oklahoma Insurance Department, the Oklahoma Department of Wildlife Conservation, or the Oklahoma Sorghum Commission which in the aggregate represent two percent and three percent, respectively, of the assets and revenues of the general fund;
- the financial statements of the Commissioners of the Land Office permanent fund;
- the financial statements of the Oklahoma Department of Wildlife Conservation Lifetime Licenses permanent fund;
- the financial statements of the Tobacco Settlement Endowment permanent fund;
- the financial statements of the Water Resources Board enterprise fund;
- the financial statements of the Oklahoma Firefighter's Pension and Retirement System, the Oklahoma Law Enforcement Retirement System, the Oklahoma Police Pension and Retirement System, the Oklahoma Public Employee's Retirement System, the Oklahoma Teachers' Retirement System, the Uniform Retirement System for Judges and Justices, or the Oklahoma Department of Wildlife Conservation Retirement Plan which in the aggregate represent ninety-nine percent of both the assets and revenues/additions of the aggregate remaining fund information.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above-mentioned entities, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Oklahoma's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts

and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Oklahoma's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Oklahoma's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-290-013, 03-290-015, 03-345-002, 03-345-004, 03-345-007, 03-345-014, 03-345-018, 03-345-021, 03-345-026, 03-345-041, 03-452-001, 03-452-002, 03-695-002IT, 03-695-006IT, 03-695-009IT, 03-805-011, 03805-015, 03-805-017, 03-807-016, IS03-830-001, IS03-830-008.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 03-345-026 and 03-345-041 to be material weaknesses.

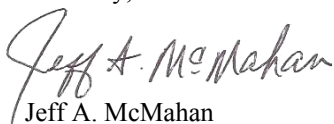
In addition to the reportable conditions described above, we also noted other matters involving the internal control over financial reporting. These instances are not considered to be reportable conditions; however, we believe they are significant enough to be brought to management's attention. These matters have been included in the section titled "Other Findings" contained within this report.

The American Institute of Certified Public Accountants' Statement on Auditing Standards Number 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of management of the State of Oklahoma, members of the Legislature, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



Jeff A. McMahan
State Auditor and Inspector

February 20, 2004

**Report on Compliance With Requirements Applicable to Each Major
Program and on Internal Control Over Compliance in Accordance With
OMB Circular A-133 and Opinion on the Supplementary Schedule of
Expenditures of Federal Awards**

**Report on Compliance With Requirements Applicable to Each Major
Program and on Internal Control Over Compliance in Accordance With
OMB Circular A-133 and Opinion on the Supplementary Schedule of
Expenditures of Federal Awards**

**To the Honorable Brad Henry, Governor
and Members of the Legislature of the
State of Oklahoma**

Compliance

We have audited the compliance of the State of Oklahoma with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. We did not audit compliance with those requirements that are applicable to the major federal programs administered by the Department of Commerce, the Department of Wildlife Conservation, or the Department of Environmental Quality, all of which were audited in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those programs represent 1.4% of total expenditures for federal programs reported on the Schedule of Expenditures of Federal Awards. These entities were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to compliance with the compliance requirements for the above-mentioned entities, is based solely upon the reports of the other auditors.

The State of Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Oklahoma's management. Our responsibility is to express an opinion on the State of Oklahoma's compliance based on our audit and the reports of the other auditors.

The State of Oklahoma's basic financial statements include the operations of component units, some of which received federal awards. Those component units are not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2003. Our audit, described below, did not include the operations of those component units because they engaged other auditors to perform audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Oklahoma's compliance with those requirements.

In our opinion, the State of Oklahoma complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as items:

03-265-003 03-265-006 03-265-007 03-265-010 03-265-011 03-290-003

03-290-018	03-290-021	03-290-024	03-340-001	03-340-004	03-340-006
03-340-009	03-340-012	03-340-013	03-340-014	03-340-020	03-340-11T
03-340-2IT	03-340-3IT	03-345-046	03-345-049	03-452-006	03-452-009
03-580-002	03-580-003	03-580-004	03-580-005	03-580-006	03-650-003
03-650-004	03-805-001	03-805-002	03-805-004	03-805-008	03-805-009
03-805-010	03-807-001	03-807-002	03-807-011	03-807-013	03-807-014
03-807-015	03-807-017	03-807-018	03-807-019	03-807-022	03-807-024
03-830-001	03-830-003	03-830-006	03-830-009	03-830-010	03-830-012
03-830-013	03-830-016	03-830-017	03-830-018	03-830-019	03-830-020
03-830-021	03-830-023	03-1			

Internal Control Over Compliance

The management of the State of Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Oklahoma’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over compliance that, in our judgment, could adversely affect the State of Oklahoma’s ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings as items:

03-265-003	03-265-006	03-265-007	03-265-010	03-265-011	03-290-003
03-290-013	03-290-015	03-290-018	03-290-021	03-340-001	03-340-004
03-340-006	03-340-009	03-340-012	03-340-013	03-340-014	03-340-020
03-345-002	03-345-004	03-345-007	03-345-014	03-345-017	03-345-018
03-345-020	03-345-021	03-345-044	03-345-045	03-345-046	03-345-049
03-452-001	03-452-002	03-452-005	03-452-006	03-452-007	03-452-008
03-452-009	03-650-003	03-650-002	03-650-004	03-805-001	03-805-002
03-805-003	03-805-004	03-805-005	03-805-007	03-805-008	03-805-009
03-805-010	03-807-001	03-807-002	03-807-005	03-807-011	03-807-013
03-807-014	03-807-015	03-807-017	03-807-018	03-807-019	03-807-022
03-807-023	03-807-024	03-830-003	03-830-002	03-830-004	03-830-006
03-830-008	03-830-009	03-830-012	03-830-021	03-830-022	03-830-023
03-830-024					

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 03-345-044 to be a material weakness.

In addition to the reportable conditions described above, we also noted other matters involving the internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. These instances are not considered to be reportable conditions; however, we believe they are significant enough to be brought to management’s attention. These matters have been included in the section titled “Other Findings” contained within this report.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the State of Oklahoma as of and for the year ended June 30, 2003, and have issued our report thereon dated February 20, 2004, which includes identification of the entities whose financial statements were audited by other auditors and an emphasis paragraph on the unfunded actuarial accrued liability of the Teachers' Retirement System. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

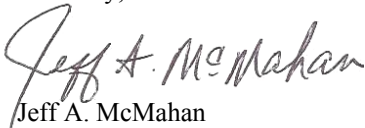
The Selected Activities for Internal Service Type Funds section listed in the table of contents has not been audited by us, and accordingly, we express no opinion on it.

The American Institute of Certified Public Accountants' Statement on Auditing Standards Number 87 requires the inclusion of the following paragraph in this report:

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Sincerely,



Jeff A. McMahan
State Auditor and Inspector

March 31, 2004 except as to the Schedule of Expenditures of Federal Awards, for which the date is February 20, 2004.

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**Schedule of Expenditures of Federal Awards
By Federal Grantor**

**Schedule of Expenditures of Federal Awards
By Federal Grantor**

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor
for the Fiscal Year Ending June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
U.S. Department of Agriculture				
Direct Programs:				
Plant and Animal Disease, Pest Control, and Animal Care	10.025	Department of Agriculture	997,078	
		Boll Weevil Eradication	<u>1,140,000</u>	2,137,078
Federal-State Marketing Improvement Program	10.156	Department of Agriculture		42,109
Market Protection and Promotion	10.163	Department of Agriculture		59,904
State Mediation Grants	10.435	Department of Agriculture		59,487
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	Department of Agriculture		1,554,457
Food Distribution	⌘ 10.550	Department of Human Services		16,549,389
Food Stamps	⌘ 10.551	Department of Human Services		344,711,098
School Breakfast Program	10.553	Department of Education		28,160,581
National School Lunch Program	10.555	Department of Education	86,227,798	
		Department of Human Services	<u>1,102,426</u>	87,330,224
		Department of Education		49,292
Special Milk Program for Children	10.556	Department of Education		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	State Department of Health		62,976,657
Child and Adult Care Food Program	10.558	Department of Education		42,974,531
Summer Food Service Program for Children	10.559	Department of Education		1,764,628
State Administrative Expenses for Child Nutrition	10.560	Department of Education	2,286,472	
		Department of Human Services	<u>357,344</u>	2,643,816
State Administrative Matching Grants for Food Stamp Program	10.561	Department of Human Services		31,252,898
Emergency Food Assistance Program (Administrative Costs)	10.568	Department of Human Services		807,344
Nutrition Program for the Elderly (Commodities)	10.570	Department of Human Services		1,773,113
Cooperative Forestry Assistance	10.664	Department of Agriculture		1,591,387
Rural Development, Forestry and Communities	10.672	Department of Agriculture		349,905
Soil and Water Conservation	10.902	Conservation Commission		103,048
Subtotal				<u>626,890,946</u>
U.S. Department of Defense				
Direct Programs:				
Procurement Technical Assistance For Business Firms	12.002	Department of Career & Technology Education		265,565
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	Department of Environmental Quality		53,706
Basic and Applied Scientific Research	12.300	Water Resources Board		31,327
Cost Reimbursement Contract - National Guard Military Construction	12.400	Oklahoma Military Department		3,053,787
Cost Reimbursement Contract - National Guard Military Operations and Maintenance (O&M) Projects	12.401	Oklahoma Military Department		10,846,661
Cost Reimbursements Contract - National Guard Civilian Youth Opportunities Program	12.404	Oklahoma Military Department		2,236,797
Other Federal Assistance - Troops to Teachers	-	Department of Education		104,530
Subtotal				<u>16,592,373</u>
U.S. Department of Housing and Urban Development				
Direct Programs:				
Community Development Block Grants - State's Program	14.228	Department of Commerce		23,147,538 ♦
Emergency Shelter Grants Program	14.231	Department of Commerce		877,693 ♦
Supportive Housing Program	14.235	Department of Commerce	3,543	
		Mental Health and Substance Abuse Serv	<u>41,000</u>	44,543
Shelter Plus Care	14.238	Department of Commerce	100,969	
		Mental Health and Substance Abuse Serv	<u>30,577</u>	131,546
Fair Housing Assistance Program - State's Program	14.401	Human Rights Commission		181,498
Subtotal				<u>24,382,818</u>

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor for the Fiscal Year Ending June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
U.S. Department of the Interior				
Direct Programs:				
Indian Education - Assistance to Schools	15.130	Department of Education		192,451
Cost Reimbursement Contract - Cooperative Inspection Agreements with States and Tribes	15.222	State Auditor and Inspector		368,527
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	Department of Mines		992,391
Abandoned Mine Land Reclamation (AMLR) Program	15.252	Conservation Commission		1,840,173
Small Reclamation Projects	15.503	Department of Tourism and Recreation		126,194
Reclamation and Water Reuse Programs	15.504	Dept of Wildlife Conservation	85,558	
		Water Resources Board	39,670	125,228
Sport Fish Restoration	15.605	Department of Wildlife Conservation		4,667,844 ♦
Wildlife Restoration	15.611	Department of Wildlife Conservation		3,954,057 ♦
Cooperative Endangered Species Conservation Fund	15.615	Department of Wildlife Conservation		600,087 ♦
Wildlife Conservation and Restoration	15.625	Department of Wildlife Conservation		394,622 ♦
Hunter Education and Safety Program	15.626	Department of Wildlife Conservation		146,729
Formula Grant to Develop & Implement Programs to Benefit Wildlife and Their Habitat	15.634	Department of Wildlife Conservation		71,534
Historic Preservation Fund Grants-In-Aid	15.904	Historical Society		858,427
Outdoor Recreation - Acquisition, Development and Planning	15.916	Department of Tourism and Recreation		836,162
Rivers, Trails and Conservation Assistance	15.921	Historical Society		36,535
American Battlefield Protection	15.926	Historical Society		8,324
Subtotal				<u>15,219,285</u>
U.S. Department of Justice				
Direct Programs:				
State Domestic Preparedness Equipment Support Program	16.007	Department of Public Safety		175,335
Serious and Violent Offender Reentry Initiative	16.202	Department of Corrections	7,002	
		Office of Juvenile Affairs	2,781	9,783
Comprehensive Approaches to Sex Offender Management	16.203	Department of Corrections		5,927
Juvenile Accountability Incentive Block Grants	16.523	Office of Juvenile Affairs		2,409,835
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	Office of Juvenile Affairs		875,350
National Institute for Juvenile Justice and Delinquency Prevention	16.542	State Bureau of Investigation		93,537
Title V - Delinquency Prevention Program	16.548	Office of Juvenile Affairs		473,576
Part E - State Challenge Activities	16.549	Office of Juvenile Affairs		61,923
State Justice Statistics Program for Statistical Analysis Centers	16.550	Legislative Service Bureau		54,710
National Criminal History Improvement Program (NCHIP)	16.554	District Attorneys Council		283,764
Crime Victim Assistance	16.575	District Attorneys Council		4,610,855
Crime Victim Compensation	16.576	District Attorneys Council		917,047
Byrne Formula Grant Program	16.579	District Attorneys Council		6,442,511
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	Department of Corrections		435,497
Violence Against Women Formula Grants	16.588	District Attorneys Council		1,478,104
Local Law Enforcement Block Grants Program	16.592	District Attorneys Council		725,303
Residential Substance Abuse Treatment for State Prisoners Planning, Implementing, and Enhancing Strategies in Community Prosecution	16.609	Legislative Service Bureau		21,746
Public Safety Partnership and Community Policing Grants	16.710	Department of Public Safety		1,688,666
Police Corps	16.712	Department of Public Safety		347,150
Enforcing Underage Drinking Laws Program	16.727	Department of Public Safety		641,627
Cost Reimbursement Contract - Public Safety Partnership and Community Policing	16.710	State Bureau of Investigation		911,181
Other Federal Assistance - Marijuana Eradication Suppression Program	-	Bureau of Narcotics & Dangerous Drugs Control		347,072
Subtotal				<u>24,220,729</u>

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Schedule of Expenditures of Federal Awards By Federal Grantor
for the Fiscal Year Ending June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
U.S. Department of Labor				
Direct Programs:				
Labor Force Statistics	17.002	Employment Security Commission		1,134,897
Compensation and Working Conditions Data	17.005	Department of Labor		80,207
Labor Certification for Alien Workers	17.203	Employment Security Commission		114,718
Employment Service	17.207	Employment Security Commission		10,381,007
Unemployment Insurance	17.225	Employment Security Commission		379,117,301
Senior Community Service Employment Program	17.235	Employment Security Commission		1,253,978
Trade Adjustment Assistance - Workers	17.245	Employment Security Commission		6,143,754
Employment Services and Job Training - Pilot and Demonstration Programs	17.249	Department of Career & Technology Education		299,754
Welfare-to-Work Grants to States and Localities	17.253	Employment Security Commission		2,706,864
Workforce Investment Act - Adults	17.258	Employment Security Commission		8,803,165
Workforce Investment Act - Youth	17.259	Employment Security Commission		10,968,771
Workforce Investment Act - Dislocated Workers	17.260	Employment Security Commission		8,991,870
Consultation Agreements	17.504	Department of Labor		1,225,879
Mine Health and Safety Grants	17.600	Department of Mines		55,359
Disabled Veterans' Outreach Program (DVOP)	17.801	Employment Security Commission		903,205
Local Veterans' Employment Representative Program	17.804	Employment Security Commission		1,753,726
Cost Reimbursement Contract - Job Corps	-	Employment Security Commission		499,072
Subtotal				<u>434,433,527</u>
U.S. Department of Transportation				
Direct Programs:				
Boating Safety Financial Assistance	20.005	Department of Public Safety		969,206
Airport Improvement Program	20.106	Oklahoma Aeronautics Commission		230,228
Highway Planning and Construction	20.205	Department of Transportation		388,959,429
National Motor Carrier Safety	20.218	Department of Public Safety		3,408,335
Recreational Trails Program	20.219	Department of Tourism and Recreation		1,061,247
Formula Grants for Other Than Urbanized Areas	20.509	Department of Transportation		4,086,759
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	Department of Human Services		1,647,090
State and Community Highway Safety	20.600	Department of Public Safety		4,081,797
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	Department of Emergency Management		156,778
Cost Reimbursement Contract - Pipeline Safety	20.700	Corporation Commission		517,293
Subtotal				<u>405,118,162</u>
Equal Employment Opportunity Commission				
Direct Programs:				
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	Human Rights Commission		121,054
Subtotal				<u>121,054</u>
General Services Administration				
Direct Programs:				
Donation of Federal Surplus Personal Property	39.003	Department of Central Services		1,685,885
Other Federal Assistance - Centennial Commemoration	-	Capitol Complex and Centennial Commission		229,214
Subtotal				<u>1,915,099</u>
National Foundation on the Arts and the Humanities				
Direct Programs:				
Promotion of the Arts - Partnership Agreements	45.025	State Arts Council		584,100
Promotion of the Humanities - Division of Preservation and Access	45.149	Historical Society		93,186
Promotion of the Humanities - Public Programs	45.164	Historical Society		32,933
State Library Program	45.310	Department of Libraries		1,462,265
Other Federal Assistance - National Commission on Library and Information Studies	-	Department of Libraries		3,088
Subtotal				<u>2,175,572</u>

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor for the Fiscal Year Ending June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
Small Business Administration				
Direct Programs:				
Congressional - Special Initiative	59.000	Department of Career & Technology Education		313,387
Cost Reimbursement Contract - Business Development Assistance to Small Business	59.005	Center for Advancement of Science and Technology		141,499
Subtotal				<u>454,886</u>
U.S. Department of Veterans Affairs				
Direct Programs:				
Grants to States for Construction of State Home Facilities	64.005	Department of Veterans Affairs		14,992,129 ♦
Veterans State Domiciliary Care	64.014	Department of Veterans Affairs		82,641
Veterans State Nursing Home Care	64.015	Department of Veterans Affairs		23,163,450 ♦
All-Volunteer Force Educational Assistance	64.124	Department of Veterans Affairs		292,760
Subtotal				<u>38,530,980</u>
U.S. Environmental Protection Agency				
Direct Programs:				
Surveys Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	Department of Environmental Quality		62,174
Water Pollution Control - State and Interstate				
Water Pollution Control State/Interstate Prog. Support	66.419	Water Resources Board		138,298
Program Support	66.419	Water Resources Board		1,826,329
State Underground Water Source Protection	66.433	Corporation Commission		315,400
Water Quality Management Planning	66.454	Water Resources Board		115,928
Capitalization Grants for State Revolving Funds	66.458	Water Resources Board		10,794,317
Nonpoint Source Implementation Grants	66.460	Water Resources Board		2,639
Nonpoint Source Implementation Grants	66.460	Water Resources Board		2,333,505
Wetlands Protection - Development Grants	66.461	Water Resources Board		99,596
National Pollutant Discharge Elimination System Related State Program Grants	66.463	Water Resources Board		10,782
Capitalization Grants for Drinking Water				
State Revolving Fund	66.468	Department of Environmental Quality		14,503,507 ♦
Rural Communities Hardship Grants Program	66.470	Water Resources Board		14,549
State Grants to Reimburse Operators of Small Water				
Systems for Training and Certification Costs	66.471	Department of Environmental Quality		331,948
Water Protection Coordination Grants to the States	66.474	Department of Environmental Quality		88,461
Performance Partnership Grants	66.605	Department of Environmental Quality		6,328,597
Surveys, Studies, Investigations and Special Purpose Grants	66.606	Department of Environmental Quality	245,806	
		Water Resources Board	<u>210,930</u>	456,736
One Stop Reporting	66.608	Department of Environmental Quality		199,777
Children's Health Protection	66.609	Department of Health		35,614
Consolidated Pesticide Enforcement				
Cooperative Agreements	66.700	Department of Agriculture		525,885
Toxic Substances Compliance Monitoring	66.701	Dept of Environmental Quality	88,607	
		Department of Labor	<u>178,008</u>	266,615
Pollution Prevention Grants Program	66.708	Department of Environmental Quality		49,824
Superfund State Site - Specific Cooperative Agreements	66.802	Department of Environmental Quality		663,618
State and Tribal Underground Storage Tanks Program	66.804	Corporation Commission		184,338
Leaking Underground Storage Tank Trust Fund Program	66.805	Corporation Commission		714,061
Subtotal				<u>40,062,498</u>
U.S. Department of Energy				
Direct Programs:				
State Energy Program	81.041	Department of Commerce		636,977
Weatherization Assistance for Low-Income Persons	81.042	Department of Commerce		2,451,009 ♦
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Tech Analysis	81.117	Department of Commerce		151,517
State Energy Program - Special Projects	81.119	Department of Commerce		304,140
Subtotal				<u>3,543,643</u>

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Schedule of Expenditures of Federal Awards By Federal Grantor
for the Fiscal Year Ending June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
Federal Emergency Management Agency				
Direct Programs:				
Hazardous Materials Assistance Program	83.012	Department of Emergency Management		5,000
Community Assistance Program - State Support				
Services Element	83.015	Department of Emergency Management		244,005
Flood Mitigation Assistance	83.536	Department of Emergency Management		14,500
Crisis Counseling	83.539	Department of Emergency Management		89,920
Individual and Family Grants	83.543	Department of Emergency Management		901,343
Public Assistance Grants	83.544	Dept of Emergency Management	36,508,102	
		Dept of Tourism and Recreation	18,694	
		Historical Society	7,518	36,534,314
Hazard Mitigation Grant	83.548	Department of Emergency Management		2,271,276
National Dam Safety Program	83.550	Water Resources Board		168,444
Emergency Management Performance Grants	83.552	Department of Emergency Management		1,682,513
State and Local All Hazards Emergency Planning	83.562	Department of Emergency Management		855,661
Emergency Operations Center Initiative	83.583	Department of Emergency Management		26,120
Homeland Security - Citizen Corp	83.584	Department of Emergency Management		82,229
Homeland Security - Pre-Disaster Mitigation	83.999	Department of Emergency Management		58,650
Subtotal				<u>42,933,975</u>
U.S. Department of Education				
Direct Programs:				
Adult Education - State Grant Program	84.002	Department of Education		6,195,571
Title I Grants to Local Educational Agencies	84.010	Department of Education		105,567,003 *
Migrant Education - Basic State Grant Program	84.011	Department of Education		2,294,911
Title I Program for Neglected and Delinquent Children	84.013	Department of Education		272,056
Special Education - Grants to States	84.027	Department of Education		94,732,468 *
Vocational Education - Basic Grants to States	84.048	Department of Career & Technology Education		17,004,390 *
National Vocational Education Research	84.051	Department of Career & Technology Education		1,309,143
Statewide Systems Change Project	84.086	Department of Education		30,482
Fund for the Improvement of Postsecondary Education	84.116	Department of Career & Technology Education		148,113
Rehabilitation Services - Vocational				
Rehabilitation Grants to States	84.126	Department of Rehabilitation Services		34,925,552 *
Public Library Construction LSCA Title II	84.154	Department of Libraries		10,000
Rehabilitation Services - Client Assistance Program	84.161	Office of Handicapped Concerns		125,375
Immigrant Education	84.162	Department of Education		385,143
Independent Living - State Grants	84.169	Department of Rehabilitation Services		193,410
Special Education - Preschool Grants	84.173	Department of Education		3,750,011 *
Rehabilitation Services - Independent Living Services				
for Older Individuals Who are Blind	84.177	Department of Rehabilitation Services		441,892
Special Education - Grants for Infants and				
Families with Disabilities	84.181	Department of Education		4,810,279
Byrd Honors Scholarships	84.185	Department of Education		456,250
Safe and Drug-Free Schools and Communities - State Grants	84.186	Department of Education	3,693,680	
		Department of Health	515,034	4,208,714
Supported Employment Services for Individuals				
with Severe Disabilities	84.187	Department of Rehabilitation Services		415,365
Bilingual Education Support Services	84.194	Department of Education		69,130
Education for Homeless Children and Youth	84.196	Department of Education		405,110
Even Start - State Educational Agencies	84.213	Department of Education		2,441,083
Fund for the Improvement of Education	84.215	Department of Education		830,547
Capital Expenses	84.216	Department of Education		12,792
Tech-Prep Education	84.243	Department of Career & Technology Education		1,903,270
Rehabilitation Training - State Vocational				
Rehabilitation Unit In-Service Training	84.265	Department of Rehabilitation Services		56,059
Eisenhower Professional Development State Grants	84.281	Department of Education		1,614,202
Charter Schools	84.282	Department of Education		1,944,896
Twenty-First Century Community Learning Centers	84.287	Department of Education		215,077
Innovative Education Program Strategies	84.298	Department of Education		4,747,270

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor for the Fiscal Year Ending June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
Technology Innovation Challenge Grants	84.303	Department of Education		65,693
Technology Literacy Challenge Fund Grants	84.318	Department of Education		5,505,687
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	Department of Education		683,335
Advanced Placement Incentive Program	84.330	Department of Education		421,090
Grants to States for Incarcerated Youth Offenders	84.331	Department of Corrections		304,000
Comprehensive School Reform Demonstration	84.332	Department of Education		371,130
Reading Excellence	84.338	Department of Education		2,531,095
Class Size Reduction	84.340	Department of Education		1,806,299
Occupational and Employment Information State Grants	84.346	Department of Career & Technology Education		129,589
Title I Accountability Grants	84.348	Department of Education		1,168,933
School Renovation Grants	84.352	Department of Education		9,908,029
Reading First	84.357	Department of Education		225
Rural and Low Income Schools	84.358	Department of Education		2,198,907
English Language Acquisition Grants	84.365	Department of Education		1,327,232
Improving Teacher Quality Grants	84.367	Department of Education		21,015,958 *
Grants for Enhanced Assessment Instruments	84.368	Department of Education		162,628
State Assessments and Related Activities	84.369	Department of Education		689,821
Subtotal				<u>339,805,215</u>
National Archives and Records Administration				
Direct Programs:				
National Historical Publications and Records Grants	89.003	Department of Libraries		<u>2,117</u>
Subtotal				<u>2,117</u>
U.S. Department of Health and Human Services				
Direct Programs:				
Public Health and Social Services Emergency Fund	93.003	State Department of Health		453,413
Special Programs for the Aging - Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	Department of Human Services		68,425
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	Department of Human Services		159,465
Special Programs for the Aging - Title III, Part F - Disease Prevention and Health Promotion Services	93.043	Department of Human Services		248,704
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Department of Human Services		4,449,980
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	Department of Human Services		7,309,963
Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	93.048	Insurance Department		171,925
New Demonstration Grants to States With Respect to Alzheimer's Disease	93.051	Department of Human Services		241,452
National Family Caregiver Support Program	93.052	Department of Human Services		1,711,406
Nutrition Services Incentive Program	93.053	Department of Human Services		762,246
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	Mental Health and Substance Abuse Services		534,772
Maternal and Child Health Federal Consolidated Programs	93.110	State Department of Health		270,389
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	State Department of Health		753,775
Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services - Technical Assistance Centers for Evaluation	93.119	Mental Health and Substance Abuse Services		144,179
Primary Care Services - Resource Coordination and Development Primary Care Offices	93.130	State Department of Health		131,985
Injury Prevention and Control Research and State and Community Based Programs	93.136	State Department of Health		1,168,171
Projects for Assistance in Transition from Homelessness (PATH)	93.150	Mental Health and Substance Abuse Services		293,188

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor
for the Fiscal Year Ending June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
Childhood Lead Poisoning Prevention Projects - State and Community Based Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	State Department of Health		299,315
Program to Build Capacity to Conduct Site Specific Activities	93.200	State Department of Health		250,923
Family Planning Services	93.217	State Department of Health		3,687,564
Consolidated Knowledge Development and Application Program	93.230	Mental Health and Substance Abuse Services		3,105,417
Traumatic Brain Injury	93.234	State Department of Health		157,065
Abstinence Education	93.235	State Department of Health		307,635
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	State Department of Health	32,613	
		Mental Health and Substance Abuse Ser	<u>257,737</u>	290,350
State Rural Hospital Flexibility Program	93.241	State Department of Health		324,455
Universal Newborn Hearing Screening	93.251	State Department of Health		164,460
Rural Access to Emergency Devices Grant	93.259	State Department of Health		149,001
Immunization Grants	❖ 93.268	State Department of Health		20,940,929 ❖
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	State Department of Health		11,237,271 ❖
Promoting Safe and Stable Families	93.556	Department of Human Services		5,850,818
Temporary Assistance for Needy Families	93.558	Department of Human Services		161,184,724 ❖
Child Support Enforcement	93.563	Department of Human Services		42,624,468
Refugee and Entrant Assistance - State Administered Programs	93.566	Department of Human Services		690,610
Low-Income Home Energy Assistance	93.568	Department of Human Services		13,415,139 ❖
Community Services Block Grant	93.569	Department of Commerce		7,532,193 ❖
Community Services Block Grant Discretionary Awards	93.570	Department of Commerce		5,781
Community Services Block Grant Discretionary Awards - Community Food and Nutrition	93.571	Department of Commerce		46,079
Child Care and Development Block Grant	93.575	Department of Human Services		61,121,599 ❖
Refugee and Entrant Assistance - Discretionary Grants	93.576	Department of Education	68,541	
		Department of Human Services	<u>120,865</u>	189,406
Empowerment Zones Program	93.585	Department of Commerce		13,450
State Court Improvement Program	93.586	Supreme Court		128,561
Community-Based Family Resource and Support Grants	93.590	State Department of Health		2,312,050
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Department of Human Services		24,677,323 ❖
Grants to States for Access and Visitation Programs	93.597	Department of Human Services		164,158
Head Start	93.600	Department of Commerce		201,445
Adoption Incentive Payments	93.603	Department of Human Services		1,580,796
Developmental Disabilities Basic Support and Advocacy Grants	93.630	Department of Human Services		1,336,327
Children's Justice Grants to States	93.643	Department of Human Services		177,659
Child Welfare Services - State Grants	93.645	Department of Human Services		2,408,228
Foster Care - Title IV-E	93.658	Department of Human Services		28,814,791 ❖
Adoption Assistance	93.659	Department of Human Services		15,061,028 ❖
Social Services Block Grant	93.667	Department of Human Services		20,585,967
Child Abuse and Neglect State Grants	93.669	Department of Human Services		304,501
Family Violence Prevention and Services - Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	Mental Health and Substance Abuse Services		1,224,663
Independent Living	93.674	Department of Human Services		2,284,543
State Children's Insurance Program	93.767	Health Care Authority		37,560,572
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	Health Care Authority		127,889
Medicare - Hospital Insurance	93.773	State Department of Health		3,915,014
State Medicaid Fraud Control Units	93.775	Attorney General		850,282 ❖
State Survey and Certification of Health Care Providers and Suppliers	93.777	Health Care Authority		4,477,825 ❖
Medical Assistance Program	93.778	Health Care Authority		1,583,773,376 ❖

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor for the Fiscal Year Ending June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
Centers for Medicare and Medicaid Services (CMS)				
Research, Demonstrations and Evaluations	93.779	Oklahoma Health Care Authority		293,866
Grants to States for Operation of Offices of Rural Health	93.913	State Department of Health		47,422
HIV Care Formula Grants	93.917	State Department of Health		6,739,674
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	Department of Education		281,264
HIV Prevention Activities - Health Department Based	93.940	State Department of Health		2,273,871
Human Immunodeficiency Virus (HIV) - Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	State Department of Health		524,388
Assistance Programs for Chronic Disease Prevention and Control	93.945	State Department of Health		1,278,614
Trauma EMS	93.952	State Department of Health		7,152
Block Grants for Community Mental Health Services	93.958	Mental Health and Substance Abuse Services		4,803,469
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Mental Health and Substance Abuse Services		17,183,356 ❄
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	State Department of Health		1,321,224
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	State Department of Health	306,748	
		Ctr for Adv. of Science and Tech.	47,972	354,720
Preventive Health and Health Services Block Grant	93.991	State Department of Health		1,245,494
Maternal and Child Health Services Block Grant to the States	93.994	State Department of Health	5,160,033	
		Department of Human Services	2,566,977	7,727,010
Other Federal Assistance - X-Ray Inspections	-	State Department of Health		58,323
Other Federal Assistance - Clinical Laboratory Improvement Amendments	-	State Department of Health		230,329
Other Federal Assistance-Senior Health Insurance Counseling Program	-	State Insurance Department		215,599
Other Federal Assistance-Implementation Alcohol/Drug Data Collection	-	Mental Health and Substance Abuse Services		31,511
Other Federal Assistance-Consumer Directed Personal Assistance Services and Supports	-	Department of Human Services		373,002
Subtotal				2,129,419,376
Corporation for National and Community Service				
Direct Programs:				
Learn and Serve America - School and Community Based Programs	94.004	Department of Education		503,856
Learn and Serve America - Higher Education	94.005	Department of Education		355,974
Foster Grandparent Program	94.011	Department of Human Services		495,999
Cost Reimbursement Contract - Americorps	94.006	Department of Tourism and Recreation		40,539
Subtotal				1,396,368
Social Security Administration				
Direct Programs:				
Social Security - Disability Insurance	96.001	Department of Rehabilitation Services		16,918,291 ❄
Social Security - Research and Demonstration	96.007	Department of Rehabilitation Services		329,369
Subtotal				17,247,660
Total Federal Assistance				<u>\$ 4,164,466,283</u>

❄ Noncash Assistance

❖ Partially Noncash Assistance

❄ Tested as a major program as defined by OMB Circular A-133

◆ Program audited as a major program by independent auditor of entity within the State

Notes to the Schedule of Expenditures
of Federal Awards

Notes to the Schedule of Expenditures
of Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2003

Note 1. Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared in conformity with the requirements set forth in the Single Audit Act of 1984, Public Law 98-502, the Single Audit Act Amendments of 1996, Public Law 104-156 and Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations*.

A. Reporting Entity

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. The reporting entity includes the primary government of the State of Oklahoma as presented in the Comprehensive Annual Financial Report (CAFR). Component units included in the CAFR prepare individual financial statements that meet the requirements of OMB Circular A-133, and have not been included in the Schedule. OMB Circular A-133 allows non-Federal entities to meet the audit requirements of the Circular through a series of audits that cover the reporting entity.

B. Basis of Presentation

The Schedule presents expenditures and expenses for the fiscal year ended June 30, 2003. The Schedule reports total federal award expenditures and expenses for each federal program as identified in the *Catalog of Federal Domestic Assistance (CFDA)*. Federal awards without identified CFDA numbers have been identified as "Other Federal Assistance".

Federal financial awards include federal financial assistance and federal cost-reimbursement contracts. Federal financial assistance may be defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, food commodities, interest subsidies, insurance or direct appropriations, but does not include direct federal cash assistance to individuals. Non-monetary federal assistance including surplus property, food stamps and food commodities is reported in the Schedule. Solicited contracts between the State and the federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Food and commodity distributions on the accompanying Schedule are valued using a weighted average cost based on the U.S. Department of Agriculture commodity price list at the inventory receipt date. The food stamp issuance amount included in the accompanying Schedule is stated at the value of food stamps redeemed. Donated federal surplus property is included in the Schedule at a percentage of the federal government acquisition cost.

The scope of the Schedule includes expenditures and expenses of federal assistance directly received by state primary recipients. With reference to the primary government, the primary recipient expenditures are not adjusted for subrecipient state agency expenditures. State agency expenditures and expenses of federal assistance received indirectly from nonstate sources are reported as "passed through" those nonstate sources.

Major programs are defined by levels of expenditures and expenses and risk assessments established in the OMB Circular A-133.

Notes to the Schedule of Expenditures of Federal Awards

C. Basis of Accounting

The accompanying Schedule, in general, reports expenditures of the primary government in accordance with Generally Accepted Accounting Principles (GAAP). GAAP requires that governmental funds report revenue and expenditures using the modified accrual basis of accounting as described in the Comprehensive Annual Financial Report. The modified accrual basis of accounting recognizes expenditures and expenses when incurred. The Department of Environmental Quality (CFDA 66.468 only) and the Wildlife Conservation Commission use the accrual basis of accounting that recognizes expenditures when incurred.

Note 2. Petroleum Violation Escrow Funds

Petroleum Violation Escrow (PVE) funds received by the State as restitution relative to litigation involving violations of federal price controls are not federal funds and therefore are not included in the Schedule. However, certain PVE funds were made subject to OMB Circular A-133 by the terms of federal legislation, or by court orders. Those PVE funds subject to OMB Circular A-133, and included within the scope of our audit, were utilized in the following programs during fiscal year 2003:

<u>CFDA Number</u>	<u>Program Name</u>
81.041	State Energy Program
81.042	Weatherization Assistance for Low Income Persons

Note 3. State Unemployment Insurance Fund

Expenditures for unemployment insurance (CFDA 17.225) include state unemployment insurance (UI) funds as well as federal UI funds. The state portion of UI funds amounted to \$283,791,792. The federal portion of UI funds amounted to \$95,325,509.

Note 4. Federally Funded Loan Programs

The Water Resources Board (WRB) administers the Oklahoma Clean Water Facility Construction Revolving Loan Account Program. The program had loans outstanding of \$153,264,502 at June 30, 2003. Federal grants from the U.S. Environmental Protection Agency under CFDA 66.458 provided approximately 83.33% of the program's loan funding, with State funds matching the remaining 16.67%. Included in the schedule of federal expenditures are funds withdrawn for loans and administrative costs. During fiscal year 2003, the WRB withdrew federal funds in the amount of \$10,794,317. These funds were used for disbursements on loans originated.

The Oklahoma Department of Environmental Quality (ODEQ) administers the Oklahoma Drinking Water State Revolving Fund Program. The program had loans outstanding of \$34,328,511 at June 30, 2003. The Oklahoma Drinking Water State Revolving Fund Program utilizes Federal Capitalization grants, from the U.S. Environmental Protection Agency under CFDA 66.468, required State matching funds equal to 20% of federal funds received, and interest income for drinking water loan assistance. Included in the schedule of federal expenditures are funds withdrawn for loans, state matching funds used for loans and program operating costs. During fiscal year 2003, the ODEQ withdrew federal funds in the amount of \$14,964,491. Of these funds, \$12,843,152 was used for disbursements on loans originated.

Note 5. Cost Recovery of Federal Program Expenditures

During fiscal year 2003, the Oklahoma Department of Health received cash rebates from infant formula manufacturers in the amount of \$17,190,865 on sales of formula to participants in the Special Supplemental Food Program for Women, Infants, and Children (CFDA No. 10.557). The rebate contracts are authorized by 7 CFR 46.26(m) as a cost containment measure. The cash rebates were treated as a credit against prior food expenditures.

Notes to the Schedule of Expenditures of Federal Awards

The Oklahoma Department of Transportation has incurred significant expenditures on construction projects that have exceeded the contract amounts approved by the federal grantor. These project expenditures are held in suspense until modified contracts are approved by the federal grantor and the expenditures subsequently reimbursed. Project expenditures totaling \$10,357,000 were in suspense at June 30, 2003, and once the modified contracts are approved by the U.S. Department of Transportation an estimated 85 percent or \$8,803,000 will be considered available.

Note 6. Audits Provided by Auditors Other Than Principal Auditor

Audits provided by auditors other than the principal auditor include the Department of Commerce, the Department of Wildlife Conservation, and the Department of Environmental Quality (CFDA 66.468 only).

The schedule separately identifies programs that were audited as major programs by the independent auditors of these agencies. The Type A and B program dollar threshold for these separate agency single audits was based on the federal expenditures at the individual agency level. As a result, major programs were identified at the agency level that may not have considered major had they been evaluated at the statewide level.

Note 7. Department of Transportation Federal Soft Match Provision

Beginning in the year 1992, the Oklahoma Department of Transportation began using the “soft match” provision of the Inter-modal Surface Transportation Efficiency Act, which allows the maintenance and construction cost of toll facilities that serve interstate commerce to be used in lieu of state matching funds. Annually, dollars spent for major maintenance (reconstruction) of turnpikes or new construction may be added to the amount of soft match credit available for use as state match. The state’s share of expenditures is deducted from the available soft match amount. Federal money would then fund 100 percent of the project from the amount that had previously been apportioned for Oklahoma’s highway projects.

The Department utilized \$52,179,628 of the soft match provision for projects billed during fiscal year 2002. These soft match dollars are applied to the approved construction projects when expenditures are incurred, based on the soft match percentage. Therefore, the amount reported on the fiscal year 2003 Schedule as Federal Highway Administration federal expenditures may include all or part of the previously approved soft match.

Note 8. Department of Education Grant Transfers

The Department of Education made the following transfers between programs for the fiscal year 2003:

	Transferred To:			Total
	Title I Grants to LEAs (CFDA 84.010)	Innovative Education Program Strategies (CFDA 84.298)	Education Technology State Grants (CFDA 84.318)	
Transferred From:				
Safe and Drug-Free Schools and Communities_State Grants (CFDA 84.186)	\$60,250	\$23,257	\$3,289	\$86,796
Innovative Education Program Strategies (CFDA 84.298)	25,206	-	7,150	32,356
Education Technology State Grants (CFDA 84.318)	2,094	9,000	-	\$11,094
Improving Teacher Quality State Grants (CFDA 84.367)	958,497	222,791	46,239	\$1,227,527
Totals	\$1,046,047	\$255,048	\$56,678	\$1,357,773

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Schedule of Findings

Schedule of Findings

Schedule of Findings Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:.....unqualified

Internal control over financial reporting:

Material weakness(es) identified?yes

Reportable condition(s) identified that are not considered to be material weakness(es)?yes

Noncompliance material to financial statements noted?no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?yes

Reportable condition(s) identified that are not considered to be material weakness(es)?yes

Type of auditor's report issued on compliance for major programs:.....unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?yes

Dollar threshold used to distinguish between type A and type B programs: \$12,417,505

Auditee qualified as low-risk auditee?no

Identification of Major Programs:

	<u>Program and CFDA Number</u>	<u>State Agency</u>
	14.228 Community Development Block Grant	Department of Commerce
	14.231 Emergency Shelter Grant Program	Department of Commerce
Fish and Wildlife Cluster	15.605 Sport Fish Restoration	Wildlife Conservation Commission
	15.611 Wildlife Restoration	Wildlife Conservation Commission
	15.615 Endangered Species Conservation	Wildlife Conservation Commission
	15.625 Wildlife Conservation and Restoration	Wildlife Conservation Commission
	17.225 Unemployment Insurance	Employment Security Commission
WIA Cluster	17.258 WIA Adult Programs	Employment Security Commission
	17.259 WIA Youth Activities	Employment Security Commission
	17.260 WIA Dislocated Workers	Employment Security Commission
	20.205 Highway Planning and Construction	Department of Transportation

	<u>Program and CFDA Number</u>	<u>State Agency</u>
	39.003 Donation of Federal Surplus Personal Property	Department of Central Services
	64.005 Grants to States for Construction of State Home Facilities	Department of Veterans Affairs
	64.015 Veterans State Nursing Home Care	Department of Veterans Affairs
	66.468 Drinking Water State Revolving Fund Program	Department of Environmental Quality
	81.042 Weatherization Assistance of Low-Income Persons	Department of Commerce
	84.010 Title 1 Grants to Local Educational Agencies	Department of Education
Special Education Cluster	84.027 Special Education-Grants to States	Department of Education
	84.173 Special Education-Preschool Grants	
	84.048 Vocational Education-Basic Grants to States	Department of Career and Technology Education
	84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States	Department of Rehabilitation Services
	84.367 Improving Teacher Quality State Grants	Department of Education
	93.268 Childhood Immunization Grants	Department of Health
	93.283 CDC Prevention Investigations and Technical Assistance	Department of Health
	93.558 Temporary Assistance for Needy Families	Department of Human Services
	93.568 Low Income Home Energy Assistance	Department of Human Services
	93.569 Community Services Block Grant	Department of Commerce
Child Care Cluster	93.575 Child Care and Development Block Grant	Department of Human Services
	93.596 Child Care Mandatory and Matching Funds of CCDF	
	93.658 Foster Care, Title IV-E	Department of Human Services
	93.659 Adoption Assistance	Department of Human Services
Medicaid Cluster	93.775 State Medicaid Fraud Control Units	Health Care Authority Attorney General
	93.777 State Survey and Certification of Health Care Providers and Suppliers	
	93.778 Medical Assistance Program	
	93.959 Block Grants for Prevention and Treatment of Substance Abuse	Department of Mental Health and Substance Abuse Services
	96.001 Social Security-Disability Insurance	Department of Rehabilitation Services

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Employment Security Commission

Reference number 03-290-015 regarding information system security relates to both the financial statements and to federal awards received from the U.S. Department of Labor . The detail of this finding may be seen in the section Schedule of Findings, Federal Award Findings and Questioned Costs.

REF NO: 03-290-013

STATE AGENCY: Employment Security Commission

Criteria: According to the standards of the Information Systems Audit and Control Association (CobIT, Delivery and Support PO4), management should implement a division of roles and responsibilities that should exclude the possibility for a single individual to subvert a critical process.

Condition: The security administration functions are performed by several people, (Systems Director, Novell Network Administrator, Novell Network Specialist), within the agency. The security duties are in addition to their other job responsibilities.

Effect: Without proper segregation of duties the system and its data may be subject to manipulation or result in improper use of the resources.

Recommendation: We recommend that OESC create a Security Administrator position. This position should have the responsibilities for developing and implementing data systems that provide detection, prevention, containment, and deterrence mechanisms to protect and maintain the integrity of the information. This position would develop, recommend and maintain the agency's security policy and procedures designed to protect computer programs, databases and data files from unauthorized duplication, modification or destruction. The Security Administrator would establish and maintain correct access rules that controls who has access to specific information and under what circumstances access is allowed.

In addition, we recommend that OESC insure segregation of duties be maintained between the following functions:

- Systems development and maintenance
- Systems development and operations
- Systems development/maintenance and information security
- Operations and data control
- Operations and users
- Operations and information security

Management's Corrective Action Plan

Contact Person: Mike Evans, CIO

Anticipated Completion Date:

Corrective Action Planned: OESC agrees with the need for a Security Administrator position. We are currently looking for ways of combining responsibilities and creating a position responsible for security of computer programs, databases, and all telecommunication systems. Current budgetary concerns limit OESC's abilities to open and fill a new position. In order to reduce the risks associated with several people performing security administration functions, OESC has limited knowledge of critical passwords to only two individuals. OESC will continue to work towards combining these functions under one position.

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(Internal Control and Compliance)

Health Care Authority

REF NO: 03-807-016

STATE AGENCY: Health Care Authority

Criteria: An internal control objective is to ensure all transactions are analyzed and accurately posted to the correct fund/account in the correct amount and time period. A control to ensure this objective is met is to perform regular reconciliations.

Condition: During review of internal controls, we noted:

- OHCA has not reconciled its Fund 340 to the State Treasurer's Office since December 2002. According to Authority personnel, the fund has not been reconciled because the Authority's fiscal agent has not been able to provide reliable cancelled warrant reports.
- OHCA personnel have indicated the reconciliation between agency records and the Office of State Finance is reviewed; however, there is no evidence of the review.

Effect: Errors or irregularities may occur and not be detected in a timely manner.

Recommendation: We recommend:

- OHCA continue working with its fiscal agent to correct the errors regarding the cancelled warrants report and reconcile Fund 340 to the State Treasurer's Office.
- Written evidence, such as the reviewer's initials, be maintained to document the review and approval of the Fund 340 reconciliation between the agency and the Office of State Finance.

Management's Corrective Action Plan

Contact Person: Kelly Shropshire, Audit Manager

Anticipated Completion Date:

Corrective Action Planned: In response to the conditions found during the review of internal controls:

1. The OHCA Finance division plans to reconcile Fund 340 to the State Treasurer's Office by June 30, 2004. During the transition between Unisys and EDS a process was not in place to pick up the cancelled warrant status transactions from the State Treasurer's Office for the two-week period of December 17, 2002 through January 3, 2003. When this omission was discovered, OHCA and EDS worked with the State Treasurer's Office to reconstruct the missing transactions. These original missing transactions caused the initial reports provided by EDS to be incorrect. OHCA has worked with EDS to generate internal controls that will insure all future transactions from the State Treasurer's Office are recorded.
2. OHCA will maintain written evidence to document the review and approval of the Fund 340 reconciliation between the agency and the Office of State Finance.

Department of Human Services

REF NO: IS03-830-001

STATE AGENCY: Department of Human Services

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobIT) Delivery & Support objective #5, the logical access to and use of IT computing resources should be restricted by the implementation of adequate identification, authentication, and authorization mechanisms, linking users and resources with access rules.

Condition: The security access permissions on OKDHS Financial and Operational Systems are inadequate. System level security properties (e.g., password controls, control of super user accounts,

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special authorities, and access permissions to production resources) have not been established to enforce adequate segregation of duties and best practices. (Detailed Operating System and Database conditions have been provided to OKDHS Management)

Effect: Due to inadequate and/or inappropriate authentication and authorization mechanisms an increased risk of unauthorized and/or inappropriate access exists.

Recommendation: In order to ensure adequate authentication and authorization mechanisms management should enable and implement existing controls within these environments.

Management's Corrective Action Plan

Contact Person: P. Motley / M. Youngblood

Anticipated Completion Date:

Corrective Action Planned: Corrective actions for the identified conditions to which the OKDHS management concurred have either been implemented as a result of the audit, or will be included in current or future projects. Information was provided for the other conditions that OKDHS management felt needed clarification or additional information provided to show how the control criteria were being met for the condition reviewed.

REF NO: IS03-830-008

STATE AGENCY: Department of Human Services

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (COBIT) Delivery and Support DS4 management should have controls in place to ensure continuous service that satisfies the business requirement that IT services are available as required and that there is minimal business impact in the event of a major disruption. Management should have an operational and tested IT continuity (Disaster Recovery) plan that is in line with the overall business continuity plan as it is related to business requirements.

Condition: Our review of the OKDHS found that neither the Data Services Division (DSD) nor the Finance Division's IT have tested their disaster recovery plan by doing a complete system recovery.

Effect: There is an increased risk that long-term disruption of IT services would occur during a major event.

Recommendation: We recommend DSD and the Finance Division management assess their plans adequacy on a regular basis or upon major changes to the business or IT infrastructure. Testing should be done on a routine basis and include careful preparation, documentation, reporting test results, and depending to the test results implement an action plan to address the necessary modifications to the plan.

Management's Corrective Action Plan

Contact Person: Marq Youngblood, Chief Information Officer
Phil Motley, Chief Financial Officer

Anticipated Completion Date:

Corrective Action Planned:

DSD Response:

DSD has an extensive Disaster Recovery Plan. We fully utilize off-site storage facilities and monitor them closely for system backups and critical documents. We have utilized backups to recover system and data files. However, we have not tested the portion of the plan requiring a complete system recovery on separate hardware at a remote site. This would be the case if for some reason the Data Services Division building and/or the computer room was not available.

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(Internal Control and Compliance)

The Business Quality Unit of DSD has been charged with reviewing the current plan, making modifications as needed for current conditions, and developing and executing a test of the plan. A project plan will be developed for this effort. We have targeted the 4th quarter of calendar year 2004 to complete a plan for a full system recovery test.

Finance Response:

Finance currently has a planned upgrade in the near future and will test the disaster recovery plan as soon as the existing AS/400 is replaced with a new box and the existing box is moved to the current off-site facility. This upgrade is targeted for completion by the end of this calendar year.

Department of Mental Health and Substance Abuse Services

Reference number 03-452-002 regarding information system development and testing relates to both the financial statements and to federal awards received from the U.S. Department of Health and Human Services. The detail of this finding may be seen in the section Schedule of Findings, Federal Award Findings and Questioned Costs.

REF NO: 03-452-001

STATE AGENCY: Department of Mental Health and Substance Abuse Services

Criteria: Strategic Planning:

According to the standards of the Information Systems Audit and Control Association (CobiT) Planning and Organization PO1.1, senior management is responsible for developing and implementing long- and short-range plans that fulfill the organization's mission and goals. In this respect, senior management should ensure that IT issues as well as opportunities are adequately assessed and reflected in the organization's long- and short-range plans. IT long- and short-range plans should be developed to help ensure that the use of IT is aligned with the mission and business strategies of the organization. In addition, according to the State of Oklahoma, Information Security Policy, Procedures and Guidelines, Section 3.1, minimum standards include system planning, contingency planning and disaster recovery.

Steering Committee:

According to CobiT Planning and Organization PO4.1, the organization's senior management should appoint a planning or steering committee to oversee the IT function and its activities. Committee membership should include representatives from senior management, user management and the IT function. The committee should meet regularly and report to senior management.

Quality Assurance:

According to CobiT Planning and Organization PO4.5, management should assign the responsibility of the quality assurance function to staff members of the IT function and ensure that appropriate quality assurance, systems, controls and communications expertise exists in the IT function's quality assurance group. The organizational placement within the IT function and the responsibilities and the size of the quality assurance group should satisfy the requirements of the organization.

Staffing:

According to CobiT Planning and Organization PO4.11, staffing requirements evaluations should be performed regularly to ensure the IT function has a sufficient number of competent IT staff. Staffing requirements should be evaluated at least annually or upon major changes to the business, operational or IT environment. Evaluation results should be acted upon promptly to ensure adequate staffing now and in the future.

Condition: The agency did not provide an IT strategic plan for our review but explained that the IT Strategic Plan was being updated for compliance with the eventual HIPAA regulations. The agency does not have a IT Steering Committee to plan and direct the IT function or a quality assurance program to

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adequately review projects ensuring that they meet user requirements and agency standards. According to management responses, they feel the current resources are inadequate to accomplish the objectives set forth for the IT function. Specifically, management feels they could better accomplish the goals of the agency in a timelier manner if they had more resources.

Effect: The IT function may not be meeting the agency's current and future needs without an adequate strategic plan. IT function decisions may be made that do not consider the agency's overall needs and goals without the oversight of a steering committee. The lack of a quality assurance program increases the potential that application development is not adequately tested and does not meet the project plans and specifications.

Recommendation: We recommend the OSDMH:

- Review their updated strategic plan to ensure it addresses the future needs of all management and considers recent developments in technology. In addition, this update and review should prepare OSDMH for the guidelines and procedure requirements of the Oklahoma Information Security Policy and Procedures Guidelines.
- Create and implement an IT steering committee whose responsibility is to oversee the IT function and its activities. The committee would ensure that the IT function is compatible with the business function of the agency. This committee should be made up of senior management, user management, and IT management. The committee should meet regularly and report to senior management.
- Develop and implement a quality assurance unit within the IT function to provide oversight and review of system development and implementation.
- Review their current staffing levels and current outstanding development projects, establish solid priorities for each project, and then complete the projects in a timely manner, as resources become available.

Management's Corrective Action Plan:

Contact Person: Leo Fortelney

Anticipated Completion Date: July 1, 2005

Corrective Action Planned: DMHSAS will do the following:

- Review and update the IT Strategic Plan (short and long range).
- Create an IT Steering Committee to oversee the IT function and its activities to insure it meets the objectives of the agency.
- Develop and implement a quality assurance unit within the IT division to provide oversight for development and implementation of IT projects.
- Review current staffing levels and development projects, establish solid priorities for each project, and then complete the projects as resources become available.

Department of Rehabilitation Services

REF NO: 03-805-011

STATE AGENCY: Department of Rehabilitation Services

Criteria: According to the standards of the Information Systems Audit and Control Association (CobIT, Acquisition and Implementation AI6), IT management should ensure that a system exists that provides for the analysis, implementation and follow-up of all changes requested and made to the existing IT environment to effectively minimize the likelihood of disruption, unauthorized alterations, and errors.

According to the Information Security policy, procedures and guidelines issued by the Office of State Finance (9.17 Change Control Procedures), the implementation of changes must be strictly controlled by the use of formal change control procedures to minimize the risk of system corruption. They should ensure

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(Internal Control and Compliance)

that security and control procedures are not compromised, that programmers are given access to only those units required for their work and that formal approvals are obtained before work commence.

Condition: We found DRS does not have formal change procedures for system modifications. We noted programmers are able to make system/application changes, test the changes, and move changes into production without control procedures to ensure changes were authorized, tested and met users requirements.

It is our understanding that system documentation for ORMIS is outdated from its original development in 1996.

Effect: Due to the lack of formal change control procedures, risk of system corruption is increased. DRS need to ensure that ORMIS is meeting the business purpose and ensure that when system changes are made the associated documentation is updated accordingly.

Recommendation: We recommend that management adopt formal procedures to:

- Ensure changes are strictly controlled by formal change control procedures.
- Ensure that the security and control procedures are not compromised, that programmers are given access to only those units required for their work, and that formal approvals are obtained.
- Ensure change request forms are complete and include the following information:
 - Date of requested change
 - Request Type
 - Person requesting change/division
 - Description of the change
 - Impact to the business
 - Authorization
 - Received date
 - Assigned to
 - Estimate Hours
 - Actual hours
 - Estimated start date
 - Estimated completion date
 - Completion date
 - Programmer Actions
 - Programmer, Manager, and Supervisor signature
- Management should ensure that all users are aware of the change request procedures and that changes are submitted by authorized personnel
- Changes should be categorized, prioritized and specific procedures should be in place to handle urgent matters
- Change requestors should be kept informed about the status of their request
- Identify all software, databases, and hardware that require changes
- Ensure the system documentation is current
- Maintain version control on all updates
- Maintain an audit trail of all change request

Management's Corrective Action Plan

Contact Person: Jim Murphy, Branch Manager Information Services

Anticipated Completion Date: September 30, 2004

Corrective Action Planned: DRS Concur with this finding. Quality Assurance Procedures will be upgraded to comply with OSF's recently published Guidelines. The I.S. Branch Manager will assume the initial responsibilities for Quality Control adherence.

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REF NO: 03-805-015

STATE AGENCY: Department of Rehabilitation Services

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Planning and Organization PO4, and Acquisition & Implementation AI5), management should ensure the right IT services are delivered by providing an organization suitable in numbers and skills with roles and responsibilities defined and communicated, aligned with the business and that facilitates the strategy and provides for effective direction and adequate control.

According to the Information Security policy, procedures and guidelines issued by the Office of State Finance (9.3 Segregation of Duties and 9.4 Separation of Development and Operational Facilities), duties and areas of responsibility must be segregated in order to reduce opportunities for unauthorized modification or misuse of information or services.

Development and testing facilities must be separated from operational facilities. Rules for the transfer of software from development to operational status should be defined and documented. The level of separation that is necessary, between operational, test and development environments, to prevent operational problems should be considered. A similar separation should also be implemented between development and test functions. In this case, there is a need to maintain a known and stable environment in which to perform meaningful testing and to prevent inappropriate developer access.

Condition: Our review found DRS does not have a separate Quality Assurance unit to ensure system changes are independently tested and moved into production. A DRS programmer has the access to make system changes, test the changes, and subsequently move them into production without review or approval.

The ORMIS programmer consultant has the sole responsibility to make program changes, test them, and move them into the production environment.

Effect: Segregation of duties is a basic control that prevents or detects errors, irregularities, and fraud. For this reason, separate performance of critical tasks is imperative.

Development and test activities can cause serious problems, e.g. unwanted modification of files or system environment or of system failure.

The lack of adequate quality assurance increases the risk of implementing changes that have not been properly tested and approved by the users before being moved to the production environment

Recommendation: We recommend senior management implement a division of roles and responsibilities, which should exclude the possibility for a single individual to subvert a critical process.

Management should ensure that changes are tested in accordance with the impact and resource assessment in a separate test environment by an independent test group before being used in the production environment.

Management should also make sure that personnel are performing only those duties corresponding to their respective jobs. In particular, a segregation of duties should be maintained between the following functions:

- Information systems use
- Data entry
- Computer operations
- Network management
- System administration
- Systems development and maintenance

Schedule of Findings

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(Internal Control and Compliance)

- Change management
- Security administration
- Security audit

Management's Corrective Action Plan

Contact Person: Jim Murphy, Branch Manager Information Services

Anticipated Completion Date: September 30, 2004

Corrective Action Planned: DRS acknowledges these issues. The existing Quality Assurance Policies will be reviewed and brought into compliance with the OSF Guidelines to insure segregation of responsibility. The Branch Manager will also work with the ORMIS Contractor on Quality Assurance issues.

REF NO: 03-805-017

STATE AGENCY: Department of Rehabilitation Services

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), IT management should safeguard information against unauthorized use, disclosure or modification, and provide logical access control to ensure that access to systems, data and programs is restricted to authorized users.

Condition: Our review found DRS does not actively review active user profiles for the AS400. Terminated users are not promptly removed from the system. We compared the DRS employee separated list with the AS400 active user list and found users that had been terminated from DRS employment. We noted that one separated employee still had access to ALLOBJ, which grants access to high security level profiles.

DRS does not have formal polices and procedures to identify controls in place on the AS400 operating system for user identification and authorization profiles. Documentation was not available to define how access to the system is controlled and who should be granted the various high level user classes and how separation of duties is maintained.

The ORMIS application security policy and procedures and user setups has not been documented.

Effect: Increases the risk that unauthorized users may obtain access to the system, increasing the possibility of unauthorized use, manipulation, or destruction of the data and systems will occur.

Recommendation:

- We recommend DRS management establish procedures to ensure timely action relating to requesting, establishing, issuing, suspending, and closing user accounts.
- We recommend management have a control process in place to review and confirm access right periodically to ensure access is in agreement with the user job function, and that terminated employees ID's have been removed from the system.
- We recommend DRS establish policies and procedures to document the security setup of the AS400 operating system and the ORMIS application system. Once policies and procedures are established management should periodically audit the system security to ensure compliance.

Management's Corrective Action Plan

Contact Person: Jim Murphy, Branch Manager Information Services

Anticipated Completion Date: September 30, 2004

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Corrective Action Planned: DRS concurs that the policies and procedures to document security setup of the AS400 and ORMIS should be formally documented. There are existing policies that guide the flow of employee status notifications to the responsible AS400 and ORMIS Security Administrators.

There will be a focus review to expedite the manual process that supplies these notifications to State Office staff.

Oklahoma Tax Commission

REF NO: 03-695-002IT

STATE AGENCY: Oklahoma Tax Commission

Criteria: According to the standards of the Information Systems Audit and Control Association, (CobiT, Delivery & Support Objective DS4), management should ensure IT services are available as required and ensure a minimum business impact in the event of a major disruption by having an operational and tested continuity plan.

Condition: A full recovery of the OTC systems has not been tested to ensure whether the Disaster Recovery Plan is adequate. In case of a disaster or system failure there is no alternative processing procedures to ensure the continuance of state business.

Effect: Without testing the disaster recovery plan, efforts to restore the environment after a disaster or event could be prolonged or possibly unsuccessful. Without alternative processing procedures for end user departments, state revenue collections and allocations to state and local government could be delayed or cease due to a disaster or unrecoverable system failure.

Recommendation: We recommend that OTC test their disaster recovery plan and business continuity methodology to ensure that the user departments establish alternative processing procedures which may be used until the IT function is available to fully restore its services.

We recommend management assess their continuity plan for adequacy on a regular basis or upon major changes to the business or IT infrastructure. An effective plan requires careful preparation, documentation, reporting test results and depending on the results an action plan may be needed to revise the plan. Periodic training should be provided to the staff on the planned procedures and their assigned responsibilities. We also recommend the agency consider creating a "hot site" with another state agency or third party vendor to provide an alternate site for IT operations.

Management's Corrective Action Plan

Anticipated Completion Date: Disaster Recovery Manual was updated December 2003. We are in preliminary negotiation to establish a "hot" site at DPS.

Corrective Action Planned:

A test of the disaster recovery system with existing resources is probably not possible with our limited resources, a periodic review of the disaster recovery plan is our only viable option.

The agency is currently rewriting its disaster recovery plan procedures to reflect the change from mainframe based architecture to a client server, open network architecture. New applications systems being developed will be developed for the client server environment.

The new plan will reflect the major changes in the agency's IT infrastructure. The agency is currently working with the Department of Public Safety to create a partition on the DPS mainframe which could act as a "hot site" to provide alternate facilities in a disaster. The funding will be requested through a Homeland Security grant being prepared by DPS. If this funding source does not provide the funding,

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Financial Statement Findings

(Internal Control and Compliance)

the agency will present the problem to the Commissioners and/or legislature and request funding for a full test.

REF NO: 03-695-006IT

STATE AGENCY: Oklahoma Tax Commission

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), management should ensure that systems security safeguards information against unauthorized use, disclosure, modification, damage or loss. Logical access controls should ensure that access to systems, data and programs is restricted to authorized users.

Condition: We performed scans to identify open doors to a computer system. We were able to receive responses from IP addresses that were supposed to be unavailable outside of the agency.

OTC's firewall allowed unauthorized services into the internal network.

Effect: Increased risk of unauthorized use, disclosure, damage, or loss of information.

Recommendation: We recommend periodic scans and assessments be performed on OTC's network. The agency should develop a security policy to document the firewall rules. The firewall policy should dictate that:

- All traffic from inside to outside and vice-versa must pass through the firewall.
- Only authorized traffic, as defined by local security policy, will be allowed to pass.
- Firewall is immune to penetration.
- Firewall architecture combines control measures at both the application and network level.
- Firewall architecture hides the structure of the internal network.
- Firewall architecture provides an audit trail of all communications to or through the firewall system and will generate alarms when suspicious activity is detected.

Management's Corrective Action Plan

Anticipated Completion Date: Completed 11-30-03

Corrective Action Planned:

OTC MIS Response: On November 30, 2003 we installed and implemented a firewall. This new equipment replaced the older firewall router that had been in place for several years. After reviewing the documentation from the State Auditors office concerning their scans of the Network one issue was unclear to us. They indicated that a large number of IP addresses responded to their probe that does not exist and are not in use on our network. Many of these addresses are from older machines that have been phased out and physically surplus from the Tax Commission. The addresses have not been reused. We feel that this could be the result of some problem in the scanning software and request that the auditor check their software and rerun the scans. This would also prove helpful, as it would test the new firewall and security systems.

Auditor Response: Our office performed a follow-up port scan at the Auditee's request. The scan includes ranges that were recently implemented as part of the OTC's new firewall configuration. The scan detected several devices with public IP addresses in these ranges. Several IP's reported that they would accept source routed IP packets. We also found several IPs in the ranges scanned with open services to the Internet. We would like to emphasize that OTC should develop a security policy and risk assessment program to evaluate their exposure to the Internet and the necessary safeguards.

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REF NO: 03-695-009IT

STATE AGENCY: Oklahoma Tax Commission

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Planning and Organization PO4), management should ensure the right IT services are delivered by providing an organization suitable in numbers and skills with roles and responsibilities defined and communicated, aligned with the business and that facilitates the strategy and provides for effective direction and adequate control.

Condition: Our review found that OTC uses a software security system that provides protection of data against unauthorized disclosure, modification, or destruction. This security software has privileges that are assigned to users. The most powerful privilege should be used only in emergency situations. Best practices recommend a limited number of users, (3 to 4) should have this privilege.

Effect: Tech Support and Database Administrator (DBA) have access to this powerful privilege, which does not provide adequate separation of duties. The DBA is also performing networking functions and security administration activities that are not compatible.

Recommendation: We recommend senior management implement a division of roles and responsibilities, which should exclude the possibility for a single individual to subvert a critical process.

Management should also make sure that personnel are performing only those duties stipulated for their respective jobs and positions. In particular, a segregation of duties should be maintained between the following functions:

- Information systems use
 - Data entry
 - Computer operations
 - Network management
 - System administration
 - Systems development and maintenance
 - Change management security administration security audit
- The special privilege should be limited to a small number of users and should be used for emergency purposes only.
 - Review justification for the use of this security privilege to ensure the privilege is not abused.
 - The OTC security administrator should review the log periodically.

Management's Corrective Action Plan

Anticipated Completion Date: Internal Audit will review for separation of duties.

Corrective Action Planned: Management will request Internal Audit to review the separation of security review and networking functions and make recommendations.

Department of Transportation

REF NO: 03-345-002 (Repeat Finding)

STATE AGENCY: Department of Transportation

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Acquisition and Implementation objective #6, management should ensure that change management and software control and distribution are properly integrated with a comprehensive configuration management system. The system should be automated to support the recording and tracking of changes made to large, complex information system.

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(Internal Control and Compliance)

Condition: The Department's change control process for the FMS and PFS Systems is not integrated with the system. The current procedures consist of manual recording of user requests that is updated with completion date by the programmers once the task is completed. The implemented changes are not reviewed, approved, or verified by management via the system. The current change management process does not effectively verify whether only authorized changes are made to data and program files. Tracking of changes made to the files are not matched back to a request. No user acceptance and approval of requested changes are formally documented.

Effect: Increased risk of inaccurate federal funds billing and reporting as well as inaccuracies in other financial data exist. The internal control structure is weakened. Data could be lost or altered during the process and may not be discovered and corrected. Unauthorized program changes may be implemented into production.

Recommendation: We recommend ODOT develop a change management system that provides for the analysis, implementation, and follow-up of all changes requested and made to the existing IT infrastructure. This system would also take into consideration:

- Identification of changes.
- Categorization, prioritization and emergency procedures.
- Impact assessment.
- Change authorization.
- Release management.
- Software distribution.
- Use of automated tools.
- Configuration management.
- Business process redesign.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: The FMS change control process is usually requested by the user and modifications are made to the system only at user requests. These changes are only accepted when authorized by proper ISD authoritative levels. These modifications are trackable to the requesting user through paper or electronic correspondence, and also to the programmer performing the changes (when authorized to do so by ISD management) through comments placed into the file indicating tracking number, change made, programmer making the change, and date of the change(s) was made. Upon completion, the programmer notifies the Branch Manager that the request was completed. The Branch Manager provides updates to the Asst. Division Manager, Division Engineer, the control log files and the Administrative Branch Secretary who maintains the control log. The capability of the current system does not allow for this process to be integrated automatically.

REF NO: 03-345-004 (Repeat Finding)

STATE AGENCY: Department of Transportation

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Planning and Organization objective #4, management should facilitate effective direction and adequate controls including:

- Segregation of duties.
- Organizational positioning of security, quality and internal control functions.

Condition: ODOT lacks segregation of duties within the change control process and information security administration functions for the Financial Management System and Project Funding System. Programmers

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have access to production libraries and data as well as performing security administration activities. No reporting and review of unauthorized attempts to access data exist.

Information Services Division employees were found to have access into the production FMS and Trns*port application systems. This does not ensure an appropriate segregation of duties between the development and user personnel.

Effect: Risk of unauthorized, undetected data manipulation or data loss is increased. The internal control structure becomes incapable of monitoring and reporting the effectiveness of the established controls.

Increased risk of unauthorized use, disclosure, modification, damage or loss of data. The integrity and reliability of the data generated by Trns*port and FMS could be compromised.

Recommendation: We recommend management establish a proper segregation of duties within ISD. Consideration should be given to the following:

- Management's direction and supervision of IT.
- IT's alignment with the business.
- IT's involvement in key decision process.
- Clear roles and responsibilities.
- Balance between supervision and empowerment.
- Job descriptions.
- Staffing levels and key personnel.
- Organizational positioning of security, quality and internal control functions.

Programmers should not be allowed production data access, either through the operating system or an application system. The concentration of control functions, such as access to both development and production systems/data, within in a single individual should be avoided.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: Manpower constraints do not allow ISD to segregate duties within each of the supported systems. ISD responds to requests for changes in these systems through chain of command. A log of actions is kept by ISD documenting these changes. Weekly reconciliation provides the opportunity to examine the systems at this level.

REF NO: 03-345-007

STATE AGENCY: Department of Transportation

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Delivery & Support objective #5, the logical access to and use of IT computing resources should be restricted by the implementation of adequate identification, authentication, and authorization mechanisms, linking users and resources with access rules. Such mechanisms should prevent unauthorized personnel, dial-up connections and other system (network) entry ports from access computer resources and minimize the need for authorized users to use multiple sign-ons. Procedures should also be in place to keep authentication and access mechanisms effective (e.g., regular password changes).

Condition: The password settings on the mainframe infrastructure housing the FMS and PFS applications are set to allow a password with one character. Passwords on the Trns*port (TPLC) Oracle RDBMS are set to never expire. Only one user ID is set up with access to the production Trns*port database TPLC. Other users accessing the database are sharing the powerful administrative accounts. Existing Oracle RDBMS

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functionality that would capture user logins, user account additions/changes, other security events, and DBA activities has not been enabled.

Effect: An extremely high risk of unauthorized access exists due to passwords being easy to guess, or becoming known by unauthorized users. Loss of key personnel may hinder or prevent the use of the system. Having only one user ID set up does not ensure the capability for adequate back up personnel. Sharing of powerful administrative IDs causes a loss of user accountability. Database Administration activities and Information security events within the Trns*port database will not be disclosed and subject to review.

Recommendation: Management should implement controls over the passwords on the mainframe and Oracle RDBMS environment to ensure user passwords remain safe and secure through regular password changes. Users should access the database using their own account, and the use of shared IDs of any type should be discouraged. Audit trails should be enabled, relevant security events identified, and subject to a periodic review process. Access to the database should be based upon the concept of least privilege.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: Users and user Divisions are frequently informed that shared IDs is a practice that should not be allowed to take place. User Divisions are also encouraged to use the concept of least privilege when requesting access for users; however, ISD does not make these determinations. Manpower constraints do not allow ISD to consider a regular periodic review process. The modification of password settings and regular changes will be reviewed by ISD.

REF NO: 03-345-014

STATE AGENCY: Department of Transportation

Criteria: According to the standards of the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT), Delivery and Support objective #5, management should implement logical access controls which ensure that access to the systems, data, and programs are restricted to authorized users. In addition, a formal approval procedure outlining the data or system owner granting the access privileges should be included.

Condition: The Oklahoma Department of Transportation has an integrated information system (Trns*port) that is used by the Construction Division. Trns*port has several modules and is used by field inspectors, resident engineers, division accountants as well as the Construction Division office in Oklahoma City. There are approximately 300 users of the system. The Trns*port system is used to manage the pre-construction and construction contract information. Claim information is transferred from Trns*port to the General Ledger system "FMS", and ultimately onto "PFS" for the recovery of funds through the program administered by the Federal Highway Administration (FHWA). The following was noted:

- The security design for the Trns*port, FMS, and PFS applications is not documented or approved by a data owner. The data owner should be a responsible management employee of ODOT responsible for accomplishing the business function.
- There is no clear data or system owner approving requests for access to Trns*port prior to being set up in the application.
- Although a user set up form is used, no documented procedures exist for setting up new users.
- User identification and authorization profiles are not documented.
- Security for the Department is not centralized. The Construction division administers the Trns*port system and maintains the users. The Information Services Division sets up user IDs for the FMS and PFS applications.

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- Security reports are not routinely available to verify whether access for users match their job duties and whether all users are current employees.

Effect: Increased risk of unauthorized use, disclosure, modification, damage, or loss of data. The integrity and reliability of the data generated by Trns*port may be compromised.

Recommendation: We recommend the Department establish procedures to ensure timely action relating to requesting, establishing, issuing, suspending, and closing of user accounts. A formal procedure outlining the data or system owner approval and review of the access privileges should be included. ISD should provide discernable system security reporting to the data owner in order to facilitate the review process.

Management's Corrective Action Plan

Contact Person: David Ooten / Mike Patterson

Anticipated Completion Date:

Corrective Action Planned: The Construction Division personnel, Field inspectors, and resident engineers do not use all of the Trns*port modules. Only Construction Administration System (CAS), Fieldbook and Fieldnet are used by these personnel. These modules only address the administration of construction projects after they are let and awarded by the Oklahoma Transportation Commission. Neither the Construction Division, the field inspectors, nor the resident engineers have access to any of the other Trns*port modules used during pre-construction activities. Division accountants do not have access to any of these modules.

During FY 2003 and into FY 2004, implementation of SiteManager, another Trns*port module has started. SiteManager users are required to apply for a SiteManager userid, and it is required that a work unit supervision sign the application form verifying the information provided. All SiteManager userids, user identification and authorization profiles are maintained by the Construction Division. Each userid granted will be associated with SiteManager system access rights and will match the user's job tasks. SiteManager has the ability to run reports that will indicate that access rights for each user. 66As that pass through the Construction Division will be used to terminate access to the system if a user is terminated, retires, changes job duties, or changes work units.

REF NO: 03-345-018

STATE AGENCY: Department of Transportation

Criteria: According to the standards of the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobIT), Delivery & Support objective #4, management should ensure IT services are available as required and to ensure a minimum business impact in the event of a major disruption. The methodology should ensure that the user departments establish alternative processing procedures that may be used until the IT function is available to fully restore its services after a disaster or an event. A continuity plan should identify the critical application programs, third-party services, operating systems, personnel and supplies, data files and time frames needed for recovery after a disaster occurs. Critical data and operations should be identified, documented, prioritized, and approved by the business process owners, in cooperation with IT management.

Condition: There is no documented, approved, and tested disaster recovery plan as well as no alternative processing procedures to ensure the continuance of state business, regardless of the condition of the IT environment. ODOT systems have not been classified and prioritized to identify the critical infrastructure and application systems, personnel and supplies, data files, as well as time frames needed for recovery should a disaster or other event occur.

Effect: Without a documented, approved and tested disaster recovery plan, efforts to restore the environment after a disaster or event could be prolonged or possibly unsuccessful. Without alternative processing procedures for end user departments, state business could become ineffective or cease due to reliance on the technology used in the business.

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Recommendation: Management should develop a comprehensive disaster recovery plan. Such a plan should be developed through cooperation with IT management and the business process owners, and should take into consideration:

- Critically classification.
- Alternative procedures.
- Back-up and recovery.
- Systematic and regular testing and training.
- Monitoring and escalation procedures.
- Internal and external organizational responsibilities.
- Business continuity activation, fallback and resumption plans.
- Risk management activities.
- Assessment of single points of failure.
- Problem management.

Management's Corrective Action Plan

Contact Person: David Ooten / Mike Patterson

Anticipated Completion Date:

Corrective Action Planned: Manpower and financial constraints do not allow a comprehensive disaster recovery plan to be developed and documented. ISD staff perform regular disaster backup activities and periodic system backup checks, as the work processes allow. ISD will request funding in FY05 to develop such a plan through contract resources.

REF NO: 03-345-021

STATE AGENCY: Department of Transportation

Criteria: According to the standards of the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT), Planning & Organization objective #4, management should ensure the organization is suitable in numbers and skills with roles and responsibilities defined and communicated, aligned with the business and that facilitates the strategy and provides for effective direction and adequate control. These roles and responsibilities should be designed with consideration to adequate segregation of duties.

Condition: End users within the Comptroller Division have direct access to change/modify production reporting through TSO. The ability to modify the results of production reports jeopardizes the integrity of the financial information. Data and production reporting modified in this way is not subject to audit trails or other application controls. Additionally, the financial reconciliation of the material ODOT accounts found in their statement of net assets (e.g., Infrastructure, Construction in Progress, Federal Receivable) are performed using ad-hoc queries rather than through standardized production reporting.

Effect: Data and production reporting are subject to an increased risk of unauthorized, erroneous or fraudulent changes outside of the controls offered by the applications.

Recommendation: End users should only have access to change/modify production data through application controls as specified by the data owner. Direct user access to production data should be discouraged and eliminated through an overall application and operating system security design specified by the data owner. Material accounts should be reconciled using standardized production reporting to prevent inherent differences that could occur between periods when ad-hoc queries are used.

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Management's Corrective Action Plan

Contact Person: Mike Patterson

Anticipated Completion Date:

Corrective Action Planned: No action will be taken. The comptroller is not aware of any production programs the accounting staff has access to change or modify. The development of standard, end user create reporting is an acceptable extracting data.

REF NO: 03-345-026 (Repeat Finding)

STATE AGENCY: Department of Transportation

Criteria: Important aspects of financial reporting include external and internal events and circumstances that may occur and adversely affect an entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Internal controls are performed to check accuracy, completeness, and authorization of transactions.

Basic objectives of Governmental Generally Accepted Accounting Principles are to provide for accurate and reliable information.

Condition: Thirteen out of 48 projects were coded with a work code in the Project Funding System that did not agree to support documentation in the project file. This resulted in a 27% error rate.

Cause: Department personnel with the responsibility of assigning the work code are not adequately informed on all uses of the code. One use is to determine whether a project should be included in infrastructure.

Effect: The Department's accounting records do not reflect the information as contained in the project files.

Recommendation: We recommend the Department develop and implement policies and procedures to ensure the project coding agrees to support documentation in the project files. We also recommend the Department inform workers of the importance of assigning the work code.

Management's Corrective Action Plan

Contact Person: J. Michael Patterson

Anticipated Completion Date: October 1, 2004

Corrective Action Planned: The AD-Finance will initiate coordination between the different areas of ODOT who are assigning work codes.

REF NO: 03-345-041

STATE AGENCY: Department of Transportation

Criteria: 67 O.S. 2001 § 206.A., states, in part:

The head of each agency shall... Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities...

Good accounting practices dictate that management ensure transactions are recorded correctly in a timely manner and supporting documentation is available for each transaction.

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Condition: The Comptroller Division and the Local Government Division do not have written policies and procedures regarding required communication of lease information. The Local Government Division is not consistently providing the new lease documentation to the Comptroller Division.

Effect: Accounts receivable amounts reported to the Office of State Finance for financial statement purposes and Department records are understated. The records do not reflect all receivables. This above-stated condition caused three other issues. They are as follows:

- The future minimum payment report prepared by the Department shows that four of 318 leases are paid off; however, documentation present indicates that these leases still have balances due.
- There is a variance between the State Auditor and Inspector's calculated future minimum payment and the Department's calculated future minimum payment. It appears that the lease payments begin 3 or more months after the lease date or 1 or more months prior to the lease date.
- The Comptroller Division does not enter new leases in the accounts receivable ledger until the first lease payment is received. The accounts receivable ledger prepared by the Department includes 318 leases. An additional 15 leases were discovered, which were not included in the accounts receivable ledger.

Recommendation: We recommend the Department develop and implement policies and procedures to inform personnel of required communication and responsibilities between the Comptroller Division and the Local Government Division to provide assurance that all leases are recorded in accounting records in a timely manner.

Management's Corrective Action Plan

Contact Person: T.M. "Tim" Khatib, Division Engineer, Local Government Division

Anticipated Completion Date:

Corrective Action Planned: This Division now understands the importance of consistent monthly cut-off dates as they pertain to the County Road Machinery and Equipment Revolving Fund and will change policy to run the monthly billing on the first working day of each month. Controls will be reviewed and changed, if necessary, concerning the amount of time passing from the time a lease/purchase agreement is signed by a county and the time it is actually entered into the billing system. This Division will coordinate with TSD to ensure lease/purchase billing data is consistent with the Comptroller's accounts receivable data.

Schedule of Findings Federal Award Findings And Questioned Costs

Note: Findings are presented alphabetically by state agency.

Department of Central Services

REF NO: 03-580-002
STATE AGENCY: Department of Central Services
FEDERAL AGENCY: General Services Administration
CFDA NO: 39.003
FEDERAL PROGRAM NAME: Donation of Federal Surplus Personal Property
CONTROL CATERGORY: Special Tests and Provisions - Inventory
QUESTIONED COSTS: \$0-

Criteria: State Plan of Operation 580:45-1-5 (a)(4) states: “An annual physical inventory will be conducted for all property on hand; and inventory records will be adjusted to correspond with physical count upon approval of the State Agent.”

Condition: Surplus Property Division did not perform an annual physical inventory count for FY '03.

Effect: Potential theft and/or loss could occur and go undetected by agency staff.

Recommendation: We recommend Surplus Property follow their State Plan of Operation.

Management's Corrective Action Plan

Contact Person: Tom Hall, Acting Surplus Property Administrator

Anticipated Completion Date:

Corrective Action Planned: Management states that it verified that it did not conduct an inventory during fiscal year 2003. Management did commence an inventory during calendar year 2003. Due to technical problems that caused delays, management abandoned the inventory. However, management is conducting an inventory at this time. That will serve for fiscal year and calendar year 2004.

REF NO: 03-580-003
STATE AGENCY: Department of Central Services
FEDERAL AGENCY: General Services Administration
CFDA NO: 39.003
FEDERAL PROGRAM NAME: Donation of Federal Surplus Personal Property
CONTROL CATEGORY: Special Tests and Provisions - Fair and Equitable Distribution and Fees
QUESTIONED COSTS: Undeterminable

Criteria: Plan of Operation for Oklahoma State Surplus Property Section 580:45-1-7(b) states, “...The original acquisition cost, age, condition, desirability and usability or fair market value of an item will be considered in establishing the fair and equitable charges. Generally the charge will be 5-20% of governmental acquisition cost but the charge may exceed these percentages when exceptionally low governmental acquisition costs, or unusually high expenses are involved.”

Condition: Based on review of all inventory items donated for fiscal year '03, we noted the following:

- Service charges for four hundred and fifty-six (456) out of eleven hundred (1100) donations were greater than twenty percent. This represents approximately 41% of all items donated (invoices) for fiscal year '03. The percentage of service charges ranged from 20.1 percent to 50000.0 percent.
- Service charges for one hundred and seventy-one (171) out of eleven hundred (1100) donations were less than five percent. This represents approximately 16% of all items donated (invoices) for fiscal year '03.

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Further, management had no documentation to support or method to assign fees to items donated to justify the large number of inventory items having service charges greater than twenty percent and less than five percent.

Effect: The agency is not consistently following their State Plan of Operation relating to service charges assessed.

Recommendation: We recommend that the Department of Central Services adhere to the 5-20% service charge for donated items per 580:45-1-7(b), except in special circumstances. Further, we recommend when the agency does charge more than 20% or less than a 5% service fee to a donee, they document the justification for the charges.

Management's Corrective Action Plan

Contact Person: Tom Hall, Acting Surplus Property Administrator

Anticipated Completion Date:

Corrective Action Planned: Management acknowledges the condition that during fiscal year 2003 it did not consistently follow the state plan of operation in establishing service charges. Management acknowledges that to achieve consistent application of plan provisions that it should retain documentation to validate use of fair market value in place of original acquisition cost to establish service charges exceeding 20%.

At this time, program management submitted a re-written plan to GSA that confirms to current federal regulations, FMR 102-37. The rewritten plan includes provisions that adhere to federal requirements to establishing service charges. Proposed plan revisions provide that the program shall establish service charges from 0% to 50% of original acquisition or the fair market value of the item. The Department initiated the permanent rulemaking process to submit the re-written plan for legislative review and gubernatorial consideration.

Subsequent to the end of the audit review period, management initiated procedures to establish service charges consistent with provisions of the state plan to retain documentation when the program uses fair market value to establish service charges.

The Department will seek approval of the re-written state plan of operation that adheres to current federal regulations and regulation instructions pertaining to establishing service charges. The Department will continue to comply with the current plan and retain documentation when it utilizes fair market value in place of original acquisition costs.

REF NO: 03-580-004

STATE AGENCY: Department of Central Services

FEDERAL AGENCY: General Services Administration

CFDA NO: 39.003

FEDERAL PROGRAM NAME: Donation of Federal Surplus Personal Property

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: Undeterminable

Criteria: Plan of Operation for Oklahoma State Surplus Property Section 580:45-1-11(d) states, "The eligibility of a donee will be re-evaluated every three (3) years or as required by the General Services Administration. Any change in status of the donee in the interim will also necessitate a re-evaluation."

According to 41 CFR § 102-37.405, the agency "must update donee eligibility records as needed, but no less than every 3 years, to ensure that all documentation supporting the donee's eligibility is current and accurate. Annually, you must update files for non-profit organizations whose eligibility depends on annual appropriations, annual licensing, or annual certification."

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According to 41 CFR § 102-37.410, if a donee has failed to maintain its eligibility status, the agency must terminate distribution of property to that donee, recover any unusable property still under Federal restrictions (as outlined in § 102-37.465), and take any other required compliance actions.

According to 41 CFR § 102-37.390(b), to qualify for the eligibility program the applicant must “Demonstrate that it meets any approval, accreditation, or licensing requirements for operation of its program.”

Condition: Based on the eligibility files tested having an active account status, we noted the following:

- Thirteen (13) out of seventy-two (72) files did not contain a current application for our audit period;
- Five (5) out of seventy-two (72) files had an application that expired within our audit period and was not properly updated;
- One (1) out of fifty-nine (59) files did not contain the appropriate donee information for determining eligibility;
- Three (3) out of fifty-eight (58) files had insufficient supporting documentation;
- Forty (40) out of fifty-eight (58) files did not contain proper management approval of the application or update form.

Further, we noted that four of the thirteen donees that did not have a current application on file for our audit period received property in fiscal year ‘03.

Effect: By not properly maintaining donee eligibility files, ineligible donees may/did receive Federal Surplus Property.

Recommendation: We recommend that the Department of Central Services maintain the required eligibility documentation to ensure that Federal Surplus Property is properly distributed to eligible donees.

Management’s Corrective Action Plan

Contact Person: Tom Hall, Acting Surplus Property Administrator

Anticipated Completion Date:

Corrective Action Planned: Management acknowledges the conditions that during fiscal year 2003 that it did not consistently follow the state plan of operation for documenting, requiring submission of documents to verify or determine whether an entity met eligibility requirements and did not consistently indicate management review or approval of entity eligibility status. Management acknowledges that to achieve consistent application of plan provisions and federal requirements for eligibility that it should periodically review all eligibility files to ensure that a file possesses and entities submit required documentation to meet or maintain eligibility requirements.

Further, management initiated an eligibility file review in February 2003. Prior to that time, management found disarray of eligibility documents with inconsistency in document submission and application of federal eligibility requirements. Primary efforts included document retrieval and filing followed by file review. By the end of the review period, document filing was complete.

Following the review period, management initiated a review of individual eligibility files. During the review, management noted document or information discrepancies. Management requested that entities submit new eligibility applications, update information and additional information to determine whether the entity is eligible to participate in the program. Management also noted that many eligibility application lacked apparent or adequate management review. At this time, management reviews eligibility applications and supporting documents to determine whether an entity meets federal requirements for program participation.

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REF NO: 03-580-005

STATE AGENCY: Department of Central Services

FEDERAL AGENCY: General Services Administration

CFDA NO: 39.003

FEDERAL PROGRAM NAME: Donation of Federal Surplus Personal Property

CONTROL CATERGORY: Special Tests and Provisions - Inventory

QUESTIONED COSTS: \$0-

Criteria: According to 41 CFR 102-37.110 (d), the holding agency's responsibilities are to maintain property until receipt of a GSA-approved SF-123 transfer document.

According to 41 CFR 102-37.70(a), "If more property is received than was approved by GSA for transfer and the known or estimated acquisition cost of the line item(s) involved is \$500 or more, submit a SF-123 for the difference to GSA (Identify the property as an overage and include the original transfer order number)."

Condition: Based on review of fifty-five inventory items received for fiscal year '03, we noted the following:

- Nine (9) items had no documentation in the file to support that GSA approved the transfer;
- One (1) SF-123 was approved by GSA for one item; however, the agency received two. Because the acquisition cost was over \$500 per unit, an overage report should have been submitted to GSA. No overage report was prepared. The acquisition cost per item was \$6,000. As a result, the SF 123 cost did not match the agency's received cost.
- One (1) item contained no transfer documentation from the transferring state.
- One (1) item's acquisition cost per the transfer documentation did not agree to the agency's records. The received cost should have been recorded as \$2,628.16 per the transfer document. Instead, \$3,440 was recorded, overstating the inventory item acquired by \$811.84.

Effect: Inventory items could be donated without the approval of GSA. Also, because the amounts on the Schedule of Federal Financial Assistance (SEFA) are based on the received cost of the items, the amount on the SEFA could be misstated.

Recommendation: We recommend management implement controls to ensure that inventory is not released for donation until an approved SF-123 transfer document is received.

Management's Corrective Action Plan

Contact Person: Tom Hall, Acting Surplus Property Administrator

Anticipated Completion Date:

Corrective Action Planned: Management acknowledges the conditions that during fiscal year 2003 it did not consistently follow the state plan of operation and federal requirements for documenting and reporting overages and shortages for received property. Management acknowledges that to achieve application of plan provisions and federal requirements the program should implement additional controls to ensure proper reporting.

Further, management stated the program experienced significant employee turnover during the review period that contributed to the condition.

Following the review period, management sought to bring stability to receiving functions and stresses reporting requirements to staff. Management also directed receiving document review that indicated numerous poor receiving practices. Management followed the review with expensive date correction

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efforts. Management continues to seek additional procedural upgrades to ensure the program meets reporting and inventory control requirements, including creation of standard operating procedures to received federal surplus property.

REF NO: 03-580-006

STATE AGENCY: Department of Central Services

FEDERAL AGENCY: General Services Administration

CFDA NO: 39.003

FEDERAL PROGRAM NAME: Donation of Federal Surplus Personal Property

CONTROL CATERGORY: Special Tests and Provisions – Compliance and Utilization

QUESTIONED COSTS: \$0-

Criteria: Plan of Operation for Oklahoma State Surplus Property 580:45-1-12 (b) states, “Within one (1) year of distribution the State Agency will conduct a compliance and utilization review of any items of property having a unit acquisition cost of amounts equal to or in excess of the General Services Administration amounts set forth for special compliance requirements and any passenger vehicle, aircraft, or vessels over 50 feet in length. Review will be made by physical inspection or written reports requested by a State Agency representative.”

According to 41 CFR 102-37 Appendix B (j), The SASP will conduct utilization reviews for donee compliance with the terms, conditions, reservations, and restrictions imposed by GSA and the SASP on property having a unit acquisition cost of \$5000 or more and any passenger motor vehicle.

Management relies heavily on an in-use form submitted to the donee at the time of receipt as the agency’s written report for compliance and utilization. The donee is required to mail the in-use form back to Surplus Property within one year of receipt.

Condition: Based on review of the Compliance Listing with Description report, we noted thirteen (13) items donated that did not have either an in-use form from the donee or a physical compliance check performed within one year of receipt.

Effect: Compliance and utilization reviews are not being performed within one year of receipt for all donees.

Recommendation: We recommend management implement controls to ensure that either a physical inspection or written report (in-use form) is performed/received within one year of receipt of property by a donee.

Management’s Corrective Action Plan

Contact Person: Tom Hall, Acting Surplus Property Administrator

Anticipated Completion Date:

Corrective Action Planned: Management acknowledges the conditions that during fiscal year 2003 it did not consistently follow the state plan of operation and federal requirements for donee submission of in-use forms and conducting compliance checks. Management acknowledges that to achieve consistent application of plan provisions and federal requirements that the program frequently review the submission status of in-use forms and conduct compliance checks.

Further, management stated that during May and June of 2003, the program conducted 56 compliance checks. Management established a priority list for compliance checks. Management designated aircrafts and vessels as highest priority. It completed all aircraft and vessel compliance checks prior to the end of the review period. Management found no evidence of program compliance checks performed prior to May 2003.

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Following the review period, management continues to perform compliance checks. It recently acquired the services of a Department staff member with the primary duty to conduct compliance checks. Management expects to meet plan and federal regulation requirements for compliance checks. Further, management stated they placed emphasis on submission of in-use forms. Management initiated a review of form submission and utilizes computer application (OKFP) system options to issue in-use form submission reminders. If the program does not receive a response to the reminder within 30 days, management issues the donee a notice of deferral from program participation. Management intends to continue the procedures to ensure donee compliance with the requirements.

Department of Education

REF NO: 03-265-003

STATE AGENCY: Department of Education

FEDERAL AGENCY: Department of Education

CFDA NO: 84.010

FEDERAL PROGRAM NAME: Title I Grants to Local Education Agencies

FEDERAL AWARD NUMBER: S010A020036A

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Subrecipient Monitoring

QUESTIONED COSTS: \$0

Criteria: OMB Circular A-133, Subpart D § __.400d(3) states, “A pass-through entity shall perform the following for the Federal awards it makes: (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contract or grant agreements and that performance goals are achieved.”

OMB Circular A-102 Common Rule § __.40(a) states, “Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.”

Oklahoma Department of Education Monitoring Procedures for Title I-Project 511 states in part, “Each local educational agency (LEA) will be monitored once every five years.” According to the Monitoring Procedures, the priority for monitoring schools is as follows: 1) It is the Oklahoma State Department of Education’s (OSDE) policy to monitor within thirty days any project for which they have received a written complaint; 2) Schools in Title I School Improvement; 3) Schools that are at a higher risk and have had problems in past monitoring; 4) Schools receiving less than \$300,000 in Federal funds; 5) Schools that have not been monitored in five years, have no record of complaint, are not in Title I School Improvement, and are not considered at high risk will be desk monitored. In addition, regarding follow up on monitoring findings, the Department’s monitoring procedures states in part, “1) LEAs will have 30 days in which to correct any areas of non-compliance. 2) A follow-up will be conducted to ensure findings are corrected and documented.”

Condition: During testwork, we noted 44 out of the 72 LEAs tested had not received a review in the past five years. For the fiscal year 2003, there were 541 Title I subrecipients and 108 (541x 20% = 108) reviews to be performed. Out of the 108, 106 reviews were performed. We also noted there were 18 schools in Title I School Improvement for FY 2002-2003. Only 3 of the 18 were monitored.

During testwork, we noted 7 out of the 72 LEAs tested had not received follow-up by the Department to ensure corrective actions on deficiencies noted in during-the-award monitoring were performed.

Effect: The Department may not be performing sufficient monitoring activities to ensure that LEAs are in compliance with federal requirements. In addition, the Department does not appear to be following up on

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monitoring findings as required by the Department's monitoring procedures regarding subrecipient monitoring. This may result in monitoring findings not being corrected in a timely manner.

Recommendation: We recommend the Department monitor subrecipients according to the OSDE's established monitoring priority schedule and in accordance with federal requirements. If none of the four priority requirements listed in the OSDE's Monitoring Procedures apply, we recommend the Department consider desk monitoring some of the LEAs to ensure an adequate number of subrecipients are monitored. We also recommend the Department follow established monitoring procedures for follow-up in areas of non-compliance to ensure findings are corrected and documented in a timely manner.

Management's Corrective Action Plan

Contact Person: Carol Lingreen

Anticipated Completion Date:

Corrective Action Planned: **1. The frequency of monitoring.** OSDE had scheduled on-site monitoring visits for 108 districts during 2003. OSDE did monitor 106 districts on-site; the other two monitoring visits were not performed because the schools cancelled the visits as a result of scheduling conflicts. It has been our policy to monitor on-site once every five years because of the large number of subrecipients (541). Other monitoring priorities are as follows: to monitor within thirty days any subrecipient for which we have received a written complaint; the amount of funds that the subrecipient receives; subrecipients that have had problems in past monitorings; and schools in Title I School Improvement. Paper monitoring is done annually through the application process.

2. Corrective Action Planned. OSDE will follow the recommendations of the auditors and plan to do more desk monitoring. We will change our monitoring policies and procedures to reflect the change. Furthermore, it will be impossible to do on-site monitoring for all school improvement schools since OSDE anticipates 300 or more schools in need of improvement.

1. Follow-up of monitoring findings. Since *No Child Left Behind* was signed in January 2002, and OSDE had not yet received final regulations and guidance from USDE, school districts in some instances were given until completion of the following school year to correct deficiencies. For example, the Parents Right to Know policy or the School District Report Card.

2. Corrective Action Planned. This finding will be corrected during monitoring this year since we have received Title I regulations and previous monitoring procedures will be followed.

REF NO: 03-265-006

STATE AGENCY: Department of Education

FEDERAL AGENCY: Department of Education

CFDA NO: 84.367

FEDERAL PROGRAM NAME: Improving Teacher Quality State Grants (Title II-A)

FEDERAL AWARD NUMBER: S367A020035A

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Subrecipient Monitoring

QUESTIONED COSTS: \$0

Criteria: According to the OMB Circular A-102 (the Common Rule), Sec. 40 (a), "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

The OMB A-133 Compliance Supplement Part 3.M. states in part:

A pass-through entity is responsible for:

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During- the- Award Monitoring - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

The Title II-A Guidance D-12 states, "Must an SEA and SAHE monitor all sub-grant activities? Section 80.40(a) of EDGAR requires, among other things, that States "...monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved."

The guidance also states that, "Review of audit or annual reports alone is not an acceptable monitoring procedure"...and "the State may determine that on-site monitoring is the most suitable method." "On-site monitoring should take place as often as an SEA or SAHE determines is necessary to ensure that subgrant activities comply with *Improving Teacher Quality State Grants* program requirements." "An SEA or SAHE may monitor in any manner that ensures compliance with program requirements."

Condition: The Oklahoma State Department of Education does not have adequate monitoring procedures for Title II-A sub-grantees to assure compliance with applicable Federal requirements and that performance goals are being achieved.

Cause: The Oklahoma State Department of Education's current monitoring procedures for Title II-A consist primarily of reviewing expenditure reports submitted by the LEAs.

Effect: The Oklahoma State Department of Education did not perform adequate "during-the-award" monitoring and therefore may not be in compliance with Title II-A guidelines and federal requirements for monitoring sub-grantees.

Recommendation: We recommend that the Oklahoma State Department of Education develop and implement a Title II-A monitoring plan for monitoring sub-grant activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.

Management's Corrective Action Plan

Contact Person: Paula Crawford

Anticipated Completion Date:

Corrective Action Planned: On the basis of Title II-A Guidance D-14, "An SEA ... may monitor in any manner that ensures compliance with program requirements." The same section also states that an agency may "require periodic reports, conduct telephone interviews, hold subgrantee conferences and use other strategies to promote and ensure adherence to applicable requirements".

The staff of the Title II-A office does not believe that the current monitoring procedure "consists entirely of reviewing expenditure reports submitted by the LEAs". The Title II-A staff believes that their use of the following procedures meets the requirements for the monitoring plan which was approved by the USDE in the Oklahoma Consolidated State Plan:

- conducting and documenting telephone interviews
- requesting/receiving of additional supporting documentation from the LEAs
- requiring detailed information prior to approval of application and/or budget revision
- reviewing of detailed expenditure reports
- annual performance reports
- annual audit reviews

Auditor Response: The OMB Circular A-133 Compliance Supplement Part 3.M identifies three major types of subrecipient monitoring activities that the pass-through entity is responsible for: (1) Award Identification, (2) During-the-Award monitoring, and (3) Subrecipient Audits (A-133 audits). Based on our

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testing of this program, and other testwork at the Oklahoma State Department of Education (OSDE), we agree that the Department is adequately performing subrecipient monitoring activities types 1 and 3. However, it appears that the Department is not adequately performing during-the-award monitoring (type 2). We recommend that Title II, Part A program personnel review and consider monitoring plans in place for other federal programs administered by the OSDE.

Additional Management Response: The Title II-A office will develop and implement the following additional monitoring procedures for sub-grant activities to assure compliance with applicable Federal requirements.

- Develop a monitoring review checklist
- Select districts to be monitored
- Notify selected districts
- Check district compliance for consistency with the review checklist
- Follow-up with districts as needed

REF NO: 03-265-007

STATE AGENCY: Department of Education

FEDERAL AGENCY: Department of Education

CFDA NO: 84.367

FEDERAL PROGRAM NAME: Improving Teacher Quality State Grants (Title II-A)

FEDERAL AWARD NUMBER: S367A020035A

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$-0-

Criteria: OMB Circular A-102 (the Common Rule), Sec. 42 (a), states:

This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are: (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement. (b) (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. (c) When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. (e) The awarding agency and the Comptroller General of the United States, or any of their authorized representatives, shall have the right of access to any pertinent books, documents, papers, or other records of grantees and subgrantees which are pertinent to the grant, in order to make audits, examinations, excerpts and transcripts.

Condition: During our testwork of eligibility of 535 LEAs, we noted that the Oklahoma State Department of Education did not maintain fiscal year 2003 student data that is used to determine the calculation for each school district's allocated portion of excess funds.

Cause: The Oklahoma State Department of Education's computer system maintains current student data as a continuous process and does not retain the historical data to support the calculations used after each allocation of the Title II-A funds.

Effect: The Oklahoma State Department of Education is not in compliance with OMB Circular A-102 (Common Rule). In addition, we were unable to verify the allocated portion of excess funds awarded to eligible school districts.

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Recommendation: We recommend that the Oklahoma State Department of Education develop and implement a Title II-A record retention policy for data used in the allocation process to ensure compliance with OMB Circular A-102 (Common Rule).

Management's Corrective Action Plan

Contact Person: Paula Crawford

Anticipated Completion Date:

Corrective Action Planned: The Oklahoma State Department of Education will ensure that the SDE computer system contains appropriate files to retain the historical data used to support the calculations used in the allocation process of the Title II-A funds in order to ensure compliance with OMB Circular A-102 (Common Rule).

REF NO: 03-265-010

STATE AGENCY: Department of Education

FEDERAL AGENCY: Department of Education

CFDA NO: 84.027

FEDERAL PROGRAM NAME: Special Education, Grants to States

FEDERAL AWARD NUMBER: H027A000051

FEDERAL AWARD YEAR: 2000

CONTROL CATEGORY: Earmarking

QUESTIONED COSTS: \$-0-

Criteria: OMB Circular A-133 Compliance Supplement, Special Education – Grants to States, Section G. Earmarking, for the United State Department of Education, states that, “**Capacity Building subgrants to LEAs:** ED will inform SEAs of the amount of their IDEA-B grants that must be used for subgrants to LEAs for capacity building (20 USC 1411(f)(4)).”

In addition, the grant award letter states,

The minimum amount that a State must use for subgrants to LEAs for capacity building and improvement activities is equal to the maximum amount that the State was allowed to retain for state level activities for FFY 1999, multiplied by the difference between the percentage increase in the State's allocation under Section 611 from FFY 1999, and the rate of inflation. These funds are to be used by LEAs to provide direct services and make systemic change to improve results for children with disabilities through: (1) direct services, including alternative programming for children who have been expelled from school, and services for children in correctional facilities, children enrolled in State-operated or State-supported schools, and children in charter schools; (2) addressing needs or carrying out improvement strategies identified in the State Improvement Plan; (3) adopting promising practices, materials, and technology, based on knowledge derived from education research and other sources; (4) establishing, expanding or implementing interagency agreements and arrangements between LEAs and other agencies concerning the provision of services to children with disabilities and their families; and (5) increasing cooperative problem-solving between parents and school personnel and promoting the use of alternative dispute resolution.

Condition: Based on the testwork performed, it appears that the Department only expended \$28,133.56 of the \$1,366,691 minimum amount required to be expended for capacity building.

Effect: The Department is not in compliance with the earmarking requirements for the IDEA, Part B grant.

Recommendation: We recommend that the Department implement policies and procedures to ensure that the capacity building requirement is met.

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Management's Corrective Action Plan

Contact Person: Jill Burroughs

Anticipated Completion Date:

Corrective Action Planned: Department records show that capacity building funds were allocated as First Year Carry-Over funds in FY 2002. The Department disagrees with this finding.

Auditor Response: We tested the federal grant award for FFY 2000. The U.S. Department of Education (USDE) associates the year in which the funds are allocated as the year of award. These funds are available for obligation by States from July 1, 2000 through September 30, 2002. The Oklahoma State Department of Education refers internally to this same grant as the FY 2001 award. Based on our review of the OMB Circular A-133 Compliance Supplement and the award letter from the USDE, funds from the FFY 2000 grant must be obligated, not just allocated, for capacity building and improvement activities within the above time frame. Based on our review and testwork of the Department's financial records, this did not occur.

REF NO: 03-265-011

STATE AGENCY: Department of Education

FEDERAL AGENCY: Department of Education

CFDA NO: 84.027, 84.173

FEDERAL PROGRAM NAME: Special Education, Grants to States; Special Education, Preschool Grants

FEDERAL AWARD NUMBER: H027A020051, H173A020084

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Level of Effort/Maintenance of Effort

QUESTIONED COSTS: \$-0-

Criteria: OMB Circular A-133 Compliance Supplement, Special Education, Section G. Level of Effort – Maintenance of Effort, for the United State Department of Education, states that, “IDEA, Part B funds received by an LEA, (Local Education Agency), cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal to the amount of local funds, or a combination of State and local funds expended for this purpose by the LEA in the prior fiscal year.”

Condition: Based on the procedures performed, the following two exceptions were noted:

1. The Department did not reduce the next years funding for 16 LEAs of the 54 sampled that did not meet the Level of Effort/Maintenance of Effort requirement. The Department does not have the proper policies and procedures in place to address this issue.
2. Of the 54 LEAs in our sample the Department did not identify 3 of the LEAs that had not met the Level of Effort/Maintenance of Effort requirement. Therefore, funding was not reduced appropriately for these LEAs that did not meet the requirement.

Effect: The Department is not in compliance with the OMB Circular A-133 Level of Effort/Maintenance of Effort requirement. The Department did not reduce funding appropriately for LEAs that did not meet the requirement.

Recommendation: We recommend that the Department implement policies and procedures to identify LEAs that do not meet the Level of Effort/Maintenance of Effort requirement and that proper actions are taken to ensure funding is reduced appropriately for LEAs that do not meet the requirement.

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Management's Corrective Action Plan:

Contact Person: Jill Burroughs

Anticipated Completion Date: May 30, 2004

Corrective Action Planned: The Individuals with Disabilities Education Act and its implementing regulations do not specify the action to be taken when districts fail to meet the maintenance of effort requirement. Specifically, regulations do not require that a district's funding be reduced if that district fails to meet the maintenance of effort requirement.

The Department is seeking clarification from the U.S. Department of Education for proper procedures to follow when a districts fails to meet the maintenance of effort requirement.

Auditor Response: We disagree with management's assertion that regulations do not specify the action to be taken when districts fail to meet the maintenance of effort requirement and that they do not require that a district's funding to be reduced if the district fails to meet the maintenance of effort requirement. According to 34 CFR Section 300.197(a):

General. If the SEA, after reasonable notice and an opportunity for a hearing, finds that an LEA or State agency that has been determined to be eligible under this section is failing to comply with any requirement described in Secs. 300.220-300.250, the SEA shall reduce or may not provide any further payments to the LEA or State agency until the SEA is satisfied that the LEA or State agency is complying with that requirement.

Based on the testwork performed, it appears the Department does not have policies or procedures in place to identify LEAs that do not meet the Level of Effort/Maintenance of Effort requirement and that proper actions are taken to ensure funding is reduced appropriately for LEAs that do not meet the requirement.

Employment Security Commission

Reference number 03-290-013 regarding information system security relates to both the financial statements and to federal awards received from the U.S. Department of Labor. The detail of this finding may be seen in the section Schedule of Findings, Financial Statements Findings (Internal Control and Compliance).

REF NO: 03-290-003

STATE AGENCY: Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.225

FEDERAL PROGRAM NAME: Unemployment Insurance

FEDERAL AWARD NUMBER: UI11840HY, UI12659KS

FEDERAL AWARD YEAR: 2002 and 2003

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

Criteria: The Department of Labor – Employment Training Administration (ETA) UI Reports Handbook Number 401 Section IV-3-5 states, "All applicable data on the ETA 227 report should be traceable to the data regarding overpayments and recoveries in the State's financial accounting system."

A basic objective of governmental generally accepted accounting principles is the reliability of information.

Condition: During our testing of the period ending June 30, 2003, ETA 227 Overpayment Detection and Recovery Activities report, we noted the data used to prepare the ETA 227 is computer generated which is not reconciled to an independent source.

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Effect: The lack of independent reconciliations may result in inaccurate data reported on the ETA 227.

Recommendation: We recommend the OESC develop a system to ensure independent reconciliations are performed for applicable data reported on the ETA 227 report.

Management's Corrective Action Plan

Contact Person: Mark Chumley, Chief of Investigations

Anticipated Completion Date:

Corrective Action Planned: OESC recognizes that the ETA-227 report is not reconciled on a quarterly basis. The information that is on the 227 report is that information which is data entered on a daily basis by the BPC unit concerning the establishment of overpayments, monies recovered, adjustments to overpayment type, and overpayment overages. This report does not show monies that are applied to interest, nor does it show the cents that is taken in one monies.

The 227 report has a detailed listing that accounts for every transaction that the Department of Labor requires to be used in the calculation of ETA-227. Periodically the BPC unit pulls a daily listing of monies recovered and manually reconciles it with the detailed listing of the ETA-227 transaction.

The BPC unit will work with the Information Technology Department and the Department of Labor to determine an independent reconciliation method.

REF NO: 03-290-015

STATE AGENCY: Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.225, 17.258, 17.259, 17.260

FEDERAL PROGRAM NAME: Unemployment Insurance, Workforce Investment Act (WIA) Adult Program, WIA Youth Activities, and WIA Dislocated Workers

FEDERAL AWARD NUMBER: UI112659KS, AA12031IZ0, AA12031JF0, AA12031JGO, AA12031KC0, and AA12031KD0

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CoBit, Delivery and Service DS11), management should ensure that data remains complete, accurate and valid during its input, update and storage.

Condition: During the walkthrough of the claims phone center, it was noted that MSN Instant Messaging was in use. Per discussion with the CIO, he was unaware of the use of this technology at the call center. Appears that the center is using IM (instant messaging) internally. However, messages sent via IM do not pass through the E-mail system. These messages are not scanned for viruses nor archived. Communication via IM cannot be monitored or logged in order to maintain security of the system or completeness of data.

Effect: Increased risk of unauthorized use, disclosure or loss of information.

Recommendation: We recommend that OESC take steps to assess the risk of using IM and take measure to ensure that:

- Internal IM communications are secure
- Use of IM is monitored
- Proper recording (archiving) of records should occur
- Policies and procedures are in place to establish proper access controls

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Management's Corrective Action Plan

Contact Person: Mike Evans, CIO

Anticipated Completion Date:

Corrective Action Planned: All workstations at OESC have anti-virus software (Mcafee Viruscan 4.5.1) installed that is automatically updated weekly. Therefore even Instant Messaging is scanned for viruses if a file is placed on that computer. Any file that is saved on the workstation is scanned. So any file that is attached to an instant message is scanned. Since a virus or a worm has to be executed the virus software will catch it if it comes in via the instant messaging software. Instant messaging is a very useful tool that we feel should not be restricted as long as the equipment remains virus free. Our current email software does not allow for internal instant messaging. We are upgrading the email server so that in the future we anticipate being able to provide this service internally and address the issues of archiving and monitoring.

Auditor Response: Per review of the website us.mcafee.com, we noted that the new virus scan packet does include instant message scanning as a new product. However, it does not appear that the software in use by OESC is the latest version. We agree that instant messaging is a technology that has a lot of potential and can be very useful. We recommend the agency consider the vulnerabilities and risks associated with instant messaging and determine if the risk can be mitigated to an acceptable level.

REF NO: 03-290-018

STATE AGENCY: Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.258, 17.259, and 17.260

FEDERAL PROGRAM NAME: Workforce Investment Act (WIA) Adult Program, WIA Youth Activities, and WIA Dislocated Worker

FEDERAL AWARD NUMBER: AA12031KDO

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

Criteria: According to the standards of the Information Systems Audit and Control Association (CoBit, Delivery and Support DS11, management should ensure that data remains complete, accurate and valid during its input, update and storage. Transaction data entered for processing (people-generated, system-generated or interfaced inputs) should be subject to a variety of controls to check for accuracy, completeness and validity.

Condition: Participant data is generated from the local service areas through the Service Link system. WIA accountability is tracked through the Quarterly and Annual Reports and this information is used for federal reporting. During our testwork of performance reporting for the Workforce Investment Act, we noted the following variances of reported data to support documentation:

Quarterly Summary to Participant Data

Participant Type	QUARTERLY SUMMARY REPORT July 02 – Jun 03	Participant Data	Variance Over (Under)	
Adults	6096	4875	1221	
Dislocated Workers	2982	2352	630	
Younger Youth	3420	2590	830	
Older Youth	714	576	138	

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Quarterly Summary to Annual Report

Participant Type	QUARTERLY SUMMARY REPORT July 02 – Jun 03	Annual Report Table M	Variance Over (Under)	
Adults	6096	6091	5	
Dislocated Workers	2982	3266	(284)	
Younger Youth	3420	2868	552	
Older Youth	714	647	67	

Annual Report to Participant Data

Participant Type	Annual Report Table M	Participant Data	Variance Over (Under)	
Adults	6091	4875	1216	
Dislocated Workers	3266	2352	914	
Younger Youth	2868	2590	278	
Older Youth	647	576	71	

Based upon our discussion with OESC personnel, the variances are caused by changes to the data (such as exit information, type of participant, etc) prior to the close of the fiscal year. Due to changes being made to the data and since data warehousing is not used, it is possible that the reports will have different numbers at different time periods.

Effect: Performance participants reported to the federal awarding entity may not be accurate.

Recommendation: We recommend that OESC continue efforts to complete the validation and verification procedures that will be required by the Department of Labor as of April 1, 2004. We also recommend that OESC archive or warehouse the data to facilitate a reconciliation process for the quarterly and annual data.

Management's Corrective Action Plan

Contact Person: Terry Watson, Director Employment and Training

Anticipated Completion Date:

Corrective Action Planned: The Oklahoma Employment Security Commission has completed the required WIA Data Element & Report Validation for program year 2002. Data Element Validation on randomly selected WIA participant records will now be conducted on an annual basis. Participant eligibility and performance outcome elements are the focus of validation. State staff validates participant case files against data input into the Oklahoma Service Link system. Report Validations uses standardized software provided by the Department of Labor to validate the accuracy of each value reported on the WIA annual report generated by the Oklahoma Service Link reporting system. Report Validation will be conducted on an annual basis prior to the filing of the WIA annual report.

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REF NO: 03-290-021
STATE AGENCY: Employment Security Commission
FEDERAL AGENCY: Department of Labor
CFDA NO: 17.225
FEDERAL PROGRAM NAME: Unemployment Insurance
FEDERAL AWARD NUMBER: UI11840HY, UI12659KS
FEDERAL AWARD YEAR: 2002 and 2003
CONTROL CATEGORY: Reporting
QUESTIONED COSTS: \$ -0-

Criteria: A basic objective of governmental generally accepted accounting principles is to provide accurate and reliable information.

Condition: The period ending June 30, 2003, ETA 581 Contribution Operations Report, is not reconciled to an independent source.

Effect : Information on the volume of work and OESC's performance in determining taxable status of employers may not be accurate and reliable.

Recommendation: We recommend the OESC develop a system to ensure independent reconciliations are performed for applicable data reported on the ETA 581 report.

Management's Corrective Action Plan

Contact Person: Mary Casey

Anticipated Completion Date:

Corrective Action Planned: The OESC is committed to ensuring accurate and supported data. A review will be made of the ETA 581 requirements and the OESC's procedures in meeting those requirements to determine the most appropriate course of action to ensure the ETA 581 data is both accurate and supported.

REF NO: 03-290-024
STATE AGENCY: Employment Security Commission
FEDERAL AGENCY: Department of Labor
CFDA NO: 17.225
FEDERAL PROGRAM NAME: Unemployment Insurance
FEDERAL AWARD NUMBER: UI11840HY, UI12659KS
FEDERAL AWARD YEAR: 2002, 2003
CONTROL CATEGORY: Cash Management
QUESTIONED COSTS: \$-0-

Criteria: The Treasury State Agreement for fiscal year 2003, Daily Allocation, Variation 1 states:

The State shall request funds daily to fund costs incurred. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be a percentage of agency federal administrative costs estimated for each day, adjusted to actual, based on expenditures of the prior month. The percentage of administrative costs for each day is an estimate attributable to each grant.

Daily Allocation, Variation 1, used by the Oklahoma Employment Security Commission on the federal program # 17.225 (48% Administrative). This state agency operates primarily on federal funds and has inadequate state funds to pre fund federal expenditures. Therefore, daily draws of federal funds are required, and costs must be allocated to federal programs on a daily basis. The agency computes the prior year's percentage of administrative costs for program # 17.225. The percentage is applied to the

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daily administrative costs and that amount is drawn from the CMIA program. At the end of the month, the daily draw downs are adjusted so the monthly total reflects the prior month's actual costs.

Condition: The following conditions are present:

- Administrative costs are drawn in advance of the allocation process based on a predetermined percentage of total expenditures. An adjustment is performed at a later date; however, this adjustment is made to an estimated amount rather than actual direct and allocated amounts.
- Administrative funds are drawn at a rate of 51% of total expenditures rather than at 48% of total expenditures as required by the Treasury State Agreement.

Effect: OESC is not drawing in accordance with the Treasury State Agreement. Funds could be over or under drawn.

Recommendation: We recommend OESC review the above stated practices and implement a system by which estimated amounts initially drawn are in accordance with Treasury State Agreement and then subsequently adjusted to actual costs.

Management's Corrective Action Plan

Contact Person: Levi Onwuchuruba, CFO

Anticipated Completion Date: May 1, 2004

Corrective Action Planned: Each month when the payroll draw is done, adjustments are made to compensate for any over/under draws resulting from estimating the draws required during the prior month. When the grant year is closed and final reporting is done, all draws are matched exactly to the total actual expenditures. With the implementation of PeopleSoft, we now are able to draw funds for all direct expenses as incurred. Claims for expenses to be allocated to all grants are drawn against each grant based on a rolling average of the prior 3 months actual overhead allocation. Historically, administrative funds for UI have been 51%. OESC will amend the Treasury State Agreement if necessary. Schedule meeting to discuss with appropriate state personnel, necessary changes to the Treasury State Agreement. Any necessary changes will be made at that time.

Department of Health

REF NO: 03-340-001

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH604488-12

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Special Tests and Provisions-Control, Accountability, and Safeguarding of Vaccine

QUESTIONED COSTS: \$-0-

Criteria: According to the OMB A-133 Compliance Supplement, "Effective control and accountability must be maintained for all vaccine. Vaccine must be adequately safeguarded and used solely for authorized purposes (A-102 Common Rule §___,20)".

Condition: During our observation of the Department's weekly inventory count of vaccine, five adjustments had to be made to the final Inventory on Hand Report so that it would match the physical count of vaccine inventory. Only one of the five adjustments could be traced back to the source that caused the difference between the physical inventory count and the amounts on the first Inventory on Hand Report.

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Management stated that most of the discrepancies were due to providers reporting or not reporting if they had received the correct amount of vaccine. We reviewed other inventory counts and noted that this is an on-going condition.

Effect: Inventory records may not be reliable; therefore, the Department may not be able to ensure adequate vaccine accountability.

Recommendation: We recommend that the Immunization staff print off a copy of the provider's screen on VACMAN each time an adjustment to provider's inventory is made. These records should be maintained to validate the reason for any adjustments made to the Department's inventory as a result of discrepancies between the provider's inventory and the Department.

Management's Corrective Action Plan

Contact Person: Dorothy Cox

Anticipated Completion Date: This plan has no completion date; it will go on indefinitely. Started on June 2, 2003.

Corrective Action Planned: We concur with the findings of the Auditor's report and implemented the recommended corrective action June 2, 2003 after preliminary review with the staff investigator. We have been printing off the provider's screen on Vacman each time we do an adjustment to a provider's inventory. We are keeping all these adjustments in a file by week. We sometimes do not hear from a provider for a couple of weeks after they received their shipment. We then go back and make the adjustment and print off the screen and file in the correct week.

REF NO: 03-340-004

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH604488-12

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$0-

Criteria: The Common Rule, Subpart C, §42 (b) Length of Retention Period, states, "(1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section".

The OMB Circular A-133 Compliance Supplement, Part 3, Section L. Reporting, under Audit Objectives, states, "Determine whether required reports for the Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented." In addition, the Supplement provides the following recommended audit procedures:

- (1) Trace the data to records that accumulate and summarize data.
- (2) Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.

In addition, a basic objective of Governmental Generally Accepted Accounting Principles is to provide accurate and reliable information.

Condition: The Immunization Program for the Oklahoma State Department of Health could not produce the support documentation for the Annual Progress Report, which reports summary data on all components of the Immunization Program for calendar year 2002. There was also no indication that the report had been reviewed or approved by program management. We questioned program management to see if the report had actually been reviewed and approved before it was submitted to the Centers for Disease Control and

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Prevention (CDC). Management stated that it had been reviewed but they did not have a procedure in place to document that it had been reviewed and approved. It appears management does not have a process or procedure in place to verify that the report is reviewed and approved before being submitted to the Federal Awarding Agency. All of the reports for the Immunization Program are submitted through the Internet.

Effect: We were unable to verify the completeness of the report or to determine if it was accumulated and summarized correctly. We were also unable to verify that the report was reviewed and approved by program management to guarantee that the information was accurate and reliable.

Recommendation: We recommend the Department retain all records in accordance with the requirements of the Common Rule. We further recommend that the Department implement a process of reviewing and approving all reports before they are submitted to the Federal agency. This could be documented by having management initial hard copies of the report, indicating their review, before it is submitted to the Federal Awarding Agency. These initialed hard copies should be retained as part of the program's supporting documentation along with any documentation used to develop the report.

Management's Corrective Action Plan

Contact Person: Don Blose

Anticipated Completion Date: October 1, 2003

Corrective Action Planned: We concur with the auditor's recommendation and have initiated procedures to assure that documentation of all program reports be retained for three years. A memorandum that documents these procedures will be finalized and shared with the staff of the Immunization Service. The program will document the review process using routing slips and file all copies of these slips and the completed reports. Management will review all reports submitted via the Internet. A hard copy of the report will be printed and initialed by the manager and then placed in a file that will serve as supporting documentation.

REF NO: 03-340-006

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.283

FEDERAL PROGRAM NAME: Centers For Disease Control and Prevention Investigations and
Technical Assistance

FEDERAL AWARD NUMBER: U90/CCU616982-03

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Subrecipient Monitoring

QUESTIONED COSTS: \$-0-

Criteria: OMB Circular A-133, Subpart D, § 400(d) states, in part:

Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

The OMB Circular A-133 Compliance Supplement, Part 3.M. states in part:

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A pass-through entity is responsible for:

During- the- Award Monitoring - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

OMB Circular A-102 Common Rule § ____ .40(a) states, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

The Monitoring Plan for the Oklahoma City-County Health Department contract states, "The contractor monitor will be required to conduct a site visit no less than semi-annually and review quarterly progress reports for progress toward completion of scope of work."

Condition: We noted the following during our internal control testwork:

1. The Oklahoma City-County Health Department contract was issued December 11, 2002. The contract monitor did not conduct a site visit during the state fiscal year. The Department has received one of the two required quarterly progress reports during the fiscal year.
2. During testwork of subrecipient monitoring for the Tobacco Prevention program, we noted that none of the three subrecipients in our sample received any form of "during-the-award" monitoring by the Department during State Fiscal Year 2003. In addition, the Department did not have a comprehensive monitoring plan in place for the program during our audit period.

Effect: The Department may not be performing sufficient monitoring activities to ensure that subrecipients are in compliance with federal requirements.

Recommendation: We recommend that the Department advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements. In addition, the Department should prepare and implement a unified schedule that ensures subrecipients are monitored sufficiently according to federal, contract, and monitoring plan requirements. We further recommend that the Department monitor subrecipients to ensure that Federal awards are used for authorized purposes and to ensure that performance goals are being achieved. In addition, the Department should develop and implement a comprehensive monitoring program for this program. This should include, but not be limited to, site visits of each subrecipient on a regular periodic basis.

Management's Corrective Action Plan

Contact Person: Julie Cox-Kain

Anticipated Completion Date: 4/30/04

Corrective Action Planned: We concur with this finding. The department recognizes the need to dedicate staff to the contract monitoring function and will have two full-time contract monitors on the Bioterrorism staff by September 2, 2003. In addition, the agency has taken steps to improve subrecipient monitoring in the Tobacco program. The program is scheduled to conduct site visits at all contract sites in SFY 2004 (both programmatic and financial), has developed a manual to assist contract monitors in preparing for and conducting site visits, and has reviewed documents in SFY 2004 site visits for both SFY 2003 and SFY 2004 in order to review the contractor during periods in which there may have been no site visit. In addition, the OSDH leadership has formed a committee to review and make improvements to subrecipient monitoring agency-wide. This committee will be chaired by the Chief Financial Officer and will begin meeting on February 25, 2004.

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REF NO: 03-340-009
STATE AGENCY: Department of Health
FEDERAL AGENCY: Department of Health and Human Services
CFDA NO: 93.268
FEDERAL PROGRAM NAME: Immunization Grants
FEDERAL AWARD NUMBER: H23/CCH604488-12
FEDERAL AWARD YEAR: 2002
CONTROL CATEGORY: Special Tests and Provisions-Monitoring For-Profit Subrecipients; Special Tests and Provisions-Record of Immunization
QUESTIONED COSTS: \$-0-

Criteria: According to the CDC 2002 Grant Guidance for the Immunization Program Chapter 3, Section 2.6, “The Immunization Program should implement data quality measures to ensure that the provider sites routinely submit immunization records on children <6 years of age to the registry (in program areas where a registry is operational) to ensure that the information contained in this registry is complete, accurate, and timely.”

In addition, a component objective of an effective internal control system is to provide accurate and reliable information.

Condition: During our testwork, we noted that the record information for 5 out of the 60 Quality Assurance Site Visit Forms we tested did not match the information recorded in the Oklahoma State Immunization Information System (OSIIS). These 5 items were:

<u>Exception Information not matching</u>	
1	Lot numbers did not match.
2	Eligibility not recorded in OSIIS.
3	Lot number, site, and eligibility not in OSIIS.
4	QA eligibility and site do not match OSIIS.
5	Site is not recorded in OSIIS.

Effect: The Department may not be able to provide accurate and reliable information of a person’s immunization history.

Recommendation: We recommend that the Department implement measures to ensure that the information recorded on the registry is complete, accurate, and entered in a timely manner and ensure that if any inaccurate information is found that it is investigated and corrected immediately.

Management’s Corrective Action Plan

Contact Person: Susan Mendus

Anticipated Completion Date: January 2004 and on-going

Corrective Action Planned:

1. The “Condition” described in this finding is a transcription error on the part of the staff person reviewing the immunization record. This will be corrected by automating the process. Before each QA site visit, Immunization Service staff review one immunization record for each of 30 patients and transcribe the information onto the QA Site Visit Form. The Immunization Service staff person then calculates the number of correct and incorrect entries to determine if the record-keeping requirements are met for 90% of the records. Beginning in January 2004, registry staff will provide a printout of the immunization records of 30 individuals and Immunization Service staff will not have to transcribe the information, but will simply check the information for completeness.
2. We concur with the recommendation to ensure complete, accurate, and timely data entry in the registry. We continually address the issue of accuracy through: training, and re-training of registry users, monthly review of registry use or non-use to ensure timeliness of data entry, a vaccine

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ordering system that automatically replenishes a provider's vaccine supply based on accurate data entry of lot number usage, and a check of accurate data entry by a review of 30 immunization records during QA site visits.

REF NO: 03-340-012

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH604488-12

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Special Tests and Provisions-Monitoring For-Profit Subrecipients; Special Tests and Provisions-Record of Immunization

QUESTIONED COSTS: \$-0-

Criteria: The OMB Circular A-133, Subpart D § __. 400.d.3, states that a pass-through entity shall, "Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contract or grant agreements and that performance goals are achieved."

In addition, the Immunization Program has VFC Procedure 2.a. - VFC Quality Assurance (QA) Protocol Standard Levels for Public and Private Providers. These procedures state that during a QA Site Visit, if the field representative finds a provider to be in noncompliance with VFC standards, the field representative must perform follow-up on the findings by either calling the provider at a later date or performing another site visit to determine if the provider has corrected the problem and is now in compliance with VFC standards.

Condition: During our testwork of 60 Quality Assurance Site Visit Reports, we found that the Department was not:

- Following its policies and procedures for conducting Quality Assurance Site Visit follow-ups when noncompliance of subrecipients is found.

<u>Provider</u>	<u>Findings From QA Site Visits</u>
	1. In the review of 10 recipients the field representative indicated that 5 files were missing lot numbers, 9 files were missing both the recording of the vaccination site and the administrator.
	2. In the review of 10 recipients the field representative indicated that all of the files reviewed were missing the recording of the site of vaccination and 2 files were missing the VFC eligibility status.
	3. In the review of 10 recipients the field representative indicated that 6 files were missing the VFC eligibility status and 4 files were missing vaccine lot numbers.
	4. In the review of 10 recipients the field representative indicated that 4 files were missing the VFC eligibility and 2 files were missing vaccine lot numbers.
	5. In the review of 10 recipients the field representative indicated that 2 files showed that the shot was given to the recipient in their gluteus maximus.
	6. In the review of 8 recipients the field representative indicated that all 8 files were missing the recording of the site of vaccination.

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7. In the review of 10 recipients the field representative indicated that 4 files showed that the shot was given to the recipient in their gluteus maximus.
 8. In the review of 10 recipients the field representative indicated that 3 files were missing the VFC eligibility status.
 9. In the review of 10 recipients the field representative indicated that 2 files were missing the recording of the vaccination site.
- Completing their Quality Assurance Site Visit forms to ensure that the subrecipient was being monitored adequately with all supporting documentation attached or included in the subrecipient's file.

The following QAs were not completed:

Provider Comments

1. Question #31 was left blank which pertains to providers maintaining temperature logs for both freezers and refrigerators.
 2. Question #31 was left blank which pertains to providers maintaining temperature logs for both freezers and refrigerators.
 3. Questions #2 and #3 were left blank which pertains to how the child's eligibility is determined and documented either on OSIS (Oklahoma State Immunization Information System) or in the child's medical chart.
 4. The site where the shot was given was not recorded on the QA.
 5. Other VFC requirement questions were left blank.
 6. Question #23 regarding injection sites for infants and toddlers was left blank.
 7. The site where the shot was given was not recorded for 2 records.
 8. There were 5 questions left blank on the QA pertaining to VFC requirements.
 9. Question #31 was left blank which pertains to providers maintaining temperature logs for both freezers and refrigerators
 10. There were 6 questions left blank on the QA pertaining to VFC requirements.
 11. There were 4 questions left blank on the QA pertaining to the VFC requirements.
- Tracking which subrecipients are monitored each year. This would ensure that each subrecipient is being monitored adequately and documenting noncompliance of subrecipients.

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Effect: Inadequate subrecipient monitoring could lead to the continual noncompliance of the subrecipients and the improper use of vaccine, which could lead to the loss of vaccine inventory.

Recommendation: We recommend that the Department:

- Follow its own policies and procedures for Quality Assurance Site Visit follow-ups.
- Ensure that their Quality Assurance Site Visit forms are completed with all supporting documentation attached or included subrecipient's file.
- Implement a tracking system of subrecipients that have been monitored to ensure that each subrecipient is monitored adequately and noncompliance is documented.

Management's Corrective Action Plan

Contact Person: Susan Mendus

Anticipated Completion Date: October 2003

Corrective Action Planned:

1. All staff responsible for conducting visits will review the policies and procedures for Quality Assurance Site Visits and follow-up activities. Policies and procedures will be reviewed at least twice annually following the initial review.
2. A sample of two Quality Assurance Site Visit forms and accompanying documentation completed by each of the staff responsible for conducting site visits will be reviewed for completeness on a monthly basis by the supervisor and/or other Immunization Service staff not involved in conducting site visits.
3. A list of subrecipients visited in 2002 has been created and will be used in a database to be created. The database will be updated as subrecipients are enrolled and as they quit the program. The list will be reviewed annually as visits are planned for the upcoming year. Subrecipients who did not receive a visit the previous year will be visited the next year. All instances of noncompliance will be documented on the follow-up forms and filed in the subrecipients file.

REF NO: 03-340-013

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.283

FEDERAL PROGRAM NAME: Centers For Disease Control and Prevention-Investigations and Technical Assistance

FEDERAL AWARD NUMBER: U90/CCU616982-03

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

Criteria: A component objective of Governmental Generally Accepted Accounting Principles is to provide accurate and reliable information.

In addition, OMB Circular A-133 Compliance Supplement, Section 3, Audit Objective #2, states, "Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements."

Condition: During reporting testwork of the Bioterrorism Interim Progress Report for Budget Period Three (November 2, 2002 to June 30, 2003), the following was noted:

1. Focus Area E, Critical Benchmark #12, states, "OSDH has established a fax alert system which contains the fax numbers for 100% of county health departments". Based upon our review of the

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- fax alert system database, the agency contains the fax numbers for 94% (eighty-one county health departments with fax numbers divided by eighty-six total health departments equals 94%) of county health departments. Five departments did not have fax numbers and two of those five did not have fax machines. We also discovered eighty-three county health departments were entered twice into the database.
2. Focus Area E, Critical Benchmark #12, states, “OSDH has established a fax alert system which contains the fax numbers for 82.2% of Internal Medicine physicians”. Based upon our review of the fax alert system database, the agency contains the fax numbers for 27.6% (two hundred and eight internal medicine physicians with fax numbers divided by seven hundred fifty-three total internal medicine physicians equals 27.6%) of internal medicine physicians.
 3. Focus Area E, Critical Benchmark #12, states, “We primarily communicate with Infectious Disease Physicians through e-mail (96.2% have an e-mail account).” Based upon our review of the fax alert system database, the agency contains the e-mail accounts for 80% (twenty infectious disease physicians with e-mail accounts divided by twenty-five total infectious disease physicians equals 80%) of infectious disease physicians.
 4. Focus Area E, Critical Benchmark #12, states, “The database we have established contains 100% of the phone numbers for all county public health departments, clinical laboratories, hospital Infection Control Practitioners (including Indian Health Service and tribal hospitals), primary care physicians (General Practice and Family Medicine), Internal Medicine physicians and Infectious Disease Physicians.” Based upon our review of the database, the agency contains the phone numbers for 56% (one thousand four hundred and sixty-five organizations and practitioners with phone numbers divided by two thousand six hundred and nine total organizations and practitioners equals 56%) of organizations and practitioners stated.
 5. Cross-Cutting Activities, Cross-Cutting Benchmark #13, Laboratory Connectivity, states, “Do they know how to properly ship isolates to reference laboratories following federal guidelines for packaging and shipping infectious substance (59% answered no)?”. Based upon our review of the survey results to all clinical laboratories in the state, 35% (forty-four organizations answering no divided by one hundred twenty-six organizations surveyed equals 35%) of the laboratories answered no.
 6. Cross-Cutting Activities, Cross-Cutting Benchmark #13, Laboratory Connectivity, states, “To date, 88% of the laboratories have responded.” Based upon our review of the survey responses, 80% (seventy-four respondents divided by ninety-two surveys disbursed equals 80%) of the laboratories have responded to the survey.

Effect: Based upon conditions one through four above, the estimation of the percentage of the state’s population that live in local jurisdictions that are covered by the Health Alert Network for Critical Benchmark #11, may be reduced from 100%. Also based upon conditions one through four stated above, the answer to Critical Benchmark #12, “Is your state’s communication system capable of sending and receiving critical health information (including alerts of emergency event data) among hospital emergency department, state and local officials and law enforcement officials, 24 hours a day, 7 days a week?” may change from “yes” to “no”. Performance data used to describe the progress made toward achievement and overall success of the program may not be accurate or reliable.

Recommendation: We recommend the Department ensure the Interim Progress Reports contain accurate and complete data by thoroughly reviewing supporting data used for calculations and computations for the amounts reported.

Management’s Corrective Action Plan

Contact Person: Julie Cox-Kain

Anticipated Completion Date: During next progress report

Corrective Action Planned: The OSDH concurs with the recommendations of the SA&I. The Bioterrorism Coordinator will instruct all Focus Area Coordinators to review source data to ensure accurate responses on progress reports.

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REF NO: 03-340-014

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.283

FEDERAL PROGRAM NAME: Centers For Disease Control and Prevention Investigations and Technical Assistance

FEDERAL AWARD NUMBER: U90/CCU616982-03

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Equipment and Real Property Management

QUESTIONED COSTS: \$-0-

Criteria: 74 O.S. 2002 § 110.1, states, in part:

- A. The Department of Central Services shall maintain a current inventory of tangible assets owned by state boards, commissions, institutions, agencies and the institutions comprising The Oklahoma State System of Higher Education and the University Hospitals Authority.
- B. The Director of Central Services shall have the authority to promulgate rules to implement the provisions of this section.
- C. For entities included in subsection A of this section, the Director of Central Services shall specify a tangible asset reporting threshold for each entity, ...
- E. Rules that the Director of Central Services promulgates shall cause all tangible assets to be properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma and that statistical records may be maintained.

OAC 580: 70-1-3 (a) General threshold, states, "Unless the Director specifies otherwise (Reference (b) of this Section), the threshold for tangible asset inventory reports is \$500.00."

OAC 580: 70-3-1 (a) Report due date, states, "All agencies must submit an annual report of current inventory of tangible assets owned by the agency as of June 30 of the preceding fiscal year to the Department by August 15. The report shall include all tangible assets based upon the threshold stated in 580:70-1-3(a)."

OAC 580: 70-5-1 (a) Inventory tags, states, "An agency shall affix a unique identifier as an inventory tag to all tangible assets."

Condition: We tested 52 equipment purchases totaling \$1,782,651.56 out of 135 equipment purchases totaling \$2,247,217.33. During our testwork we noted 13 claims containing equipment items not entered into the agency's equipment database nor identified by a tag totaling \$555,624.70.

Effect: The agency's equipment listing is incomplete. As a result, equipment items may not be properly accounted for during the agency's physical inventory. Unrecorded equipment items may also be more susceptible to theft.

Recommendation: We recommend the agency create and implement procedures for identifying all equipment purchases that are received by the agency's central office and other locations. These procedures should include measures to determine the completeness of the equipment database and proper identification and tagging of all equipment with a purchase price over the threshold established by the Director of Central Services.

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Management's Corrective Action Plan

Contact Person: Julie Cox-Kain

Anticipated Completion Date: December 31, 2003

Corrective Action Planned: Procedures have been drafted for this area and will include handling of the items through Shipping and Receiving and Assets Inventory. Final procedures will be completed with the changes required by Peoplesoft implementation no later than December 31, 2003. The additional 60 days will be utilized to insure purchasing, receiving, and inventory procedures are accurately stated. Additional procedures will be written by December 1, 2003 for the Centrex or telephone orders to insure any telephones (not processed through the purchasing module) received at a cost of \$500 or more will be routed through Shipping and Receiving for documentation as an asset and will be completed by December 1, 2003.

The State of Oklahoma has purchased the Peoplesoft inventory module to complement the purchasing/financial modules being implemented in November 2003. Our understanding of the new modules is that information entered within the procurement module will be carried forward into the accounts payable module and subsequently to the inventory system thereby reducing the possibility of an inaccurate cost figure being recorded. The historical cost information will come from the voucher (claim) directly to the inventory system. To address the problem within our current system, FMS will provide Shipping and Receiving with a monthly printout of paid equipment claims. This printout will be utilized to reconcile the two systems to insure items verified as received are accounted for in the inventory system. Shipping and receiving will then be responsible for pulling the order to determine if the items received required additional follow-up through the Assets Inventory. Records will be verified by hand until the new system is in place.

REF NO: 03-340-020

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.268; 93.283

FEDERAL PROGRAM NAME: Immunization Grants; Centers For Disease Control and Prevention
Investigations and Technical Assistance

FEDERAL AWARD NUMBER: H23/CCH604488-12; U90/CCU616982-03

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Cash Management

QUESTIONED COSTS: \$-0-

Criteria: 31 CFR 205.33 states in part:

A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes... The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.

In addition, a letter to the Oklahoma State Health Department dated February 25, 2003 from Ms. Cassandra Miles, Chief, Governmental and Tribal Payments Branch, U.S. Department of Health and Human Services (Division of Payment Management) states in part, "In accordance with Treasury regulations, federal cash must be drawn solely to accommodate your immediate disbursement needs and must not be held in excess of three (3) working days."

According to OMB Circular A-102, §__.20(a)(7)*Cash management:*

Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are

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used...When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

Condition: During the course of our testwork, we noted that thirteen (13) out of the eighteen (18) draws tested did not appear to be made for the agency's immediate disbursement needs and were held in excess of three (3) working days. Below are the non-compliant draws:

Draw No.	Date of Draw	Date of Receipt	Immunization Amount	No. of Days to Disburse	Bioterrorism Amount	No. of Days to Disburse
557	8/16/02	8/19/02	\$ 417,886.83	15	\$ 192,719.26	30
562	9/17/02	9/18/02	\$ 168,010.93	16	\$ 52,110.35	30
565	10/4/02	10/8/02	\$ 233,823.64	4	\$ 52,877.19	16
567	10/15/02	10/16/02	\$ 377,232.65	7	\$ 76,102.40	10
573	11/15/02	11/18/02	\$ 434,577.68	8	\$ 461,544.48	20
577	12/16/02	12/17/02			\$ 203,308.79	21
580	1/7/03	1/8/03			\$ 20,566.94	5
584	1/28/03	1/29/03			\$ 82,065.98	7
587	2/18/03	2/19/03			\$ 700,156.53	7
593	4/15/03	4/16/03	\$ 118,120.05	11	\$ 1,210,171.37	18
596	5/16/03	5/19/03	\$ 464,943.11	5	\$ 900,418.40	10
597	5/27/03	5/28/03	\$ 68,770.77	5	\$ 141,540.87	8
599	6/17/03	6/17/03	\$ 219,757.09	4	\$ 704,963.53	5

We determined monetary non-compliance to be the undisbursed balance of the drawn funds after three (3) working days. For the draws noted above, the monetary non-compliance is as follows:

Draw No.	Immunization Non-Compliance	Bioterrorism Non-Compliance	Total Non-Compliance for Draw
557	\$ 52,458.10	\$ 121,045.61	\$ 173,503.71
562	\$ 48,706.09	\$ 132,719.11	\$ 181,425.20
565	\$ 24,478.96	\$ 153,671.46	\$ 178,150.42
567	\$ 10,301.83	\$ 55,711.54	\$ 66,013.37
573	\$ 25,823.97	\$ 169,034.81	\$ 194,858.78
577		\$ 80,211.94	\$ 80,211.94
580		\$ 112,134.22	\$ 112,134.22
584		\$ 135,332.19	\$ 135,332.19
587		\$ 133,209.96	\$ 133,209.96
593	\$ 33,013.39	\$ 163,999.46	\$ 197,012.85
596	\$ 39,847.16	\$ 40,049.41	\$ 79,896.57
597	\$ 8,338.21	\$ 146,238.43	\$ 154,576.64
599	\$ 30,461.93	\$ 112,774.70	\$ 143,236.63
TOTALS	\$ 273,429.64	\$ 1,556,132.84	\$ 1,829,562.48

Effect: The agency is not in compliance with federal cash management requirements.

Recommendation: We recommend that the agency reconsider the method used to determine cash draw amounts. As part of this, the agency should consider eliminating or reducing the number of days in the "5 days estimated needs" portion of the draw calculation. Any revised method should consider ensuring that

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funds are only requested for immediate disbursement needs and are not held more than three (3) working days prior to disbursement.

Management's Corrective Action Plan

Contact Person: Grace Brown, Interim Chief of Financial Management

Anticipated Completion Date:

Corrective Action Planned: We don't agree that we are not in compliance with federal cash management requirements. Weekly, we examine and adjust the amounts between programs, pay back any cash on hand, and draw based on a calculated daily need for the next week.

The schedule shows the adjusted cash balance for the DFAPS letter of credit. We examined the cash balances for the week following those tested. Based on our daily cash needs calculation, none of these balances indicated a cash balance exceeding three days' need. As you can see on the schedule, 10 of the 13 draws show a negative cash balance.

DFAF Cash Balances

<u>Deposit Date</u>	<u>6605G</u>	<u>6605P</u>	<u>Totals</u>
8/19/02	\$ 4,997.00	\$ (152,579.00)	\$ (147,582.00)
9/18/02	\$ 1,785.00	\$ 191,378.00	\$ 193,163.00
10/8/02	\$ 5,170.00	\$ (28,912.00)	\$ (23,742.00)
10/16/02	\$ (906,305.00)	\$ 207,812.00	\$ (698,493.00)
11/18/02	\$ (294,639.00)	\$ (390,606.00)	\$ (685,245.00)
12/17/02	\$ (124,481.00)	\$ (194,913.00)	\$ (319,394.00)
1/8/03	\$ (565,456.00)	\$ 70,089.00	\$ (495,367.00)
1/29/03	\$ (157,591.00)	\$ 255,465.00	\$ 97,874.00
2/19/03	\$ (96,549.00)	\$ (385,596.00)	\$ (482,145.00)
4/16/03	\$ (112,573.00)	\$ 234,200.00	\$ 121,627.00
5/19/03	\$ (81,428.00)	\$ 73,162.00	\$ (8,266.00)
5/28/03	\$ (496,634.00)	\$ 117,467.00	\$ (379,167.00)
6/17/03	\$ (321,561.00)	\$ (85,894.00)	\$ (407,455.00)

Auditor Response: The Department is considering the cash balance as a whole for the letter of credit. This is not consistent with federal regulations, which indicate funds are to be drawn, and cash balances calculated, for a specific federal program. In addition, there is no provision in federal regulations specifically allowing the Department to keep a cash balance on hand for three days' needs. This practice is also inconsistent with the guidance received from the Division of Payment Management as referenced in the finding.

REF NO: 03-340-023

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778, 93.777

FEDERAL PROGRAM NAME: Medical Assistance Program, State Survey and Certification of Health Care Providers and Suppliers

FEDERAL AWARD NUMBER: 50205OK028 and 50305OK028

FEDERAL AWARD YEAR: 2002 and 2003

CONTROL CATEGORY: Special Tests and Provisions- Provider Health and Safety Standards

QUESTION COSTS: \$-0-

Criteria: According to 42 CFR 488.308, "Survey frequency. (a) Basic period. The survey agency must conduct a standard survey of each SNF and NF no later the 15 months after the last day of the previous standard survey." The surveys determine whether the providers and suppliers of health care services under

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the Medicaid program are in compliance with regulatory health and safety standards and conditions of participation in the Medicaid program.

Condition: We selected a sample of 55 providers to ensure the Department was performing surveys in accordance with 42 CFR 488.308. For each provider, we obtained the date of the survey completed during, or closest to the beginning of, our audit period (the “base survey”). We then compared the date of the survey performed before or after the base survey (depending on which survey covered our audit period) to determine compliance with the 15-month requirement. We noted nine instances in which the survey was not conducted within a 15- month period.

- 1 survey was conducted in the 16th month
- 4 surveys were conducted in the 17th month
- 2 surveys were conducted in the 18th month
- 2 surveys were conducted in the 19th month

Effect: Providers of Medicaid services may not be in compliance with Federal regulatory health and safety standards and conditions of participation in the Medicaid programs.

Recommendation: We also recommend the Department continue its efforts to ensure standard surveys are conducted within a 15-month period. In addition, we recommend the Department ensure that all HCFA 1539 forms are maintained in the provider files.

Management’s Corrective Action Plan

Contact Person: Jerry Taylor

Anticipated Completion Date:

Corrective Action Planned: The shortage in staff resulted in surveys not being completed in a timely manner. At one point, our average survey interval was over 17 months. We were painfully aware that this outside the statutory requirements, but without enough qualified surveyors, the workload exceeded our capacity. With the increase in survey staff, we were able to reduce the average survey interval to 16.4 months in January 2003. With more adequate staffing levels, we have steadily lowered the time between surveys and reached an average survey interval of 12.1 months in September 2003. Currently, our average survey interval is under 12 months. All surveys are now being conducted within statutory mandates and we do not anticipate any further corrective action will be necessary.

REF NO: 03-340-1IT

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH604488-12

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Other

QUESTIONED COSTS: \$-0-

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 4.3), information services function management should ensure that a written disaster recovery plan is documented and contains the following:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel;
- Listing of systems requiring alternatives (hardware, peripherals, software)

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- Listing of highest to lowest priority applications, required recovery times and expected performance norms;
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution;
- Specific equipment and supply needs are identified such as high speed printers, signatures, forms, communications equipment, telephones, etc. and a source and alternative source defined;
- Training and/or awareness of individual and group roles in continuity plan;
- Listing of contracted service providers;
- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals and program/system/user documentation;
- Current names, addresses, telephone/pager numbers of key personnel;
- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

In addition according to HIPAA Subpart C-Security Standards for the Protection of Electronic Protected Health Information § 164.308(a)(7)(ii)(B) *Disaster Recovery Plan* (Required). Establish (and implement as needed) procedures to restore any loss of data.

Condition: Based upon our review of the Disaster Recovery Plan, it was noted that many of the items listed above were not included in the plan. This condition was noted in a management letter comment during our audit work performed in 2001. The plan is still incomplete.

Cause: Disaster Recovery Plan did not include all essential elements for establishing an adequate plan.

Effect: The lack of an effective and adequate Disaster Recovery Plan could result in potential loss of:

- Financial Data.
- Client Information.
- Network Services.
- Organizational Structure Documentation.
- Federal Reporting Data.

Recommendation: We recommend the OSDH review and update their Disaster Recovery Plan to ensure safekeeping and integrity of agency data. In addition, this update and review should prepare OSDH for the security guidelines and procedure requirements of HIPAA, to be effective April 21, 2005. OSDH is a “covered entity” within the HIPAA standards. We suggest that once the plan is completed, OSDH should test their disaster recovery capabilities.

Management’s Corrective Action Plan

Contact Person: Joe Camp

Anticipated Completion Date: April, 2005

Corrective Action Planned: Since the initial finding, awareness of the situation has been raised. An initial emergency plan (lacking much of the elements detailed above) has been created for Administrative Services only. We will be working with our HIPAA coordinator to expand this plan to cover all of OSDH and to include the level of detail needed.

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REF NO: 03-340-2IT
STATE AGENCY: Department of Health
FEDERAL AGENCY: Department of Health and Human Services
CFDA NO: 93.268
FEDERAL PROGRAM NAME: Immunization Grants
FEDERAL AWARD NUMBER: H23/CCH604488-12
FEDERAL AWARD YEAR: 2002
CONTROL CATEGORY: Other
QUESTIONED COSTS: \$-0-

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), information services function management should ensure that safeguards exist to guard information against unauthorized use, disclosure or modification, damage or loss with access controls that ensure access to systems, data and programs are restricted to authorized users.

Condition: The Information Technology Services Division does not have security policies or procedures in place.

Effect: The lack of formal management policies on information security increases the potential for loss of:

- Financial Data.
- Client Information.
- Organizational Structure Documentation.
- Federal Reporting Data.

Recommendation: We recommend the Division develop security policies and procedures to ensure that the ITS Division has a clear understanding of management's emphasis on information security as proposed in the 2001 audit. It is important that all Internet connections be evaluated for proper controls and security.

Management's Corrective Action Plan

Contact Person: Joe Camp

Anticipated Completion Date: April, 2005

Corrective Action Planned: ITS is currently working to draft policies which will be presented to the Policy Committee and subsequently to the Executive Committee. These policies are being drafted so as to be in compliance with both HIPAA security requirements and the OSF security standards. We hope to have our first policy (Acceptable Use) ready to present to the policy committee in December, 2003 or January, 2004. We also hope to have a policy ready which will state ITS's responsibilities. This would allow us to create additional policies internal to ITS which would govern how ITS performs its function without having to go through the more formal adoption path. The completion date of April, 2005 is based on the requirement that we must have the required policies in place when the HIPAA security standard goes into effect. We expect to be reviewing and writing standards up until that time although we should be largely compliant by July, 2004.

REF NO: 03-340-3IT
STATE AGENCY: Department of Health
FEDERAL AGENCY: Department of Health and Human Services
CFDA NO: 93.268
FEDERAL PROGRAM NAME: Immunization Grants
FEDERAL AWARD NUMBER: H23/CCH604488-12
FEDERAL AWARD YEAR: 2002
CONTROL CATEGORY: Other
QUESTIONED COSTS: \$-0-

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Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), information services function management should ensure that safeguards exist to guard information against unauthorized use, disclosure or modification, damage or loss with access controls that ensure access to systems, data and programs are restricted to authorized users.

Condition: Data communications with remote sites are currently not encrypted and are subject to interception. This condition was noted in a management letter comment during our audit work performed in 2001.

Effect: Clear text transmission of sensitive data is vulnerable to interception. This vulnerability exposes the Department to possible liability for not installing proper safeguards against misuse of the following transmitted data:

- Financial Data.
- Client Information.
- Federal Reporting Data.

Recommendation: We recommend the Department develop security policies/procedures to ensure all transmitted data is reviewed, and sensitive information is encrypted to prevent unauthorized access/use.

Management's Corrective Action Plan

Contact Person: Joe Camp

Anticipated Completion Date: July, 2004

Corrective Action Planned: ITS has acquired the equipment needed to encrypt data communications among the remote sites and the central office. ITS staff have received training in configuring this equipment and deployment has begun.

Health Care Authority

REF NO: 03-807-001

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 50205OK028, 50305OK028

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Special Tests and Provisions-Utilization Control and Program Integrity

QUESTIONED COSTS: \$-0-

Criteria: 42 CFR 456.22 states, "To promote the most effective and appropriate use of available services and facilities the Medicaid agency must have procedures for the on-going evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid services."

Social Security Act 1154 (42 U.S.C. 1320c-3)(a)(10) states, "The organization shall coordinate activities, including information exchanges, which are consistent with economical and efficient operation of programs among appropriate public and private agencies or organizations including -(B) other peer review organizations having contracts under this part."

Attachment A of the contract between the Oklahoma Health Care Authority (OHCA) and its quality improvement organization (QIO) states, "A.2. The OHCA, through its Medicaid Management Information Systems (MMIS) fiscal agent, shall send a tape of all paid hospital claims between the 5th and 10th business day of each month during this contract to the QIO. OHCA agrees that the paid claims tape shall be readable in a format agreed upon by the parties."

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Condition: In order to perform its contractual obligation regarding inpatient hospital retrospective reviews, the QIO is dependent upon data received from OHCA's fiscal agent. After speaking with the QIO manager, we noted that no inpatient hospital claim data had been received by the QIO for claims paid from January 2003 through the present (September 2003). As a result, no hospital retrospective reviews have been performed by the QIO for this time period.

Cause: A new fiscal agent began providing services effective January 1, 2003. The new fiscal agent has been unable to provide an accurate tape of all paid inpatient hospital claims for each month.

Effect: The QIO has been unable to perform inpatient hospital retrospective reviews for claims paid since January 2003.

Recommendation: We recommend OHCA continue working with its fiscal agent to obtain the claim data necessary for sample selection. In addition, Attachment A of the contract between OHCA and the QIO requires 425 cases to be selected each month for review. For the claims paid from January through June, this will amount to a sample of 2,550 cases. This large influx of cases will likely put a strain on the QIO's manpower. Therefore, OHCA should work with the QIO to develop a plan for reviewing these cases.

Management's Corrective Action Plan

Contact Person: J. Paul Keenan, M.D.

Anticipated Completion Date:

Corrective Action Planned: The following activity has occurred related to the QIO receiving data sets for retrospective inpatient hospital review:

Between August and September, OFMQ received 2003 paid claims data sets from OHCA for the following months: January, June, July, August; then appropriately followed by September, October, and most recently November.

Within the next 30 days, OFMQ is scheduled to receive data sets from OHCA for the following months: February, March, April, and May. They will also receive December 2003 paid claims by mid-January; January 2004 claims will be received by mid-February, etc. to remain on schedule.

REF NO: 03-807-002

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 50205OK028 and 50305OK028

FEDERAL AWARD YEAR: 2002 and 2003

CONTROL CATEGORY: Cash Management

QUESTIONED COSTS: \$-0-

Criteria: According to Part 6.2.6 Payment Schedule – Variation 6, Monthly and Part 6.3.22 of the Treasury-State Agreement between the State of Oklahoma and the Secretary of the Treasury, United States Department of the Treasury:

6.2.6 Payment Schedule-Variation 6, Monthly

The State shall request funds such that they are deposited in a State Account on the last working day of the month to fund the costs incurred during that period. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be an estimate based on the actual allocation of costs to the program for the preceding six months, or one-third the quarterly grant award and adjusted to actual on a quarterly basis.

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6.3.22 CFDA# 93.778 Medical Assistance Program
 Recipient: Health Care Authority
 Component: Primary Recipient (Health Care Authority) Payroll (1% of total CFDA)
 Technique: Payment Schedule – Variation 6

Condition: During our review of the administrative draw process, we noted the amount for the payroll portion of the Federal draw request was an estimate based on actual payments of the prior month. Therefore, it appears the Agency is not requesting funds be drawn in accordance with the proper funding technique per the Treasury-State agreement.

In addition, we noted the Agency is not depositing all payroll funds on the last working day of the month; a portion of the funds are deposited four (4) working days later to account for the second run payroll expenses. We also noted one draw request where the amount for the Administrative, non payroll portion of the draw request was not made in a manner such that the funds were deposited into the state account on the 15th day of the month (or closest working day to the 15th). The draw request date was after the 15th; therefore, funds were deposited after the 15th.

Effect: By not following the CMIA agreement, the Agency could have drawn funds earlier than they were entitled, which could cause an interest event, or used State funds when Federal funds were available.

Recommendation: We recommend the Agency establish and implement internal control procedures to ensure all applicable personnel are aware of the Treasury-State agreement requirements and that actions taken by the Agency in relation to the agreement are in accordance with the Treasury-State agreement. Also, if necessary, we further recommend the Agency work to revise the Treasury-State agreement to better fit the needs of the Authority.

Management's Corrective Action Plan

Contact Person: Marianne Lingle, Budget & Finance Manager

Anticipated Completion Date:

Corrective Action Planned: The Oklahoma Health Care Authority (OHCA) sent a letter to the Office of State Finance (OSF) to change our payment schedule for payroll to reflect:

A-last working day of the month

B-an estimated on actual payments of the prior month

C-quarterly

OHCA sent this letter to OSF 9/3/03. OSF submitted this change to the U.S. Department of Treasury in December 2003 and are waiting on approval. OHCA will draw all the payroll funds on the last working day of the month effective March 1, 2004

In reference to our draw after the 15th, OHCA did not receive the OSF reports before March 15th. We use these reports to reconcile expenditures prior to the draw. March 15th fell on a Saturday so the next working day would have been March 17, 2003. OHCA processed the draw on that date and deposited the funds on the 18th.

REF NO: 03-807-005

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 50205OK028 and 50305OK028

FEDERAL AWARD YEAR: 2002 and 2003

CONTROL CATEGORY: Special Tests and Provisions-Inpatient Hospital and Long Term Care Facilities

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Criteria: According to the FY 2003 contract between OHCA and the long-term care facility (LTCF) auditor, Section 4.0.2, states, “Contactor will provide OHCA a list of those facilities selected for auditing with an explanation of the actual process/criteria used to make the sample selection...”

Also, according to the financial manager, he and the LTCF auditor, try to audit the cost reports for each LTC facility every three to four years as a rule of thumb.

Condition: During testing of the cost report audits, the following exceptions were noted:

- The LTCF auditor did not provide an explanation of the actual process/criteria used to make a sample selection. Also, through discussion with OHCA personnel and comparison of the LTCF auditor’s initial audit sample list, it was determined that OHCA made some changes to the initial audit list. We were unable to obtain written documentation as to the cause of these changes, nor documentation of when these changes were made. OHCA personnel stated they verbally communicated changes to the list to the LTCF auditor.
- It appears based on an aging schedule prepared, that several facilities have not been audited every three to four years. The following list is the number of facilities and the last year in which they were audited.

<u>Last year audited</u>	<u>Number of Facilities</u>
1989	3
1990	2
1991	9
1992	13
1993	22
1994	26
1995	34
1996	54
1997	67
1998	35
1999	1

Effect: If there is no actual process/criteria used when selecting a sample, the sample selection may not be representative of the population. Also, without formal policies and procedures the Authority cannot ensure cost reports are audited on a cyclical basis. As a result, errors or irregularities may not be detected in a timely manner.

Recommendation: We recommend the LTCF auditor provide OHCA a list of those facilities selected for auditing with an explanation of the actual process/criteria used to make the sample selection. OHCA should also maintain a current list of those facilities selected for audit including reasons for modifying the list from those originally selected by the LTCF auditor. Also, we recommend the Authority develop and implement formal policies and procedures to help ensure the cost reports of each LTC facility are audited on a cyclical basis. To do this, the Authority may consider increasing the number of cost report audited each year and/or increasing the number of years within the cycle.

Management’s Corrective Action Plan

Contact Person: David Branson, Financial Manager

Anticipated Completion Date:

Corrective Action Planned: Even though there is no formalized process, the actual process to choose reports for audit is as follows:

Mr. Fine receives a list of homes with audits performed by year from 1989 to present. He matches this with a list of homes by owner to first insure that we audit one home from each multiple owner and

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second to insure that as many homes as possible that have not been audited for three to four years are included in his list. By including at least one home from each multiple owner we can assure that the population is more adequately represented because multiple owners complete their reports in a home office accounting setting, i.e. they are all completed from the same office and out of the same system.

We may not audit each home every three to four years but we do audit a home from that owner in that time period. Some of the homes that the State Auditor says were not audited from 1989, 1990, etc. to present could be closed for certain periods in that span and not noted on the aging list they were using.

The Finance unit will establish a more formal reporting methodology between Mr. Fine and the OHCA with copies of all lists used and correspondence will be in writing, at least as a follow up when changes are made. An effort to insert closed dates on the facility list will be made.

We feel that the process that we have been using is adequate to insure that errors and irregularities are found. The audit adjustment is extrapolated to the universe of the statewide averages when rates are established.

Auditor Response: SA&I used the information from OHCA's "Nursing Home Audit List", in order to prepare the "Aging Schedule of Nursing Home Audits". The "Nursing Home Audit List", is a list of homes with audits performed by year from 1989 to present. However, the list does not indicate which homes are grouped by multiple owner, nor was any additional information pertaining to multiple owners provided to our office. Therefore, we were unable to determine if the sample methodology used ensures that at least one home from a multiple owner is audited on a 3 to 4 year cyclical basis.

Also, the information provided did give indication as to whether or not the Nursing facility was closed, and closed facilities were considered when preparing the "Aging Schedule of Nursing Home Audits".

REF NO: 03-807-011

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK5028

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Allowable Costs/Cost Principles

QUESTIONED COSTS: Unknown

Criteria: According to the Drug Rebates Procedures Manual, Section 5:

Interest is applied to disputed or unpaid amounts and late rebate payments. Interest begins to accrue 38 calendar days from the date the invoice is mailed, using the postmark on the envelope made by the U.S. Postal Service or other common mail carrier, not a postage meter stamp.

The interest calculation is based on a 365-day year with simple interest applied to the average of the yield of the weekly 90-day T-bill auction rates during the period for which interest is charged.

According to the Drug Rebates Procedures Manual, Section 5:

The 38 day letter is mailed 38 days from the postmark date of the invoice, notifying the manufacturer of nonpayment of the invoice and

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that interest begins to accrue as required by *Section V* of the rebate agreement.

The 68 day letter is mailed 68 days from the postmark date of the invoice, notifying the labeler that payment has not been remitted and that interest began to accrue on day 38 of nonpayment. The *Drug Rebate Outstanding Balance Summary report (RBT-9001-M)* is included with this mailing.

Condition: Based on testwork performed determining postmark dates and interest paid, we noted the following labelers sent their payments late and paid no interest for the appropriate number of days late. In addition, these labelers have not been billed for the interest due and no notification letters have been sent.

Labeler Code	Quarter	Days Late
456	22002	3
55053	22002	19
86	32002	126
59011	42002	71
64764	42002	15
585	42002	6

Cause: According to Authority personnel, the new fiscal agent has been unable to calculate the interest due per the 90-day T-Bill rates; therefore no interest has been billed. The fiscal agent is also responsible for setting up the letters to be sent to labelers with late payments. No letters have been processed. The Authority has submitted a change order to the fiscal agent to have the problem corrected.

Effect: Without proper controls, it is possible OHCA is not receiving all interest payments and labelers are unaware that any interest payments are due.

Recommendation: We recommend OHCA continue to work with the fiscal agent to implement the correct interest rate calculation and begin sending out the required letters for late payments.

Management's Corrective Action Plan

Contact Person: Tom Simonson, Drug Rebate Manager

Anticipated Completion Date: July 2004

Corrective Action Planned: We concur with the finding. Collection of interest will be made. Beginning with rebate quarter 4-2003, the 38-day and 68-day letter generating program available in MMIS will be activated and both of the letters, as well as the Drug Rebate Outstanding Balance Summary Report (RBT-9001-M), will begin to be mailed out of OHCA's fiscal agent. Also, the interest computation program will be activated and interest will be computed on all outstanding rebate receivable balances and vendors will be billed for those amounts.

REF NO: 03-807-013

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK5028

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$2,127

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Criteria: According to the “Crossover Coding for Current FFS Behavioral Health “W” Codes to CPT/HCPC Codes” and conversation with the SURS unit, adults are considered to be 21 years or older and children are considered to be under the age of 21. Adults and Children are paid for at separate rates.

According to the OMB A-133, Compliance Supplement (March 2003): To be allowable, Medicaid costs for medical services must be: ... (3) properly coded; and, (4) paid at the rate allowed by the State plan.

Condition: During analytical testing procedures on clinic services, we noted 189 of 405,915 claims were billed for children; however, the procedure code was for an adult. (Questioned Costs \$2,127)

Cause: The provider billed OHCA at the adult rate and the claim was paid at this incorrect rate.

Effect: It appears OHCA paid claims based on procedure codes, which should not have been paid according to the recipient’s age.

Recommendation: We recommend the Authority perform the necessary procedures to ensure edits are in place and operating on the claims system to verify age requirements are met for procedure codes thus ensuring claims are paid at the allowable rate. We further recommend the Authority review the above-mentioned claims and performed necessary procedure to repay or recoup funds.

Management’s Corrective Action Plan

Contact Person: Justin Etchieson, Auditor

Anticipated Completion Date: July 2004

Corrective Action Planned: We concur with the finding. Recovery of inappropriate payments will be made. Process will begin to establish/activate age requirement edits in our system regarding these procedure codes

REF NO: 03-807-014

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 50205OK028, 50305OK028

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Allowable Costs/Cost Principles

QUESTIONED COSTS: \$32,797

Criteria: Oklahoma Health Care Authority’s Cost Allocation Plan states “Pool 552’s Basis for Allocation – Proportion of the total amount of medical claims paid for the period for each program.”

A component objective of an adequate internal control system is to provide accurate and reliable information.

Condition: We noted the allocation percentages per EDS used to allocate cost pool 552 on the quarter ended June 30, 2003 Fund 200 Cost Allocation worksheet do not tie to the percentages on the EDS Expenditure Breakdown.

Effect: An incorrect amount of administrative expenditures were allocated to the Medicaid program.

Recommendation: We recommend the Authority ensure administrative expenditures are allocated correctly.

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Management's Corrective Action Plan

Contact Person: Gloria Hinkle, Financial Manager

Anticipated Completion Date: July 2004

Corrective Action Planned: We concur that the allocation percentage used to allocate cost pool 552 on the Fund 200 Cost Allocation worksheet did not tie to the percentages on the EDS expenditures breakdown. We will reference percentages back to the EDS Expenditure Breakdown Schedule for future periods.

REF NO: 03-807-015

STATE AG-NCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 50205OK028, 50305OK028

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$5,487

Criteria: OMB Circular A-87 Attachment A. C. *Basic Guidelines* 1. states, "To be allowable under Federal awards, costs must meet the following general criteria. . . j. Be adequately documented."

Condition: During review of 140,634 nursing facility services, we performed a duplicate test to ensure OHCA was not paying for duplicate services. Two tests were performed (1) for the same provider, recipient, and dates of services; and (2) same recipient, dates of service (different providers). We identified 1,795 possible duplicates and performed a detailed review of 10 possible duplicates from each test (a total of 40 claims were reviewed). We noted the following results:

- 2 of the 10 possible duplicates for same provider, recipient, and dates of service appear to be duplicates. (Questioned Costs \$3,974)
- 3 of the 10 possible duplicates for same recipient, and dates of services appear to be duplicate payments for some of the days paid by OHCA. From reviewing additional documentation, it appears the facility submitted claims for the entire month as if the recipient was in attendance the full month (OHCA pays 100% for all the days). A second claim is later submitted for hospital days during that same month, OHCA pay 50% the allowable rate for those days. However, the days originally paid at 100% have not been recouped. (Questioned Costs \$1,514).

Cause: It appears the claims were paid by OHCA because personnel are forcing them through without recouping the incorrect payment.

Effect: OHCA could be paying for the same services more than once.

Recommendation: We recommend the Department review its policies with personnel to ensure they recoup funds on claims they force through the system to avoid the duplicate pay edit. We further recommend the Authority review the claims discussed above and perform the necessary procedures to recoup any overpayments made.

Management's Corrective Action Plan

Contact Person: Justin Etchieson, Auditor

Anticipated Completion Date: July 2004

Corrective Action Planned: Recovery of inappropriate payments will be made. Appropriate OHCA personnel will be informed of the issue and a plan of action to better ensure duplicate pay edits are processed correctly will be developed and implemented.

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REF NO: 03-807-017

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 50205OK028, 50305OK028

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: Unknown

Criteria: OMB A-133 Compliance Supplement (March 2003) states: "To be allowable, Medicaid costs for medical services must be: (4) paid at the rate allowed by the State plan."

Condition: While performing testwork to ensure claims were paid at the allowable rate, we noted seven of 26 long-term care claims were paid either in total or in part using revenue code 184 (ICF/MR – Leave for any reason). We further noted that all seven claims were attributable to one provider/facility. Since this facility is not an ICF/MR, the claim should not have been paid using this revenue code.

Cause: Authority personnel have indicated the claims paid with a revenue code 184 were manually forced through the system.

Effect: The use of revenue code 184 caused the provider's payment to be made at 50% of the allowable rate. However, there may be instances where the use of this revenue code caused the number of days paid to also be in question. For example, we noted claims paid for 31 days; however, revenue code 184 is a "leave" code, which is limited to five paid days. As a result, the provider may have been over or under paid for services rendered.

Recommendation: We recommend the Authority:

- Review system controls to ensure an edit is established to prohibit the payment of claims charged with an unauthorized revenue code.
- Review the revenue code policy with personnel in the claims unit to ensure claims are not forced through the system with an incorrect revenue code.
- Perform a review of long-term care claims paid with revenue code 184 and perform necessary procedures to determine if an over/under payment was made.

Management's Corrective Action Plan

Contact Person: Justin Etchieson, Auditor

Anticipated Completion Date: July 2004

Corrective Action Planned: We concur with the finding. Recovery of inappropriate payments will be made. A review of long-term care claims paid with revenue code 184 will be conducted.

Appropriate OHCA personnel will be informed of this issue and a plan of action to ensure appropriate edits are in place and that incorrect payments are not forced through the system will be developed and implemented.

REF NO: 03-807-018

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 50205OK028, 50305OK028

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Allowable Costs/Cost Principles

QUESTIONED COSTS: Undeterminable

Schedule of Findings

Federal Award Findings And Questioned Costs

Criteria: OMB A-87, Part B, Section 11.h.4. states, “Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency.”

Subsection 6 states, “Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling. . .”

The approved FY 2003 Cost Allocation Plan states, “a safe sample size would be 7,751 per year or 646 per month.” The Cost Allocation Plan further states, “From the file of all workers in the population to be sampled, where X= the total number of workers and (S)= the sample size of 3, a random integer is selected from 0 to X-1 inclusive, generated at the top of each hour, between the days Monday through Friday, and the hour between 7am and 7pm. These sample records will be created from the three (3) distinct sample population candidates with no duplicate values for that hour.”

Condition:

- (1) During our review of the Random Moment Time Study Response (%) breakdown for the quarter ended 6-30-03, we noted that only 1,537 total responses were received during the quarter. This is below the safe sample size of 1,938 (646 x 3) for the quarter. In addition, the Authority was unable to provide a detailed response list supporting the 1,537 responses. The response list provided showed only 1,445 responses received.
- (2) We reviewed the response listing provide for the quarter ended 6-30-03, we noted that no surveys were sent during the period of April 25, 2003 to May 13, 2003. We also noted numerous occasions were less than 36 (3 per hour times 12 hours per day) surveys were sent for a given day; however, we also noted fifteen occasions where more than 36 surveys were sent for a given day.

Cause:

- (1) Random moment database management believes the “Random Moment Time Study Response (%)” report is pulling responses based on response date rather than sent date.
- (2) Random moment database management stated the random moment system had crashed resulting in the lack of surveys. It appears there was a lack of monitoring the random moment system and no one realized the system had crashed and was not operating. In addition, the Authority’s email application was blocking the receipt of surveys due to a virus protection software.

Effect: Random moment time study percentages used to allocate administrative expenditures may be incorrect; therefore, allocating administrative expenditures to the incorrect cost objective.

Recommendation: We recommend the Authority examine its random moment time study process to ensure:

- An adequate number of employees are surveyed each month.
- The correct responses are pulled into the “Random Moment Time Study Response(%)” report and the Authority can provide response detail to support the report.
- Adequate safeguards are in place regarding the monitoring and operation of the software and hardware application used to run the random moment time study.

Schedule of Findings Federal Award Findings And Questioned Costs

Management's Corrective Action Plan

Contact Person: Erick Tadeffa, Database Adm. & Programmer –Network Operations

Anticipated Completion Date: May 1, 2004

Corrective Action Planned:

Server Module

Random moments automated server module will be re-written in Visual Studio.NET. This will be necessary for future compatibility with Microsoft Windows Server 2003 and will take advantage of the error handling capabilities of the programming language.

The automated module will run on a server that operates 24/7 and has a backup power supply. The e-mail system used to send a survey resides on a separate server.

Administration Module

This will be an intranet-based system that will allow authorized person(s) to maintain the user list, the holiday list, administration access list, and use the reporting sub-module.

Reporting Sub-Module

This will be an intranet-based system that will generate reports on demand, viewable through the web browser and printable. A library of pre-written reports will be available for use. Others will be added as required.

User Intranet Page

This will be an intranet site hosted on the server to give OHCA users access to the random moments survey page so they can enter their response. An e-mail with an automatic link reference to this page is sent out with every survey generated by the server module.

Changes and Proposed Improvements

- 1) Automatic notification of administrator if the survey fails to send to user or if program aborts.
- 2) Database structure changes, add name stamp, create search indexes for speed.
- 3) Automatic resend of survey after specified days have elapsed if no timely answer.
- 4) Logging of all important events such as failed sends, surveys per day insufficient, e-mail errors.
- 5) More advanced and software compatible reporting technologies.
- 6) Secure administration with integrated authentication enabled.
- 7) Updated user page with more informative help screens and authentication.
- 8) All previously identifiable software bugs to be fixed by implementation of this new system.

The original Cost Allocation Plan stated 646 samples per month as sufficient. The new system will do 684 to 792 surveys per month depending on the number of working days. Up to 146 extra samples are done as a safety margin due to some months having multiple holidays. This is unchanged from the original program specs. Survey sampling could be increased if warranted.

REF NO: 03-807-019

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK5028

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$246

Schedule of Findings

Federal Award Findings And Questioned Costs

Criteria: According to OAC 317:30-5-70.2., Record Retention, “The Pharmacy is required to provide original written prescriptions and signature logs as well as purchase invoices and other records necessary to document their compliance with program guidelines at the time of the audit. “

According to OMB Circular A-133, to be allowable, costs must be supported by medical records or other evidence indicating that the service was actually provided.

Condition: We selected a sample of 72 pharmacy claims from nine providers and requested each provider submit documentation to verify the prescriptions were dispensed. This documentation could include delivery tickets, signature logs, etc. Based on review of the documentation received from the providers, 3 of 72 claims the dates on the signature logs did not agree with the dates on the claims and for 2 claims the signature logs did not contain a date. (Questioned Costs \$246)

In addition, we noted two of 72 claims appear to have been billed to the Authority using a National Drug Code (NDC) that does not agree with the NDC documented by the pharmacy. The two claims were billed with an NDC with a different manufacturer than the NDC packager reported on the pharmacy information. However, there was not a difference in the reimbursement amounts for the two NDC's.

Effect: We were unable to verify the drugs for these 5 claims were dispensed. In addition, by processing payments with an incorrect NDC, pharmaceutical drugs may be paid at an incorrect rate.

Recommendation: We recommend the Authority emphasize to providers the importance of maintaining documentation to support that services were actually provided. In addition, we recommend the Authority follow up with these seven providers and, if necessary, recoup funds for services not supported by adequate documentation. We further recommend the Authority ensure claims are paid using the correct NDC.

Management's Corrective Action Plan:

Contact Person: JoRay McCoy

Anticipated Completion Date: July 2004

Corrective Action Planned: The Oklahoma Health Care Authority will review the questioned claims. Any documentation supporting these claims will be furnished. Any inappropriate payments will be recovered.

REF NO: 03-807-022

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK5028

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$2,054

Criteria: According to OMB Circular A-133, To be allowable, Medicaid costs for medical services must be: ... (2) for an allowable service rendered (including supported by medical records or other evidence indicating that the service was actually provided and consistent with the medical diagnosis); ...

Oklahoma Administrative Code (OAC) 317:30-3-15. Record retention states: “Federal regulations and rules promulgated by the Oklahoma Health Care Authority Board require that the provider retain, for a period of six years, any records necessary to disclose the extent of services the provider, wholly owned supplier, or subcontractor, furnishes to recipients and, upon request, furnish such records to the Secretary of the Department of

Schedule of Findings Federal Award Findings And Questioned Costs

Health and Human Services. Records in a provider's office must contain adequate documentation of services rendered.

OAC 317:30-3-1. Creation and implementation of rules; applicability states:

“(d) Payment to practitioners on behalf of Medicaid eligible individuals is made only for services that are medically necessary and essential to the diagnosis and treatment of the patient's presenting problem. Well patient examinations and diagnostic testing are not covered for adults unless specifically set out in coverage guidelines.

- (f) Services provided within the scope of the Oklahoma Medicaid shall meet medical necessity criteria. Requests by medical services providers for services in and of itself shall not constitute medical necessity. The Oklahoma Health Care Authority shall serve as the final authority pertaining to all determinations of medical necessity. Medical necessity is established through consideration of the following standards:
- (1) Services must be medical in nature and must be consistent with accepted health care practice standards and guidelines for the prevention, diagnosis or treatment of symptoms of illness, disease or disability;
 - (2) Documentation submitted in order to request services or substantiate previously provided services must demonstrate through adequate objective medical records, evidence sufficient to justify the client's need for the service;
 - (6) Services must be appropriate for the client's age and health status and developed for the client to achieve, maintain or promote functional capacity.”

Condition: Based upon a review of medical records by a medical professional for seventy-two (72) clinic service claim line items, the following exceptions were noted:

- Four (4) instances (services) in which the recipients' diagnosis does not appear to be consistent with the services billed. (Questioned Costs \$720)
- One (1) instance (service) in which neither the claim nor the medical records provided included a diagnosis; therefore, the medical professional was unable to determine the diagnosis was consistent with the services billed. In addition, the medical records provided did not support the services billed. (Questioned costs \$35)
- One (1) instance (service) in which the claim did not include a diagnosis and medical records were not provided. Therefore, the medical professional was unable to determine the diagnosis was consistent with the services billed and that services were supported by medical records. (Questioned costs \$4)
- Two (2) instances (services) in which the diagnosis provided does not appear to be consistent with the services billed. In addition, the medical records do not support the services billed were provided. (Questioned Costs \$55)
- Two (2) instances (services) in which the medical records provided did not appear to support the services billed. (Questioned Costs \$144)
- Three (3) instances (services) in which medical records were not provided. (Questioned Costs \$182)

In addition to requesting medical records we performed an analysis of procedure code/diagnosis code combinations. Using our clinic services data, we identified 4,920 different procedure code/diagnosis code combinations. We selected a sample of 78 combinations to determine if the procedure code appeared to be consistent with the diagnosis code. Our sample of 78 combinations encompassed 70,474 claims. A review of the procedure code/diagnosis code combinations was performed by a medical professional and the following exceptions were noted:

- Two diagnosis codes (four claims) appear to be a medical diagnosis while the procedure codes appears to be a behavioral health code. Therefore, the procedure code does not appear consistent with the diagnosis code. (Questioned Costs \$414)

Schedule of Findings

Federal Award Findings And Questioned Costs

- One diagnosis code (two claims) appears to be for a child while the procedure code appears to be for an adult. Therefore, the diagnosis code does not appear to be consistent with the services billed. (Questioned Costs \$68)
- Three diagnosis codes (eleven claims) do not appear to be consistent with the procedure codes. (Questioned Costs \$481)

Effect: The Authority may be paying for procedures, which are not being performed or are not consistent with recipients' medical diagnosis.

Recommendation: We recommend the Authority investigate the items identified. If considered necessary, recoup any funds paid to providers for services that were not supported by medical records and/or do not appear to be consistent with the medical diagnosis (medically necessary).

Management's Corrective Action Plan

Contact Person: Kelly Shropshire, Audit Manager

Anticipated Completion Date: July 2004

Corrective Action Planned: We concur with the finding. Inappropriate funds will be recovered.

REF NO: 03-807-023

STATE AGENCY: Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 50205OK028

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Special Tests and Provisions – Provider Eligibility

Criteria: According to OMB A-133 Compliance Supplement (March 2003), In order to receive Medicaid payments, providers of medical services furnishing services must be licensed in accordance with Federal, State and local laws and regulations to participate in the Medicaid program (42 CFR section 431.107 and 447.10; and section 1902(a)(9) of the Social Security Act).

42 CFR 485.56 (a) requires health care providers and fiscal agents to disclose certain information about ownership and control.

Condition: During testing of 44 providers, we were unable to find a current license or a Provider Information Records form for 16 providers. However, we contacted the appropriate licensing board based on provider type to ensure the provider was licensed during the fiscal year. We were able to verify all 16 providers were licensed through June 30, 2003.

Effect: Maintaining inadequate licensing information increases the likelihood of ineligible providers participating in the Medicaid Program.

Recommendation: We recommend the Authority obtain necessary documents from the appropriate licensing boards to update provider files.

Management's Corrective Action Plan

Contact Person: Peggy Hansen, Provider Contracts

Anticipated Completion Date: July 2004

Corrective Action Planned: We concur with the finding. We will obtain appropriate licensure information and include in the provider's files. Actions to develop a process to best ensure provider licensing is properly monitored and documented will continue.

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REF NO: 03-807-024
STATE AGENCY: Health Care Authority
FEDERAL AGENCY: Department of Health and Human Services
CFDA NO: 93.778
FEDERAL PROGRAM NAME: Medical Assistance Program
FEDERAL AWARD NUMBER: 5-0305OK5028
FEDERAL AWARD YEAR: 2003
CONTROL CATEGORY: Activities Allowed or Unallowed
QUESTIONED COSTS: \$101

Criteria: 42 CFR 433.139 (b)(1) states, “When the amount of liability is determined, the agency must then pay the claim to the extent that payment allowed under the agency's payment schedule exceeds the amount of the third party's payment”.

The OKMMIS Provider Billing & Procedure Manual, Chapter 9 (TPL) Section A states, “If the private insurance pays less than the Medicaid allowable, you may bill the Oklahoma Health Care Authority for the difference between the amount received from the resource and the Medicaid allowable”.

Condition: During our testing of 94 Home and Community Based Waiver services, we noted 67 instances where the third party liability (TPL) was only partially considered or not considered when calculating the reimbursement amount.

Effect: The Authority may be paying higher reimbursement amounts than necessary.

Recommendation: We recommend the Authority ensure TPL is considered in calculating the reimbursement amount. We also recommend the Authority review other services paid (in addition to Home and Community Based Waiver services) to ensure TPL is considered in calculating reimbursement amounts.

Management's Corrective Action Plan

Contact Person: Lynn Puckett, DP Analyst/Planning Spec.

Anticipated Completion Date: July 2004

Corrective Action Planned: We concur that regarding these claims TPL was not appropriately considered when the claims were processed. Work order tickets (#16819, 16820, 16821) have been created to research these issues.

Department of Human Services

REF NO: 03-830-001
STATE AGENCY: Department of Human Services
FEDERAL AGENCY: Department of Health and Human Services
CFDA NO: 93.575, 93.596
FEDERAL PROGRAM NAME: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund
FEDERAL AWARD NUMBER: 0001OKCCD2, 0101OKCCD4, 0101OKCCD2, 0201OKCCDF
FEDERAL AWARD YEAR: 2000, 2001, 2002
CONTROL CATEGORY: Period of Availability
QUESTIONED COSTS: Undeterminable

Criteria: 45 CFR 98.60 (d)(1) states, “Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations as of the end of the succeeding fiscal year shall be liquidated within one year. (2) Mandatory Funds for States requesting Matching Funds per Sec. 98.53 shall be obligated in the fiscal year in which the funds are granted and are

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available until expended. (3) Both the Federal and non-federal share of the Matching Fund shall be obligated in the fiscal year in which the funds are granted and liquidated no later than the end of the succeeding fiscal year.”

Condition: Based on a review of the Grant Transaction Summary Reports, we determined that all draws for the Mandatory, Matching and Discretionary Funds were made during the period of availability. However, because we could not determine which program funds were used to pay for individual claims, we were unable to test the period of availability requirement on an individual transaction level. This is a repeat finding from fiscal years 2000, 2001 and 2002.

Cause: The Department does not have mechanisms in place to facilitate tracking of federal funds on an individual transaction level.

Effect: Expenditures could get charged to the wrong program and federal funds could be expended after the period of availability.

Recommendation: We recommend the Department identify expenditures for the Child Care and Development Block Grant (Discretionary Funds) and the Child Care Mandatory and Matching Funds of the Child Care and Development Fund Child Care Development Funds programs separately.

Management’s Corrective Action Plan

Contact Person: Stuart Kettner and Curtis Rachels

Anticipated Completion Date:

Corrective Action Planned: DHS employs a seamless funding strategy for daycare assistance and does not specifically identify Federal-funding sources at the time the expenditure occurs. A recipient is eligible for daycare assistance in general and not a particular funding source. OKDHS believes that the current method is desirable and does not anticipate any changes. Therefore, OKDHS does not literally comply with the regulations to specifically identify expenditures to Federal-funding initially.

REF NO: 03-830-002

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.568

FEDERAL PROGRAM NAME: Low-Income Home Energy Assistance Program

FEDERAL AWARD NUMBER: 93.568G01B1OKLIEA, 93.568G02B1OKLIEA,
93.568G03B1OKLIEA

FEDERAL AWARD YEAR: 2001, 2002, 2003

CONTROL CATEGORY: Activities Allowed or Unallowed and Eligibility

Criteria: A component objective of an adequate internal control system is to provide accurate and reliable information.

Condition: The LIHEAP Handbook does not outline or include the policies and procedures for the Cooling Program.

Effect: Without written policies and procedures for the Cooling Program, inconsistencies may occur in the application processes or benefit calculations.

Recommendation: We recommend that the Department include a policy and procedure in the LIHEAP Handbook for the Cooling Program.

Schedule of Findings Federal Award Findings And Questioned Costs

Management's Corrective Action Plan

Contact Person: Mel Phillips

Anticipated Completion Date: November 15, 2003

Corrective Action Planned: The cooling program policy and procedures that have previously been emailed to each county office will be included in the 2004 LIHEAP Training Handbook.

REF NO: 03-830-003

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.568

FEDERAL PROGRAM NAME: Low-Income Home Energy Assistance Program

FEDERAL AWARD NUMBER: 93.568G02B1OKLIEA

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

Criteria: 45 CFR 96.82 requires, as part of its LIHEAP grant application, the submission of the *Annual Report on Households Assisted by LIHEAP*. Separate data shall be reported for LIHEAP heating, cooling, crisis, and weatherization assistance.

Condition: The number of households reported as receiving winter/year round crisis assistance on the *Annual Report on Households Assisted by LIHEAP* for federal fiscal year ending September 30, 2002, appears to be incorrect. Management was unable to provide us with documentation supporting the 32,302 households reported. The supporting documentation provided indicated only 18,471 households received winter/year round crisis assistance. This is a difference of 13,831, or 43%.

In addition, we were unable to obtain data to support the amounts reported for cooling and winter/year round crisis assistance in the following categories:

- The number of households where at least one individual is 60 years or older;
- The number of households where at least one individual is disabled;
- The number of households where at least one individual is age 5 years or under;
- The number of households where at least one individual is age 2 years or under;
- The number of households where at least one individual is age 3 years through 5 years.

Cause: Management was unable to determine where the 32,302 amount reported was obtained.

Effect: Inaccurate information is included as part of the Department's LIHEAP application. In addition, the Federal government relies on the accuracy of the information included on the *Annual Report on Households Assisted by LIHEAP* to aid in the assessment of the performance of the LIHEAP program.

Recommendation: We recommend that the Department retain accurate and reliable supporting documentation for the *Annual Report on Households Assisted by LIHEAP*.

Management's Corrective Action Plan

Contact Person: Mel Phillips

Anticipated Completion Date: October 15, 2003

Corrective Action Planned: Backup tapes of the databases for "Heating Assistance", Expedited Service, ECAP, and Cooling will be made as soon as all transactions for each respective program section (including clean up) is completed; but no later than October 15th for all sections. These electronic files will be available for three years from the end of the last Federal fiscal year.

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REF NO: 03-830-004
STATE AG-NCY: Department of Human Services
FEDERAL AGENCY: Department of Health and Human Services
CFDA NO: 93.658
FEDERAL PROGRAM NAME: Foster Care – Title IV-E
FEDERAL AWARD NUMBER: 0301OK1401
FEDERAL AWARD YEAR: 2003
CONTROL CATEGORY: Reporting

Criteria: A component objective of an adequate internal control system is to provide accurate and reliable information.

Condition: On the ACF-Title IV-E, *Foster Care and Adoption Assistance Financial Report*, the Department has included in the line item “Maintenance Assistance Payments” an amount for Title IV-E foster care clothing voucher expenditures. We were unable to obtain support for these expenditures. The aggregate of the IV-E clothing voucher expenditures included in the line item “Maintenance Assistance Payments” for the four quarterly reports submitted during state fiscal year 2003 was \$827,973.02.

Cause: When a client’s eligibility status changes from IV-B (state funded) to IV-E (federally funded) or vice-versa, the Department’s system retroactively updates the client’s history to reflect the current status. As a result, we were unable to verify the amount reported for the foster care clothing voucher expenditures because detail to support data for a specific time period cannot be reproduced. As an example, the Foster Care Clothing Voucher Expenditures Report produced on October 3, 2002, for the quarter ending September 30, 2002, states the IV-E clothing voucher expenditures were \$83,243.76. This amount was included in the line item “Maintenance Assistance Payments” on the quarterly ACF-Title IV-E, *Foster Care and Adoption Assistance Financial Report*. The IV-B clothing voucher expenditures on this same report were \$398,513.99 for a total of \$481,757.75. The same report produced on August 11, 2003 states the IV-E expenditures were \$264,955.14 and the IV-B expenditures were \$216,802.61 for a total of \$481,757.75. While the total clothing voucher expenditures for the quarter are the same, the breakout between IV-B and IV-E has changed.

Effect: We are unable to determine whether the amounts included in the *Foster Care and Adoption Assistance Financial Report* for clothing care vouchers were supported by applicable accounting records.

Recommendation: We recommend the Department ensure client history is maintained to support the amounts reported on the *Foster Care and Adoption Assistance Financial Report*.

Management’s Corrective Action Plan

Contact Person: Stuart Kettner, Robbie Fleming

Anticipated Completion Date: July 2004

Corrective Action Planned: OKDHS feels changes in reporting information would provide us with accurate expenditure information. It needs to be comparable to the report provided for regular IV-E/IV-B maintenance reporting which includes two years of history. OKDHS will work with CFSD staff and our systems staff in hopes of resolving this issue.

Not updating the client history just to be able to match a previously run report would prevent OKDHS from possibly earning additional federal funds.

Schedule of Findings Federal Award Findings And Questioned Costs

REF NO: 03-830-006

STATE AG-NCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.575, 93.596

FEDERAL PROGRAM NAME: Child Care and Development Block Grant, Child Care Mandatory and Matching funds of the Child Care and Development Fund

FEDERAL AWARD NUMBER: 0201OKCCDF, 0301OKCCDF

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$6,101

Criteria: DHS Policy 340:40-3-1. Initial application, states: “(a) Initial application. An application or the applicant authorized representative completes Form K-2, Application for Child Care Services, or Form FSS-1, Comprehensive Application and Review, to apply for child care services. . . .”

Appendix C-4 states: “**Schedule of Co-Payments:** All co-payments are paid directly to the provider each month, not to exceed the amount charged. Oklahoma Department of Human Services (OKDHS) payments are made on the balance of care costs after the co-payments has been deducted.”

Condition: While performing eligibility testwork on thirty-eight case files, we noted the following instances:

- Four case files did not contain an application for all or part of the period they received daycare services during state fiscal year 2003. As a result, we were unable to determine if these individuals were eligible for day care benefits. (Questioned costs of \$5,925)
- Three cases in which the client did not pay the full co-payment amount, resulting in DHS overpaying its’ portion of the daycare costs. (Questioned costs of \$176)

Effect: Persons may have received childcare services that were not eligible to receive the services. In addition, DHS overpaid it’s portion of daycare service.

Recommendation: We recommend the Department review established procedures to ensure they are adequate to facilitate compliance with internal policy. We further recommend the Department review the co-payment amounts and procedures with the Claims Auditors to ensure the correct co-payments are paid by the clients and DHS does not overpay its’ portion of the charges.

Management’s Corrective Action Plan

Contact Person: Susan Hall, Programs Manager Child Care Subsidy Program

Anticipated Completion Date: 8/1/04

Corrective Action Planned: By April 10, 2004, a broadcast message regarding the findings of this audit will be sent to all State Office Fields Operations Division Staff, Area Directors, County Directors, Family Support Field Liaisons and County Supervisors. Emphasis will be given to the policy requiring an application form to be completed at application for child care benefits and at each review. OKDHS will also request this message to be forwarded to all staff who handle child care benefits.

During the statewide Quarterly Training sessions for all county supervisors to be held in May 2004 trainers will review the policy requirement for an application form to be completed at application for child care benefits and at each review. The same thing will be done at the statewide Supervisor Conference to be held in August 2004. Finally, during the SATTRN training in August 2004, all staff who handle child care will be trained on new child care policy and the application review process and use of the application and form will be emphasized again.

Schedule of Findings Federal Award Findings And Questioned Costs

REF NO: 03-830-008

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.568

FEDERAL PROGRAM NAME: Low-Income Home Energy Assistance Program

FEDERAL AWARD NUMBER: 93.568G03B1OKLIEA

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Eligibility and Reporting

Criteria: A component objective of an adequate internal control system is to provide accurate and reliable information.

Condition: During testing of the LIHEAP program and inquiry of management, it was determined that historical data regarding client benefits was no longer available through the Department's system. As a new LIHEAP application period begins, historical data is purged so current information may be input.

Effect: Although client historical information may still exist in the case files, these files are located throughout the state. Therefore, information for the program as a whole may not be available or accessible in a timely manner.

Recommendation: We recommend that the Department's system and county offices maintain each client's current and historical LIHEAP information.

Management's Corrective Action Plan

Contact Person: Mel Phillips

Anticipated Completion Date: 12/01/2005

Corrective Action Planned: Request Data Services Division to develop and implement system changes that will maintain this data electronically.

REF NO: 03-830-009

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.568

FEDERAL PROGRAM NAME: Low-Income Home Energy Assistance Program

FEDERAL AWARD NUMBER: 93.568G03B1OKLIEA

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Activities Allowed or Unallowed/Reporting

QUESTIONED COSTS: \$80

Criteria: A component objective of an adequate internal control system is to provide accurate and reliable information.

OAC 340: 65-1-3 states, "...The case record is the means used by the Agency to document the factual basis for decisions."

Instructions to Staff 340: 65-1-3

1. (a) Definition of Family Support Services Division (FSSD) official case records. The case record is an accumulation of material required to document a client's eligibility for and receipt of assistance. The case record includes information in the county office, working and history records, as well as all electronically maintained data. The Agency retains these records for legal requirements and audit purposes.

Schedule of Findings Federal Award Findings And Questioned Costs

Condition: During our testing of the LIHEAP program, we noted the following:

- One of thirty-eight cases appeared to have received the incorrect benefit type.
- For one of thirty-eight cases, we were unable to determine if eligibility requirements were met because the case file could not be located. (Question costs \$80.00)

Effect: The information contained in the Department's application system could be inaccurate and the information provided for the Household report could be inaccurate. Also, the Department may not be in compliance with the above stated internal policy, which may result in ineligible individuals receiving LIHEAP benefits.

Recommendation: We recommend that the Department develop and implement internal control procedures to ensure all benefits are properly classified and reported by fuel type. We also recommend, the Department review established internal procedures to ensure they are adequate to facilitate compliance with internal policies.

Management's Corrective Action Plan

Contact Person: Mel Phillips

Anticipated Completion Date: 12/01/04

Corrective Action Planned: Instruct county staff to maintain complete information to verify accurate eligibility determinations.

REF NO: 03-830-010

STATE AG-NCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.575, 93.596

FEDERAL PROGRAM NAME: Child Care and Development Block Grant, Child Care Mandatory and Matching funds of the Child Care and Development Fund

FEDERAL AWARD NUMBER: 0201OKCCDF, 0301OKCCDF

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Activities Allowed and Eligibility

QUESTIONED COSTS: \$-0-

Criteria: A component objective of an adequate internal control system is to provide accurate and reliable information.

OAC 340:40-9-2 states: "a) **Case changes.** The client must report any changes in his or her circumstances that would result in an increase or decrease in the level of child care services within ten days. The worker acts on changes which increase or decrease child care services regardless of whether the client is a semi-annual reporter or not.

(c) **Changes which increase the level of child care services.** Changes that increase the level of child care services are planned as needed between the worker and the client when changes are reported timely."

Instructions to Staff state: 5 (a) Changes, if applicable, are documented in the FACS Interview Notebook under Income, Day Care, and DC Compute tabs and in the FACS Eligibility Notebook under Auth. Daycare and Social Services tabs. The worker enters a change action in the Social Services tab. If the change action results in change in family share co-payment, the co-payment change is mapped to the authorization by the system, which generates a notice to the client. The worker does not need to make a change in the Auth. Daycare tab for a co-payment change, but must enter a change action when the unit type or number of days and hours child care is needed changes. . . "

Schedule of Findings Federal Award Findings And Questioned Costs

Condition: While performing testwork on thirty-eight case files, we noted six cases in which documentation could not be located in the case file to support the income amount listed on the DSD mainframe. In addition we reviewed the case notes on the FACS system and could not find documentation of the income amounts in the notes.

Effect: Errors in payment could occur in payments if eligibility information is not updated.

Recommendation: We recommend the Department discuss the importance of maintaining income documentation in the case file to support what is entered into the DSD mainframe.

Management's Corrective Action Plan

Contact Person: Susan Hall, Programs Manager Child Care Subsidy Program

Anticipated Completion Date: 8/1/04

Corrective Action Planned: By April 10, 2004, a broadcast message regarding the findings of this audit will be sent to all State Office Fields Operations Division Staff, Area Directors, County Directors, Family Support Field Liaisons and County Supervisors. This message will emphasize the need for income documentation to be obtained and filed in all child care case files to support the eligibility for benefits. The same information will be conveyed at the next state wide Quarterly Training for all county supervisors in May 2004, at the statewide Supervisors Conference in August 2004 and during the SATTRN child care training in August 2004 for all staff who handle child care benefits.

REF NO: 03-830-012

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.563, 93.575, 93.778, Various Other

FEDERAL PROGRAM NAME: Child Support Enforcement, Child Care and Development Block Grant, Medical Assistance Program

FEDERAL AWARD NUMBER: Various

FEDERAL AWARD YEAR: Various

CONTROL CATEGORY: Allowable Costs/Cost Principles

QUESTIONED COSTS: Unknown

Criteria:

OMB Circular A-87, Attachment B, Section 38. Rental costs, states in part:

d. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed. This amount would include expenses such as depreciation or use allowance, maintenance, and insurance. The provisions of Financial Accounting Standards Board Statement 13 shall be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet the criteria in section 26.

OMB Circular A-87, Attachment B, Section 26. Interest, states in part:

a. Costs incurred for interest on borrowed capital or the use of a governmental unit's own funds, however represented, are unallowable except as specifically provided in subsection b. or authorized by Federal legislation.

b. Financing costs (including interest) paid or incurred on or after the effective date of this Circular associated with the otherwise allowable costs of building acquisition, construction, or fabrication, reconstruction or remodeling completed on or after October

Schedule of Findings Federal Award Findings And Questioned Costs

1, 1980 is allowable, subject to the conditions in (1)-(4). ..

- (1) The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the governmental unit;
- (2) The assets are used in support of Federal awards;
- (3) Earnings on debt service reserve funds or interest earned on borrowed funds pending payment of the construction or acquisition costs are used to offset the current period's cost or the capitalized interest, as appropriate. Earnings subject to being reported to the Federal Internal Revenue Service under arbitrage requirements are excludable.

OMB Circular A-87, Attachment B, Section 15. Depreciation and use allowances, states in part:

- a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances...
- b. The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved...
- c. The computation of depreciation or use allowances will exclude:
 - (1) The cost of land;
 - (2) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and
 - (3) Any portion of the cost of buildings and equipment contributed by or for the governmental unit, or a related donor organization, in satisfaction of a matching requirement.
- e. Where the depreciation method is followed, the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit followed for the individual items or classes of assets involved. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight line method of depreciation shall be used. Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency...
- h. Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are in use. Governmental units will manage equipment in accordance with State laws and procedures. When the depreciation method is followed, depreciation records indicating the amount of depreciation taken each period must also be maintained.

The Department's approved cost allocation plan states, "**Department-Owned Space** will be charged to the occupying cost center based on depreciation of building and actual cost of maintenance and operation."

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Condition: While performing analytical review procedures for costs incurred during state fiscal year 2003, we noted \$2,021,085.96 in costs coded as bond indebtedness. \$885,367.94 were coded as bond principle and \$1,135,718.02 as bond interest. The costs were charged to federal awards as follows:

\$ 95,793.15 to Child Care Development Fund
\$ 163,325.60 to Medicaid
\$ 59,235.62 to Child Support Enforcement
\$1,702,731.59 allocated to various programs

Upon further inquiry, we determined that these costs were payments to the Oklahoma Development Finance Authority (ODFA). The ODFA issued three series of lease revenue bonds to construct county office facilities that were in turn leased to the Department. All three series have maturity dates of 15 years from the date issuance. Bond issues were made as follows:

1998, Pittsburgh County -	\$ 1,430,000
2000, Canadian/Lincoln County	\$ 3,710,000
2002, Eight County	\$15,370,000

Based on review of the lease agreements between the Department and ODFA, each leasing arrangement meets the criteria of a capital lease under Financial Accounting Standards Board Statement 13 either through the transfer of ownership at the end of the lease, or the present value of the minimum lease payments exceeds 90% of the fair value of the leased property. As a result, these facilities are in effect department-owned space and costs related to these facilities should be charged based on depreciation rather than the lease payments made. According to capital asset records maintained by the Department and used for GAAP financial reporting purposes, the facilities constructed have estimated useful lives of 40-50 years.

Effect: The Department is not charging costs in accordance with OMB Circular A-87.

Recommendation: We recommend the Department discuss this issue with the DHHS Division of Cost Allocation and if considered necessary by DHHS, allocate the capital lease costs. This would include basing the allocation of non-interest costs on an annual depreciation charge for the facilities constructed. However, in accordance with Attachment B, Section 15.c.(1), the Department should ensure that the cost of the land acquired for each facility is not included in the depreciation base. In addition, in accordance with Attachment B, Section 15.b.(3), we recommend the Department ensure earnings on debt service reserve funds or interest earned on borrowed funds pending payment of construction costs are used to offset the current period's interest cost.

Because the original issue of bonds was made in 1998, the recommendations made above should also be applied to those costs charged in prior periods.

Management's Corrective Action Plan

Contact Person: Stuart Kettner, Russell Graves, and Adam Barber

Anticipated Completion Date: Unknown

Corrective Action Planned: OKDHS is of the opinion that OMB Circular A-87 suggests that the payments in question can be treated as operational leases. The difficulty arises when FASB 13 is brought into the mix.

FASB 13 is primarily applicable to corporate treatment of leases with the majority of it not applicable to Governmental Entities or Non Profit Corporations. However, in examination of the document, there is sufficient ambiguity in the criteria of classification of leases to leave doubt as to whether operating or capital is the appropriate classification. Furthermore, it is unclear whether to use fair market value of the property or actual costs in the application of various provisions of FASB 13. Be aware that OKDHS used its own construction crew in most of the projects, which resulted in significantly lower

Schedule of Findings Federal Award Findings And Questioned Costs

costs as compared to the use of a commercial contractor or to the intrinsic fair market value of the property.

Also, there is a compelling financial case to be made to allow OKDHS to expense the lease payments over the 15-year lease terms. If rent were paid to private landlords in lieu of the leases in question, costs charged to federal programs would never cease and would be many times that of the leasing costs. Also, under the 15-year lease scenario, federal programs would realize a significant annual costs savings after the 15th year.

Needless to say, this is a very complex issue and is not easily resolved. OKDHS wants to comply with the regulations and at the same time continue with the present program of upgrading field offices. A common sense approach should be taken in concert with the regulations and OKDHS should not be penalized for undertaking building projects that result in bottom line cost savings to all involved parties. Therefore, OKDHS recommends that the Division of Cost Allocation be apprised of this situation and allowed to negotiate this matter.

REF NO: 03-830-013

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.568

FEDERAL PROGRAM NAME: Low-Income Home Energy Assistance Program

FEDERAL AWARD NUMBER: 93.568G03B1OKLIEA

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Eligibility/Activities Allowed or Unallowed

QUESTIONED COSTS: \$653

Criteria: Internal controls should be designed to provide reasonable assurance that only eligible individuals receive assistance under Federal award programs.

According to OAC 340:20-1-10g, 'The household benefit amount is based upon the household's size, income, and type of fuel. The benefit amount will not be changed during the program year due to changes in household composition, income, or fuel type.'

According to OAC 340:20-1-12(2), 'Households making an initial application for LIHEAP and not containing a payee-recipient or applicant of an A, B, C, D or S case will require an "N" number.'

Condition: With the exception of the policy below, the Department does not have a policy or procedure for verifying the income of certain individuals applying for LIHEAP. Income is verified for individuals who received other DHS assistance. However, for those who do not receive other types of assistance, their income is not verified. During federal fiscal year 2003, recipients whose income was not verified received \$1,618,275 in LIHEAP benefits.

The Department's Policy 340:20-1-13, Instructions to Staff (1), states, "The client's statement regarding income and liquid resources is acceptable unless questionable. When the client's statement is questionable, verification is made by the case record, SDX, award letters, and similar data."

We performed 'N' case testwork by comparing income verifications on the ACES and DDS Mainframe to the information received from DHS applications. We also determined if the recipient was receiving payments through DHS under another case number (A, B, C, D or S) through the ACES system and comparing it to the DDS Mainframe.

During 'N' testwork, we noted the following:

- o 16 of 38 recipient's income verification from OESC and ACES did not agree with the data received. (Two of these cases resulted in questioned costs of \$61.00)

Schedule of Findings Federal Award Findings And Questioned Costs

- o 5 of 38 or 13% of recipients appeared to be ineligible for LIHEAP assistance. (Questioned Costs \$592.00)
- o 9 of 38 cases appeared to have been receiving benefits under another case number (A, B, C, D or S).

Cause: It appears no income verification or cross-check of ‘N’ and ‘C’ cases are being performed during the application period.

Effect: Not verifying income could result in ineligible individuals receiving LIHEAP benefits or more assistance than is allowable.

Recommendation: We recommend the Department implement policies and procedures to ensure income is verified for all individuals who apply for LIHEAP. We also recommend the Department implement policies and procedures to ensure recipients currently receiving benefits through the Department use the correct case number.

Management’s Corrective Action Plan

Contact Person: Mel Phillips

Anticipated Completion Date: 12/01/2004

Corrective Action Planned: The cost of 100% income verification would be excessive in comparison to the amount of benefit paid. In lieu of 100% verification OKDHS will encourage county workers to use their best judgment as to when to require income verification.

REF NO: 03-830-016

STATE AG-NCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.558

FEDERAL PROGRAM NAME: Temporary Assistance for Needy Families

FEDERAL AWARD NUMBER: G0301OKTANF

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$8,834

Criteria: A-133 Compliance Supplement states: “The State or Tribal Plan provides the specifics on how eligibility is determined in each State or Tribal service area. Plan and eligibility requirements must comply with the following Federal requirements...”

The State Plan refers to DHS Policy OAC 340:10, which refers to OAC 340:65-3-1. This policy states, “The determination of eligibility is a continuous process which encompasses all activities beginning with an application to the final disposition of the application and all subsequent activities related to continuing eligibility. The application is the beginning of the eligibility determination.

OAC 340:65-3-8 states, “A periodic re-determination of eligibility is completed at 12-month intervals for: a Temporary Assistance for Needy Families (TANF) recipient except when six-month intervals are required due to: (I) protective payments; (II) pending required immunizations; (III) payment standard reductions due to intentional program violations; or (IV) hardship extension approvals.”

Condition: From the area 4 population of 3,536 cases, we noted the following during eligibility testwork of 38 cases:

1. Three cases in which no TANF application or review was found for the time period tested.
2. One case where the application was denied, but the recipient still received benefits.

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Effect: The Department may not be in compliance with the above stated internal policies, which may result in ineligible individuals receiving TANF benefits.

Recommendation: We recommend the Department follow their policy and complete eligibility determinations and re-determinations for TANF recipients as required.

Management's Corrective Action Plan

Contact Person: Linda Hughes

Anticipated Completion Date: 8/01/04

Corrective Action Planned: The county office was contacted regarding the cases where no TANF applications were found for the review period. A 'back to basics' session has been planned to discuss the policy and the proper procedures to follow when an application for TANF is taken. Procedures have already been implemented in the county office to see that this particular problem does not happen.

REF NO: 03-830-017

STATE AG-NCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.558

FEDERAL PROGRAM NAME: Temporary Assistance for Needy Families

FEDERAL AWARD NUMBER: G0301OKTANF

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$708

Criteria: The A-133 Compliance Supplement states, "Any family that includes an adult or minor child head of household or a spouse of the head of household who has received assistance under any State program funded by Federal TANF funds for 60 months (whether or not consecutive) is ineligible for additional federally funded TANF assistance. However, the State may extend assistance to a family on the basis of hardship, as defined by the State, or if a family member has been battered or subjected to extreme cruelty."

DHS Policy Instructions to Staff 340:10-3-56-6 states, "(a) The worker is required to have a face-to-face contact with each participant who is going to reach the 60 month time limit to complete Form TW-24, Part I. When Form TW-24, Part I, is completed and an extension is requested by the participant, it is the responsibility of the worker to assure all assessments, diagnostic tests, and verifications are documented in the case record prior to the request for an extension. This request with all appropriate information is sent to FSSD with the active case record. Based on the documentation and information provided, FSSD notifies the county office of the decision and, if approved, the period of time for the extension. When Form TW-24, Part I, is completed and no extension is requested, it is the responsibility of the worker to submit Form TW-24 to FSSD for review and close the benefit the appropriate month.(b) If the extension is not approved, FSSD notifies the county office to close the benefit. The worker, 30 days after the effective date of closure, makes a home visit to determine the family's circumstances and offers the appropriate services.

Condition: From the counties located in Area 4, we identified 37 cases that received TANF benefits for more than 60 months. We selected 10 of those cases for testing and noted:

1. One case where the client reapplied for TANF and was approved, although the client had already received 60 months of TANF.
2. One case where the client received benefits for more than 60 months without applying for an extension.

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Effect: Ineligible individuals may be receiving TANF benefits.

Recommendation: We recommend the Department create a system edit that will notify the caseworker of a TANF applicant who has reached the 60-month limitation. We also recommend the Department follow policy and ensure recipients complete a request for extension of benefits when required.

Management's Corrective Action Plan

Contact Person: Linda Hughes

Anticipated Completion Date: 8/01/04

Corrective Action Planned: The county office, which failed to correctly code the case to prevent the issuance of benefits, has been contacted and has had a "Back to Basics" session regarding computer processing. The county office which failed to close the case timely has been contacted and a "Back to Basics" session is being scheduled to review current policy and procedures regarding timely case actions.

REF NO: 03-830-018

STATE AG-NCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.558

FEDERAL PROGRAM NAME: Temporary Assistance for Needy Families

FEDERAL AWARD NUMBER: G0301OKTANF

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$7,586

Criteria: DHS Policy Instructions to Staff 340:10-20-1-10 states, "The county director can approve Temporary Assistance for Needy Families (TANF) if there is an unforeseen circumstance that requires the family to apply. This approval is only used after the three-month time period covered by DA benefit. Receipt of TANF during this three-month period is a duplication of benefits."

Condition: During our testwork of 112 cases that received both TANF and Diversion Assistance during SFY 2003 we noted:

1. Three cases that received both TANF and Diversion Assistance during the same month. (Questioned Costs \$2,427)
2. Five cases that received both TANF and Diversion Assistance during the same year without documentation of approval from the county director. (Questioned Costs \$5,159)

Effect: The Department may not be in compliance with the above stated policies, which may result in ineligible individuals receiving TANF benefits.

Recommendation: We recommend the Department establish and implement policy and procedures to ensure that the client does not receive TANF within three months of receiving Diversion Assistance and that the county director approves all TANF payments made to clients within a year of receiving Diversion Assistance.

Management's Corrective Action Plan

Contact Person: Linda Hughes

Anticipated Completion Date: 8/01/04

Corrective Action Planned: The county offices that approved TANF and Diversion benefits for the same month have been contacted and "Back to Basics" sessions were scheduled. Computer systems changes have been discussed to determine the procedures necessary to implement these changes. The county offices that issued TANF benefits less than a year after Diversion Assistance benefits issued

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have been contacted regarding the need to document in case notes or in the case record the approval of the county director when TANF is approved less than a year from the date of the Diversion Assistance approval. Statewide quarterly training for Diversion Assistance was completed in November 2003.

REF NO: 03-830-019
STATE AG-NCY: Department of Human Services
FEDERAL AGENCY: Department of Health and Human Services
CFDA NO: 93.558
FEDERAL PROGRAM NAME: Temporary Assistance for Needy Families
FEDERAL AWARD NUMBER: G0301OKTANF
FEDERAL AWARD YEAR: 2003
CONTROL CATEGORY: Reporting
QUESTIONED COSTS: \$-0-

Criteria: According to 45 CFR Section 265, the Department is required to submit the TANF Data Report (ACF-199). The primary purpose of this report is to collect information mandated by Congress. The data is also used by personnel in the Administration for Children and Families, the Department of Health and Human Services, and other Federal personnel responsible for the formulation of TANF program policy and the provision of technical assistance. In addition, the law provides for monetary penalties for failure to satisfy minimum participation rates.

ACF-199 Data Report Instructions state: “**Receives Subsidized Child Care (17)** – If the TANF family receives child care for the reporting month, enter code “1” or “2”, whichever is appropriate. Otherwise, enter code “3”.

- 1 = Yes, receives child care funded entirely or in part with Federal funds (e.g., receives TANF, CCDF, SSBG, or other federally funded child care)
- 2 = Yes, receives child care funded entirely under State, Tribal, and/or local program (i.e., no Federal funds used)
- 3 = No subsidized child care received

Condition: We selected twenty-four (24) case files for testing the TANF Data Report (ACF-199). During our testwork, we noted four cases that were coded as receiving child care entirely or in part with Federal funds; however, the cases did not receive child care benefits.

Cause: The TANF Data Report (ACF-199) includes all benefits listed on the DHS Mainframe’s BNX screen. This screen not only lists childcare benefits, but also lists energy assistance payments. Therefore, cases that receive energy assistance and not childcare benefits are improperly coded as receiving childcare benefits.

Effect: Errors in the TANF Data Report (ACF-199) may result in the Department being subject to penalties and/or sanctions for not complying with federal requirements and performance goals.

Recommendation: We recommend the Department change the TANF Data Report (ACF-199) to include only the childcare benefits listed on the DHS Mainframe’s BNX screen.

Management’s Corrective Action Plan

Contact Person: Tom Wright

Anticipated Completion Date:

Corrective Action Planned: Report number ACF-199, Field 17, “Receives Subsidized Child Care” has been modified to correct the previous data inaccuracy. Furthermore, the source of the data retrieval has been changed. The previous data source listed in the audit finding is no longer a correct source of data due to implementation of EBT childcare. The inaccuracy listed in the audit finding has been corrected. ACF-199 data FFY 2003 was recently retransmitted to the Washington, DC office, and should contain accurate data.

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REF NO: 03-830-020

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.558

FEDERAL PROGRAM NAME: Temporary Assistance for Needy Families

FEDERAL AWARD NUMBER: G0301OKTANF

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Special Tests and Provisions – Adult Custodial Parent of Child under Six
When Child Care Not Available

QUESTIONED COSTS: \$-0-

Criteria: 45CFR 261 states in part, “If an individual is an adult single custodial parent caring for a child under the age of six, the State may not reduce or terminate assistance for the individual's refusal to engage in required work if the individual demonstrates to the State an inability to obtain needed child care based upon the following reasons: (a) unavailability of appropriate child care within a reasonable distance from the individuals home or work site; (b) unavailability or unsuitability of informal child care by a relative or under other arrangements; and (c) unavailability of appropriate and affordable formal child care arrangements. The determination of inability to find child care is made by the State. HHS may penalize a State for up to five percent of the SFAG for violation of this provision.”

DHS Instructions to Staff 340-10-2-2-5(a) states, “The case notes must clearly document that a refusal or failure to participate is without good cause.”

Condition: We tested forty-five (45) of 5,705 cases with children under six that were closed for failure to cooperate with TANF work requirements (code 52A). In five cases tested, we could not locate in the cases notes an indication that the case was closed due to a refusal or failure to participate without good cause.

Effect: The Department may not be in compliance with the above stated federal regulations regarding the improper closing of a TANF case. This may result in the State being penalized for up to five percent of the SFAG.

Recommendation: We recommend the Department follow policy and ensure the case notes clearly document that a refusal or failure to participate is without good cause.

Management's Corrective Action Plan

Contact Person: Linda Hughes

Anticipated Completion Date: 8/01/04

Corrective Action Planned: The county offices that failed to follow policy and procedures have been contacted and “Back to Basics” sessions are being planned. Statewide quarterly training was held in February and March 2003, which discussed the sanction process and the correct procedures to be followed when a client fails or refuses to participate in TANF Work without good cause.

REF NO: 03-830-021

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.558

FEDERAL PROGRAM NAME: Temporary Assistance for Needy Families

FEDERAL AWARD NUMBER: G0301OKTANF

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Special Tests and Provisions – Child Support Non-Cooperation

QUESTIONED COSTS: \$5,713

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Criteria: 45CFR 264 states in part, “If the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. HHS may penalize a State for up to five percent of the SFAG for failure to substantially comply with this required State child support program.

DHS Policy 340-10-10-5(c) states, “If the applicant or recipient refuses to cooperate with OKDHS without good cause in any of the three areas listed in (b) of this Section, the cash assistance must be reduced by 25% of the TANF payment standard.”

Condition: We tested fifty-five (55) of 946 cases that were referred by the Child Support Enforcement Division for child support non-cooperation. During our testwork, we noted the following:

- Eight (8) cases where we could not locate in the case notes an indication that the case was reduced or denied as required for child support non-cooperation.
- Five (5) cases where the benefits were reduced or denied, but not within a reasonable time frame (30 days). The benefits paid after the cases should have been reduced or denied are not being recouped.

Cause: When the Child Support enforcement Division’s OSIS system sends the non-cooperation information to the PS-2 system, there is no immediate exception notice given to the social worker. It is a manual process for the social worker to obtain the non-cooperation exception from the G3 screen. Therefore, if the social worker does not review the G3 screen periodically (monthly), errors may not be detected in a timely manner.

Effect: The Department may not be in compliance with the above stated federal regulations regarding child support non-cooperation cases. This may result in the State being penalized for up to five percent of the SFAG.

Recommendation: We recommend the Department implement policy and procedures to ensure that TANF recipients who are not cooperating with the Child Support Enforcement Division be reduced by 25% or denied of their TANF benefit. Also, we recommend the non-cooperation cases be included as part of the social workers’ exception reports. This would help ensure non-cooperation cases are addressed in a timely matter.

Management’s Corrective Action Plan

Contact Person: Mary Affentranger

Anticipated Completion Date: March 2005

Corrective Action Planned: Family Support Services Division, FSSD, and CSED will continue to work together to improve the interface between the two Divisions. FSSD is currently working on creating a new CWA report for the information IMS receives from CSED regarding non-cooperation of a TANF client. FSSD is currently reviewing placing the G3 alerts received from the CSED to the exception reports workers review. CSED has been contacted regarding the importance of the integrity of the information on their system, updating the Case Log with non-cooperation and cooperation information, making valid non-cooperation determinations, and the importance of updating this screen timely when cooperation begins. Effective dates were added to the CCPI screen in 9-02 by CSED. Quarterly Training was completed in May 2003 regarding non-cooperation policy that has been in effect since 10-01-96. County offices will complete Back to Basic training in non-cooperation policy and overpayment policy.

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REF NO: 03-830-022

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.558

FEDERAL PROGRAM NAME: Temporary Assistance for Needy Families

FEDERAL AWARD NUMBER: G0301OKTANF

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Special Tests and Provisions – Child Support Non-Cooperation

QUESTIONED COSTS: \$-0-

Criteria: 45CFR 264 states in part, “If the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. HHS may penalize a State for up to five percent of the SFAG for failure to substantially comply with this required State child support program.

DHS Policy 340-10-10-5(c) states, “If the applicant or recipient refuses to cooperate with OKDHS without good cause in any of the three areas listed in (b) of this Section, the cash assistance must be reduced by 25% of the TANF payment standard.”

Condition: During testwork of the TANF program, we received a list of all Child Support non-cooperation cases from the Child Support Enforcement Division (CSED). Once a case is determined to be non-cooperating, the CSED is to send a notification to the PS-2 system. This notification is shown on the G3 screen. At this point, it is the social worker’s responsibility to reduce the TANF client’s benefit, if necessary. We attempted to verify that all non-cooperating cases per CSED were reported to the social workers via the PS-2 system. However, the PS-2 system does not maintain history of cases reported by CSED.

Effect: We were unable to verify the non-cooperation cases we received from the Child Support Enforcement Division were reported to the PS-2 system for resolution.

Recommendation: We recommend the Department’s PS-2 system maintain history of non-cooperation cases reported by CSED.

Management’s Corrective Action Plan

Contact Person: Mary Affentranger

Anticipated Completion Date: March 2005

Corrective Action Planned: Family Support Services Division, FSSD, has no plans at this time to maintain a history of the CSED information posted on the G3 screen, as OKDHS is not aware of how this can be done. FSSD is currently working with CSED regarding a better way to transmit CSED alerts to the PS-2 system than through the G3 screen.

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REF NO: 03-830-023

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.575, 93.596

FEDERAL PROGRAM NAME: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund

FEDERAL AWARD NUMBER: 0201OKCCDF, 0301OKCCDF

FEDERAL AWARD YEAR: 2002 and 2003

CONTROL CATEGORY: Activities Allowed and Unallowed

QUESTIONED COSTS: \$7,423

Criteria: Day Care Provider Contract, Part Four, states:

. . . It is further agreed and understood by the Provider that by signing and submitting its claim from pursuant to this contract, it is certifying that the services claimed actually were provided to the Department or its clients. . .

Day Care Provider Contract, Part Six, states:

It is agreed and understood that Provider must meet and maintain all state or federal standards applicable to the authorized services being provided pursuant to this contract and Provider hereby acknowledges full awareness of such standards. . .

Day Care Provider Contract, Part Seven, states:

Provider agrees to maintain written records, as prescribed by the Department, sufficient to document proper fiscal and program management of Provider's responsibilities under this contract, all records to be retained for three (3) years or the resolution of pending legal issues, whichever is longer.

OMB Circular A-87, Attachment A, Section C.1.j. states:

To be allowable under Federal awards, costs must meet the following general criteria:
. . . Be adequately documented.

Condition: We reviewed Service/Attendance records for 325 children at thirty-eight day care providers. The following exceptions were noted:

- No Service/Attendance Records for 27 children at 6 providers;
- Unsigned Service/Attendance Records for 11 children at 4 providers;
- Instances of not claiming for days when 4 children did attend at 4 providers;
- Instances of claiming for days when 11 children did not attend at 7 providers; and
- Claiming full-time care when part-time care was documented as having been provided for 1 child at 1 provider.

Effect: It appears the Department may have overpaid these 38 day care providers.

Recommendation: We recommend the Department's Office of the Inspector General monitor the day care facilities on a random sample basis rather than a referral basis. Also, we recommend the Overpayments Unit determine and establish debt of each facility in noncompliance. Furthermore, we recommend the Department take steps to ensure providers comply with the departmental policies for reimbursement.

Schedule of Findings Federal Award Findings And Questioned Costs

Management's Corrective Action Plan

Contact Person: Lisa Henley

Anticipated Completion Date: November 1, 2003

Corrective Action Planned: OKDHS has initiated a state of the art EBT Daycare system that captures actual time and attendance information for all subsidy clients. The system utilizes a magnetic card that is given to OKDHS clients, pin restrictive and no ability by the Child Care provider to manually enter data into a POS (point of Service) terminal. OKDHS believes this system eliminates the problems outlined in this referral as providers no longer keep service attendance records which by their very nature allowed for advertent and inadvertent overpayment.

Subsequent to this system it is imperative that OIG work referral's first as these will now become issues with providers being in possession of said cards. OKDHS has policies in place to reprimand clients and penalize providers for these actions.

OKDHS will collect overpayments based on the information provided by this audit.

REF NO: 03-830-024

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.558, 93.575, 93.596, 93.658, 93.659

FEDERAL PROGRAM NAME: Temporary Assistance for Needy Families, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Foster Care IV-E, Adoption Assistance

FEDERAL AWARD NUMBER: Various

FEDERAL AWARD YEAR: Various

CONTROL CATEGORY: Reporting

Criteria: Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart C, § .300 Auditee responsibilities states:

The auditee shall: ...**(b)** Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs....

Condition: There are no written policies and procedures that apply to the Cost Accounting and Revenue Enhancement Unit of the Office of Finance.

Effect: The C.A.R.E. Unit is comprised of six staff whose responsibilities include federal reporting, cash management, and cost allocation. The Unit plays a key role in the administration of the Department's federal grants. Were the Unit to experience a sudden loss of staff, it may not be able to maintain its level of productivity since there are no written policies or procedures for new staff to follow.

Recommendation: We recommend the Department develop written policies and procedures that apply to the Cost Accounting and Revenue Enhancement Unit.

Management's Corrective Action Plan

Contact Person: Stuart Kettner, Phil Motley

Anticipated Completion Date: Unknown

Corrective Action Planned: The Cost Allocation & Revenue Enhancement Unit (CARE) will document procedures used in the Cost Allocation & Federal Reporting processes. This endeavor will take a concerted effort & is not easily accomplished.

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On a positive note, OKDHS is now in the process of documentation of the Cost Allocation process for the end purpose of hosting the process on the Finance System (AS-400) rather than the present P.C. based system. In addition, Cost Allocation is at the heart of many of OKDHS's fiscal processes; therefore, implementing an integrated AS-400 based system makes sense in the long run. During this process, an outside consultant was employed to document the various processes and has produced very detailed information (flow charts, system diagrams & detail design) that is available upon request.

Department of Mental Health and Substance Abuse Services

Reference number 03-452-001 regarding information systems strategic planning relates to both the financial statements and to federal awards received from the U.S. Department of Health and Human Services. The detail of this finding may be seen in the section Schedule of Findings, Financial Statements Findings (Internal Control and Compliance).

REF NO: 03-452-002

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.959

FEDERAL PROGRAM NAME: Block Grants for Prevention and Treatment of Substance Abuse

FEDERAL AWARD NUMBER: 03B1OKSAPT

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Other

Criteria: Information System Change Management:

The Acquisition and Implementation standards of the Information Systems Audit and Control Association, specifically CobiT AI5.7 states that management should define and implement formal procedures to control the handover of the system from development to testing to operations. Management should require that system owner authorization is obtained before a new system is moved into production and that, before the old system is discontinued, the new system will have successfully operated through all daily, monthly and quarterly production cycles. The respective environments should be segregated and properly protected.

The State of Oklahoma Information Security Policy, Procedures and Guidelines – Effective September 2003 Section 9.4: Development and testing facilities must be separated from production facilities.

Condition: The Integrated Client Information System (ICIS), an in-house developed database application, is used to track client information, including case histories, treatments, and addresses. The ICIS does not have separate development, testing, and production environment. The Agency uses test data in the production environment to perform testing on code in development. The server that contains the ICIS application is partitioned into a development and production. Having the two partitions on the same physical device increases the risk of unauthorized changes to the application or data.

Effect: Increased risk that development and system test activities could cause serious problems, e.g. unwanted modification of files or system environment or system failure. The lack of separation between the test and development environment could allow developers to introduce unauthorized or untested, as well as possible malicious code into the production environment. This could cause the production environment to become unstable. When development staff is allowed access to the production system and its information, it increases the risk of unauthorized alteration and deletion of live data.

Recommendation: We recommend the agency develop and implement separate development, testing, and production environments for the ICIS system.

- Development and operational software should, where possible, run on different computer processors or in different domains.
- Development and testing activities should be separated the best way possible.

Schedule of Findings Federal Award Findings And Questioned Costs

- Compilers, editors, and other system utilities should not be accessible from operational systems.
- Different log-on procedures should be used for operational and test systems to reduce the risk of error. Users should be encouraged to use different passwords for these systems, and menus should display appropriate identification messages.
- Development staff should only have access to operational passwords where controls are in place for issuing passwords for the support of operational systems. Controls should ensure that such passwords are changed after use.

Management's Corrective Action Plan:

Contact Person: Leo Fortelney

Anticipated Completion Date: July 1, 2005

Corrective Action Planned: DMHSAS will implement separate development, testing and production environments for the ICIS software system. The method of implementation will address all the recommendations mentioned above.

REF NO: 03-452-005

STATE AGENCY: Department of Mental Health and Substance Abuse

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.959

FEDERAL PROGRAM NAME: Block Grants for Prevention and Treatment of Substance Abuse

FEDERAL AWARD NUMBER: 03B1OKSAPT

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Subrecipient Monitoring

Criteria: OMB Circular A-133, Section 400(d) *Pass-through entity responsibilities*, states, "A pass through entity shall perform the following...(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number...and name of Federal agency."

Condition: The ODMHSAS is not informing subrecipients of the CFDA title and number, award name and number and the name of the Federal agency. This exception was previously noted in fiscal years 1999 and 2002 audits.

In fiscal year 2002, management's corrective action stated: "The DMHSAS, as the primary grant recipient, will have a stamp made for each federal award that has subrecipients. The pertinent information listed above will be stamped on the face of the purchase order when it comes back from Central Purchasing and will be mailed to the contractor. This will inform the contractor of the nature and amount of the Federal funds that have been contracted or passed through."

However, it appears management's corrective action plan has not been implemented.

Effect: The lack of identification of the block grant's CFDA number and Federal awarding agency could result in the reporting of incorrect award information.

Recommendation: We recommend the Oklahoma Department of Mental Health and Substance Abuse Services identify the block grant's CFDA title and number, award name and number and the name of the Federal agency on the contract that is signed by the subrecipient's representative and by the contracting officer at ODMHSAS.

Management's Corrective Action Plan

Contact Person: Kelly Brewer

Anticipated Completion Date: July 1, 2004

Corrective Action Planned: ODMHSAS will include the CFDA information as an attachment to the SFY-05 contracts. A separate sheet will identify all Federal grants available for contracts, and the

Schedule of Findings Federal Award Findings And Questioned Costs

Contracts Division will indicate on the sheet which grants are being awarded. The information will be taken directly from the Contracts Request Worksheet, which assigns funding to the contract.

REF NO: 03-452-006

STATE AGENCY: Department of Mental Health and Substance Abuse

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.959

FEDERAL PROGRAM NAME: Block Grants for Prevention and Treatment of Substance Abuse

FEDERAL AWARD NUMBER: 03B1OKSAPT

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Subrecipient Monitoring

QUESTIONED COSTS: \$-0-

Criteria: OMB Circular A-133, Section 400(d) *Pass-through entity responsibilities*, states, “A pass through entity shall perform the following... (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

Condition: Facilities receiving SAPT block grant prevention funds have not received site visits during SFY 2003. Additionally, there are no written policy and procedures for monitoring prevention subrecipients.

Cause: The ODMHSAS employee responsible for monitoring the prevention subrecipients terminated June 28, 2002. This responsibility has not been re-assigned and no monitoring of prevention facilities has been performed.

Effect: The ODMHSAS has no assurance that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Recommendation: We recommend the Oklahoma Department of Mental Health and Substance Abuse develop policy and procedures for monitoring prevention subrecipients. Additionally, we recommend the Department ensure the responsibility of monitoring those subrecipients is assigned and performed in accordance with OMB Circular A-133.

Management's Corrective Action Plan

Contact Person: Larry A. Didier, Prevention Programs Coordinator

Anticipated Completion Date: The policy will be revised by April 16, 2004. The procedures, both for monitoring prevention programs and for conducting annual site reviews of all prevention programs, will be in place by May 14, 2004, to ensure implementation during the SFY 2005.

Corrective Action Planned: It is true that no site visits to prevention programs were performed in SFY 2003. Part of this was due to the continuing vacancy in the position that previously performed that function, as well as in the vacancy in the Prevention Program Coordinator's position until mid-August of 2002. Once that position was filled much of the emphasis was on revising the state's prevention system, following the development of a strategic plan for prevention services (completed in early 2003) and which is still being fully implemented. Policy for Monitoring Performance of prevention programs during this time page was located on page three of ADDENDUM E1 which, was attached to all prevention providers' contracts. Delays in initiating those contracts reduced the emphasis on that policy, and it also needs to be clarified and enhanced (see below.)

Department prevention staff (now consisting of approx. 2.5 FTE) will revise and enhance the policy for monitoring the state's ATOD prevention programs and will also enhance further develop the procedures to carry out site reviews in each program during SFY 2005.

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And Questioned Costs

Prevention staff have already initiated contact with several other states, requesting copies of their monitoring procedures and site review processes. This information will be used to enhance Oklahoma's procedures for both monitoring and for site reviews of prevention programs.

As noted above, much data has already been gathered from other states on their monitoring and site review processes. Prevention staff are reviewing these materials and will be integrating them into statewide policy and procedures to ensure adequate monitoring and a standardized and impactful site review process.

REF NO: 03-452-007

STATE AGENCY: Department of Mental Health and Substance Abuse

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.959

FEDERAL PROGRAM NAME: Block Grants for Prevention and Treatment of Substance Abuse

FEDERAL AWARD NUMBER: 03B1OKSAPT

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Special Tests and Provisions - Independent Peer Review

Criteria: 45 CFR Sec. 96.136 - Independent peer review, states:

- (a) The State shall for the fiscal year for which the grant is provided, provide for independent peer review to assess the quality, appropriateness, and efficacy of treatment services provided in the State to individuals under the program involved, and ensure that at least 5 percent of the entities providing services in the State under such program are reviewed. The programs reviewed shall be representative of the total population of such entities.
- (d) As part of the independent peer review, the reviewers shall review a representative sample of patient/client records to determine quality and appropriateness of treatment services, while adhering to all Federal and State confidentiality requirements, including 42 CFR Part 2. The reviewers shall examine the following:
 - (1) Admission criteria/intake process;
 - (2) Assessments;
 - (3) Treatment planning, including appropriate referral, e.g., prenatal care and tuberculosis and HIV services;
 - (4) Documentation of implementation of treatment services;
 - (5) Discharge and continuing care planning; and
 - (6) Indications of treatment outcomes.
- (e) The State shall ensure that the independent peer review will not involve practitioners/providers reviewing their own programs, or programs in which they have administrative oversight, and that there be a separation of peer review personnel from funding decision makers. In addition, the State shall ensure that independent peer review is not conducted as part of the licensing/certification process.
- (f) The States shall develop procedures for the implementation of this section and such procedures shall be developed in consultation with the State Medical Director for Substance Abuse Services.

Condition: The Department stated in their state Block Grant application, in response to goal #15 (pg. 23-1) there were sixty entities and ten had peer reviews performed for SFY 2002 yielding seventeen percent.

It appears, only six of the ten qualified as an independent peer review as described in 45 CFR Sec. 96.136 for the period of October 1, 2001 through September 30, 2002. Therefore, the ODMHSAS did meet the criteria of five percent of the entities providing services received reviews (six divided by sixty yields ten percent). However, we noted the following deficiencies:

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- Two of the six noted above, were not received and/or reviewed by the ODMHSAS.
- The ODMHSAS has no procedures for the independent peer reviews
- The ODMHSAS does not ensure the five percent reviewed are representative of the total population
- The ODMHSAS does not ensure the reviewers were independent.

Effect: The Department has no assurance the peer reviews they are using to meet the five percent requirement are independent or representative of the population. Additionally because the Department has not developed any procedures, they have no assurance the peer reviewers are employing appropriate tests to complete the reviews.

Recommendation: We recommend the Department develop policies and procedures to address the independent peer review process required by 45 CFR 96.136. As part of these policies and procedures, we recommend the Department develop a standard, peer review form to be used by all peer reviewers. This will ensure the consistency of the reviews and ensure the elements required by 45 CFR 96.136 are addressed. We also recommend the policies and procedures include a mechanism to ensure at least five percent of the providers receive a peer review each year and that the five percent is representative of the total population.

Management's Corrective Action Plan

Contact Person: Brian Karnes

Anticipated Completion Date: June 30, 2004

Corrective Action Planned: The Department of Mental Health and Substance Abuse Services (DMHSAS) and Oklahoma Substance Abuse Services Alliance (OSASA) reached an agreement that OSASA would facilitate an independent peer review within their membership. OSASA is currently a 50-member alliance comprised of non-profit substance abuse treatment agencies and prevention agencies. OSASA then began working with the New York Office of Alcoholism and Substance Abuse Services to develop an independent peer review format and certificate modeled after the New York program that was designed to meet SAPT block grant independent peer review requirements. OSASA completed development of the independent peer review format in 2003 and began reviewing programs in December 2003. A memorandum of understanding will be developed between DMHSAS and OSASA ensuring compliance with 45 CFR §96.136. In Fiscal Year 2005, DMHSAS will expand the peer review process to include agencies who are not members of OSASA. DMHSAS will develop a review format and certificate similar to the OSASA model. DMHSAS will monitor the peer review process by requiring agencies to provide certification as part of the contract process for treatment services. DMHSAS procedures regarding independent peer reviews should be implemented by the end of Fiscal Year 2005.

REF NO: 03-452-008

STATE AGENCY: Department of Mental Health and Substance Abuse

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.959

FEDERAL PROGRAM NAME: Block Grants for Prevention and Treatment of Substance Abuse

FEDERAL AWARD NUMBER: 03B1OKSAPT

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Activities Allowed or Unallowed

Criteria: According to 45 CFR 96.30,

Fiscal and administrative requirements. (a) Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting

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procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

The ODMHSAS – Integrated Client Information System (ICIS) manual describes Prevention Services as Information, Education, Community Based Services, Alternatives, Environmental and Early Problem Recognition and Referral. The descriptions imply these activities to be project oriented. This could include seminars, health fairs, hotlines, etc.

Condition: Subrecipients are not required to submit documentation that supports the activities charged on the prevention invoices. They enter units of time, which are paid at a specified dollar amount per unit, into the ICIS system. However, prevention expenditures are not direct services provided to a client.

Effect: The Department has no assurance that expenditures are for allowable activities if there is not proper supporting documentation.

Recommendation: We recommend the Department require subrecipients to submit proper supporting documentation for prevention charges, rather than using a fee for service structure.

Management's Corrective Action Plan

Contact Person: Larry A. Didier, Prevention Programs Coordinator

Anticipated Completion Date: May 28, 2004 with initiation of new reporting process in SFY 2005, beginning July 1, 2004.

Management's Corrective Action Plan: Department staff have been gathering various reporting procedures on prevention programs from a number of other states. Filling the vacant prevention specialist position with a highly competent professional familiar with the Oklahoma prevention system will allow additional time and energy to be directed to resolving deficiencies in the reporting system. It is anticipated that this will result in an adjustment to the semi-annual reports required of all providers, with a focus on the three areas of prevention measures identified at the national level by the Center for Substance Abuse Prevention and national consultants. (See below for more complete description of that process.)

Coupled with the continued financial statements through the ICIS system, as well as a rejuvenated site review process, we anticipate that this will lead to a higher level of documentation of the results of prevention services being provided to Oklahoma's communities, youth and families.

Within the next two months, the Department's prevention staff will accomplish the following:

1. Identification of key outcome measures for all prevention programs, based on the developing "Performance Partnership Programs process. The three areas of measurement will include the following:
 - a. CAPACITY measure (at the statewide level) including:
 1. Levels of coalition building at the local level. A recently initiated Community Mobilization Training effort will enhance the capacity and effectiveness of Oklahoma's coalitions and community mobilization efforts;
 2. Workforce development issues are being addressed by a providers' planning group to identify training needs and skills development issues. This effort was initiated as part of the prevention unit's efforts to complete a statewide strategic plan;
 3. Enhancement of the state's capacity to collect information through advanced technology. Most states are collecting information from providers electronically

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- but we are just beginning to assess our capacities in this area and beginning to survey what other states are doing in this area;
4. Increasing our ability to collect prevention needs assessment at a local level, to ensure that prevention efforts address most salient community needs, enhancing their rate of success. Department prevention staff are just now initiating a prevention needs assessment survey in approximately 90 school sites, plus identifying the existing data bases measuring prevention needs;
 5. Putting more emphasis on research-supported programs and principles to ensure the success of prevention efforts at the local level
- b. PROCESS measures, which will be collected through the ICIS process and through the semiannual and annual reports completed by prevention providers. Specific data to be collected will include:
1. Name and type of program, number of prevention services rendered, service type by strategy and by type of service
 2. Demographic information on populations served, including age, gender, race/ethnicity, and number of participants
- c. OUTCOME measures, collected by local programs, to include many of the following (NOTE: revised contract application process (see attached) requires that local prevention providers do careful assessment of community needs and then report on progress to meeting those needs in their semi-annual and annual reports. These measurable outcomes are most often referred to as “risk and protective factors” that research demonstrates predict higher or lower levels of alcohol, tobacco and drug (ATOD) abuse among adolescents and young adult, as well as a number of other problem behaviors. For examples of these measures, see PERFORMANCE OUTCOME MEASURES of the contract application (pp. 24 and 25.)

The above effort was actually initiated, in small part, in the contract application process for SFY 2004. For this year’s applications it has been enhanced, the prevention workforce has been more completely trained and prepared, and the resulting applications are much advanced (in nearly all cases) from last year’s. This will lead to more effective reporting procedures being developed and utilized by providers, and then delivered to the Department.

Additionally, the Department will evaluate the fixed rates paid to providers and adjust the rates accordingly. The basis for the fixed rates will be supported by an analysis of the unit cost reports or utilization of other methods of obtaining cost information.

REF NO: 03-452-009

STATE AGENCY: Department of Mental Health and Substance Abuse

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.959

FEDERAL PROGRAM NAME: Block Grants for Prevention and Treatment of Substance Abuse

FEDERAL AWARD NUMBER: 03B1OKSAPT

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Subrecipient Monitoring

QUESTIONED COSTS: \$-0-

Criteria: OMB circular A-133, Section 400(d) Pass– through entity responsibilities, states: A pass–through entity shall perform the following for the Federal awards it makes:

- (3) Monitor the activities of subrecipient as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

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(4) Ensure that subrecipients expending \$300,000 or more in Federal awards during subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Condition: The following was noted on review of 15 subrecipient audit reports:

- Three facilities failed to submit their independent audit report by the submission date required by OMB Circular A-133. Four facilities' had not submitted their 2002 audit report as of March 12, 2004.
- The *Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and Opinion on the Supplementary Schedule of Expenditures of Federal Awards* was not signed by the independent auditor for one audit report.
- The Oklahoma Department of Mental Health and Substances Abuse Services (DMHSAS) has not performed a formal and final review of all 15 facilities, however, ten have received a preliminary review.

Effect: The Department has no assurance that subrecipient's awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements without current audit reports for each subrecipient and proper review of these audit reports by DMHSAS.

Recommendation: We recommend the Department ensure all audit reports are received and complete its review of the facilities audit report in a timely manner.

Management's Corrective Action Plan

Contact Person: Lonnie Yearwood

Anticipated Completion Date: September 30, 2004

Corrective Action Planned: The Department is in agreement with the findings stated above and has started the process of hiring an additional audit staff person. It is expected that this person, along with existing staff, will provide the means to monitor the timely receipt of reports and to perform timely reviews of the reports. The new staff person should be hired sometime in April or May 2004.

Department of Rehabilitation Services

REF NO: 03-805-001

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: Department of Education

CFDA NO: 84.126

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Grants to States

FEDERAL AWARD NUMBER: H126A-020053, H126A-030053

FEDERAL AWARD YEAR: FFY 2002, FFY 2003

CONTROL CATEGORY: Cash Management

QUESTIONED COSTS: \$-0-

Criteria: According to the Cash Management Treasury-State Agreement (the Agreement) for State Fiscal Year 2003 funds are to be drawn according to the following funding techniques:

- Medical/Pharmacy
 - Actual Clearance for ACH payments;
 - Average Clearance for warrants (9.32 days)
- Maintenance/Transportation
 - Average Clearance (9.32 days)

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- Administrative, non-payroll and Non-medical client services
 - Payment Schedule – Variance 3 - The State shall request funds such that they are deposited in the State account on the fifteenth (or closest working day prior to the 15th) to fund the costs incurred during that period. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be an estimate based on actual payments of the prior month and adjusted to actual on a quarterly basis.
- Payroll
 - Average Clearance (9.32 days)

Condition: We reviewed an Office of State Finance report of all deposits coded with a CFDA of 84.126 for the time period of July 1, 2002 through June 30, 2003. The report consisted of 35 deposits totaling \$38,545,450. With the exception of one deposit, all were for whole amounts (e.g. \$1,000,000). Which indicates the Department is not drawing funds in accordance with the funding techniques prescribed in the Treasury-State Agreement.

Furthermore, documentation to support the individual amounts requested could not be provided to our office.

Management also stated they were not in compliance with the requirements of the Treasury-State Agreement. This is a repeat finding from fiscal years 1999, 2000, 2001, and 2002.

Effect: By not following the Cash Management Treasury-State Agreement, the Department could have drawn funds earlier than they were entitled, which could cause an interest event, or used State funds when Federal funds were available.

Recommendation: We recommend the Department establish and implement internal control procedures to ensure all applicable personnel are aware of the Treasury-State Agreement requirements and that draws made by the Department are in accordance with the Agreement. Also, if necessary, we further recommend the Department revise the Agreement to better fit the Department's needs.

Management's Corrective Action Plan

Contact Person: Kevin Statham, Accountant

Anticipated Completion Date: July 1, 2003

Corrective Action Planned: The Department concurs with the finding. Applicable personnel are aware of the CMIA requirements. Data available to fully meet the agreement's requirements was unattainable. The CMIA Agreement has been modified effective July 1, 2003.

REF NO: 03-805-002

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: Social Security Administration

CFDA NO: 96.001

FEDERAL PROGRAM NAME: Social Security – Disability Insurance

FEDERAL AWARD NUMBER: 0204OKDI00, 0304OKDI00

FEDERAL AWARD YEAR: FFY 2002, FFY 2003

CONTROL CATEGORY: Cash Management

QUESTIONED COSTS: \$-0-

Criteria: According to the Cash Management Act (31 CFR 205.33)

- a) A State must minimize the time between the draw down of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accordance with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The

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timing and amount of each funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportional share of any allowable indirect costs. . . .”

Condition: Department personnel stated amounts drawn are an estimate based on a monthly expenditures report. To verify this procedure, we requested the supporting documentation for three draws made in the month of March 2003. The Department was unable to provide the documentation. As a result, we are unable to ensure the amounts drawn are for immediate cash needs.

Effect: The Department may not be drawing for immediate cash needs.

Recommendation: We recommend the Department establish and implement internal control procedures to ensure all applicable personnel are aware of the Cash Management Act requirements and that draws made by the Department are for immediate cash needs and each draw is supported by accounting records.

Management's Corrective Action Plan

Contact Person: Kevin Statham, Accountant

Anticipated Completion Date: July 1, 2003

Corrective Action Planned: The Department concurs with the finding. Applicable personnel are aware of the CMIA requirements. Data available to fully meet the agreement's requirements was unattainable. The CMIA Agreement has been modified effective July 1, 2003. This modification has taken into account the Department's needs as well as the availability of existing data for supporting documentation.

REF NO: 03-805-003

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: Department of Education

CFDA NO: 84.126

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Grants to States

FEDERAL AWARD NUMBER: H126A-020053, H126A-030053

FEDERAL AWARD YEAR: FFY 2002, FFY 2003

CONTROL CATEGORY: Reporting

Criteria: The instructions to the SF-269 report states:

Line 10.a. Enter total gross program outlays. . . . For reports prepared on an accrual basis, outlays are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect costs incurred, the value of in-kind contributions applied, and the net increase or decrease in amounts owed by the recipient for goods and other property received, for services performed by employees, contractors, subgrantees, and other payees and other amounts becoming owed for which no current services or performance is required, i.e., annuities, insurance claims, and other benefit payments.

Line 11.a. Self-explanatory.

Line 11. b. Enter the indirect cost rate in effect during the reporting period.

Line 11.c. Enter the amount of the base against which rate is applied.

Line 11.d. Enter the total amount of indirect costs charted during the report period.

Line 11.e. Enter the Federal share of the amount in 11.d.

Condition: During our documenting and testing of controls relating to the SF-269 reports, we noted the following items:

- The amount being reported on line 10.a of the SF-269 report is derived from the “Warrants Issued” report, which is not reconciled on a monthly basis. Instead, Department personnel

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reconciles the report on an annual basis to the total amount reported on the RSA-2 Report. Once the SF-269 has been reconciled, the September quarter's report is amended so that the two reports' totals will agree. The SF-269 for the quarter ending September 30, 2002 (federal grant period October 1, 2001 through September 30, 2003) was adjusted for \$1,363,930 based on this reconciliation. Department personnel was unable to provide accounting records to support this adjustment.

- Line 11 on all SF-269 quarterly reports submitted during SFY 2003 (July 1, 2002 through June 30, 2003) did not contain any reported indirect costs. However, the Department does have an approved indirect cost rate and did incur indirect costs during SFY 2003.
- The following accounts and location codes were being included in the expenditure amount reported each quarter and should not have been:
 - 2313/30982 – In-Service Training
 - 2313/30241 – Services to Groups
 - 2313/30243 – Interpreter Services

These expenditures that are being included in the SF-269 expenditure amount are not being included in the RSA-2 amount, so DRS appears to be accounting for this error when it reconciles the reports. As a result, we will not question any costs; however, these expenditures should not have been reported on the original quarterly reports so each one is misstated until the reconciliation occurs.

Effect: The amounts reported on the quarterly SF-269 might not properly reflect the total cash disbursements for the quarter.

Recommendation: We recommend the following:

- The Department ensure the total outlays reported on each quarterly SF-269 are accurate. To facilitate this, all necessary adjustments to the Warrants Issued report should be made on at least a quarterly basis, preferably monthly.
- The Department no longer include the In-Services Training, Services to Groups, and Interpreter Services line items in the amount reported on the quarterly SF-269.
- The Department maintain accounting records to support the adjustments made to the Warrants Issued report.
- The Department begin reporting indirect costs on the quarterly SF-269 reports.

Management's Corrective Action Plan

Contact Person: Kevin Statham, Accountant

Anticipated Completion Date: Second quarter of SFY 2004

Corrective Action Planned: The Department concurs with the finding. All applicable reporting requirements have been met with the Fourth Quarter SF-269 filing. Accuracy regarding quarterly reports has been addressed and data is available to provide accurate and timely filing of the SF-269. The new compilations were completed and available during the Second Quarter of SFY-2004.

REF NO: 03-805-004

STATE AG-NCY: Department of Rehabilitation Services

FEDERAL AGENCY: Social Security Administration

CFDA NO: 96.001

FEDERAL PROGRAM NAME: Social Security – Disability Insurance

FEDERAL AWARD NUMBER: 0204OKDI00, 0304OKDI00

FEDERAL AWARD YEAR: 2002 and 2003

CONTROL CATEGORY: Reporting and Allowable Costs/Cost Principles

QUESTIONED COSTS: Unknown

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Criteria: OMB Circular A-87 Attachment B 11.d.3 states, “When a government unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the government unit or component.”

OMB A-87 Attachment B 11.h.3 states “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.”

Condition: During our testing of the SSA-4513 “State Agency Report of Obligations for SSA Disability Programs”, we noted the Department included terminal leave of \$25,903.52 when reporting personnel service costs for the 2003 grant. Therefore, personnel services costs are overstated. Only an allocated portion of the costs can be charged to the program.

During payroll testing procedures for DDD, we noted the Department does not maintain Certifications on employees charged directly (solely) to the program.

Effect: Persons may be charged directly to a program, when in fact they perform functions for multiple programs.

Recommendation: We recommend the Department allocate terminal leave as an indirect cost. In addition, the Department should recalculate the indirect costs of the program excluding termination leave from the base. The Department should also ensure certifications are maintained for employees charged directly to a program.

Management’s Corrective Action Plan

Contact Person: Bill Austin, Budget & Finance Unit

Anticipated Completion Date:

Corrective Action Planned: In May 2003 Terminal Leave was computed at \$25,903.52; therefore, we concur that the 3rd Quarter SSA-4513 reflected as Personnel Services Costs an overstatement of \$25,903.52. However, after review of relevant data for the period in question (October 1, 2002 to June 30, 2003), it has been determined that the correct amount of Terminal Leave was \$26,959.94. Therefore, an adjustment has been made to reduce Personnel Service Costs by \$25,903.52. In addition, an additional adjustment of \$1,056.42 was made to further reduce Personnel Service Costs for FFY 2003. These adjustments have been made to the current quarter’s (1/1/04 to 3/31/04) data.

In addition, the Indirect Costs for FFY 2003 have been corrected to reflect the correct base amount.

Regarding certifications, originally we had stated June 30, 2003 as the anticipated certification date. Upon review of the process for distribution and retrieval of the certifications, the date of January 30, 2004 is more reasonable for the first semi-annual certification.

REF NO: 03-805-005

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: Social Security Administration

CFDA NO: 96.001

FEDERAL PROGRAM NAME: Social Security – Disability Insurance

FEDERAL AWARD NUMBER: 0204OKDI00, 0304OKDI00

FEDERAL AWARD YEAR: FFY 2002, FFY 2003

CONTROL CATEGORY: Reporting

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Criteria: According to DI 39506.231 “Preparation Instructions for Form SSA-4514”:

A. Description of Form SSA-4514

The Form SSA-4514 is used to report the number of hours worked by staffing category and employment status (i.e., full-time, part-time, temporary). This report should reflect all hours worked by personnel engaged in the SSA disability program during the reporting period.

C.2. Procedure – Report Column, Column B (Holiday and Leave Hours)

For each staffing category listed under lines 1-3 (full-time, part-time, and temporary), enter the hours for holidays observed by the State agency and for sick, annual or other paid leave (e.g., lump sum leave, military leave, etc.). The entries in this column should include the proportionate share of holidays and leave time of the regular staff of the agency who worked part-time on the SSA disability program

Also, Circular A-133 states in part that internal controls should provide reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable federal reports and to demonstrate compliance with laws, regulations and other compliance requirements.

Condition: We tested fifty-five (55) individuals whose hours were included in the “Time Report of Personnel Services For Disability Determination Services” (Form SSA-4514) for the quarter ending 6/30/03. During our testing we noted that nine (9) individuals leave hours did not agree with their timesheets. As a result, the hours reported on the SSA-4514 are misstated, although, because some hours were over reported and some under reported, the net difference in hours was only 10.75.

Cause: It appears timesheet information was transferred to the “Unit Time Report” which was then incorrectly transferred to the Monthly Time Report (Excel Spreadsheet).

Effect: Information reported on the quarterly SSA-4514 report may be inaccurate.

Recommendation: We recommend the Department establish and implement internal control procedures to ensure information reported on the SSA-4514 report is accurate. Also, we recommend the timesheet information be transferred directly to the Monthly Time Report, therefore removing the Unit Time Report from the process and reducing the possibility for keying errors.

Management’s Corrective Action Plan

Contact Person: Noel Tyler, Division Administrator

Anticipated Completion Date: November 1, 2003

Corrective Action Planned: DDD implemented procedures effective 11/01/2003 which assures the leave hours reported on the Monthly Time Report are the same as the leave hours that are reported on the timesheet. We will take under advisement the recommendation to transfer leave hours directly from the timesheet to the Monthly Time Report

REF NO: 03-805-007

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: Department of Education

CFDA NO: 96.001

FEDERAL PROGRAM NAME: Social Security – Disability Insurance

FEDERAL AWARD NUMBER: 0204OKDI00, 0304OKDI00

FEDERAL AWARD YEAR: FFY 2002, FFY 2003

CONTROL CATEGORY: Reporting

Criteria: Instructions for the SSA-4513 “State Agency Report of Obligations For SSA Disability Programs” states, “DDSs must report...all indirect costs that the State government has charged against the disability program for costs incurred during the period covered by the report. This should include the

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stated dollar amount or the amount derived by applying to the specified base the percentage authorized in the State department or parent agency's approved indirect cost proposal."

Condition: During our testwork of the SSA-4513 report for the quarter ending 6/30/03, we were unable to determine if the correct amount of indirect costs were reported. The base amount used to calculate the indirect costs could not be traced to the Department's accounting records.

Effect: The Department's SSA-4513 report may be misstated.

Recommendation: We recommend the Department maintain support for the distribution base used to calculate the indirect costs reported on the SSA-4513 report.

Management's Corrective Action Plan

Contact Person: Bill Austin, Budget & Finance Unit

Anticipated Completion Date: February 2004

Corrective Action Planned: Reviewed the Indirect Cost Computations schedule for the FFY 2003. For support of the Agency's reporting of Indirect Costs this schedule has been developed and brought up-to-date. A copy of this schedule has been provided to the State Auditor's office.

REF NO: 03-805-008

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: Department of Education

CFDA NO: 84.126

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Grants to States

FEDERAL AWARD NUMBER: H126A-020053, H126A-030053

FEDERAL AWARD YEAR: FFY 2002, FFY 2003

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

Criteria: OMB Circular A-87, Attachment A, Section C.1.j. states:

To be allowable under Federal awards, cost must meet the following general criteria:

...Be adequately documented.

Also, OMB Circular A-87, Attachment C, Section C.2.c. states:

The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.

In addition, a component objective of an internal control system is to provide accurate and reliable information.

Condition: During our testing of the RSA-2 Annual Vocational Rehabilitation Program/Cost Report, Department personnel was unable to provide us with accounting records to support the amount reported as indirect costs (Line 1.b Total Administration – Indirect Costs.)

As part of our audit procedures, we obtained claim data to support the internal financial statements (source documents for the SEFA) and claim data to support the RSA-2. As part of our audit procedures we joined the two sets of claim data using the claim number to ensure claims were in both sets of data. We noted approximately 23 claims in which all or part of the claim was charged to the VR program in the federal reporting data, but in a separate program in the financial statement data.

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For example, claim #310702 total expenditures was \$1,340.29, below is documentation of how the claim was charged in the two sets of data:

Financial Statement Data				Reporting Data	
<u>Acct/Location</u>				<u>Account</u>	
2313/30890	(VR	Client	\$1,127.04	02 – Basic Support	\$213.25
	Services)				
2314/31890	(VS	Client	<u>\$213.25</u>	98 – Interpreter Services	<u>\$1,127.04</u>
	Services)				
Total			<u>\$1,340.29</u>		<u>\$1,340.29</u>

The net effect of this error is that in the Federal Reports only \$213.25 is reported under the Vocational Rehabilitation Program, but in the Financial Statements (SEFA) the entire \$1,340.29 is reported under the program.

In addition, we also reconciled the payroll amount reported on the RSA-2 Annual Report to DRS' Internal Financial statements and noted a \$1,021,447.50 (or 6%) variance.

Effect: The amounts reported on the annual RSA-2 reports may be misstated.

Recommendation: We recommend the following:

- The Department maintain records to support all amounts reported on the RSA-2 Annual Vocational Rehabilitation Program/Cost Report.
- The Department strive towards establishing one single data set for financial and federal data to ensure consistency between reports. However, until this occurs, the Department should establish and implement procedures to ensure the coding of the claims to the federal program is constant between its data sets.
- The Department reconcile the PY065 (Payroll Summary Worksheet) to its financial statements to ensure amounts reported are correct.

Management's Corrective Action Plan

Contact Person: Kevin Statham, Accountant

Anticipated Completion Date:

Corrective Action Planned: The Department concurs with the essence of the finding. The multiple classifications of data have been a cause of delays in reporting for many years. The Federal Accounting Unit has strived to improve the reporting documentation that is available. The claim in question, #310702, also involved a claim history change that altered the financial statement reports but the federal coding was not corrected. The Unit has identified reports that allow data to be reconciled between the financial statements and federal coding. The transition away from relying on the manual federal coding reports has already taken place. The PY-065 payroll data is being phased out for reports that provide more succinct data progressively during the month. The Department will further review the FFY-2202 RSA-2 and determine if any adjustments are necessary. The review will be completed prior to the submission of the third quarter report.

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REF NO: 03-805-009

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: Department of Education

CFDA NO: 84.126

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Grants to States

FEDERAL AWARD NUMBER: H126A-020053, H126A-030053

FEDERAL AWARD YEAR: FFY 2002, FFY 2003

CONTROL CATEGORY: Period of Availability

QUESTIONED COSTS: \$11,135

Criteria: The OMB Circular A-133 Compliance Supplement states, “Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period...”

34 CFR Section 76.707 (d) states: “If the obligation is for performance of work other than personal services, the obligation is made on the date on which the State or subgrantee makes a binding written commitment to obtain the work.

Condition: During testing of 101 claims, we noted eleven (11) claims obligated against the federal fiscal year 2001 grant were paid with funds from the federal fiscal year 2002 grant. We also noted two claims obligated against the federal fiscal year 2002 grant were paid with funds from the federal fiscal year 2003 grant.

Effect: Prior year obligations were paid with current year funds.

Cause: At the time the services were rendered for these thirteen claims, the grant award against which the obligation was made had been exhausted.

Recommendation: We recommend the Department charge to each fiscal year’s federal award only costs resulting from obligations incurred during the funding period.

Management’s Corrective Action Plan

Contact Person: Kevin Statham, Accountant

Anticipated Completion Date:

Corrective Action Planned: The Department does not fully concur with this finding. The Department recognizes that the way the carryover expenditures are reported could cause certain expenditures to look out of place. Carryover dollars are drawn prior to subsequent grant years being utilized. The Department places emphasis on budget amounts being in alignment with revenues to prohibit over encumbering or spending of funds. The Department further acknowledges that all federal reports and activity are on a cash basis. To alter the accounting methods to include unliquidated obligations on expenditures would deviate from the established accounting practice of the Agency. The Department feels the reporting and subsequent request for reimbursement of federal funds utilizes consistent accounting practices under a cash basis model. However, the Department will review the overall approach to accounting for Carryover dollars.

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REF NO: 03-805-010

STATE AG-NCY: Department of Rehabilitation Services

FEDERAL AGENCY: Department of Education

CFDA NO: 84.126

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Grants to States

FEDERAL AWARD NUMBER: H126A-030053

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Allowable Costs/Cost Principles

QUESTIONED COSTS: Unknown

Criteria: OMB Circular A-87 Attachment B 11.d.3 states, “When a government unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the government unit or component.”

OMB Circular A-87 Attachment B 11.h.3 states, “Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.”

OMB Circular A-87, Attachment E, includes the following definition: "Base" means the accumulated direct costs used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs."

Condition: During testing of direct payroll expenditures, we noted the Department included terminal leave of \$62,620.27 when reporting personnel service costs for the 2003 grant. As a result, personnel services costs are overstated. In accordance with OMB Circular A-87, only an allocated portion of these costs can be charged to the program. We also noted the Department does not obtain certifications for employees charged directly (solely) to the program.

In addition, while testing the base amount (direct costs) used to calculate the indirect cost reported for the Vocational Rehabilitation Grants to States program we noted the Department included \$3,593,934 in costs not directly related to the program in the base amount. We also noted that \$85,284 in costs paid in state fiscal year 2003, but paid with state fiscal year 2002 funds, were included in the calculation twice. These items resulted in an overstatement of \$300,920 on the Schedule of Expenditures of Federal Awards.

Effect: Unallowable costs may be charged to the federal award.

Recommendation: We recommend the Department:

- Allocate terminal leave as an indirect cost.
- Ensure certifications are obtained for employees charged directly to a federal program.
- Ensure only Vocational Rehabilitation Grants to States direct costs are being included in the base amount and those amounts are only recorded once. In addition, the Department should recalculate the indirect costs of the program excluding termination leave from the base and the unrelated vocational rehabilitation areas and revise the SEFA accordingly.

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Management's Corrective Action Plan

Contact Person: Kevin Statham, Accountant

Anticipated Completion Date:

Corrective Action Planned: The Department concurs with the finding. The steps to include Terminal Leave in the IC Calculation have taken place. Certification of employees charged to the grant has been addressed in a prior year finding and response, #02-805-008. The Department will further review the SEFA and submit adjustments as necessary. The review will be completed prior to the submission of the third quarter report.

Department of Transportation

Reference numbers 03-345-002, 03-345-004, 03-345-007, 03-345,014, 03-345-018, and 03-345-021 are findings regarding information system controls, policies, and security. These findings relate to both the financial statements and to federal awards received from the U.S. Department of Transportation under CFDA 20.205, Highway Planning and Construction. The detail of these findings may be seen in the section Schedule of Findings, Financial Statements Findings (Internal Control and Compliance).

REF NO: 03-345-017

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: The Information Systems Audit and Control Association management guidelines, Control Objectives for Information Technology (CobiT) Delivery and Support objective #11, states that management should ensure that data remains complete, accurate and valid during its input, update, and storage.

Condition: Our review of the weekly process to transfer data from the Financial Management System to the Project Funding System and subsequent creation of the weekly billing to the Federal Highway Administration (FHWA) found the procedures to be inadequate in ensuring the transfer was complete. In addition, the data processing and tracking techniques used to calculate the weekly billing to the FHWA does not prove data processing continuity either in number or records or dollar amounts between the source information used to create the billing and the final amount billed to FHWA. After several attempts by Comptroller Division staff, it was determined that the final amount billed to FHWA cannot be reconciled to the source information used to create the billing. The weekly FHWA billing sampled contained a reconciling difference of \$224,845.35.

Effect: A weak internal control structure has increased the risk of inaccurate federal funds billing and reporting. The internal control structure is weakened. Data loss could occur during the process. This loss may not be discovered and corrected.

Recommendation: We recommend the Department of Transportation adopt a procedure for monitoring information systems, to include controls to ensure the completeness, validity, and accuracy of source information used to create the FHWA billing. This would entail matching system reports to relevant control totals at the onset of processing. These beginning totals, once validated, should be carried forward and reconciled with adjustments for proven processing shown by system reporting. The beginning totals, adjusted for this processing should agree with the amounts billed to FHWA. To implement such controls, the Department of Transportation should consider implementing documented error procedures that include:

- Accuracy checks
- Completeness and authorization checks

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- Date input error handling
- Data processing integrity
- Data processing data error handling.
- Correction and resubmission of errors require approval
- Assign individual responsibility for suspense files, generate reports for non-resolved errors
- A suspense file prioritization scheme be available based on age and type of error.

Management's Corrective Action Plan

Contact Person: David Ooten / Mike Patterson

Anticipated Completion Date:

Corrective Action Planned: ODOT's ERP, in support of the CORE project, will address these concerns and is to be considered for funding in FY05. Manpower constraints, due to staff reductions and focus on implementing CORE project deadlines and procedures, do not allow ISD to make internal programming enhancements. Comptroller Division personnel are actively monitoring data transfer.

REF NO: 03-345-020

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: The Information Systems Audit and Control Association management guidelines, Control Objectives for Information Technology (CobiT) Delivery and Support objective #11, states that management should ensure that data remains complete, accurate and valid during its input, update and storage.

Condition: ODOT does not document proactive procedures to ensure ODOT disbursements for active projects are billed to Federal Highway Administration (FHWA) as soon as possible. We noted from data extracted from the ODOT Project Funding System (PFS) on April 18, 2003 there were 2,609 suspended transactions with open (active) PFS project stages (2,3,4,5 & 6) totaling approximately \$31 million in disbursements. Some of that amount may be potentially billable to FHWA. According to Fiscal Year 2003 financial statements, this amount is at least \$8,803,000.

Effect: There may be a negative impact on ODOT cash flow due to slow billing and reimbursement of federally participating projects.

Recommendation: Management should review this matter with the Comptroller's Division and determine whether cash flows are being appropriately managed. We also recommend that the Comptroller's Division develop documentation of the process used to monitor and manage the Project Funding System and its impact on agency cash flow.

Management's Corrective Action Plan

Contact Person: Mike Patterson

Anticipated Completion Date:

Corrective Action Planned: The Comptroller Division will document quarterly the effort to monitor the items in suspense. This process will begin in June 2004.

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REF NO: 03-345-044

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Davis-Bacon Act

Criteria: 29 CFR § 5.5 states:

...The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls...

OMB Circular A-133 Subpart C § 300(b) and (c) state:

The auditee shall: Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Condition: Oklahoma Department of Transportation Construction Control Directive Number 971114 which has been approved by the Federal Highway Administration, states, "Payrolls should be received within two weeks of the end of the payroll period..." This does not comply with 29 CFR § 5.5.

Effect: Payrolls are not being submitted according to 29 CFR § 5.5. The Department policy does not comply with the Davis-Bacon Requirement.

Recommendation: We recommend that the Department review its policy as described in Control Directive Number 971114 and determine what changes may need to be made.

Management's Corrective Action Plan

Contact Person:

Anticipated Completion Date:

Corrective Action Planned: Non-Concur. Construction Control Directive No. 971114 states that the payroll "should" be received within two weeks of the end of the payroll period, which allows a lag time of two weeks for the payrolls to be complied by the contractor and delivered (primarily by mail) to the construction residency. The CFR requires that the payrolls be submitted weekly, but offers no mandate that it must be received by the Department the following week. If work is occurring on the project every week, then the payrolls would be submitted weekly, but with a two week lag time which is not a contradiction with the CFR requirement for Davis-Bacon.

Auditor Response: In addition to the above, 29 CFR 3.3(b) states in part... "Each contractor or subcontractor engaged in the construction, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period."

Also, 29 CFR 3.4(a) states in part... "Each weekly statement required under Sec. 3.3 shall be delivered by the contractor or subcontractor, within seven days after the regular payment date of the payroll period..."

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REF NO: 03-345-045
STATE AGENCY: Department of Transportation
FEDERAL AGENCY: Department of Transportation
CFDA NO: 20.205
FEDERAL PROGRAM NAME: Highway Planning and Construction
CONTROL CATEGORY: Davis-Bacon Act

Criteria: 29 CFR § 5.6 states:
...investigations shall include interviews with employees...

Oklahoma Department of Transportation Construction Control Directive Number 971114 states:
...Interview project workers periodically as to hourly rate of pay and compare to the payrolls to ensure that at least, the minimum hourly rate is paid...a minimum of ten percent of all workers shall be interviewed during the course of the project...

Condition: Thirteen project files of 25 tested did not document that ten percent of employees were interviewed during the course of the project.

Cause: Personnel comments indicate that they do not have the resources to perform interviews as required by policy.

Effect: Project workers may not have been interviewed to ensure that the minimum hourly rate was paid. No evidence exists to document whether the Department is following Construction Control Directive Number 971114.

Recommendation: We recommend the Department ensure that project workers are interviewed as directed by the Oklahoma Department of Transportation Construction Control Directive Number 971114. We also recommend the Department implement procedures to monitor compliance with Control Directive Number 971114.

Management's Corrective Action Plan

Contact Person: George T. Raymond, Construction Division

Anticipated Completion Date:

Corrective Action Planned: Non-Concur. Construction Control Directive No. 971114 states that a minimum of ten percent of all workers "should" be interviewed during the course of the project. The SA&I Finding incorrectly quoted the Directive as stating that ten percent of all workers "shall" be interviewed. The Directive also states that interviews "should" be conducted weekly for the first two or three weeks and one per month thereafter "should" be conducted. There is no frequency defined in the Directive that requires what "shall" be required. Further, there is no required interview frequency defined in the CFR. NOTE: Construction Control Directive No. 971114 will be revised in the future to clarify the required interview frequency that "shall" be required for various types and sizes of projects.

REF NO: 03-345-046
STATE AGENCY: Department of Transportation
FEDERAL AGENCY: Department of Transportation
CFDA NO: 20.205
FEDERAL PROGRAM NAME: Highway Planning and Construction
CONTROL CATEGORY: Davis-Bacon Act
QUESTIONED COSTS: \$-0-

Criteria: 29 CFR § 5.5 states:
...The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls...

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Condition: Thirty project files of 65 tested did not have payrolls present for each week worked. Fifteen of 40 project files tested included payrolls that were received after seven days from the payroll date.

Effect: The Department has no assurance that contractors responsible for program compliance have acted in accordance with the Davis-Bacon Requirement.

Recommendation: We recommend that the Department ensure payrolls are submitted as required.

Management's Corrective Action Plan

Contact Person: George T. Raymond, Construction Division

Anticipated Completion Date:

Corrective Action Planned: Non-Concur. First, there is no requirement in the CFR that payrolls must be received within seven days of the payroll date, as detailed in the response to Audit Finding 03-345-044. Second, the Department is monitoring and assuring that contractors have acted in accordance with the Davis-Bacon requirements, albeit with varying levels of success between projects, contractors, and construction residencies. One example is project STPY-55A(739) which was reported as not in compliance. Attached is a copy of a check list and correspondence sent to the contractor by the construction residency which was the result of the Department's monitoring of payrolls received and the attempt to assure compliance. This project had progressive payments withheld from the contractor in an attempt to assure compliance. Another example is project IMY-40-4(381)199 which was also cited. The audit indicated that 146 weekly payrolls were required in the project file as a result of the monitoring efforts of the Department. So, the Department does have procedures to monitor and assure compliance.

Note: To enhance the monitoring of Davis-Bacon requirements on construction projects, the Department will discuss this issue at the Resident Engineers' Academy on March 9, 2004. Further, there are still plans to conduct a half-day training session for residency personnel who manage the receipt of payrolls and their supervisors (was planned for last year but was not conducted). The training will include examples of successful procedures in use for their consideration for implementation in their offices. Additionally, the Department is evaluating the CHAMPS software (or alternate program), which will interface with the SiteManager program currently being implemented. The software would provide for electronic submission of payrolls from the contractor to the Department, their analysis for completion, verification of data, timely notification of deficiencies, etc.

Additionally, upon further investigation into 26 (only results of audit provided by SA&I) of the 30 projects identified (out of the 65 projects tested) as having payrolls missing, one may conclude the following:

- 7 projects had more than 90% of the work weeks accounted for in the payrolls received
- 3 projects had between 80-90% of the work weeks accounted for in the payrolls
- 5 projects had only one payroll missing

REF NO: 03-345-049

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

QUESTIONED COSTS: \$-0-

Criteria: According to the Federal Highway Administration (FHWA), one year is a reasonable amount of time in which to prepare the final voucher for completed construction projects. The final voucher process includes completing paperwork to close the project with the Federal Highway Administration.

Schedule of Findings Federal Award Findings And Questioned Costs

Condition: The Department is not closing projects within one year of construction completion. We noted that 1,293 federally participating projects had not claim activity since July 1, 2002. The final voucher for these projects has not been prepared as of June 30, 2003.

Effect: Any funds left in the project agreement balance are not available for use on other projects until the final voucher is completed.

Recommendation: We recommend the Department promptly finalize those projects with no claim activity for one year. We also recommend the Department finalize all construction projects in a timely manner.

Management's Corrective Action Plan

Contact Person: J. Michael Patterson, AD Finance

Anticipated Completion Date:

Corrective Action Planned: The preparation and submission of final vouchers to FHWA by the Comptroller is current. Projects with no activity for one year are generally in the completion phase awaiting final ODOT approvals.

Department of Veterans Affairs

REF NO: 03-650-002

STATE AGENCY: Department of Veterans Affairs

FEDERAL AGENCY: Department of Veterans Affairs

CFDA NO: 64.005

FEDERAL PROGRAM NAME: Grants to States for Construction of State Home Facilities

FEDERAL AWARD NUMBER: FAI# 40-020

CONTROL CATEGORY: Reporting

Criteria: A component objective of an adequate internal control system is to provide accurate and reliable information.

Condition: During our testwork, we tested 1 out of 11 SF-271 Reports submitted during the audit period. On this SF-271, expenditures were reported that were outside of the specified "time period covered"; these were included in the reimbursement calculation.

Cause: "Cumulative" spreadsheets are maintained based on claims paid for each project.

Effect: The SF-271 Reports submitted to the U.S. Department of Veterans Affairs may be misstated or include the same claims in more than one report.

Recommendation: We recommend management discontinue the use of their cumulative expenditure spreadsheets for ongoing construction projects. Documenting and accounting for expenditures on separate spreadsheets specific to the expenditures requested in the reimbursement should reduce the risk of including an expenditure more than once in a request.

Management's Corrective Action Plan

Contact Person: Steve Diffie

Anticipated Completion Date:

Corrective Action Planned: The ODVA agrees with the findings. We have plans to modify our spreadsheet to segregate the claim information and will begin printing a report to support the claim amount. The expenditure information will be kept in a database in lieu of keeping the detail information in a project spreadsheet format. We believe that this method should provide adequate segregation and internal control to prevent duplication of reimbursement claims.

Schedule of Findings Federal Award Findings And Questioned Costs

REF NO: 03-650-003

STATE AGENCY: Department of Veterans Affairs

FEDERAL AGENCY: Department of Veterans Affairs

CFDA NO: 64.005

FEDERAL PROGRAM NAME: Grants to States for Construction of State Home Facilities

FEDERAL AWARD NUMBER: FAI# 40-016, FAI# 40-017, FAI# 40-018, and FAI # 40-020

CONTROL CATEGORY: Davis-Bacon Act

QUESTIONED COSTS: \$-0-

Criteria: According to 29 CFR Section 5.5(a)(1)(iv)(3)(ii)(A), “The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls. . . , the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be. . .” According to 29 CFR Section 5.5(a)(1)(iv)(3)(ii)(B), “Each payroll submitted shall be accompanied by a ‘Statement of Compliance,’ signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract. . .”

According to Standard Operating Procedure #372, with an action date of August 1990 and revision date of April 2001:

All federally-assisted construction contracts of the Oklahoma Department of Veterans Affairs are awarded by and through the Oklahoma Office of Public Affairs. All such contracts contain within the project specification, the Davis-Bacon and Copeland Acts Compliance Requirements including a Federal and State Wage Rate Determination applicable to the project with the requirement that the higher wage be paid if conflicts exist between the federal and state wage rates. Additionally, such contract project specifications require project contractors and subcontractors to submit weekly payrolls applicable to the project including a properly executed weekly statement of compliance. . . to the Oklahoma Department of Veterans Affairs.

The architectural and administrative representatives of the Oklahoma Department of Veterans Affairs providing oversight on such federally assisted construction projects shall review the aforementioned payroll certifications and wage rates for compliance and promptly initiate action through appropriate authorities for the prompt resolution of any discovered deficiencies in compliance.

In addition to the above, it shall be the policy and procedure of the Oklahoma Department of Veterans Affairs to require the. . . properly executed Davis-Bacon Act Periodic Certification to be included by the contractor and all applicable subcontractors as an attachment to each periodic (generally monthly) pay request for work on said projects by the contractors.

Condition: During our evaluation of the internal controls for the agency, it was noted that, for two of the four facilities at which there was construction, the Department's written policies and procedures for monitoring the Davis-Bacon Act were not followed during the audit period.

Effect: The agency is not in compliance with the requirements of the Davis-Bacon Act and the agency's own internal policies and procedures.

Recommendation: We recommend the agency ensure all facilities comply with the Davis-Bacon Act.

Management's Corrective Action Plan

Contact Person: Steve Diffie, Financial Manager

Anticipated Completion Date:

Corrective Action Planned: The ODVA agrees with the findings. Effective immediately, the agency will comply with 29 CFR and ODVA SOP #372 and meet the requirements of the Davis Bacon Act.

Schedule of Findings Federal Award Findings And Questioned Costs

As to the Talihina project, the architectural and administrative representatives will provide the necessary program oversight to ensure that payroll certifications and wage rates are reviewed and that any non-compliance issues are quickly resolved.

In regards to the Claremore project, this was the same issue as in the FY '02 audit. The project was closed out by the time FY '02 audit was completed and the findings were published. The programs manager did not review this project because the review would have taken place after the project was closed out and any change in policy would have been too late to prevent this year's findings.

REF NO: 03-650-004

STATE AGENCY: Department of Veterans Affairs

FEDERAL AGENCY: Department of Veterans Affairs

CFDA NO: 64.005 and 64.015

FEDERAL PROGRAM NAME: Grants to States for Construction of State Home Facilities and Veterans State Nursing Home Care

FEDERAL AWARD NUMBER: FAI# 40-016, FAI# 40-017, FAI# 40-018, and FAI # 40-020

CONTROL CATEGORY: Allowable Costs/Cost Principles

QUESTIONED COSTS: \$0-

Criteria: OMB Circular A-87, Attachment A, C. 1. f. states, "To be allowable under Federal awards, costs must meet the following general criteria...f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost."

OMB Circular A-87, Attachment A, C. 1. h. states, "To be allowable under Federal awards, costs must meet the following general criteria...h. Not be included as a cost...of any other Federal award in either the current or prior period..."

An effective system of internal controls should prevent costs from being charged to more than one federal grant.

Condition: Based on conversation with management at the Norman, Ardmore, Claremore and Clinton Veterans Centers, direct and indirect costs for personal services, as reported on the ODVA forms 313 (direct) and 312 (indirect) which carry forward to the centers' total per diem cost reported on the State Home and Statement of Federal Aid Claimed Report for August 2002, are split using the following percentages:

- Norman – 56.4% (direct) / 43.6% (indirect)
- Ardmore - 50.6% (direct) / 49.4% (indirect)
- Claremore – 60% (indirect) / 40% (direct)
- Clinton – 54.6% (direct) / 45.4% (indirect)

It appears after reporting 100% of each center's salaries to the Veterans State Nursing Home Care grant on each respective State Home and Statement of Federal Aid Claimed Report for August 2002, management at the Claremore and Clinton centers requested reimbursement from the Grants to States for Construction of State Home Facilities grant on the SF-271 report for a portion of administrative costs they incurred.

Effect: The agency is not in compliance with OMB Circular A-87, Attachment A, C. 1. f. and h.

Recommendation: We recommend management investigate the variances in the percentages used to split direct and indirect personal cost for all centers. Additionally, we recommend management discontinue requesting administrative costs reimbursement from the Grants to States for Construction of State Home

Schedule of Findings Federal Award Findings And Questioned Costs

Facilities grant when the centers' salaries have already been reported as Veterans State Nursing Home Care grant costs.

Management's Corrective Action Plan

Contact Person: Steve Diffie, Financial Manager

Anticipated Completion Date:

Corrective Action Planned: The ODVA agrees with the findings. Effective immediately, the agency will comply with OMB Circular A-87, Attachment A, C. 1. f. and h. by only charging the administrative costs to the construction grant and not claiming it on the State Home Report and Statement of Federal Aid Claimed.

Department of Wildlife Conservation

REF NO: 03-1

STATE AGENCY: Department of Wildlife Conservation

FEDERAL AGENCY: Department of Interior

CFDA NO: 15.615

FEDERAL PROGRAM NAME: Endangered Species Conservation

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

Criteria: Section 6.8, Performance Reports, of the Federal Aid Handbook states that if there is a land acquisition, a "Summary of Land Costs" report and "Title Vesting Evidence" documents must be included in the performance report that is submitted within 90 days after the end of the grant period. The "Summary of Land Costs" must include the seller, acreage, appraised value, price paid, relocation costs, and other cost for each tract of land purchased. The "Title Vesting Evidence" report is a certificate furnished by the Attorney General or other authorized state official that the title to the property acquired is vested in the State. A title insurance policy or title certificate may be substituted for the Attorney General's certificate. The certificate or title insurance policy must include a correct legal description and the acreage of the property involved. The description may be given by reference to a deed or plat, provide a copy of the document accompanies the certificate or policy.

Condition: The Department submitted the performance for the grant within the 90-day limit and included the "Summary of Land Costs" report; however, the "Title Vesting Evidence" documents were not submitted with the report.

Effect: Failure to submit all required reports or documents at the end of a grant constitutes noncompliance with reporting requirements.

Recommendation: KPMG recommends that management ensure that all required reports and documents are included in the submission of the annual performance. Reporting requirements established in the Federal Aid Handbook should be reviewed and understood to appropriately incorporate necessary procedures to ensure compliance with the requirements under all possible scenarios.

Management's Corrective Action Plan

Contact Person:

Anticipated Completion Date:

Corrective Action Planned: A corrective action plan was not included in the independent auditor's schedule of findings.

Summary Schedule of Prior Findings

Summary Schedule of Prior Findings

Summary Schedule of Prior Findings

Note: Schedule is presented alphabetically by state agency.

Department of Central Services

Finding No: 99-580-012

CFDA: 39.003

Federal Agency: General Services Administration

Questioned Costs: \$16,500

Control Category: Allowable Costs/Cost Principles

Finding Summary: Appropriate state procedures were not followed for the purchase of a motor vehicle.

Status: Due to the number of years since this finding was written and the statute changes which have since occurred, this finding is no longer valid.

Finding No: 00-580-008

CFDA: 39.003

Federal Agency: General Services Administration

Control Category: Other

Finding Summary: The Department does not maintain a written disaster recovery plan.

Status: Partially corrected. DCS is continuing to work on a more detailed written disaster recovery plan at this time.

Finding No: 01-580-005

CFDA: 39.003

Federal Agency: General Services Administration

Control Category: Special Test and Provisions – Fair and Equitable Distribution and Fees

Finding Summary: The Department does not adhere to the criteria for determining handling fees submitted to GSA in the State Plan of Operation, nor does the Department have a systematic method for assigning handling fees.

Status: DCS's position with regards to this finding is that the finding is not valid because an outdated state plan was used for criteria in writing the finding.

Finding No's: 01-580-006, 02-580-001

CFDA: 39.003

Federal Agency: General Services Administration

Control Category: Special Test and Provisions – Fair and Equitable Distribution and Fees

Finding Summary: The Department does not maintain application information in a central database, making it difficult to determine specific items requested by each donee.

Status: Corrected. The agency now maintains a "wish list" for the donees in a central database.

Finding No: 02-580-002

CFDA: 39.003

Federal Agency: General Services Administration

Control Category: Special Test and Provisions – Fair and Equitable Distribution and Fees

Finding Summary: The Department does not have a method of tracking administration, warehousing, and screening costs along with other expenses; therefore, the Department is not able to apply these costs to individual items. As a result, the Department does not comply with the State Plan of Operation with regard to service charges and handling fees.

Status: DCS's position with regards to this finding is that the finding is not valid because an outdated state plan was used for criteria in writing the finding.

Finding No: 02-580-004

CFDA: 39.003

Federal Agency: General Services Administration

Control Category: Allowable Costs and Cost Principles

Summary Schedule of Prior Findings

Finding Summary: The Department is not compliance with the State Plan of Operation with regards to excess working capital reserves.

Status: No longer valid—Finding reported in error in prior year.

Department of Education

Finding No: 96-265-003

CFDA: All Federal Programs

Federal Agency: Department of Education

Questioned Costs: \$6,200,000

Control Category: Allowable Costs/Cost Principles

Finding Summary: Statistical data reports submitted to the Office of Education's Statistics Center were audited by the Office of Inspector General. The years audited were 1982 through 1983, which determined the Department's federal program allocations for 1985 and 1986. The audit indicated that Oklahoma received an over-allocation.

Status: Partially Corrected. We have submitted information to the U.S. Department of Education regarding this finding, including possible offsets, and other allowances. Awaiting response of U.S. Department of Education.

Finding No: 02-265-001

CFDA: All Federal Programs

Federal Agency: Department of Education

Control Category: Subrecipient Monitoring

Finding Summary: Forty school districts were not in compliance with the Single Audit Act and OMB Circular A-133 due to the failure to submit a single audit report to the Department.

Status: Corrected.

Finding No: 02-265-006

CFDA: 84.010

Federal Agency: Department of Education

Control Category: Subrecipient Monitoring

Finding Summary: The Department does not appear to be following up on subrecipient audit findings as required by the Department's procedures.

Status: Partially Corrected. *Follow-up of Monitoring Findings.* Since No Child Left Behind was signed in January 2002, and OSDE had not yet received final regulations and guidance from USDE, school districts in some instances were given until completion of the following school year to correct deficiencies. For example, the Parents Right to Know policy or the School District Report Card.

Corrective Action Planned. This finding will be corrected during monitoring this year since we have received Title I regulations and previous monitoring procedures will be followed.

Finding No: 02-265-007

CFDA: 84.010

Federal Agency: Department of Education

Control Category: Subrecipient Monitoring, Special Tests and Provisions-Comparability

Finding Summary: The Department may not be performing sufficient monitoring activities to ensure that LEA's are in compliance with federal requirements.

Status: Partially Corrected. *Frequency of Monitoring.* OSDE had scheduled on-site monitoring visits for 108 districts during 2003. OSDE did monitor 106 districts on-site; the other two monitoring visits were not performed because the schools cancelled the visits as a result of scheduling conflicts. It has been our policy to monitor on-site once every five years because of the large number of subrecipients (541). Other monitoring priorities are as follows: to monitor within thirty days any subrecipient for which we have received a written complaint; the amount of funds that the subrecipient receives; subrecipients that have had problems in past monitorings; and schools in Title I School Improvement. Paper monitoring is done annually through the application process.

Summary Schedule of Prior Findings

Corrective Action Planned. OSDE will follow the recommendations of the auditors and plan to do more desk monitoring. We will change our monitoring policies and procedures to reflect the change. Furthermore, it will be impossible to do on-site monitoring for all school improvement schools since OSDE anticipates 300 or more schools in need of improvement.

Finding No: 02-265-013

CFDA: All Federal Programs

Federal Agency: Department of Education

Control Category: Subrecipient Monitoring

Finding Summary: Department policy states that claims for districts shall not be processed if the district has submitted an audit by the required due date. We noted 12 instances in which the district failed to submit an audit by the required due date. Of these 12, eight continued to receive program reimbursements.

Status: Corrected.

Finding No: 02-265-15

CFDA: 84.027

Federal Agency: Department of Education

Control Category: Earmarking

Finding Summary: We were unable to determine if the Department fulfilled the minimum capacity building and improvement grant earmarking requirements.

Status: Corrected.

Oklahoma Employment Security Commission

Finding No: 02-290-013

CFDA: 17.258, 17.259, 17.260

Federal Agency: Department of Labor

Control Category: Reporting

Finding Summary: During testwork of performance reporting for the Workforce Investment Act, we noted several variances in reported data and supporting documentation.

Status: Not corrected. OESC will comply with US Department of Labor reporting and data element validation initiative effective April 1, 2004.

Finding No: 02-290-014

CFDA: 17.258, 17.259, 17.260

Federal Agency: Department of Labor

Control Category: Reporting

Finding Summary: During testwork of performance reporting for the Workforce Investment Act, we noted variances between the total Service Delivery Areas (SDA's) reported data to the total statewide reported data.

Status: Not corrected. OESC will comply with US Department of Labor reporting and data element validation initiative effective April 1, 2004.

Finding No: 02-290-015

CFDA: 17.258, 17.259, 17.260

Federal Agency: Department of Labor

Control Category: Reporting

Finding Summary: During testwork of performance reporting for the Workforce Investment Act, we noted variances between the total quarterly performance reported data to the annual performance report.

Status: Not corrected. OESC will comply with US Department of Labor reporting and data element validation initiative effective April 1, 2004.

Summary Schedule of Prior Findings

Department of Health

Finding No: 02-340-002

CFDA: 93.777

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions – Health and Safety Standards

Finding Summary: During testing of 53 providers, we noted 30 instances in which the required health and safety standards survey was not completed within the required 15-month time period.

Status: Partially Corrected. See current year finding 03-340-023 for management response.

Oklahoma Health Care Authority

Finding No: 02-807-005

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Questioned Costs: \$72

Control Category: Period of Availability

Finding Summary: During our review of 45 claims, we noted one claim which was paid outside of the period of availability.

Status: This condition has been corrected. The OHCA has system edits in place to ensure only timely filed claims are paid in accordance to state and federal regulations.

Finding No: 02-807-006

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions-Provider Eligibility

Finding Summary: During testing of 48 provider files, we were unable to locate licenses for six providers. In addition, another three provider files only included license documentation that covered part of the fiscal year. Through additional procedures, we were able to ensure these nine providers were licensed.

Status: Not Corrected. Procedures and solutions are currently being discussed and developed to best ensure provider licensing in properly monitored and adequately documented.

Department of Human Services

Finding No: 96-830-126, 97-830-083, 98-830-039, 99-830-021, 01-830-008, 02-830-004

CFDA: 93.560, 93.575, 93.667, 93.994

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed and Unallowed, Eligibility

Finding Summary: During their review of day care facilities, DHS-OIG noted there were instances of over capacity, not keeping proper service attendance records, having no parent signatures or forging parent signatures on the service attendance records, claiming days that were not authorized by parents, claiming children which were not authorized, claiming full-time services when only part-time services were rendered, rate errors or miscalculations, and charging DHS clients more than private pay clients.

Status: Corrected.

Finding No: 97-830-081, 98-830-034, 99-830-025

CFDA: 93.560, 93.574, 93.575, 93.596, 93.667

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed and Unallowed

Finding Summary: The Department does not have an effective method to monitor and ensure that day care facilities and clients are claiming only for days/hours provided in the client's plan of service.

Status: Corrected.

Summary Schedule of Prior Findings

Finding No: 99-830-028

CFDA: 10.551, 10.561, 93.558, 93.563, 93.575, 93.596, 93.658, 93.667, 93.994

Federal Agency: U.S. Department of Agriculture, Department of Health and Human Services

Control Category: Reporting

Finding Summary: There are no written policies and procedures, which apply to the Cost Accounting and Revenue Enhancement Unit of the Office of Finance.

Status: Partially corrected. OKDHS Finance Division has employed an outside firm to assist in the placement of the Administrative Cost Allocation on to the Finance Division System. During this process, in depth documentation and the diagramming of allocation techniques will occur. Furthermore, a detailed design document will be required.

Finding No: 99-830-035

CFDA: 93.575, 93.596

Federal Agency: Department of Health and Human Services

Control Category: Reporting

Finding Summary: Expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA) appear to materially agree to Department accounting records in total for the Child Care and Development Block Grant and the Child Care and Development Fund. However, expenditures on the SEFA could not be traced to the accounting records for each program separately.

Status: Corrected.

Finding No: 00-830-021, 01-830-028, 02-830-014

CFDA: 93.568

Federal Agency: Department of Health and Human Services

Control Category: Reporting

Questioned Costs: \$0

Finding Summary: The Department was unable to provide detail supporting the information reported on the Annual Report of Households assisted by LIHEAP.

Status: Not corrected. Improved reporting of LIHEAP benefits is an on-going process.

Finding No: 00-830-023

CFDA: 93.575, 93.596

Federal Agency: Department of Health and Human Services

Control Category: Period of Availability, Reporting

Finding Summary: Expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA) appear to materially agree to Department accounting records in total for the Child Care and Development Block Grant and the Child Care and Development Fund. However, expenditures on the SEFA could not be traced to the accounting records for each program separately. In addition, because we were unable to identify which program funds were used to pay for administrative claims, we were unable to test the period of availability requirement on an individual transaction level.

Status: Corrected.

Finding No: 01-830-004

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Eligibility

Finding Summary: Of the eighteen (18) non-Diversion Assistance case files tested, one (1) did not contain evidence of current eligibility re-determinations. There was also no evidence in the client's IMS system to document a current eligibility determination for the one (1) case file.

Status: Corrected.

Finding No: 01-830-018

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Reporting

Summary Schedule of Prior Findings

Finding Summary: We noted various errors during our testwork of the data reported on the TANF Data Report (ACF-199):

Status: Corrected.

Finding No: 01-830-019, 02-830-003

CFDA: 93.575, 93.596

Federal Agency: Department of Health and Human Services

Control Category: Period of Availability

Finding Summary: We were unable to determine which program funds were used to pay for individual claims. As a result, we were unable to test the period of availability requirement on an individual transaction level.

Status: Not corrected. OKDHS employs a seamless funding strategy for childcare; therefore, a change in the method of charging costs is not anticipated.

Finding No: 01-830-021

CFDA: 93.568

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed and Eligibility

Finding Summary: We analyzed the Department's records to determine whether any payments were made in excess of the maximum benefit per income and household size, as documented in the LIHEAP Benefit Level Matrix. Based on the results of this test, we identified 174 cases where the payment appeared to be in excess of the maximum benefit documented in the LIHEAP Benefit Level Matrix. The total paid in excess of the maximum benefit was \$19,992.

Status: Corrected

Finding No: 01-830-023

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions – Child Support Non-Cooperation

Finding Summary: Two of thirty-eight cases appeared to have individuals who were not cooperating with the State in child support enforcement efforts; however, the TANF benefits did not appear to have been reduced or denied as required by federal regulations.

Status: Partially corrected.

Finding No: 02-830-009

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions-Child Support Non-Cooperation

Finding Summary: Testwork indicated 37 of 62 case files reviewed appeared to have individuals who were not cooperating with the State in child support enforcement collection efforts. These individuals TANF benefits did not appear to have been reduced or denied as required by federal regulations.

Status: Not corrected. Target completion date is March 2004.

Finding No: 02-830-010

CFDA: 93.568

Federal Agency: Department of Health and Human Services

Control Category: Activated Allowed or Unallowed, Eligibility

Finding Summary: During testing of LIHEAP recipients, we identified 21 cases where the client income exceeded the maximum amount in order to receive a LIHEAP benefit. In addition, we identified seven instances in which clients received a higher benefit than they were entitled based on their income.

Status: Corrected

Finding No: 02-830-011

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Eligibility

Summary Schedule of Prior Findings

Finding Summary: Of 38 cases tested, we noted two cases where eligibility was not redetermined on a timely basis.

Status: Corrected. Training was conducted in the County Offices.

Finding No: 02-830-013

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Reporting

Finding Summary: We selected 38 TANF recipients to ensure their information was correctly reported on the TANF Data Report (ACF-199). Of these 38 recipients, we noted one recipient whose work hours were not reported on the ACF-199 and one recipient who was omitted from the ACF-199.

Status: Corrected.

Finding No: 02-830-018

CFDA: 93.575, 93.596

Federal Agency: Department of Health and Human Services

Control Category: Eligibility

Finding Summary: During testing of 18 case files, two files did not contain adequate documentation to allow us to determine if these individuals were eligible for day care benefits.

Status: Corrected.

Finding No: 02-830-020

CFDA: 93.568

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed and Unallowed

Finding Summary: During testing of LIHEAP program and inquiry of management, it was determined that historical data regarding client benefits was no longer available through the Department's system. As a new LIHEAP application period begins, historical data is purged so current information may be input.

Status: Not Corrected. See current year finding reference 03-830-008.

Finding No: 02-830-021

CFDA: 93.658, 93.659

Federal Agency: Department of Health and Human Services

Control Category: Eligibility

Finding Summary: During testing, it was determined that when a client's eligibility status changes from IV-B (state funded) to IV-E (federally funded), the Department's system retroactively updates the client's history to reflect the current status. As a result, we were unable to verify our population of IV-E clients.

Status: Corrected

Department of Mental Health and Substance Abuse Services

Finding No: 02-452-003

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions-Independent Peer Reviews

Finding Summary: The Department did not appear to have policies or procedures addressing independent peer reviews. In addition, several of the documents considered independent peer reviews did not include the areas of review required by 45 CFR Section 96.136(d).

Status: Partially Corrected. Administrative Procedures have been proposed but not yet adopted.

Finding No: 02-452-004

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Subrecipient Monitoring

Finding Summary: We noted the Department's policies and procedures do not address the procedures to be performed during the monitoring process.

Summary Schedule of Prior Findings

Status: Partially Corrected. Policy and Procedures have been drafted but not yet adopted.

Finding No: 02-452-005

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Subrecipient Monitoring

Finding Summary: We noted three subrecipients had failed to submit an audit report to the Department. In addition, Department policy identifies the criteria used to determine the type of audit required by a subrecipient. We noted four subrecipients were required to have an agreed-upon procedure engagement. However, no procedures were performed because the Department has not yet developed the agreed-upon procedure protocol.

Status: Partially Corrected. The audit reports were received from the three subrecipients. However the agreed upon procedures protocol has not been developed.

Finding No: 02-452-006

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Subrecipient Monitoring

Finding Summary: We noted one subrecipient whose FY 2000 audit included multiple material weaknesses; however, these weaknesses were not addressed by the Department. In addition, as of June 2002, this subrecipient had not submitted a FY 2001 audit to the Department.

Status: Corrected

Finding No: 02-452-007

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Level of Effort

Finding Summary: We noted amounts used in the Department's level of effort calculation were the same for fiscal years 2000 and 2001. Department personnel stated these amounts were estimates calculated several years ago. By using the same estimated historical amounts each year, the Department's assurance of compliance with the level of effort requirement is reduced.

Status: Corrected

Finding No: 02-452-008

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed

Finding Summary: During site visits to six mental health facilities, we noted instances where documentation in client files did not agree to the amount billed by the facilities.

Status: Partially Corrected. Follow up visits have been made to the facilities mentioned, this process has been completed and the issues are resolved. The newly proposed procedures and standard program review protocol will assist this division in our program monitoring process.

Finding No: 02-452-009

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Other

Finding Summary: Procedures are not in place to monitor unauthorized access to data and/or programs for the ICIS/Fee For Service applications.

Status: Not Corrected. Software being developed to monitor and log all access to the ICIS and Fee4Service system. Anticipated completion date is July 1, 2004.

Finding No: 02-452-012

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Other

Summary Schedule of Prior Findings

Finding Summary: Policies and procedures do not exist for developer and support services access rights and responsibilities, and remote access assignment, control and monitoring.

Status: Not Corrected. Remote access policies and procedures development is in progress with anticipated completion date of July 1, 2004.

Finding No: 02-452-013

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Other

Finding Summary: ICIS and Fee For Service systems do not interface with the Department's financial system. Client service billing information is input on the front-end by the service providers and input a second time into the financial system.

Status: Not Corrected. Process is being developed which will allow contractors the ability to approve an invoice for payment via an online authorization requiring no signature. Anticipated completion date is July 1, 2004.

Finding No: 02-452-015

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Other

Finding Summary: Service providers input their client services into the ICIS system through the Department's website. This website has not been tested for common vulnerabilities and may allow access by unauthorized users.

Status: Not Corrected. Intrusion Detection system specifications have been designed and are in the process of being purchased. Anticipated completion date is July 1, 2004.

State Of Oklahoma

Finding No: 97-003-001

CFDA: Various Programs

Questioned Costs: \$7,715,064

Finding Summary: During fiscal year 1997, \$31,500,000 accounted for as state employee insurance premiums, and designated to provide insurance coverage for state employees, was transferred to fund higher education. A portion of this amount was charged to various Federal programs, and reimbursement from the Federal government was obtained by various state agencies. This transfer resulted in using Federal funds for purposes not allowed under the various Federal programs.

Status: The Office of State Finance negotiated a settlement, effective July 7, 2003, for \$13,278,032.83 to be paid over four years beginning in July 2003, in fixed payments of \$4,000,000 per year with the balance of the principal and interest to be paid in the fourth year. The funds are to be appropriated each year by the State Legislature.

Department Of Rehabilitation Services

Finding No's: 00-805-005, 01-805-001, 02-805-001

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Cash Management

Questioned Costs: \$-0-

Finding Summary: During testing, we noted the Department did not have adequate documentation supporting their draws. In addition, the Department is not requesting funds on the fifteenth of the month (or the closest working day) or adjusting to actual on a quarterly basis as required by the CMIA agreement.

Status: Not Corrected. The CMIA Agreement has been modified effective July 1, 2003.

Finding No: 02-805-002

Summary Schedule of Prior Findings

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Matching

Finding Summary: The Department did not appear to meet the matching requirement. In addition, the method used by the Department to ensure the matching requirement is met does not appear adequate.

Status: Corrected. State Revenues in association with Federal Matching requirements are listed on the worksheet to illustrate distribution of State Appropriations.

Finding No: 02-805-003

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Reporting

Finding Summary: The Departments SF-269 quarterly reports are based upon information obtained from the Warrants Issued report. At the end of each federal fiscal year, adjustments are made to the Warrants Issued report and a revised SF-269 is submitted for the quarter ending September 30. This report includes adjustments for the entire fiscal year. As a result, the information submitted on each quarterly SF-269 may be inaccurate. In addition, the Department was unable to provide documentation supporting the adjustments made to the Warrants Issued report.

Status: Not Corrected. The Warrants Issued report provides a consistent basis for estimation. Estimates are used for cash management and quarterly reporting. Once the federal coding is reconciled to the agency's financial statements and OSF, the warrant report is replaced by the VR-011 as the source of the agency's federal financial position. The adjustments, typically, have occurred on an annual basis so that all adjustments to the program are captured once. The Agency will look at how to adjust on a more frequent timetable, although reconciling back to the Warrant report is viewed as an unnecessary occurrence. The VR-011, the annual SF-269 and subsequent RSA-2 reconcile to the Agency's financial document of record. The Agency will reevaluate the documentation so that specific expenditures will be attributable to State match funding.

Finding No: 02-805-005

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Activities Allowed or Unallowed

Finding Summary: While reviewing 66 client case files, we noted 48 payments in which we were unable to determine whether the payments were allowable. These situations were primarily due to inadequate documentation in the client's case file.

Status: Corrected. The problem identified has been addressed in statewide program managers meeting on an on-going basis. Managers have addressed these issues within their individual units.

Finding No: 02-805-006

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Activities Allowed or Unallowed

Finding Summary: While reviewing 66 client case files, we noted various internal control weaknesses relating to the maintenance of case file documentation.

Status: Corrected. Unit meetings have been held to address case service needs for stronger documentation. An edit has been implemented in our electronic case service system requiring a narrative entry for any direct client payment.

Finding No: 02-805-007

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Activities Allowed or Unallowed, Eligibility

Finding Summary: During review of 66 client case files, we noted five instances where services may have been provided to clients not eligible for services.

Status: Corrected. If the case was in status 02.0 through 10.0 an authorization can be issued for diagnosis. This may have been issued to determine eligibility, which is allowable for all applicants. However, we

Summary Schedule of Prior Findings

have also held statewide meetings and conducted site visits to correct case recording and documentation practices. We are continually emphasizing greater documentation and solid case decision-making in every available meeting with V.R. Specialists. We believe this area has been corrected and will continue to be addressed in the future

Finding No: 02-805-008

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Allowable Costs/Cost Principles

Finding Summary: The Department does not maintain certifications on employees charged directly (solely) to the program.

Status: Not corrected. Originally we had stated June 30, 2003 as the anticipated date. Upon review of the process for distribution and retrieval of the certifications, the date of January 30, 2004 is more reasonable for the first semi-annual certification.

Department Of Transportation

Finding No: 00-345-1IS

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Other

Finding Summary: The Department does not have written policies and procedures regarding system security.

Status: Not corrected. No change. Refer to current year findings 03-345-04 and 03-345-014

Finding No: 00-345-2IS

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Information Systems

Finding Summary: There does not appear to be adequate segregation of duties between development, change management, maintenance and security audit and administration.

Status: Not corrected. No change. Manpower constraints do not allow ISD to segregate duties within each of the supported systems.

Finding No: 01-345-023

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Davis Bacon Act

Finding Summary: During test work, we noted the following:

- For project BRF-168C(017)CO, job piece number 0165904, we noted that five (5) of the six (6) subcontractors did not submit payrolls to the residency.
- For project STPY-114A(040)TR, job piece number 1811904, we noted that one (1) of two (2) subcontractors did not submit payrolls to the residency.
- For project MGSY-109C(009), job piece number 1186908, we noted that three (3) of the six (6) subcontractors did not submit payrolls to the residency.
- For project STPY-NBIP(064), job piece number 1624004, we noted that the prime contractor did not submit payrolls to the residency.

Two (2) out of 79 employees tested were paid less than the prevailing wage rate.

Status: Partially corrected. The Department is currently implementing the Site Manager construction management program, which enhances the monitoring of Davis-Bacon requirements on construction projects.

Summary Schedule of Prior Findings

Finding No: 01-345-025

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Other

Finding Summary: The Department is not closing projects within one year of construction completion. We noted that 1,046 federally participating projects had no claim activity since July 1, 2000. The final voucher for these projects has not been prepared as of June 30, 2001.

Status: Partially Corrected. The Department is current on the finalization of construction, right of way, and utility projects.

Finding No: 01-345-037

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Other

Finding Summary: Department of Transportation lacks segregation of duties within the change control process for the Project Funding System. Programmers have access to production libraries and data. There is no reporting and review of unauthorized attempts to access data.

Status: Not corrected. No change. Manpower constraints do not allow ISD to segregate duties within each of the supported systems.

Finding No: 01-345-038

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Other

Finding Summary: In our audit of Department of Transportation we noted the following:

1. Users of a Department System have access to the programs and data.
2. Information Services Division does not have written policies and procedures for setting up new users.
3. The Information Services Division could not produce a list of users of the system without a great deal of time and effort.
4. Department of Transportation's Information Services Division exhibits a lack of system security.

Status: Not corrected. No change. Refer to current year findings 03-345-014 and 03-345-021.

Finding No: 02-345-013

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Other

Finding Summary: The process of transferring project costing information from the TRNS*Port System to the Department's financial system is a manual process.

Status: While the finding was not corrected as of June 20, 2003, the function of entering contractor estimates became automated with the interfacing of the TRNS*Port system with the Financial Management System (FMS) on November 1, 2003.

Finding No: 02-345-014

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Other

Finding Summary: The Department's change control process for the FMS system is not integrated with the system. The current procedures consist of manual recording of users requests that is updated with completion date by the programmers once the task is completed. Implemented changes are not reviewed, approved or verified by management via the system. In addition, the current process does not verify that only authorized changes are made to data and program files. Changes made to files are also not matched back to a request.

Summary Schedule of Prior Findings

Status: Not corrected. The capability of the current system does not allow for this process to be integrated automatically. Changes are only accepted when authorized by proper ISD authoritative levels. The modifications are traceable to the requesting user through paper or electronic correspondence.

Finding No: 02-345-023

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Other

Finding Summary: The Department lacks segregation of duties within the change control process for the Project Funding System. Programmers have access to production libraries and data. In addition, there is no reporting and review of unauthorized attempts to access data.

Status: Not corrected. Manpower constraints do not allow ISD to segregate duties within each of the supported systems. ISD responds to requests for changes in these systems through chain of command. A log of requests and actions is kept by ISD documenting these changes. Weekly reconciliation provides the opportunity to examine the systems at this level.

Finding No: 02-345-024

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Other

Finding Summary: The Information Services Division does not have written policies and procedures for setting up new users and there appears to be a lack of system security.

Status: Not corrected. The user Division determines access to these systems. ISD supports this process through programming, and only when requested by appropriate Division personnel.

Finding No: 02-345-034

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: All Control Categories

Finding Summary: The Department does not have written procedures defining work to be performed in field divisions and in the comptroller division.

Status: Not corrected. Efforts to correct the cited deficiencies have been delayed until a later date.

Finding No: 02-345-035

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Other

Finding Summary: The Department is not closing projects in a timely manner. We noted 1,219 federally participating projects had no claim activity since July 1, 2001.

Status: Partially Corrected. The Department is current on the finalization of construction, right of way, and utility projects.

Finding No: 02-345-038

CFDA: 20.205

Federal Agency: United States Department of Transportation

Control Category: Davis-Bacon Act

Finding Summary: Of 54 projects tested, 45 projects contained no Documentation of Interview (E-1 form) or less than 10% of contractor employees were interviewed as to hourly rate of pay.

Status: Partially corrected. The Department is coordinating a half-day training session for residency personnel who manage the receipt of payroll and E-1 forms. Additionally, the Department is currently implementing the Site Manager construction management program, which enhances the monitoring of Davis-Bacon requirements on construction projects.

Finding No: 02-345-040

CFDA: 20.205

Federal Agency: United States Department of Transportation

Summary Schedule of Prior Findings

Control Category: Davis-Bacon Act

Finding Summary: Of 55 projects tested, no payrolls were submitted for two projects. Also, for 16 of the projects tested, less than 90% of the contractor's days on site were accounted for on contractor payrolls.

Status: Partially corrected. The Department is coordinating a half-day training session for residency personnel who manage the receipt of payroll and E-1 forms. Additionally, the Department is currently implementing the CHAMPS software that will interface with the Site Manager construction management program, which enhances the monitoring of Davis-Bacon requirements on construction projects.

Department Of Veterans Affairs

Finding No: 02-650-001

CFDA: 64.005

Federal Agency: Department of Veterans Affairs

Control Category: Davis-Bacon Act

Finding Summary: During our evaluation of internal controls for the agency, it was noted that although the agency does have written policies and procedures for monitoring compliance with the requirements of the Davis-Bacon Act, these policies and procedures are not being adhered to.

Status: Partially corrected. The agency is now in partial compliance with 29 CFR and ODVA SOP #372 and in meeting the requirements of the Davis Bacon Act. ODVA representatives will review the weekly-submitted payrolls and ensure that the Weekly Statement of Compliance is received and properly executed. However, the agency cannot change some of the non-compliant issues found in Claremore during the FY '02 audit for FY '03 completely due to the fact that the project has been closed out and there is no mechanism for correcting past non-compliant issues. Therefore, the agency cannot be in full compliance with the Davis-Bacon Act. The agency has made the proper procedural changes so that it will be in full compliance at the earliest possible date that is FY '04.

Schedule of Federal Programs by State Agency

Schedule of Federal Programs by State Agency

Schedule of Federal Programs by State Agency

Attorney General

93.775 State Medicaid Fraud Control Units

Agriculture, Department of

10.025 Plant and Animal Disease, Pest Control, and Animal Care
10.156 Fed/State MKT Improv Pros
10.163 Market Protection and Promotion
10.435 State Mediation Grants
10.475 Cooperative Agreements with States for Intrastate Meat and Poultry Inspection
10.664 Cooperative Forestry Assistance
10.672 Cooperative Forestry Assistance
66.700 Consolidated Pesticide Enforcement Cooperative Agreements

Boll Weevil Eradication

10.025 Plant and Animal Disease, Pest Control, and Animal Care

Capital Complex and Centennial Commission

39.000 Centennial Commemoration Grant

Career and Technology Education, Department of

12.002 Procurement Technical Assistance For Business Firms
17.249 Employment Services and Job Training - Pilot and Demonstration Programs
59.000 Congressions - Special Initiative
84.048 Vocational Education-Basic Grants to States
84.051 National Vocational Education Research
84.116 Fund for the Improvement of Postsecondary Education
84.243 Tech-Prep Education
84.346 Occupational and Employment Information State Grants

Center for Advancement of Science/Technology

59.005 Business Development Assistance to Small Business
93.988 Nat'l Diabetes Prevention Center

Central Services, Department of

39.003 Donation of Federal Surplus Personal Property

Civil Emergency Management, Department of

20.703 Interagency Hazardous Materials Public Sector Training and Planning Grants
83.012 Hazardous Materials Assistance Program
83.105 Community Assistance Program State Support Services Element (CAP-SSSE)
83.536 Flood Mitigation Assistance
83.539 Crisis Counseling
83.543 Individual and Family Grants
83.544 Public Assistance Grants
83.548 Hazard Mitigation Grant
83.552 Emergency Management Performance Grants
83.562 State and Local All Hazards Emergency Planning
83.583 Emergency Operations Center Initiative
83.584 Homeland Security - Citizen Corp
83.999 Homeland Security - Pre-Disaster Mitigation

Commerce, Department of

14.228 Community Development Block Grant-State's Program
14.231 Emergency Shelter Grant Program
14.235 Community Development Technical Assistance
14.238 Shelter Plus Care/Continuum of Care
81.041 State Energy Program
81.042 Weatherization Assistance of Low-Income Persons
81.117 Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance
81.119 State Energy Program-Special Projects
93.569 Community Services Block Grant
93.570 Discretionary Grants
93.571 Community Services Block Grant Discretionary Awards-Community Food and Nutrition
93.585 Empowerment Zones Program
93.600 Head Start

Note: This schedule represents primary recipients only.

Schedule of Federal Programs by State Agency

Conservation Commission

- 10.902 Soil and Water Conservation
- 15.252 Abandoned Mine Land Reclamation (AMLR) Program

Corporation Commission

- 20.700 Pipeline Safety
- 66.433 Locating Class II Injection Wells (Special Project)
- 66.433 State Underground Water Source Protection
- 66.804 State and Tribal Underground Storage Tanks Program
- 66.805 Leaking Underground Storage Tank Trust Fund Program

Corrections, Department of

- 16.202 Re-entry Program
- 16.203 Sex Offender Management
- 16.586 Violent Offender Incarceration and Truth in Sentencing Incentive Grants
- 84.331 Grants to States for Incarcerated Youth Offenders

District Attorneys Council

- 16.554 National Criminal History Improvement Program (NCHIP)
- 16.575 Crime Victim Assistance
- 16.576 Crime Victim Compensation
- 16.579 Byrne Formula Grant Program
- 16.588 Violence Against Women Formula Grants
- 16.592 Local Law Enforcement Block Grants Program
- 16.593 Residential Substance Abuse Treatment for State Prisoners

Education, Department of

- 10.553 School Breakfast Program
- 10.555 National School Lunch Program
- 10.556 Special Milk Program for Children
- 10.558 Child and Adult Care Food Program
- 10.559 Summer Food Service Program
- 10.560 State Administrative Expenses for Child Nutrition
- 12.000 Troops for Teachers
- 15.130 Indian Education-Assistance to Schools
- 84.002 Adult Education-State Grant Program
- 84.010 Title I Grants to Local Educational Agencies
- 84.011 Migrant Education-Basic State Grant Program
- 84.013 Title I Program for Neglected and Delinquent Children
- 84.027 Special Education-Grants to States
- 84.086 Special Education-Program for Severely Disabled Children
- 84.162 Immigrant Education
- 84.173 Special Education-Preschool Grants
- 84.181 Special Education-Grants for Infants and Families with Disabilities
- 84.185 Byrd Honors Scholarships
- 84.186 Safe and Drug-Free Schools and Communities-State Grants
- 84.194 Bilingual Education Support Services
- 84.196 Education for Homeless Children and Youth
- 84.213 Even Start-State Educational Agencies
- 84.215 Fund for the Improvement of Education
- 84.216 Capital Expenses
- 84.281 Eisenhower Professional Development State Grants
- 84.282 Charter Schools
- 84.287 21st Century Community Learning Centers
- 84.298 Innovative Education Program Strategies
- 84.303 Technology Challenge Grant
- 84.318 Technology Literacy Challenge Fund Grants
- 84.323 Special Education-State Program Improvement Grants for Children with Disabilities
- 84.330 Advanced Placement Incentive Program
- 84.332 Comprehensive School Reform Demonstration
- 84.338 Reading Excellence
- 84.340 Class Size Reduction
- 84.348 Title I Accountability Grants
- 84.352 School Renovation, IDEA and Technology Grant

Note: This schedule represents primary recipients only.

Schedule of Federal Programs by State Agency

Education, Department of (continued)

84.357	Reading First
84.358	Title VI Part B1 (REAP)
84.365	Title III Language Acquisition
84.367	Title IIA
84.368	Enhanced Assessments
84.369	State Assessments
93.576	Refugee and Entrant Assistance-Discretionary Grants
93.938	Medical Assistance Program
94.004	Learn and Serve - Community Based
94.005	Learn and Serve America-Higher EducationSpecial Benefits for Disabled Coal Miners

Employment Security Commission

17.000	Job Corps
17.002	Labor Force Statistics
17.203	Labor Certification for Alien Workers
17.207	Employment Service
17.225	Unemployment Insurance
17.235	Senior Community Service Employment Program
17.245	Trade Adjustment Assistance-Workers
17.253	Welfare-to-Work Grants to States and Localities
17.258	Workforce Investment Act
17.259	Workforce Investment Act - Youth
17.260	Workforce Investment Act - Dislocated Workers
17.801	Disabled Veterans' Outreach Program (DVOP)
17.804	Local Veterans' Employment Representative Program

Environmental Quality, Department of

12.113	St. Memo of Agreement for Reimb. of Tech. Services
66.034	Surveys, Studies, Investigations, Demonstrations and Spec. Purpose Act. Relating to the Clean Air Act
66.468	Capitalization Grants for Drinking Water State Revolving Fund
66.471	State Grants to Reimb. Oper. Of Small Water Syst. For Training and Certification Costs
66.474	Water Protection Coordination Grants to the States
66.605	Performance Partnership Grants
66.606	Special Purpose
66.608	One Stop Reporting
66.701	TSCA Monitoring
66.708	Pollution Prevention Incentives - States
66.802	Hazardous Substance Response Trust Fund

Health, Department of

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
66.609	Lead & Asthma Reduction
84.186	Safe and Drug-Free Schools and Communities-State Grants
93.000	X-Ray Inspections
93.000	Clinical Laboratory Improvement Amendments
93.003	Bioterrorism Hosp Prepared
93.110	Maternal and Child Health Federal Consolidated Programs
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs
93.130	Primary Care Services-Resource Coordination and Development-Primary Care Offices
93.136	Injury Prevention and Control Research and State and Community Based Programs
93.197	Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blc
93.200	Environmental Health Education Activities for Health Professionals and Communities
93.217	Family Planning-Services
93.234	Traumatic Brain Injury-State Demonstration Grant Program
93.235	Abstinence Education
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement
93.241	State Rural Hospital Flexibility Program
93.251	Newborn Hearing Screening
93.259	Rural Access to Emer. Devices
93.268	Immunization Grants

Schedule of Federal Programs by State Agency

Health, Department of (continued)

93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance
93.590 Community-Based Family Resource and Support Grants
93.773 Medicare-Hospital Insurance
93.913 Grants to States for Operation of Offices of Rural Health
93.917 HIV Care Formula Grants
93.940 HIV Prevention Activities-Health Department Based
93.944 Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance
93.945 Assistance Programs for Chronic Disease Prevention and Control
93.952 Trauma EMS
93.977 Preventive Health Services-Sexually Transmitted Diseases Control Grants
93.988 Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems
93.991 Preventive Health and Health Services Block Grant
93.994 Maternal and Child Health Services Block Grant to the States

Historical Society

15.904 Historic Preservation Fund Grants-In-Aid
15.921 U.S. Interior Department
15.926 American Battlefield Protection
45.149 National Foundation for Arts and Humanities
45.164 Promotion of the Humanities
83.544 Public Assistance Grants

Human Rights Commission

14.401 Fair Housing Assistance Program
30.002 Employment Discrimination-State and Local Fair Employment Practices Agency Contracts

Human Services, Department of

10.550 Food Donation
10.551 Food Stamps
10.555 National School Lunch Program
10.560 State Administrative Expenses for Child Nutrition
10.561 State Administrative Matching Grants for Food Stamp Program
10.568 Emergency Food Assistance Program (Administrative Costs)
10.570 Nutrition Program for the Elderly
20.513 Capital Assistance Program for Elderly Persons and Persons with Disabilities
93.000 Consumer Directed Personal Assistance Services and Supports
93.041 Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation
93.042 Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals
93.043 Special Programs for the Aging-Title III, Part F-Disease Prevention and Health Promotion Services
93.044 Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers
93.045 Special Programs for the Aging-Title III, Part C-Nutrition Services
93.051 Oklahoma Alzheimer's coalition project
93.052 Nation Family Caregiver Support Program
93.053 Nutrition Service
93.556 Promoting Safe and Stable Families
93.558 Temporary Assistance for Needy Families
93.563 Child Support Enforcement
93.566 Refugee and Entrant Assistance-State Administered Programs
93.568 Low-Income Home Energy Assistance
93.575 Child Care and Development Block Grant
93.576 Services for Elderly Refugees
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.597 Grants to States for Access and Visitation Programs
93.603 Adoption Incentive Payments
93.630 Developmental Disabilities Basic Support and Advocacy Grants
93.643 Children's Justice Grants to States
93.645 Child Welfare Services-State Grants
93.658 Foster Care-Title IV-E
93.659 Adoption Assistance
93.667 Social Services Block Grant
93.669 Child Abuse and Neglect State Grants
93.674 Independent Living
93.994 Maternal and Child Health Services Block Grant to the States
94.011 Foster Grandparent Program

Schedule of Federal Programs by State Agency

Insurance Department

- 93.000 Senior Health Insurance Counseling Program
- 93.048 Medicare/Medicaid Fraud, Abuse and Waste Reduction

Labor, Department of

- 17.005 Compensation and Working Conditions
- 17.504 Consultation Agreements
- 66.701 Toxic Substances Compliance Monitoring Cooperative Agreements

Legislative Service Bureau

- 16.550 State Justice Statistics Program for Statistical Analysis Centers
- 16.609 Project Safe Neighborhoods

Libraries, Department of

- 45.000 National Commission on Libraries and Information Studies
- 45.310 State Library Program
- 84.154 Public Library Construction and Technology Enhancement
- 89.003 National Historical Publications and Records Grants

Mental Health and Substance Abuse, Department of

- 14.235 Supportive Housing Program
- 14.238 Shelter Plus Care
- 93.000 Implementation Alcohol/Drug Data Collection
- 93.104 Cooperative Agreements for the Comprehensive Community
- 93.119 Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services-Technical Assis
- 93.150 Projects for Assistance in Transition from Homelessness (PATH
- 93.230 Consolidated Knowledge Development and Application (KD&A) Program
- 93.238 Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement
- 93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes
- 93.958 Block Grants for Community Mental Health Services
- 93.959 Block Grants for Prevention and Treatment of Substance Abuse

Military Department

- 12.400 Military Construction, National Guard
- 12.401 National Guard Military Operations and Maintenance (O&M) Projects
- 12.404 National Guard Civilian Youth Opportunities

Mines, Department of

- 15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining
- 17.600 Mine Health and Safety Grants

Narcotics/Dangerous Drugs Control

- 16.000 Marijuana Eradication

Office of Handicapped Concerns

- 84.161 Rehabilitation Services-Client Assistance Program

Office of Juvenile Affairs

- 16.202 Serious & Violent Offender Reentry
- 16.523 Juvenile Accountability Incentive Block Grants
- 16.540 Juvenile Justice and Delinquency Prevention-Allocation to States
- 16.548 Title V-Delinquency Prevention Program
- 16.549 Part E-State Challenge Activities

Oklahoma Aeronautics Commission

- 20.106 Airport Improvement Program

Oklahoma Health Care Authority

- 93.767 State Children's Insurance Program
- 93.768 Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities
- 93.777 State Survey and Certification of Health Care Providers and Suppliers
- 93.778 Medical Assistance Program
- 93.779 DDS Starter
- 93.779 Centers for Medicare and Medicaid Services (CMS) Research, Demonstration and Evaluations

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Public Safety, Department of

16.007 State Domestic Preparedness Equipment Support Program
16.710 Public Safety Partnership and Community Policing Grants
16.712 Police Corps
16.727 Enforcing Underage Drinking Laws Program
20.005 Boating Safety Financial Assistance
20.218 National Motor Carrier Safety
20.600 State and Community Highway Safety

Rehabilitation Services, Department of

84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States
84.169 Independent Living-State Grants
84.177 Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind
84.187 Supported Employment Services for Individuals with Severe Disabilities
84.265 Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training
96.001 Social Security-Disability Insurance
96.007 Social Security-Research and Demonstration

State Arts Council

45.025 Promotion of the Arts-Partnership Agreements

State Auditor and Inspector

15.222 Cooperative Inspection Agreements with States and Tribes

State Bureau of Investigation

16.542 National Institute for Juvenile Justice and Delinquency Prevention
16.710 Public Safety Partnership and Community Policing Grants

Supreme Court

93.586 State Court Improvement Program

Tourism & Recreation, Department of

15.503 Small Reclamation Projects
15.916 Outdoor Recreation-Acquisition, Development and Planning
20.219 Recreational Trails Program
83.544 Public Assistance Grants
94.006 Americorps

Transportation, Department of

20.205 Highway Planning and Construction
20.509 Formula Grants for Other Than Urbanized Areas

Veterans Affairs, Department of

64.005 Grants to States for Construction of State Home Facilities
64.014 Veterans State Domiciliary Care
64.015 Veterans State Nursing Home Care
64.124 All-Volunteer Force Educational Assistance

Water Resources Board

12.300 Basic and Applied Scientific Research
15.504 Water Reclamation and Reuse
66.419 Water Pollution Control State/ Interstate Program Support
66.419 WPC State and Interstate Program Support
66.454 Water Quality Management Planning
66.458 Capitalization Grants for State Revolving Funds
66.460 Nonpoint Source Implementation Grants
66.460 Nonpoint Source Implementation Grants
66.461 Wetlands Grants
66.463 Water Quality Cooperative Agreements
66.470 Rural Communities Hardship Grants
66.606 Surveys, Studies, Investigations and Special Purpose Grants
83.550 National Dam Safety Program

Wildlife, Department of

15.504 McGee Creek Project
15.605 Sport Fish Restoration
15.611 Wildlife Restoration
15.615 Endangered Species Conservation
15.625 Wildlife Conservation and Restoration
15.626 Hunter Education and Safety
15.634 State Wildlife Grants

Note: This schedule represents primary recipients only.

Selected Activities for Internal Service Type Funds

Selected Activities for Internal Service Type Funds

Selected Activities for Internal Service Type Funds

UNAUDITED

Selected Activities for Internal Service Type Funds For the Year Ended June 30, 2003

	Office of State Finance Centrex	Capitol Improvement Authority	Department of Corrections - Oklahoma Correctional Industries	Department of Central Services	Total
Total Revenues	\$ 7,958,873	\$ 105,418,792	\$ 18,799,319	\$ 33,638,353	\$ 165,815,337
Total Expenditures	6,484,542	133,962,684	18,641,469	28,438,516	187,527,211
Revenues Over (Under) Expenditures	1,474,331	(28,543,892)	157,850	5,199,837	(21,711,874)
Other Financing Sources (Uses)					
Operating Transfers In	-	632,774	46,918	3,350,410	4,030,102
Operating Transfers Out	-	(5,161,290)	(46,918)	(120,941)	(5,329,149)
Bond Proceeds	-	105,100,000	-	-	105,100,000
Premium from Bond Issue	-	7,427,432	-	-	7,427,432
Discount on Bond Issue	-	(102,958)	-	-	(102,958)
Bond Refunding	-	(93,669,589)	-	-	(93,669,589)
Total Other Financing Sources (Uses)	-	14,226,369	-	3,229,469	17,455,838
Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,474,331	(14,317,523)	157,850	8,429,306	(4,256,036)
Fund Balances - Beginning of Year	4,725,805	186,328,084	12,757,694	9,459,067	213,270,650
Fund Balances - End of Year	\$ 6,200,136	\$ 172,010,561	\$ 12,915,544	\$ 17,888,373	\$ 209,014,614

Selected Activities for Internal Service Type Funds

UNAUDITED

Selected Activities for Internal Service Type Funds For the Year Ended June 30, 2003

	Office of State Finance Centrex	Capitol Improvement Authority	Department of Corrections - Oklahoma Correctional Industries	Department of Central Services	Total
June 30, 2002					
Ending Fund Balance	\$ 4,725,805	\$ 183,118,107	\$ 12,757,694	\$ 9,458,303	\$ 210,059,909
July 1, 2002					
Beginning Fund Balance	\$ 4,725,805	\$ 186,328,084	\$ 12,757,694	\$ 9,459,067	\$ 213,270,650
Cash Basis Data -					
FY 2003 Revenues	\$ 7,958,873	\$ 105,418,792	\$ 18,799,319	\$ 33,638,353	\$ 165,815,337
FY 2003 Expenditures	6,484,542	133,962,684	18,641,469	28,438,516	187,527,211
FY 2002 Revenues	\$ 6,655,452	\$ 100,839,257	\$ 21,109,749	\$ 31,227,073	\$ 165,815,337
FY 2002 Expenditures	7,142,155	206,866,678	15,710,229	22,895,889	187,527,211
FY 2001 Revenues	6,953,009	385,493,871	18,786,750	26,727,356	437,960,986
FY 2001 Expenditures	6,512,837	375,044,970	16,401,905	22,925,119	420,884,831
FY 2000 Revenues	7,088,960	413,990,357	21,242,630	24,635,015	466,956,962
FY 2000 Expenditures	5,227,259	450,125,696	15,902,079	21,724,429	492,979,463
FY 1999 Revenues	6,986,000	645,717,311	20,880,942	22,996,273	696,580,526
FY 1999 Expenditures	6,210,227	438,167,389	15,394,894	19,255,616	479,028,126
FY 1998 Revenues	6,396,227	63,692,512	20,538,199	22,451,143	113,078,081
FY 1998 Expenditures	5,785,483	71,292,827	17,187,171	21,527,611	115,793,092
FY 1997 Revenues	6,123,047	24,022,042	17,489,452	25,355,830	72,990,371
FY 1997 Expenditures	5,362,814	39,294,981	15,371,004	23,259,334	83,288,133
FY 1996 Revenues	6,703,822	47,155,232	16,052,300	19,724,249	89,635,603
FY 1996 Expenditures	4,220,437	21,852,696	12,543,195	18,566,205	57,182,533
FY 1995 Revenues	5,713,661	31,394,457	14,339,833	16,496,199	67,944,150
FY 1995 Expenditures	5,013,298	14,626,471	11,989,994	15,315,789	46,945,552
FY 1994 Revenues	5,050,363	8,151,407	12,818,317	19,552,734	45,572,821
FY 1994 Expenditures	5,825,226	7,132,991	12,960,265	19,494,568	45,413,050

Selected Activities for Internal Service Type Funds

UNAUDITED

Selected Activities for Internal Service Type Funds
For the Year Ended June 30, 2003

Trend Analysis

	Office of State Finance Centrex	Capitol Improvement Authority	Department of Corrections - Oklahoma Correctional Industries	Department of Central Services
Comparison of FY 2003 Revenue to Prior Years'				
FY02	119.58%	104.54%	89.06%	107.72%
FY01	114.47%	27.35%	100.07%	125.86%
FY00	112.27%	25.46%	88.50%	136.55%
Comparison of FY 2003 Expenditures to Prior Years'				
FY02	90.79%	64.76%	118.66%	124.21%
FY01	99.57%	35.72%	113.65%	124.05%
FY00	124.05%	29.76%	117.23%	130.91%
Revenues expressed as a percent of expenditures				
FY03	122.74%	78.69%	100.85%	118.28%
FY02	93.19%	48.75%	134.37%	136.39%
FY01	106.76%	102.79%	114.54%	116.59%
FY00	135.62%	91.97%	133.58%	113.40%
FY99	112.49%	147.37%	135.64%	119.43%
FY98	110.56%	89.34%	119.50%	104.29%
FY97	114.18%	61.13%	113.78%	109.01%
FY96	158.84%	215.79%	127.98%	106.24%
FY95	113.97%	214.64%	119.60%	107.71%
FY94	86.70%	114.28%	98.90%	100.30%

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Other Findings

Other Findings

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Department of Education

REF NO: 03-265-3IT

STATE AGENCY: Department of Education

FEDERAL AGENCY: Department of Education

CFDA NO: All CFDA Numbers

FEDERAL PROGRAM NAME: All Federal Programs

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT) Delivery and Support DS4, information services management should manage control over the Information Technology (IT) processes to ensure continuous service. The control is to ensure IT services are available as required and to ensure a minimum business impact in the event of a major disruption. Therefore having an operational and tested IT continuity plan, which is in line with the overall business continuity plan, is essential to continuous IT service.

Condition: Based upon our review of the State Department of Education IT Division's documentary and testimonial evidence, we found:

- The agency does not have plans for either a "hot" or "cold" site to utilize if the agency suffered a catastrophic loss to their data center.
- The agency has not developed, implemented, tested, or documented a Disaster Recovery Plan.
- The Special Education and the Title I Part A applications do not have alternative processing techniques in place.
- The Special Education and the Title I Part A applications do not have documented testing results for back-up and recovery procedures.

Effect: There is an increased risk that long-term disruption of IT services would occur during a disaster.

Recommendation: We recommend the State Department of Education management explore agreements with other state agencies, other agencies could provide them with access to processing availability in the case of a catastrophic loss to the State Department of Education Data Center. We also recommend management assess their disaster plans for adequate recoveries on a regular basis or upon major changes to the business or IT infrastructure. Testing should be done on a routine basis and include careful preparation, documentation, and reporting of test results. Depending on the test results an action plan should be implemented to mitigate and address the risks identified during testing.

Management's Corrective Action Plan

Contact Person: Jim Murphy

Anticipated Completion Date:

Corrective Action Planned: Explore options for agreements with other state agencies; examine other state agency disaster and recovery plans and testing procedures for these plans; work on manual processing plan with federal programs as an alternate processing technique.

REF NO: 03-265-4IT

STATE AGENCY: Department of Education

FEDERAL AGENCY: Department of Education

CFDA NO: All CFDA Numbers

FEDERAL PROGRAM NAME: All Federal Programs

CONTROL CATEGORY: Other

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT), Delivery and Support DS5, management should ensure system security that satisfies the business requirement to safeguard information against unauthorized use, disclosure or modification, damage or loss. System security is enabled by logical access controls, which ensure that access to systems, data and programs is restricted to authorized users.

According to the State of Oklahoma Information Security Policy, Procedures and Guidelines, Section 5.2: Effective IT security awareness presentations must be designed. Awareness presentations must be on going, creative and motivational, with the objective of focusing attention so that the learning will be incorporated into conscious decision-making. All current employees as well as new employees or contractors when hired that have access to any information assets must be briefed by the hiring or contracting agency as follows:

- The access requirements of their position or contract,
- Their responsibilities for safeguarding sensitive information and assets,
- All information security policies, procedures, guidelines and best practices, and
- A written document outlining the contents of the briefing and the date, which should be signed by the individual acknowledging receipt of its contents.

Condition: Based upon our review, we noted:

- The agency does not require employees to sign a security agreement before the employee obtains access to the agency's data.
- Data has not been classified "confidential" or "no protection" within the organization.
- There is no data resource naming conventions in place to assist in the determination of security to be provided.
- The Special Education application does not have audit trails enabled.
- No policy or procedures exist to establish appropriate access.
- No policy or procedures exist to document configuration of the Guardian Operating System software.

Effect: There is an increased risk of:

- Unauthorized use.
- Information disclosure.
- Information damage.
- Information loss.

Recommendation: We recommend the State Department of Education develop and implement a program in which required users of their data systems sign a security agreement prior to access being granted. In addition the agency should develop and implement data classifications for their data that would assist in the determination of the security level needed. The agency should develop audit trails for all future applications, and if feasible, create an auditable record of activities within the Special Education application.

Management's Corrective Action Plan

Contact Person: Jim Murphy

Anticipated Completion Date:

Corrective Action Planned: Require employees to sign a security agreement before the employee accesses the agency's data. Data files are classified within our agency, only users of a particular system can access the files for this system; this policy will be put into writing. All federal financial system files (including Special Education) do have audit trails enabled; the Special Education child count system has restricted and encrypted data. There are policies and procedures to determine

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

appropriate access and to document configuration of the Guardian Operating System, these policies and procedures will be put into writing.

REF NO: 03-265-6IT

STATE AGENCY: Department of Education

FEDERAL AGENCY: Department of Education

CFDA NO: All CFDA Numbers

FEDERAL PROGRAM NAME: All Federal Programs

CONTROL CATEGORY: Information Systems

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT), Planning and Organization PO4, management should ensure control over the Information Technology (IT) process of defining the IT organization and relationships that satisfies the business requirement to deliver the right IT services. The process is enabled by an organization suitable in numbers and skills with roles and responsibilities defined and communicated, aligned with the business and that facilitates the strategy and provides for effective direction and adequate control.

Senior management should implement a division of roles and responsibilities, which should exclude the possibility for a single individual to subvert a critical process. Management should also make sure that personnel are performing only those duties stipulated for their respective jobs and positions. In particular, segregation of duties should be maintained.

Condition: Our review found that the State Department of Education lack a segregation of duties between Security Administration functions and other IT functions on their Guardian Operating System software. Currently, the security duties are handled by three primary positions: Information Systems (IS) and Operations Manager, IS Microcomputer and Network Manager, and Web Application Systems Specialist.

Effect: Due to the sharing of security duties with other IS functions, an increased risk of unauthorized and/or inappropriate use of the State Department of Education systems exists.

Recommendation: We recommend the State Department of Education develop and implement a program in which the role of the Operating System Security Administrator is segregated from all other functions within the operating system. Segregation of duties should be maintained between the following functions:

- Information systems use
- Data entry
- Computer Operations
- Network management
- System administration
- System development and maintenance
- Change management
- Security administration
- Security audit

Management's Corrective Action Plan

Contact Person: Jim Murphy

Anticipated Completion Date:

Corrective Action Planned: The condition found by the review is misstated. The duties between Security Administration functions and other IT functions on the Guardian Operating System (OS) software are segregated. These Security Administration functions are the responsibility of the Information Systems and Operations Manager and his designated Alternate only. The IS Microcomputer and Network Manager, and the Web Applications Systems Specialist have no

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

administrative or management functions on the Guardian Operating system. Data Services does not have the staff for segregation of duties as the recommendation suggest.

Employment Security Commission

REF NO: 03-290-004
STATE AGENCY: Employment Security Commission
FEDERAL AGENCY: Department of Labor
CFDA NO: 17.225
FEDERAL PROGRAM NAME: Unemployment Insurance
FEDERAL AWARD NUMBER: UI112659KS
FEDERAL AWARD YEAR: 2002, 2003
CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS11), management should ensure that data remains complete, accurate and valid during its input, update and storage by establishing effective application and general controls over the IT operations.

Condition: During our review of the Unemployment Insurance (UI) function, it was noted that this system is separate from the accounting system. The accounting system does not automatically capture, summarize and report all financial activities of the agency.

Effect: Risk of incomplete, inaccurate and invalid data is increased due to the manual transfer of data from system to system.

Recommendation: It is recommended that an interface between the systems be developed and/or research any updates that may be effective in updating the system.

Management's Corrective Action Plan

Contact Person: Levi Onwuchuruba, Chief Financial Director

Anticipated Completion Date:

Corrective Action Planned: Interfacing or integrating our contribution system with our cost accounting system is a good idea but it is not practical at this time. We are in the process of replacing our in-house legacy cost accounting system with PeopleSoft Enterprise Resources Management System. During the first phase of our Agency's implementation, which will start whenever the Office of State Finance permits, we will replace our cost accounting system with the grants and contracts modules of PeopleSoft. This implementation will take approximately twelve months. If we are satisfied with the outcome, we will explore the possibility of replacing the contribution system with the receivable module of PeopleSoft. If we decide not to replace the contribution system with PeopleSoft, we will at a minimum interface the two systems at that time.

REF NO: 03-290-007
STATE AGENCY: Employment Security Commission
FEDERAL AGENCY: Department of Labor
CFDA NO: 17.225, 17.258, 17.259, 17.260
FEDERAL PROGRAM NAME: Unemployment Insurance, Workforce Investment Act (WIA) Adult Program, WIA Youth Activities, and WIA Dislocated Workers
FEDERAL AWARD NUMBER: UI112659KS, AA12031IZ0, AA12031JF0, AA12031JGO, AA12031KC0, and AA12031KD0
FEDERAL AWARD YEAR: 2002, 2003
CONTROL CATEGORY: Other

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), management should ensure that systems security safeguards information against unauthorized use, disclosure or modification and damage or loss. Logical access controls should ensure that access to systems, data and programs is restricted to authorized users.

Condition: The OESC has not formalized their Information Technology policies and procedures. The Office of State Finance (OSF) issued an Information Security Policy effective of September 1, 2003, that includes minimum requirements for the protection of the State's information assets.

Effect: The lack of formal IT policies increases risk of non-compliance with state security requirements and increases the risk of unauthorized use, disclosure, modification or loss of OESC data and systems.

Recommendation: We recommend that the department develop a formal written policy and procedures manual to implement the minimum requirements as defined by OSF. OESC should document any deviation from the OSF policy that is due to system limitations and develop a plan that will achieve or exceed OSF requirements for protecting State information.

Management's Corrective Action Plan

Contact Person: Mike Evans, CIO

Anticipated Completion Date:

Corrective Action Planned: We agree that the Agency did not have a written policy and procedures manual at the inception of this audit. However, the IT Division does have informal policies and procedures that are followed throughout the division. During the course of our internal review of Information Security, Internal Audit has been working with the IT Division to document the current policies and procedures in place in an effort to develop a formal, written document. IA has developed draft policy and procedures for IT, which incorporates current informal procedures, the Office of State Finance's minimum requirements, and best practices.

REF NO: 03-290-008

STATE AGENCY: Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.225, 17.258, 17.259, 17.260

FEDERAL PROGRAM NAME: Unemployment Insurance, Workforce Investment Act (WIA) Adult Program, WIA Youth Activities, and WIA Dislocated Workers

FEDERAL AWARD NUMBER: UI112659KS, AA12031IZ0, AA12031JF0, AA12031JGO, AA12031KC0, and AA12031KD0

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), management should ensure that systems security safeguards information against unauthorized use, disclosure or modification and damage or loss. Logical access controls should ensure that access to systems, data and programs is restricted to authorized users.

Condition: Policies and procedures for the Novell system allow the following items:

1. Unlimited number of log-on attempts
2. Does not require user's to change passwords on a periodic basis.
3. Does not force user to change password on the initial log in.

Effect: Increased risk of unauthorized use, disclosure or modification and damage or loss of information.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Recommendation: We recommend that the department develop procedures to adequately address the access control for this system. Some issues that should be addressed in the policy and procedures are as follows:

- Initial password should be changed on first use
- User ID should be suspended after 5 repeated unsuccessful log-on attempts
- An appropriate and enforced frequency of password changes

Management's Corrective Action Plan

Contact Person: Mike Evans, CIO

Anticipated Completion Date:

Corrective Action Planned: Currently the Novell system allows for six incorrect logons before the account is locked and must be reset by an administrator. This number coincides with the number of attempts allowed on the mainframe. OESC has implemented forced periodic password changes in the past and it was determined that the strain it put on the Helpdesk and the users was not reasonable for the protection of non-critical data. We believe Agency resources are better utilized protecting critical versus non-critical data. OESC is currently running Novell 4.1 and looking at upgrading to Novell 6.15. Novell 4.1 does not support the feature of forcing a user to change their password upon initial login that the SA&I is recommending. We will implement this policy when we determine the best course of action; be it upgrading Novell or changing the existing backbone so that it is totally MS Windows based.

REF NO: 03-290-009

STATE AGENCY: Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.225, 17.258, 17.259, 17.260

FEDERAL PROGRAM NAME: Unemployment Insurance, Workforce Investment Act (WIA) Adult Program, WIA Youth Activities, and WIA Dislocated Workers

FEDERAL AWARD NUMBER: UI112659KS, AA12031IZ0, AA12031JF0, AA12031JGO, AA12031KC0, and AA12031KD0

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), management should ensure that systems security safeguards information against unauthorized use, disclosure or modification and damage or loss. Logical access controls should ensure that access to systems, data and programs is restricted to authorized users.

Condition: IT department does not have a firewall to provide security to the web server and email server. They are presently using Office of State Finance's NAT packet filter as a limited firewall.

Effect: Increased risk of unauthorized use, disclosure, damage or loss of information.

Recommendation: We recommend that the department firewalls should have at least the following properties:

- All traffic from inside to outside and vice-versa must pass through the firewall,
- Only authorized traffic, as defined by local security policy, will be allowed to pass,
- Firewall is immune to penetration,
- Traffic is exchanged through the firewall at the application layer only,
- Firewall architecture combines control measures both at the application and network level,

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

- Firewall architecture hides the structure of the internal network,
- Firewall architecture provides an audit trail of all communications to or through the firewall system and will generate alarms when suspicious activity is detected,
- Organization's hosts, which provide support for incoming service requests from the public network, are sitting outside the firewall

Management's Corrective Action Plan

Contact Person: Mike Evans, CIO

Anticipated Completion Date:

Corrective Action Planned: OESC has purchased a Netscreen-200 series high-availability firewall solution. We are currently in the process of working with OSF to arrange the network addresses for implementation. Once this fail-over solution is in place, we will be able to address the recommended properties.

REF NO: 03-290-010

STATE AGENCY: Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.225, 17.258, 17.259, 17.260

FEDERAL PROGRAM NAME: Unemployment Insurance, Workforce Investment Act (WIA) Adult Program, WIA Youth Activities, and WIA Dislocated Workers

FEDERAL AWARD NUMBER: UI112659KS, AA12031IZ0, AA12031JF0, AA12031JGO, AA12031KC0, and AA12031KD0

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobIT, Delivery and Support DS5), management should ensure that systems security safeguards information against unauthorized use, disclosure or modification and damage or loss. Logical access controls should ensure that access to systems, data and programs is restricted to authorized users.

Condition: The results of a vulnerability assessment of the website www.oesc.state.ok.us found 70 potential vulnerabilities, warnings or items of note, including 21 potentially serious vulnerability risks. The detailed results were provided to IT management for review.

Effect: Increased risk of unauthorized use, modification, damage or loss of OESC's information. There is an increased risk that the website may be defaced or the service could be interrupted which could cause embarrassment to the agency and the State of Oklahoma.

Recommendation: We recommend that you assess your system security on a recurring basis and develop a process for reporting potential security breaches that would include:

- Unauthorized attempts to access system and its resources
- Unauthorized attempts to view or change security definitions and rules on the server.

Management's Corrective Action Plan

Contact Person: Mike Evans, CIO

Anticipated Completion Date:

Corrective Action Planned: OESC has reviewed the results of the assessment and taken measures to harden the internal security of that web server and other servers within our network. Although the

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

assessment showed vulnerabilities on that web server, at no time was the UI Claims taking process nor any critical data at risk.

REF NO: 03-290-011

STATE AGENCY: Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.225, 17.258, 17.259,17.260

FEDERAL PROGRAM NAME: Unemployment Insurance, Workforce Investment Act (WIA) Adult Program, WIA Youth Activities, and WIA Dislocated Workers

FEDERAL AWARD NUMBER: UI112659KS, AA12031IZ0, AA12031JF0, AA12031JGO, AA12031KC0, and AA12031KD0

FEDERAL AWARD YEAR: 2002 - 2003

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS11), management should ensure that data remains complete, accurate and valid during its input, update and storage. Procedures should be in place to ensure original source documents are retained or are reproducible by the organization for an adequate amount of time to facilitate retrieval or reconstruction of data as well as to satisfy legal requirements.

Condition: During our review of the OESC process for the Computerized Certification of FUTA Credits we noted that the procedures to manually review and validate the output data are not documented nor retained on file within the agency in accordance with Internal Revenue Service (IRS) document# 6581. IRS document# 6581 states that the results of these reviews should be saved for future reference.

Effect: Risk of incomplete, inaccurate, and invalid data is increased due to the lack of documentation to support the review and validation activities as specified by federal authority.

Recommendation: It is recommended that OESC comply with the IRS requirement and establish procedures for the retention of all data utilized in the FUTA matching process. This evidence should include all production data files, output reports, and the documentation to provide evidence of the validation and review activities performed by the agency. This procedure will enable a process of retrieval and/or reconstruction of data used for the match.

Management's Corrective Action Plan

Contact Person: Mary Casey

Anticipated Completion Date:

Corrective Action Planned: The OESC currently follows the FUTA Certification Output Review Procedures per IRS Document 6581. As evidence that this validation and review activity is performed by the Agency, the OESC will retain 1) a copy of the printout of the first 50 Zero-Certification records and 2) a copy of the printout of the first 50 Non-Zero Certification records. The OESC will also retain the screen prints of UIC775D1, IRS CERTIFICATION screen against which the first 50 Zero-Certification records and the first 50 Non-Zero Certification records are validated.

REF NO: 03-290-019

STATE AGENCY: Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.225

FEDERAL PROGRAM NAME: Unemployment Insurance

FEDERAL AWARD NUMBER: UI112659KS

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Other

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), management should ensure that systems security safeguards information against unauthorized use, disclosure or modification and damage or loss. Logical access controls should ensure that access to systems, data and programs is restricted to authorized users. The logical access to and use of IT resources should be restricted by the implementation of adequate identification, authentication and authorization mechanisms, linking users and resources with access rules.

Condition: Our office requested and has not received a list of UI/Claims system users and corresponding user ids. This lack of documentation restricted our office's testwork on security of the UI and Claims system. Upon further inquiry, it was disclosed that the user ids contain the employees social security numbers. Using social security numbers as user ids is not a recommended practice. This makes it difficult to generate active user lists and system activity lists without disclosing employees' personal information that is restricted by 74 Okla. Stat. § 840-2.11.

Effect: It appears that this procedure of using social security numbers as user id's could significantly increase the risk of unauthorized use or disclosure of employee personal information and increases the risk of modification, damage, or loss of information on the system. The user id's should not be readily identifiable with the employee it is assigned to.

Recommendation: We recommend that the department develop alternative user ids for the agency.

Management's Corrective Action Plan

Contact Person: Mike Evans, CIO

Anticipated Completion Date:

Corrective Action Planned: OESC is cognizant of the need to maintain system security and restricts access to information based on user access rules. We are aware of the need to keep both the social security number of users and user ids confidential. However, social security number are easily remembered by their owners, as opposed to frequently changing random numbers which are inevitably written down on the calendar, or on scraps of paper placed in an unlocked desk drawer. OESC access to programs and data currently requires a network userid and a password; neither contains social security numbers and can be used to identify active users and system activity. We will endeavor to develop alternative methods for maintaining our system security and identify users without encroaching on sensitive personal information.

REF NO: 03-290-023

STATE AGENCY: Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.258, 17.259, and 17.260

FEDERAL PROGRAM NAME: WIA Adult, Youth Activities, and Dislocated Worker

FEDERAL AWARD NUMBER: AA12031IZ0, AA12031JF0, AA12031JG0, AA12031KC0, and AA12031KD0

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Subrecipient Monitoring

Criteria: OMB Circular A-110 Common Rule § ____ .40 Monitoring and Reporting Program Performance states:

- (a) *Monitoring by grantees.* Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Condition: The OESC Monitoring Unit indicated monitoring procedures are performed for the following during site visits:

- Evidence of activities allowed and allowable cost principles
- Documentation of segregation of duties
- Documentation of period of availability requirement
- Length of time taken by the subrecipient to expend funds once received
- Supporting documentation to ensure proper earmarking percentages are applied

However, the monitoring tool used by this unit during site visits does not provide a format to document all activities monitored. Documentation is not noted in a uniform or consistent manner. The following was noted:

Tulsa: No documentation of segregation of duties.
Central: No documentation of segregation of duties.
Northeast: No documentation to support eligibility testwork.

Cause: No centralized file is available, which supports results of all work performed during monitoring site visits.

Effect: The monitoring tool used by monitors during site visits, do not reflect documentation of all testwork performed.

Recommendation: We recommend that the OESC's Monitoring Unit document all procedures performed in the monitoring tool.

Management's Corrective Action Plan

Contact Person: Terry Watson, Director Employment and Training Division

Anticipated Completion Date:

Corrective Action Planned: OESC's Monitoring Unit does document all procedures performed during monitoring reviews. Procedures performed by the monitors are written directly on the documentation obtained from the grant recipients. This documentation is maintained by the monitors for each monitoring visit. We have reviewed our monitoring files and found documentation to support that each procedure shown as an exception in this finding was performed. This documentation is available for review. In the future, we will work to better organize our monitoring documentation.

Department of Health

REF NO: 03-340-4IT

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.268, 93.283

FEDERAL PROGRAM NAME: Immunization Grants; Centers For Disease Control and Prevention
Investigations and Technical Assistance

FEDERAL AWARD NUMBER: H23/CCH604488-12; U90/CCU616982-03

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), IT administration should ensure that violation and security activity is logged, reported, reviewed and appropriately escalated on a regular basis to identify and resolve incidents involving

Other Findings

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unauthorized activity. The logical access to the computer resources accountability information (security and other logs) should be granted based upon the principle of least privileged, or need-to-know.

Condition: Logging and monitoring is not consistently conducted on non-mainframe systems. According to OSDH, logging on systems other than the mainframe consist of a manual observation of the log. The only system that produces a report is the Mainframe.

Effect: Inconsistent monitoring of resources increases the possibility that unauthorized use of data, manipulation, or destruction of the data and systems may go undetected.

Recommendation: We recommend the Department evaluate all the systems and available logging features. Implement Security policies and procedures that identify:

- Systems to be monitored.
- Activities to be logged.
- Reporting requirements and incident escalation procedures.

Management's Corrective Action Plan

Contact Person: Joe Camp

Anticipated Completion Date: July, 2004

Corrective Action Planned: OSDH will create policies consistent with the OSF security standard in this area. Log consolidation software has been acquired and will be implemented in the near future. Collection of logs into a single database will facilitate monitoring.

REF NO: 03-340-6IT

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH604488-12

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 5.21), protection of electronic value should ensure the confidentiality, availability and integrity of information. The Oklahoma State Immunization Information System (OSIIS) should provide:

- Application documentation for system's programmers;
- Application risk assessment;
- An alternative processing plan, if the application was not able to be restored in a timely manner.

Condition: Based upon our review of the OSIIS system, it was noted there was no programmer application documentation, there had been no risk assessment performed on the application and there was no alternative-processing plan in place for the OSIIS system.

Effect: The lack of addressing these areas could result in potential loss of:

- Financial Data;
- Client Information;
- Network Services;

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Recommendation: We recommend the OSDH review the documentation for the OSIIS program, update the system application documentation and alter their current methods such that all future changes to the system are documented. In addition OSDH should conduct a risk assessment review on OSIIS and develop an alternative-processing plan for OSIIS.

Management's Corrective Action Plan

Contact Person: Joe Camp

Anticipated Completion Date: July, 2005

Corrective Action Planned: This is not only a problem with the OSIIS system but with many other OSDH applications systems. ITS will implement policies consistent with the OSF security standard in the areas of change control, separation of duties and documentation.

REF NO: 03-340-7IT

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH604488-12

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Acquisition and Implementation AI 6), Control over the IT process of managing changes that satisfies the business requirement to minimize the likelihood of disruption, unauthorized alterations and errors. A management system, which provides for the analysis, implementation and follow-up of all changes requested and made to the existing IT infrastructure.

Condition: Based upon our review of the OSIIS system, it was noted that there is no formal process of change control. The response has been crisis management to fix an immediate problem. Without formal change control process or a test environment that tracks and tests changes before going into production, changes are not documented and may be unauthorized.

Effect: The lack of addressing these areas could result in:

- Loss of or inaccurate Immunization Data.
- Erroneous Federal Reporting.
- Loss of system availability.

Recommendation: We recommend the OSDH develop and implement a formal set of procedures to document changes made within the OSIIS system.

Change control procedures should include the following areas:

- Change Request Initiation and Control
- Impact Assessment
- Control of Changes
- Emergency Changes
- Documentation and Procedures
- Authorized Maintenance
- Software Release Policy
- Distribution of Software

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Management's Corrective Action Plan

Contact Person: Joe Camp

Anticipated Completion Date: July, 2005

Corrective Action Planned: This is not only a problem with the OSIS system but with many other OSDH applications systems. ITS will implement policies consistent with the OSF security standard in the areas of change control, separation of duties and documentation.

REF NO: 03-340-007

STATE AGENCY: State Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH604488-12

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Criteria: According to the Oklahoma State Department of Health Administrative Procedures Manual, *State Owned Cell Phone Use*, number 3-3:

State owned cellular phones are state property and are intended to serve the public interest in the conduct of official state business. Incidental personal use of state owned cellular phone is permitted but the user must agree to pay for personal calls and not abuse the privilege...It is necessary to establish internal controls over the use of state owned or leased cellular phones to ensure that payments are made for personal calls...When personal calls are made or received payment must be made for the personal use of the cellular phone. This should be done by providing a personal check made payable to OSDH for the personal use portion of the invoice. Employees will be expected to reimburse OSDH the cost of the call based on the prevailing rate per minute as well as any applicable roaming fees, taxes, and long distance charges. Guidance regarding the calculation of the amount associated with personal usage can be obtained by using the Excel spreadsheet entitled *Cell_Phone_Reimbursement.xls*.... Reimbursement for personal use should be made monthly. However, if the amount owed is less than \$10, the employee should reimburse only when the amount reaches \$10 or more, but not less than annually.

Condition: During our testwork, we noted that there should have been at least six reimbursements for the four AT&T Wireless claims tested, however the Department could only produce documentation for four reimbursements and only two had the correct OSDH reimbursement forms. The two forms that were provided could not be traced back to specific claims or invoices. The supporting invoices for these claims indicated that a large number of personal phone calls were made.

Effect: The Department cannot verify that an employee has reimbursed the Department for the personal use of cell phones. As a result, the Department may not be receiving proper reimbursement for personal use of cell phones.

Recommendation: We recommend that the Department enforce their policy of employees attaching the Excel spreadsheet to document Cell Phone Reimbursement with each employee's personal check. We also recommend that the Department create some type of tracking system that enables the Department to trace the reimbursements to the correct invoice. As an alternative, we recommend that the Department consider prohibiting the use of agency cell phones for personal use.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Management's Corrective Action Plan

Contact Person: Don Blose

Anticipated Completion Date: October 1, 2003

Corrective Action Planned: We concur with the auditor's recommendation and will ensure that employees document and reimburse the state for any personal calls. In addition, the Immunization Service has developed an internal program policy to document the personal use and reimbursement of state cell phones. This policy states:

“Cell phones represent an important tool of the Immunization Service for responding quickly to our public and private providers. Under agency guidelines, cell phones are intended for conducting agency business. Personal calls are allowable, provided that employees reimburse the agency for personal calls.

Effective immediately, Immunization Service employees will familiarize themselves with the agency's guidelines for the correct use of state cell phones. It is every employee's responsibility to understand and follow these guidelines. Furthermore, every employee will be expected to read and understand the following program-specific guidelines on the use of cell phones:

- Each employee will keep an itemized list of personal calls made and received during business hours and provide appropriate reimbursement to the OSDH utilizing the agency's spreadsheet for cost calculation.
- All calls made and received during non-business hours including evenings, weekends and holidays will be assumed to be personal calls. Each employee will be expected to reimburse the OSDH for these calls unless otherwise documented as business calls. Employees will not be expected to pay for “wrong number” or inerrant calls received. Each employee will be responsible to maintain itemized documentation of business or inerrant calls during non-business hours.
- Service employees are expected to make payments monthly or when the value of personal calls reaches or exceeds \$10. Employees should maintain a file of payment receipts, OSDH cost calculation spreadsheets and monthly itemized call lists. Files should be retained for at least three years.
- Please remember that the improper use of state property (e.g., cell phones) could result in disciplinary action against the employee.”

REF NO: 03-340-010

STATE AGENCY: Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH604488-12

FEDERAL AWARD YEAR: 2002

CONTROL CATEGORY: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Criteria: According to OMB Circular A-87, Attachment A, Section C.1, Factors affecting allowability of costs, “To be allowable under Federal awards, costs must meet the following general criteria: (a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards...”

In addition, OMB Circular A-87, Attachment A, Section C.2, Reasonable costs, states:

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or

Other Findings

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components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.

Condition: During our testwork we reviewed four claims for AT&T Wireless. We noted that the Oklahoma State Department of Health (OSDH) had significant cell phone expenditures and that Immunization employees were using excessive minutes above their monthly allotment. We then reviewed the phone numbers on the invoices to determine if the calls were of a personal or business nature.

Based on our review, these exceptions were noted:

CLAIM NUMBER	Number of personal Calls	Number of Minutes used for Personal Calls	Rate Per Minute	Total Dollar Due to Personal Calls
302226	241	584	\$0.30	\$175.20
306485	5	12	\$0.30	\$3.60
309803	253	657	\$0.30	\$197.10
338336	590	2584	\$0.30	\$775.20
Total	1089	3837	\$0.30	\$1,151.10

Effect: Federal Funds are being improperly used to pay for charges not related to the Immunization program.

Recommendation: We recommend that the Department ensure that the agency's cell phones are not used for personal phone calls, or if personal phone calls are allowed, proper reimbursement is made by employees, so that federal funds are not used for unallowable costs.

Management's Corrective Action Plan

Contact Person: Don Blose

Anticipated Completion Date: October 1, 2003

Corrective Action Planned: We concur with the auditor's recommendation and will ensure that employees document and reimburse the state for any personal calls. In addition, the Immunization Service has developed an internal program policy to document the personal use and reimbursement of state cell phones. This policy states:

"Cell phones represent an important tool of the Immunization Service for responding quickly to our public and private providers. Under agency guidelines, cell phones are intended for conducting agency business. Personal calls are allowable, provided that employees reimburse the agency for personal calls."

Effective immediately, Immunization Service employees will familiarize themselves with the agency's guidelines for the correct use of state cell phones. It is every employee's responsibility to understand and follow these guidelines. Furthermore, every employee will be expected to read and understand the following program-specific guidelines on the use of cell phones:

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

- Each employee will keep an itemized list of personal calls made and received during business hours and provide appropriate reimbursement to the OSDH utilizing the agency's spreadsheet for cost calculation.
- All calls made and received during non-business hours including evenings, weekends and holidays will be assumed to be personal calls. Each employee will be expected to reimburse the OSDH for these calls unless otherwise documented as business calls. Employees will not be expected to pay for "wrong number" or inerrant calls received. Each employee will be responsible to maintain itemized documentation of business or inerrant calls during non-business hours.
- Service employees are expected to make payments monthly or when the value of personal calls reaches or exceeds \$10. Employees should maintain a file of payment receipts, OSDH cost calculation spreadsheets and monthly itemized call lists. Files should be retained for at least three years.
- Please remember that the improper use of state property (e.g., cell phones) could result in disciplinary action against the employee."

Department of Human Services

REF NO: IS03-830-002

STATE AGENCY: Department of Human Services

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Delivery & Support objective #9, management should implement controls which identify and record all IT assets and their physical location, and a regular verification program which confirms their existence. Compliance with the requirements of software and hardware license agreements should be reviewed on a periodic basis.

Condition: No controls ensure the OKDHS compliance with the licensing agreement for the Oracle RDBMS product used by the KIDS application. Oracle licenses their product for a specified period of time to either a specific number of named users, or to a number of concurrent users accessing the database. It was reported that the OKDHS license for the Oracle product use is under a concurrent user agreement. There are currently approximately 2,200 user IDs with access to the KIDS database. No methodology exists to confirm whether the contracted concurrent users of 600 is sufficient to ensure compliance with the licensing agreement. In the case of a concurrent user contract, such methodology is often referred to as "high water" reporting.

Effect: There is an increased risk of OKDHS violation of the software licensing agreement with the Oracle Corporation. Violations in the Oracle software agreement could result in fines or other increased costs.

Recommendation: We recommend management implement controls to ensure software license agreements are reviewed on a periodic basis. Any inadequate licensing should be renegotiated with the software vendor.

Management's Corrective Action Plan

Contact Person: M. Youngblood

Anticipated Completion Date:

Corrective Action Planned:

DSD Response: This has been discussed and is targeted to be a part of a planned, comprehensive Asset Management system acquisition. However, to date, funds have not been appropriated for this

Other Findings

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effort. The current systems and procedures are being modified to assist in the tracking and control of assets, including software licenses. The Oracle licenses will be included in this effort.

REF NO: IS03-830-003

STATE AGENCY: Department of Human Services

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Delivery & Support objective #10, management should ensure that problems and incidents are resolved, and the cause investigated to prevent any recurrence. Specifically, management should define and implement a problem management system to ensure that all operational events which are not part of the standard operation (incidents, problems and errors) are recorded, analyzed and resolved in a timely manner. The procedures should also document the escalation process for the activation of the IT continuity plan.

Condition: During our review of the OKDHS Financial Systems Help Desk we noted there to be a general lack of procedures and documentary evidence to indicate that management has implemented the appropriate controls for an adequate help desk function. The responsibilities of the Financial Systems Help Desk is limited in scope to the financial application systems (e.g., General Ledger, Purchasing, Claims, Budget, & Payroll). We noted that the Data Services Division of OKDHS already provides Help Desk services with adequate procedures, documentation and controls to the Finance Division. We question the efficiency in the additional help desk function within the Financial Services Division, and we found no documentary evidence to show the business rationale for the additional help desk.

Effect: The lack of OKDHS Financial Systems Help Desk procedures and controls increases the risk of inadequate problem resolution for the Financial Services Division resulting in the potential recurrence of problems and incidents, lost productivity and user dissatisfaction with application systems.

Recommendation: We recommend Management document and implement the necessary controls and procedures to ensure an effective problem management system. In addition, Management should perform a formal (documented) review of the dual Help Desk functions found within OKDHS. Where activities are duplicated or are inefficient, efforts should be coordinated or combined accordingly. The formal review should take the following into consideration:

- Audit trails of problems and solutions
- Timely resolution of reported problems
- Escalation procedures
- Incident reports
- Accessibility of configuration information
- Coordination with change management

Management's Corrective Action Plan

Contact Person: P. Motley / M. Youngblood

Anticipated Completion Date:

Corrective Action Planned:

Finance Response:

Procedures and operations of the Finance Help Desk are very definitive, even though documentation is lacking. DSD Help Desk support to Finance is limited to network issues in general and a very few Finance Division users of the DSD mainframe. The Finance Help Desk responds to unique users on unique functions of the AS/400 financial application systems, in addition to setting up and monitoring

Other Findings

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user accounts for the AS/400. Existing procedures are currently being documented and will be completed by 06/30/04. A mechanism for problem tracking is being developed.

It should be noted that there are other Help Desks in OKDHS, e.g., Family Support, Child Support Enforcement, KIDS, that respond to specific application questions and issues. These entities perform unique functions, just as the Finance Division Help Desk does. If it could be demonstrated that there would be improved efficiency and increased benefit from implementing a centralized Help Desk call center, OKDHS Finance would be glad to participate in such an endeavor.

REF NO: IS03-830-004

STATE AGENCY: Department of Human Services

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Delivery & Support objective #5, management should ensure controls are in place to establish the identification and access rights of users as well as to ensure the identity of system and data ownership are established and managed in a unique and central manner to obtain consistency and efficiency of global access control. In addition, management should ensure the IT activities of custody, recording, and authorization for information assets remains segregated. This is to reduce opportunities for unauthorized modification or misuse of information or services.

Condition: During our review of the OKDHS systems and personnel, we noted the data security administration of the AS/400, UNIX Server, and Oracle RDBMS is highly distributed. Each of the System Administrators and (in some cases) Application Development Staff manages data security on these systems. Additionally, system administrator and security personnel report to management of the Information Technology infrastructure. This serves to vest the activities of custody, recording, and authorization in single individuals. The following specific weaknesses regarding data security administration for the AS/400, UNIX and Oracle RDBMS systems were noted:

1. The performance of low-level security functions (e.g., the assignment and change of user and group profiles as well as defining user access rights to system resources) creates an invalid segregation of duties for the AS/400, UNIX, Oracle Database Administrators, and Application Development staff. It was also noted that the Assistant to the OKDHS Comptroller has access to perform these types of activities.
2. There are no AS/400, UNIX or Oracle RDBMS specific security policies and procedures in place. Such procedures include details for account set-up, assignment of operating system user and group profiles, database roles and privileges and removing terminated users from these systems. It is the responsibility of the hosting agency to create "system specific" policies and guidelines to complement those prescribed by the Office of State Finance.
3. We found no evidence of controls over "Adopt Authority" and "SUID" programs. Adopt Authority and SUID programs run with access rights other than those of the user executing the program. These types of programs can represent a significant security risk if their use is not documented, controlled, and monitored.
4. No evidence of involvement by the Data Services Division's Data Security department, or independent audit of data security events on the systems. Independent data security personnel have not taken ownership and responsibility for all system audit logs. This precludes review and follow-up activities on system level security events. In addition:

Other Findings

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- a. UNIX system logs have not been configured to capture valid/invalid login attempts. UNIX logs such as those capturing login attempts and the su.log are not subject to independent security audit.
- b. Existing controls, which would enable auditing of actions on the Oracle RDBMS, have not been enabled.
- c. No UNIX baseline monitoring exists to ensure whether the server operating system has been compromised.
- d. The Oracle RDBMS "KIDS" instance contains training, test, and unnecessary Oracle Default IDs.
- e. The AS/400 System Logs to capture data security and other events has been disabled.

Effect: Due to an invalid segregation of duties regarding the data security administration there is an increased risk of unauthorized, inappropriate or fraudulent use of OKDHS systems. Undesirable security events such as unauthorized, inappropriate, or fraudulent activities may go undetected.

Recommendation:

To provide proper segregation of duties and responsibilities, the agency should consider moving the responsibility for data security to DSD. Management over the Data Security function should report at an organizational level equal to that of management for the Information Technology infrastructure. This would ensure independence of the Data Security function, and would serve to elevate data security issues.

Management's Corrective Action Plan

Contact Person: P. Motley / M. Youngblood

Anticipated Completion Date:

Corrective Action Planned:

Condition 1:

DSD Response: During DSD's restructuring, a consolidation was made of UNIX, Oracle RDBMS, and LINUX security responsibilities into the DSD Security Services Office. Efforts are currently underway to educate the staff on these platforms, transition duties, and activities have been initiated to review security tools for these tasks. The responsibility for these functions will lie within the Security Services Office even while those activities are incomplete. However, the appropriate skilled staff will perform the actual tasks with oversight by the Security Services staff.

Finance Response: The Assistant to the OKDHS Chief Financial Officer had been given limited access to reset passwords and had been trained as a backup for the Help Desk, but no longer has access to perform these types of activities. The more general statement concerning "invalid segregation of duties" within this sub-paragraph does not apply to Finance Systems; application development staff, in particular, does not perform security functions.

Condition 2:

DSD Response: As part of the consolidation of security responsibilities in DSD's restructuring, the Security Services Office is responsible for security policy, procedures and enforcement of those practices. Security policies and procedures will be written, documented and enforced across all platforms according to the policies and guidelines set forth by OSF. This project has been assigned and a task plan will be developed for this effort with complete implementation targeted by 12/31/04, contingent upon the tasks identified in the project plan.

Finance Response: There are specific security policies for the AS/400. These policies and procedures will be written, documented and enforced according to the policies and guidelines set forth by OSF and DSD. This documentation will be part of the Finance Systems Procedure manual to be completed by 06/30/04.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Condition 3:

DSD Response: SUID functionality in the current UNIX environment has been set only upon installation of system software. No manual SUID permissions have been requested nor set by DSD personnel. A report can be produced with all programs with the SUID access rights set, and will be incorporated into the compliance review processes established by the Business Quality Unit and Security Services.

Finance Response: Controls do exist over "adopt authority" and will be documented. This documentation will be part of the Finance Systems Procedure Manual to be completed by 06/30/04.

Condition 4:

DSD Response: This has been recognized and as part of the consolidation of security responsibilities in DSD's restructuring, the Security Services Office is responsible for ensuring security policy, procedures and practices are auditable. For segregation of duties, the Business Quality Unit will ensure compliance for all areas including Security Services and will document and report their findings. Security policies and procedures will be written, documented and enforced across all platforms. This project has been assigned and a task plan will be developed for this effort with complete implementation targeted by 10/31/04, contingent upon the tasks identified in the project plan. Until all of those processes and procedures can be put into place, the current organizational level of DSD's Security Services is effective. It has the ability and independence to elevate issues to a level necessary to assure resolution.

Condition 4a:

DSD Response: While there are no established procedures to review invalid logins to the UNIX system, these are recorded. Logs of these recorded invalid logins are kept in a binary file. The program called LASTB is utilized to view this data. Once the Business Quality Unit and Security Services Office have established review and compliance procedures, these logs will become part of that review process.

Condition 4b:

DSD Response: Currently, auditing features of Oracle have been disabled due to performance considerations and active review policies not being in place. Once the Business Quality Unit and Security Services Office have determined the appropriate information to review and establish a compliance review process, the audit features of Oracle will be modified to log the appropriate information.

Condition 4c:

DSD Response: Once the Business Quality Unit and Security Services Office have established review and compliance procedures, all production environments will become part of that review process. Baselines will be established and monitored as set forth in the established procedures.

Condition 4d:

DSD Response: The 27 training userids on the Oracle database were removed on November 7, 2003. All other userids have been reviewed for appropriateness and actions taken as necessary, which will be a periodic procedure of the Security Services Office in conjunction with Business Quality Unit compliance staff.

Condition 4e:

Finance Response: The system log had been disabled due to performance and storage restraints but has been re-enabled. The performance and storage issues will be resolved with the upgrade planned for this calendar year.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

REF NO: IS03-830-005

STATE AGENCY: Department of Human Services

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (COBIT) Planning and Organization PO4, management should define the IT organization and relationships that will satisfy the business requirements to deliver the correct IT services. The organization should be suitable in numbers and skills with roles and responsibilities that are defined and communicated, and are aligned with the business needs and facilitates the Agency's strategy and provides for effective direction and adequate control.

Condition: Our review of the OKDHS found that the agency is operating two separate data processing centers. The Finance Division has an IT function that provides support for the financial applications and the AS/400 operating system and hardware. The Data Services Division (DSD) provides support to the remaining divisions of OKDHS. OKDHS does have an IT Steering Committee that addresses the activities of DSD but they do not review the needs and projects of Financial Division regarding the finance systems.

Effect: The Finance Division IT needs may be overlooked or become misaligned with the agency goals and objectives.

Recommendation: We recommend OKDHS include the Finance Division's IT needs and plans into the oversight of IT Steering Committee. This would provide a high level and cohesive review of the agency's goals and align the IT strategy for both the long-term and short-range plans with the agency's overall needs. Committee membership should include representatives from senior management, user management and the IT function. The committee should meet regularly and report to senior agency management.

Management's Corrective Action Plan

Contact Person: Marq Youngblood, Chief Information Officer
Phil Motley, Chief Financial Officer

Anticipated Completion Date:

Corrective Action Planned:

Finance Response

The OKDHS Director, Officers (direct reports) and Executive Team members independently review, as necessary, both Data Services and Finance Systems needs. Marq Youngblood, CIO, and Phil Motley, CFO, have input as officers and executive members.

As stated in the email from Debbie Kittrell to Clayton Hoskinson dated December 11, 2003, the Finance Division Administrator, the Finance Management Team, the Agency Purchasing Director and the Departmental Services Administrator review requests for services of Finance Systems. These are the major partners for whom Finance Systems has developed, maintained and continues to deliver primary services. While this is not formally documented, it has worked efficiently and effectively with respect to identifying and focusing on the agency's priority needs.

REF NO: IS03-830-006

STATE AGENCY: Department of Human Services

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (COBIT) Planning & Organization PO11, management should have controls in place to manage the quality to meet the IT customer's requirements. This would include planning, implementing, and maintaining the quality standards and systems that would provide for distinct development phases, clear deliverables and explicit responsibilities.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Condition: Our review of the OKDHS found that the Data Services Division (DSD) has a Business Quality Unit that reviews and ensures that the division's quality standards are adhered to. The Finance IT system development and modifications are not subject to the same quality control review.

Effect: The Finance Division IT function has an increased risk of implementing changes that have not been properly authorized, adequately tested and approved by the users prior to being moved to the production environment.

Recommendation: We recommend OKDHS include the Finance Division's IT change management into the quality assurance process of the ISD unit. The Business Quality Unit should have standards and systems that provide for distinct development phases, clear deliverables and explicit responsibilities. Management should establish:

- A quality culture.
- Quality plans.
- Quality assurance responsibilities.
- Quality control practices.
- System development life cycle methodology.
- Program and system testing and documentation.
- Quality assurance reviews and reporting.
- Training and involvement of end user and quality assurance personnel.
- Development of a quality assurance knowledge base.
- Benchmarking against industry norms.

Management's Corrective Action Plan

Contact Person: Marq Youngblood, Chief Information Officer
Phil Motley, Chief Financial Officer

Anticipated Completion Date:

Corrective Action Planned:

Finance Response:

Quality review assessment is considerably different in DSD as compared to Finance Systems due to the uniqueness of platforms and responsibilities. The same review for both systems could be inappropriate. The lack of a stand-alone, separately resourced Business Quality (or similar) Unit within the Finance Division does not mean that Finance IT system development and modification efforts are not subject to rigorous quality controls and reviews. Development efforts are regularly reviewed by IT management and Finance IT customers help identify required developments and modifications and approve them before they are completed and moved to production. User satisfaction surveys, sent after every project completion, have consistently scored above 95% for the last five years.

The Finance Division and DSD have agreed to a joint effort to establish a comprehensive QA methodology within the IT processes, in order to continue delivering excellence in solutions and achieving a high level of customer satisfaction.

REF NO: IS03-830-007

STATE AGENCY: Department of Human Services

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (COBIT) Acquisition and Implementation AI6, management should have controls over the IT process of managing changes that satisfies the business requirement of minimizing the likelihood of disruptions, unauthorized alterations, and errors. There should be a management system in

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

place to provide a means of analysis, implementation and follow-up of all changes requested and made to the existing IT infrastructure.

Condition: Our review of the OKDHS found that the Finance Division IT group did not have documented emergency change procedures. There should be procedures for making changes to program code on an emergency basis where access to the production environment is highly controlled and monitored.

Effect: The Finance Division IT function has an increased risk of implementing changes that have not been properly authorize, adequately tested and approved by the users prior to being moved to the production environment. There is also a risk that a change is made to correct a processing error that may not be adequately documented and noted in the program documentation.

Recommendation: We recommend OKDHS Finance Division's IT document their emergency change procedures to establish parameters defining emergency changes and procedures to control these changes when they circumvent the normal process of technical, operations and management assessment prior to implementation. The emergency changes should be recorded and authorized by IT management prior to implementation.

Management's Corrective Action Plan

Contact Person: Phil Motley, Chief Financial Officer

Anticipated Completion Date:

Corrective Action Planned:

Finance Response:

We concur. While emergency change procedures exist, they are not currently documented. These will be documented in the Finance Systems Procedure Manual to be completed by 06/30/04.

REF NO: IS03-830-009

STATE AGENCY: Department of Human Services

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (COBIT) Delivery and Support DS12 management should have controls in place that satisfies the business requirement to provide a suitable physical surrounding which protects the IT equipment and people against man-made and natural hazards. This should include the installation of suitable environmental and physical controls, which are regularly reviewed to ensure they are functioning properly.

Condition: During our facility tour of the Data Services Division (DSD) systems we noted the third floor wiring closet also contained a public access printer. The network hub for this floor was readily accessible by anyone.

Effect: With the network hub publicly accessible the loss or damage from theft or vandalism is increased dramatically.

Recommendation: It is our recommendation DSD install a lockable wiring closet or device to segregate the space for the wiring hub from the publicly accessible area that contains the printer.

Management's Corrective Action Plan

Contact Person: Marq Youngblood, Chief Information Officer

Anticipated Completion Date:

Corrective Action Planned:

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

DSD Response:

An action plan was created for tasks to move the printer out of the room where the wiring hub is located. This plan was implemented and completed on January 27, 2004. The room is now closed, locked and secure from public access.

REF NO: IS03-830-010

STATE AGENCY: Department of Human Services

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (COBIT) Delivery and Support DS12 management should have controls in place that satisfies the business requirement to provide a suitable physical surrounding which protects the IT equipment and people against man-made and natural hazards. This should include the installation of suitable environmental and physical controls, which are regularly reviewed to ensure they are functioning properly.

Condition: We toured both the Financial Division data center and the DSD facility. The Financial Division's data center resides on the third floor of the Sequoyah building in office space that has been converted to accommodate the IBM AS/400 and operator's console. Physical access is controlled by card key access and is manned only during normal business hours. The only fire suppression equipment we observed was one fire extinguisher. The data center room has no independent climate control and is regulated by the building maintenance and a secondary power source is not available. Our tour of the DSD data center we found the necessary environmental controls recommended for an IT infrastructure. The following was found to exist within the DSD data center: automated fire suppression units, a computer controlled environment, 24 X 7 on duty operational staff, a video camera monitoring system on entry points in addition to the card key access. DSD has two generators to provide emergency power. The basement location of the DSD data center provides for a secure and controlled location for the critical IT infrastructure of the agency.

Effect: There is an increase risk that the financial information and AS/400 infrastructure will be loss, damaged or become inaccessible due to inadequate physical controls.

Recommendation: We recommend that the AS/400 be moved to the DSD data center. The AS/400 financial system and data is material to both the agency and to the state of Oklahoma financial statements. The DSD data center's physical environment provides the required controls for such a critical information and hardware.

Management's Corrective Action Plan

Contact Person: Marq Youngblood, Chief Information Officer
Phil Motley, Chief Financial Officer

Anticipated Completion Date:

Corrective Action Planned:

Finance Response:

The Finance Division AS/400 resides in a room designed and built specifically for the purpose of housing the Department's Financial System. All site environment, safety and security requirements were reviewed and approved by Agency Administrators and provided to the contractor when the asbestos abatement project was undertaken to remodel the Sequoyah building in 1997. Physical access is controlled by an electronic keypad requiring an access code consisting of a unique personal identification number (PIN) for each authorized employee. Access codes are issued only to Finance Information Systems Unit employees. An employee's access is deleted immediately upon termination of employment. Others needing access to the computer room, such as cleaning and maintenance staff

Other Findings

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or computer repairmen, gain access only via an authorized employee and are required to sign in and out on the log sheet located in the computer room.

There is a sprinkler system, in addition to two fire extinguishers, for fire suppression purposes. This room also has a separate air conditioner, which also controls humidity levels within the room. There is a UPS that will carry the system for limited electrical outages and will allow for a normal shutdown of the system.

Around-the-clock staffing is unnecessary: all nightly processes are automated, system monitoring software is installed and operational, and a paging system immediately notifies appropriate personnel in the event of system problems requiring an immediate response. We believe that is not only sufficient, but the most economical, effective and safest way to address our 24x7 operational requirements.

DEPARTMENT OF MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

REF NO: 03-452-004

STATE AGENCY: Department of Mental Health and Substance Abuse Services

Criteria: Environmental Controls:

According to the standards of the Information Systems Audit and Control Association (CobiT), Delivery and Support DS12.5 the IT management should ensure that sufficient measures are in place and maintained for protection against environmental factors (e.g., excessive heat and humidity, fire and dust). Specialized equipment and devices to monitor and control the environment should be installed.

Condition: Based upon our review and walk-through tour of the ODMHSAS server room, we learned the air conditioning capacity for the area is insufficient to keep summer time temperatures at an acceptable level for this facility. As a stop-gap measure, IT personnel have installed temperature devices on the backplane of critical servers to shut the devices down when the temperatures exceed a certain level.

Effect: The lack of adequate temperature control could result in:

- Loss of critical computer systems.
- Total shutdown of ODMHSAS computer availability.

Recommendation: We recommend to protect the department's critical hardware that they install adequate air handling systems. These systems should be designed to operate in an industrial environment with sufficient cooling power to maintain the room temperatures at an acceptable level.

Management's Corrective Action Plan:

Contact Person: Leo Fortelney

Anticipated Completion Date: July 1, 2004

Corrective Action Planned: DMHSAS has already ordered and will install an industrial air handling system. Air handling system will be a dual unit system capable of auto switching in case of a single unit failure. System will control temperature and humidity levels with email and paging abilities for problem notifications.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

DEPARTMENT OF REHABILITATION SERVICES

REF NO: 03-805-012

STATE AGENCY: Department of Rehabilitation Services

Criteria: According to the standards of the Information Systems Audit and Control Association, (CobiT, Delivery & Support Objective DS4), management should ensure IT services are available as required and ensure a minimum business impact in the event of a major disruption by having an operational and tested continuity plan.

Condition: Our review found that a full formal recovery of the DRS systems has not been tested to ensure whether the Disaster Recovery Plan is adequate. In case of a disaster, some employees may not be aware that a plan exists. There is no alternative processing procedures to ensure the continuance of state business.

DRS programmers have limited knowledge of the AS400 programming language used in the ORMIS application. ORMIS is the application used to track the cases and clients that are serviced by the agency. ORMIS is also used to generate payments to clients and service providers. DRS relies on a single contracted programmer to perform ORMIS application changes that is written in a language not commonly used.

Effect: Without testing the disaster recovery plan, efforts to restore the environment after a disaster or event could be prolonged or possibly unsuccessful.

In the absence of key personnel or systems, the ability to maintain the ORMIS system may be impaired. The lack of management review of business processes could result in inefficient controls.

Recommendation: We recommend that DRS test their disaster recovery plan and business continuity methodology to ensure that the user departments establish alternative processing procedures to be used until the IT function is available and services are fully restored.

We recommend management assess their continuity plan for adequacy on a regular basis or upon major changes to the business or IT infrastructure. An effective plan requires careful preparation, documentation, reporting test results, and depending on the results an action plan may be needed to revise the plan. Periodic training should be provided to the staff on the planned procedures and their assigned responsibilities.

The MIS division should consider the risk of relying on one key individual for complete maintenance of such a critical application. We further recommend that the MIS division, during the selection of a replacement application, consider selecting one that is developed in a commonly used language and will be easily maintained.

Management's Corrective Action Plan

Contact Person: Jim Murphy, Branch Manager Information Services

Anticipated Completion Date: September 30, 2004

Corrective Action Planned: DRS recognizes that it's Disaster Recovery Plan requires formalization. The existing DRS Disaster Recovery Manual will be compared to the OSF Information Security Policy Guidelines and updated appropriately. There will be two recovery exercises each year (May and November) and the review of the exercises will be documented for the review of the Executive Team.

The ORMIS Client System is mentioned in several of the findings. To prevent from being repetitive, I will supply a brief history of ORMIS. ORMIS was brought to Oklahoma in 1995 from the Washington State Blind Commission. After modification of the system by Software Ag Corp.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

The system was brought online (Feb. 1997) as a transition vehicle from DRS's prior parent agency DHS.

By late 2001 field staff were looking for numerous enhancements to the old client system. Some of those enhancements were: more mobility, portable case load and more sophisticated accessibility. A workgroup was formed and an invitation to bid (ITB) was created and turned into Central Services. Several of the deficiencies cited in this document were driving forces in the search for a new client system. The main exposure was the dependence on one individual for ongoing maintenance and support. This potential problem is recognized throughout the organization.

The ITB for the new client system is focused on the enhancements mentioned above. There are also requirements that are focused on the outsourcing of technical and help staffs.

Unfortunately, we were forced to withdraw the ITB September, 2002 due to the budget setbacks.

A revised ITB was funded and returned to Central Services February, 2004. It is our intent to remedy most ORMIS exposures by replacing the client system with a commercial rehabilitation system. These companies (potential bidders) supported numerous states and employ large technical and help staffs that license their support on an annual basis.

REF NO: 03-805-013

STATE AGENCY: Department of Rehabilitation Services

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Planning and Organization, PO6), management should ensure that users are aware of their aims and direction by establishing policies and standards and ensuring this information is communicated to the users.

Condition: Office of State Finance issued an Information Security Policy, Procedures and Guidelines dated September 1, 2003. DRS do not have formal security policies and procedures in place to address OSF minimum requirements.

Effect: DRS systems could be classified as insecure if it does not comply with the new OSF policy. Non-compliance with the security policy could have a negative impact on the agency.

Recommendation: We recommend DRS develop security policy and procedures and ensure that they comply with OSF Security Policy, Procedures, Guidelines dated September 1, 2003

- Policies should be re-evaluated and amended (at least annually or upon significant changes to the operating or business environment) to assess their adequacy and appropriateness.
- Policies should be communicated throughout the agency with a security awareness program.

Management's Corrective Action Plan

Contact Person: Jim Murphy, Branch Manager Information Services

Anticipated Completion Date: September 30, 2004

Corrective Action Planned: DRS confirms that due to staff shortages it has not been able to comply with the "required state" of the OSF Security Policy, Procedures and Guidelines that were published September 2003.

An I.S. Staff member will be assigned to review the recently announced guidelines to the DRS "current state" and document all areas that require attention. These findings will be reported to the

Other Findings

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Executive Team in their August Meeting for approval of action and funding. Upon approval the necessary corrections will be put into place.

REF NO: 03-805-014

STATE AGENCY: Department of Rehabilitation Services

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS12), management should provide a suitable physical surrounding which protects the IT equipment and people against man-made and natural hazards by installing suitable environmental and physical controls.

Condition: During our tour of DRS Data Center, it was noted that the only fire suppression system available were hand held fire extinguishers.

Effect: The lack of a centralized smoke and heat detection system with a non-aqua fire suppression system increases the risk for the loss of computer hardware and data.

Recommendation: We recommend that DRS evaluate their environmental risks for the data center and perform an analysis on the cost of installing a centralized smoke and heat detection system.

Management's Corrective Action Plan

Contact Person: Jim Murphy, Branch Manager Information Services

Anticipated Completion Date: September 30, 2004

Corrective Action Planned: A member of the I.S. Staff will coordinate with our Central Leasing Group to obtain pricing estimates from our landlord. We will also obtain estimates for a stand alone smoke and heat suppression system that could be moved if necessary.

These unbudgeted expenditures will be reviewed with senior management for final determination.

REF NO: 03-805-016

STATE AGENCY: Department of Rehabilitation Services

Criteria: According to CobiT Planning and Organization PO4.1, the organization's senior management should appoint a planning or steering committee to oversee the IT function and its activities. Committee membership should include representatives from senior management, user management and the IT function. The committee should meet regularly and report to senior management.

Condition: We noted that the agency does not have an IT Steering Committee to plan and direct the IT function and to review projects ensuring that they meet user requirements and agency standards.

Effect: IT activities and the overall mission and direction of DRS may not be integrated into a cohesive plan.

Recommendation: We recommend DRS formulate an IT Steering Committee to clarify and formalize standards, responsibilities, and accountability for technology services that are being provided. The committee should consist of department heads and/or their designee who are empowered to make decisions regarding technology policies and procedures.

Areas covered by the IT Steering Committee should include security administration, data retention, job scheduling, change management procedures, long-range capacity planning, key performance measures for IT, recurring help desk issues and disaster recovery.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

The DRS Steering Committee should routinely evaluate and review these standards, responsibilities, and accountabilities with each department to ensure that risks are identified and adequately addressed. The committee and each department's management should routinely monitor and reassess the effort to facilitate a continuous cycle of improvement and risk assessment.

Management's Corrective Action Plan

Contact Person: Jim Murphy, Branch Manager Information Services

Anticipated Completion Date: September, 2004

Corrective Action Planned: The I.S. Branch Manager will prepare a recommendation for the new I.S. Administrator to take to the Executive Team in June, 2004 to create an I.S. Steering Committee.

REF NO: 03-805-018

STATE AGENCY: Department of Rehabilitation Services

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery & Support DS#5), the logical access to and use of IT computing resources should be restricted by the implementation of adequate identification, authentication, and authorization mechanisms, linking users and resources with access rules.

According to the Information Security policy, procedures and guidelines issued by the Office of State Finance (2.1 Information Confidentiality). Users must be required to follow good security practices in the selection and use of passwords. Passwords provide a means of validating a user's identity and thereby establish access rights to information processing facilities or services.

Condition: Our review of the password settings on the AS400, infrastructure housing the ORMIS application were set to allow a password with 6 characters and did not required digits in the password. The system allows a maximum of five logon attempts before being locked out. The system is not set to automatically log off after a number of inactive hours.

We found DRS has not classified their data. Management assumes the data is public record. Personnel records are labeled confidential but there is no way to identify them in the system. The client's SSN is a part of the case number and it is not encrypted on the system, and can be read system wide.

Effect: A high risk of unauthorized access exists due to passwords being easy to guess, or becoming known by unauthorized users. Terminals left unattended for an extended period of time may be used by unauthorized persons to perform functions that are available under that session, possibly affecting production data processing and allowing access to confidential client information.

Recommendation: We recommend management implement controls in compliance with the Office of State Finance to ensure that passwords on the mainframe include the following rules:

- Passwords should be required to be a minimum of eight (8) characters long, containing at least one (1) numeric character.
- Passwords will expire in a maximum of 90 days
- Passwords will be deactivated if not used for a period of 60 days
- Passwords for a given user should not be reused in a 12-month period.

We recommend management implement procedures to ensure that all data is classified in terms of sensitivity by a formal and explicit decision by the data owner according to the data classification scheme. Even data needing "no protection" should require a formal decision to be so designated.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Owners should determine disposition and sharing of data, as well as whether and when programs and files are to be maintained, archived or deleted. Evidence of owner approval and data disposition should be maintained.

Policies should be defined to support reclassification of information, based on changing sensitivities. The classification scheme should include criteria for managing exchanges of information between organizations, addressing both security and compliance with relevant legislation.

Management's Corrective Action Plan

Contact Person: Jim Murphy, Branch Manager Information Services

Anticipated Completion Date: July 15, 2004

Corrective Action Planned: DRS has indicated in 03-805-013 that we are not currently in compliance with the recently published OSF Guidelines. These system values (above) will be changed as soon as possible after our ongoing Windows XP migration (to avoid confusion for field staff).

OKLAHOMA TAX COMMISSION

REF NO: 03-695-01 IT

STATE AGENCY: Oklahoma Tax Commission

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Acquisition and Implementation AI6), IT management should ensure that a system exists that provides for the analysis, implementation and follow-up of all changes requested and made to the existing IT environment to effectively minimize the likelihood of disruption, unauthorized alterations and errors.

Condition: The apportionment team is not following the formal change procedures for system modifications.

The team's current procedures for a change request are:

1. Users send an email to the systems administrator.
2. The Systems Administrator forwards the request to the programming staff.
3. The programmer makes the determination if the change will be made.

We reviewed a sample of the OTC request forms from other divisions and found the forms were not fully completed by the MIS department.

Effect: Due to the lack of formal change control procedures, risk of system corruption is increased. The operational environment can be negatively impacted by changes made to the application software.

Recommendation: We recommend that the agency adopt formal procedures to:

- Ensure changes are strictly controlled by formal change control procedures.
- Ensure that the security and control procedures are not compromised, that programmers are given access to only those units required for their work, and that formal approvals are obtained.
- Ensure change request forms are complete and include the following information:
 - Date of requested change
 - Request Type
 - Person requesting change/division
 - Description of the change
 - Impact to the business
 - Authorization
 - Received date
 - Assigned to

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

- Estimate Hours
 - Actual hours
 - Estimated start date
 - Estimated completion date
 - Completion date
 - Programmer Actions
 - Programmer, Manager, and Supervisor signature
- Management should ensure that all users are aware of the change request procedures and changes are submitted by authorized personnel.
 - Review and update change control documentation and maintain an audit trail of all change requests.
 - Changes should be categorized, prioritized and specific procedures should be in place to handle urgent matters.
 - Change requestors should be kept informed about the status of their request.

Management's Corrective Action Plan

Anticipated Completion Date: January 15, 2004

Corrective Action Planned:

- **OTC MIS Management Response:**

1. Require all users to use the existing change request forms (the existing system we have seems to meet all the requirements by the state auditor if it is used for all programming changes).
2. Put the existing change request form on the Intranet as a template to allow users to make requests by e-mail.

- **OTC MSD Management Response:**

While the current method of program change requests is documented, the format change request form will be adhered to for future modifications either by paper or electronic means. In all system enhancements, the users determine changes and not programmers.

Also, mitigating controls are in place to identify errors resulting from programming changes. During each apportionment process, manual programming balancing spreadsheets for utilized to ensure that the apportionment system is processing information accurately.

We believe that adequate controls are in place to identify any programming errors that could occur.

REF NO: 03-695-004 IT

STATE AGENCY: Oklahoma Tax Commission

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Planning and Organization, PO6), management should ensure that users are aware of their aims and direction by establishing policies and standards and ensuring this information is communicated to the users.

Condition: The OTC Manual, which includes the Security Policy, is outdated and should include policies for the following:

Encryption, Acceptable Use, Analog/ISDN Line, Anti-Virus Process, Audit Policy, Application Service Provider, Database Credential Coding Policy, Dial-In Access, Extranet, Information Sensitivity, Training Lab Security, Internet (Equipment), Password Protection, Remote Access, Router And Switches, Server, Third-Party Network Connection, VPN, Wireless Connection, Desktop, Thin Client, Backups, Global Email List Maintenance, Laptop, and Physical Computer Room.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Effect: OTC's out-of-date policies and procedures increase the risk that critical vulnerabilities are not being identified and addressed by management.

Recommendation: We recommend OTC's manual meet the guidelines set forth in the Security Policy established by Office of State Finance.

- Policies should be re-evaluated and amended (at least annually or upon significant changes to the operating or business environment) to assess their adequacy and appropriateness.
- Management should provide a framework and process for the periodic review and approval of standards, policies, directives, and procedures.

Management's Corrective Action Plan

Anticipated Completion Date: June 30, 2005

Corrective Action Planned:

As previously reported, the agency has an active security committee who is currently rewriting the security policy. The new policy will embrace current processes and procedures as outlined above. This updated policy will be completed and communicated to employees by the end of FY'04. It will provide the framework for an annual review and approval of standards, policies directives and procedures to assure their adequacy and appropriateness.

REF NO: 03-695-005 IT

STATE AGENCY: Oklahoma Tax Commission

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS12), management should provide a suitable physical surrounding which protects the IT equipment and people against man-made and natural hazards by installing suitable environmental and physical controls.

Condition: During our tour of OTC Data Center, it was noted that the only fire suppression system available were hand held fire extinguishers.

Effect: The lack of a centralized smoke and heat detection system with a non-aqua fire suppression system increases the risk for the loss of computer hardware and data.

Recommendation: We recommend that OTC evaluate their environmental risks for the data center and perform an analysis on the cost of installing a non-aqua fire suppression system (FM 200). Consideration should be given to obtaining such a system.

Management's Corrective Action Plan

Anticipated Completion Date: We are meeting with a contractor referred by our building management. Date for possible installation of a centralized system is pending availability of resources. Initial meeting set for 01-23-2004

Corrective Action Planned:

The fire extinguishers in the OTC Computer Room are charged with Halon 1211. They are tested periodically to assure they are properly charged and usable. The agency is a tenant in the building where the computer room is located. To install a centralized fire suppression system would require negotiation with the building management. The IT Division will request our OTC Procurement section to obtain a quote for a centralized system and negotiate the net cost from building management.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

REF NO: 03-695-007 IT

STATE AGENCY: Oklahoma Tax Commission

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support DS5), management should ensure that systems security safeguards information against unauthorized use, disclosure or modification and damage or loss. Logical access controls should ensure that access to systems, data and programs is restricted to authorize users.

Condition: We performed a vulnerability assessment on the OTC website at www.oktax.state.ok.us, using a combination of tests, queries, scans, and simulated denial of service attacks. During this assessment, we found 23 potential vulnerabilities, warnings, or items of note, including four potentially serious vulnerability risks. Detailed documentation was provided to the OTC Internet Administrator.

Effect: Increased risk of unauthorized use, disclosure, modification, damage, or loss of information.

Recommendation:

- We recommend that OTC assess their website security on a recurring basis. Reports and alarms should be generated to log:
 - Security breaches.
 - Unauthorized attempts to access the system and its resources.
 - Unauthorized attempts to view or change security definitions and rules.
- OTC should request the Office of State Finance to update the web server to the latest version of Apache web server software.

Management's Corrective Action Plan

Corrective Action Planned:

OTC MIS Response: This is the Oklahoma Tax Commission public Website and is hosted by OneNet. It does not contain any privileged or secure data. We have forwarded the results of the scans that the state auditor ran to OneNet, who is reviewing them and will take whatever corrective action they deem necessary and appropriate.

REF NO: 03-695-008 IT

STATE AGENCY: Oklahoma Tax Commission

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Acquisition and Implementation AI4), management should ensure the proper use of the applications and the technological solutions put in place by providing a structured approach to the development of user and operations procedure manuals, service requirements and training materials.

Condition: The only documentation available on the apportionment system is a draft process flow document dated 1999.

Effect: OTC does not have proper system documentation to ensure whether the apportionment system is meeting the business purpose and whether whenever system changes are made the associated documentation is updated accordingly.

Recommendation: We recommend that management ensure the organization's system development life cycle methodology provides adequate operation manuals be prepared and kept up-to-date as information systems are developed, implemented, or modifications are completed. Application documentation should be reviewed/updated annually.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

- The systems documentation should include the following:
 - A narrative of the general purpose, function and scope of the entire system.
 - A list that specifies the functional requirements of the system.
 - An overall pictorial view of the system, showing the inputs, processing functions and outputs, using a structure logic flowchart.
 - Documentation of requirements for interfacing system:
 - Constraints
 - Languages used
 - Disk space required
 - How data is accessed
 - Additional hardware required programming resources

Management's Corrective Action Plan

Anticipated Completion Date: Staged completion as tax type systems are developed and implemented through FY 2007.

Corrective Action Planned:

The agency is currently involved in a project to rewrite all major systems in Oracle running on a client-server architecture. This project, the integrated tax system development, is planned to be completed in phases from now through FY2007. A part of the development process is the documentation of application methodology and a provision for annual review and update. The documentation items outlined above will be included.

REF NO: 03-695-010 IT

STATE AGENCY: Oklahoma Tax Commission

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Planning and Organization PO4), management should define a strategic IT plan which is undertaken at regular intervals giving rise to long-term plans; the long term plans should periodically be translated into operational plans setting clear and concrete short-term goals.

Condition: The service support date for the mainframe operating system (OS/390) will end September 30, 2004. This system is critical for the continued operations of all applications on the mainframe.

The IMS Database Management system uses ADF security access modes throughout the apportionment system to control user's access to transactions. This tool is a by-product of IBM that has no vendor support.

Effect: Plans have not been developed to provide for the replacement of the OS/390 or vendor support for ADF.

Recommendation: We recommend that management ensure that IT issues are adequately assessed and reflected in the organizations' long and short range plans. They should review possible solutions to the OS/390 support problem before September 2004 and consider upgrading to latest IMS security tool.

Management's Corrective Action Plan

Anticipated Completion Date: End of FY'05 for rewrite of apportionment system. Negotiations to OS 390 with 390Z are underway.

Corrective Action Planned:

The agency is currently talking to the IBM sales and technical representatives. They are preparing a proposal for the replacement of our OS 390 and the ADF security access software. The apportionment system should be rewritten and running on Oracle in the new Integrated Tax System (ITS) by the end of FY'05.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

REF NO: 03-695-011 IT

STATE AGENCY: Oklahoma Tax Commission

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery & Support DS#5), the logical access to and use of IT computing resources should be restricted by the implementation of adequate identification, authentication, and authorization mechanisms, linking users and resources with access rules.

Condition: The password settings on the mainframe infrastructure housing the Apportionment application is set to allow a password with 4 characters.

Effect: A high risk of unauthorized access exists due to passwords being easy to guess, or becoming known by unauthorized users.

Recommendation: We recommend management implement controls in compliance with the Office of State Finance to ensure that passwords on the mainframe include the following rules:

- Passwords should be required to be a minimum of eight (8) characters long, containing at least one (1) numeric character.
- Passwords will expire in a maximum of 90 days
- Passwords will be deactivated if not used for a period of 60 days
- Passwords for a given user should not be reused in a 12-month period.

Management's Corrective Action Plan

Anticipated Completion Date: In process 01-4-04 - expected completion 04-30-04.

Corrective Action Planned:

- Password length on ACF2 will be set to 8 characters as soon as we can notify the users and schedule the change.
- User accounts already automatically deactivated after 30 days and suspended after 90 days of nonuse. Passwords expire every 30 days.
- To enforce requirement of numeric (or special characters) in the password with the current version of ACF2 requires custom system exits for ACF2. To change the period of no-reuse to 12 months (instead of the current 4 password changes) would require the modification of a system exit in ACF2. We do not currently have the expertise to do this. It is not know if newer versions of ACF2 support this.

Auditor Response:

According to CA-ACF2 6.3 General Information Guide 2.1.2. The list below describes some of the password controls you can implement:

- The maximum number of days permitted before a password must be changed to a different one.
- The minimum number of days that a password must be used before it can be changed again.
- Whether a user can change his or her password to contain all numeric characters

The MIS division may need to provide security personnel with addition training to utilize ACF2 security features for password protection.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

DEPARTMENT OF TRANSPORTATION

REF NO: 03-345-001

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT), Acquisition & Implementation A11, management should identify an automated solution that satisfies the business requirement of ensuring an effective and efficient approach to satisfy the user requirements. This should be accomplished with an objective that is clearly identified and an analysis of alternative opportunities measured against users requirement. In addition, Planning & Organization PO4, states that management should design the organization suitable in numbers and skills with roles and responsibilities defined and communicated, aligned with the business and that facilitates the strategy and provides for effective direction and adequate control.

Condition: The Construction Division is implementing an integrated Site Manager module of the Trns*port system. The Construction Division is managing this project with no formal oversight by ISD. In addition, we observed no procedures to measure IT performance against standards, no formal IT steering committee to provide IT direction, and no formal procedures or controls for project management or capacity planning techniques.

Effect: These project implementations by the Construction Division may not follow ISD's standards for software implementation or be compatible with existing hardware and systems. These projects may lack the oversight of ISD management. ISD will have to support and manage the system once it goes live. ISD will not have the benefit of evaluating how it will align with the ISD Department's Enterprise and IT strategies. The lack of an IT steering committee, as well as procedures and controls over service level metrics, project management, and capacity planning does not ensure IT is aligned with the ODOT business.

Recommendation: We recommend the Department centralize all information systems projects under ISD and assign a project manager that will report directly to the ISD Director. The ISD Director should also establish adequate oversight and control over ISD activities relating to service level metrics, an IT steering committee, a project management and control system, as well as capacity planning procedures to ensure IT infrastructure will be adequate to meet future business requirements.

The Department's automated solutions should take into consideration:

- Knowledge of solutions available in the market.
- Acquisition and implementation methodologies.
- Alignment with enterprise and IT strategies.
- Information requirements definition.
- Feasibility studies (costs, benefits, alternatives, etc.).
- Functionality, operability, acceptability and sustainability requirements.
- Compliance with information architecture.
- Cost-effective security and control.
- Supplier responsibilities.
- IT's alignment with the business.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Coordinating all projects under ISD will ensure that the various needs of each division will be considered during the evaluation of new applications. Common data could be shared and transfers between the divisions could be considered when researching the solutions.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: The technical aspects of this project are being implemented in cooperation with ISD and ISD personnel. Although ISD does not head a committee to this end, ISD staff are actively involved with implementation, such that technical standards and operational parameters are being met. ISD is not currently, nor has it been traditionally positioned to provide oversight for all Departmental IT projects. There are no active initiatives underway to change this mode of operation for ODOT.

REF NO: 03-345-005

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Delivery & Support objective #5, management should implement logical access controls which ensure that access to the systems, data, and programs is restricted to authorized users. Management should have a control process in place to review and confirm access rights periodically. Periodic comparison of resources with recorded accountability should be made to help reduce the risk of errors, fraud, misuse or unauthorized alteration. Management should implement procedures to ensure that all data are classified in terms of sensitivity by a formal and explicit documented decision by the data owner according to the classification scheme.

Condition: The ODOT ISD appears to perform comparisons of FMS and PFS active users with payroll information provided by Human Resources. This assists the department in its determination of terminated users. However, we were able to obtain no evidence of a review process for active user IDs. Effectively, review procedures are only performed in order to determine IDs to delete as a result of employee exit from the organization. Other observations of the FMS, PFS, Trns*port, and Oracle RDBMS include:

- No documented procedures for setting up and deleting users for the Trns*port, FMS, or PFS infrastructure.
- Documentation for requests of new users and changes to access is not maintained in a central repository.
- Mainframe access is provided as requested on the new user set-up forms. The set-up form input is used to create the user profile and is matched to ACF2 Security high-level qualifiers to determine user access. While the high level qualifiers do seem to be providing access controls, the ACF2 security design is not documented and does not appear to have been approved or the data classified by the data owner.
- No documented procedures or activities are in place to inform the data owner of the users on their systems and their corresponding access rights.

Effect: Risk of unauthorized user, disclosure, modification, damage, or loss of data. The integrity and reliability of the data generated by the Trns*port, FMS, and PFS systems could be compromised.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Recommendation: We recommend the ISD establish procedures to ensure timely action relating to requesting, establishing, issuing, suspending, and closing of user accounts. A formal approval procedure outlining the data or system owner granting the access privileges should be included.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: Access to these systems is determined by the user Division. ISD supports this process through programming, and only when requested by appropriate Division personnel. ISD worked with the Comptroller Division in the past year to review access IDs. ISD will establish a process of review with user Divisions and ask that they review their access lists and IDs.

REF NO: 03-345-006

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobIT) Delivery & Support objective #5, if a connection to the Internet or public network exists, adequate firewalls should be operative to protect against denial of services and any unauthorized accesses to the internal resources; should control any application and infrastructure management flows in both directions; and should protect against denial of service attacks. Management should ensure that re-accreditation of security is periodically performed to keep up to date the formally approved security level and the acceptance of residual risk.

Condition: Using a common scanning service, we performed an external vulnerability assessment of the ODOT systems. We were able to identify several potential weaknesses in the ODOT infrastructure facing outward to the Internet. We also noted that ODOT systems allow public internet access to login screens for infrastructure components. No banner exists on these screens to indicate these systems are private and confidential. There is no authentication server prior to receiving the login prompt. Other unnecessary mail services running on these systems allow internet users to send e-mail to ODOT employees outside of the established mail systems. This situation could prevent accountability and control of these communications.

An internal vulnerability assessment was also performed on the Trns*port application and database servers identifying a medium level risk. Our attempts to scan the mainframe system were blocked by the configuration of the ODOT PC, which was used to perform the scans. ODOT ISD staff refused to override these controls to provide SA&I access to perform the scan on the mainframe. We consider this action a limitation on the scope of our review. Therefore, we express no opinion on the related controls.

Effect: The risk of unauthorized access to ODOT infrastructure is increased by components sitting outside the firewall. There is an increased likelihood that the prosecution of unauthorized users under the Oklahoma Computer Crimes Act will be unsuccessful.

Recommendation: Management should consider the implementation of a firewall configuration that would enable a Demilitarized Zone (DMZ). This will allow the control and reporting of access into ODOT systems from the Internet. Any unnecessary services on these systems should be disabled. Private and confidential banners should be placed on all systems. ODOT ISD should perform periodic security reviews of its external and internal systems. Such reviews should be documented as to the specific activities performed and actions taken to correct potential security weaknesses.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: The ODOT web server is the only component that sits outside the firewall (security purposes) and is available to direct public access. As such, this server does respond to all HTTP requests. One of the servers in question is used sporadically for trouble shooting purposes by ISD staff, and by the Engineering section for software training classes. When activity is completed, this port is physically disconnected. Manpower constraints do not allow for a regular, standard security review process. Security measures are incorporated through network configurations, protocols and random password generation. The system log, SMF and ACF2 provide the system event logging. The Help Desk provides incident logging, tracking and escalation.

REF NO: 03-345-008

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Delivery & Support objective #5, if a connection to the Internet or public network exists, adequate firewalls should be operative to protect against denial of services and any unauthorized accesses to the internal resources; should control any application and infrastructure management flows in both directions; and should protect against denial of service attacks.

Condition: The ODOT firewall is a combination of hardware and software systems to control access between the external and internal network. The firewall software configuration or "rule base" is established with the intent of allowing only approved traffic onto the ODOT internal network. During our review, we found no documentation to support the network access allowed through the firewall rule base. In addition, we noted other public connections to the ODOT internal network were available through the placement of modems behind the firewall. Such configurations circumvent the network access controls offered by the firewall.

Effect: Increased risk of unauthorized access from the Internet or phone system onto the ODOT internal network. Access provided in the rule base may be inadequate, inappropriate, or not supported by a valid business purpose. The placement of rogue modems behind the firewall renders firewall controls ineffective.

Recommendation: ODOT Management should perform a formal and documented review of the access provided through the ODOT firewall in terms of services and data origin (e.g., IP address). This would mitigate any risks due to potential unauthorized access to internal IT resources. Periodic scans of the phone lines for access onto the ODOT network through modems should be performed at regular intervals to ensure firewall controls remain effective.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: Attachment A provides general rules pertaining to firewall access. ISD will investigate budgetary and manpower requirements for performing phone line/modem scanning.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

REF NO: 03-345-009

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Delivery & Support objective #12, Management should provide a suitable physical surrounding which protects the IT equipment and people against man-made and natural hazards. Physical security and access controls should address not only the area containing system hardware, but also locations of wiring used to connect elements of the system, supporting services, backup media and any other elements required for the system's operation. Access should be restricted to individuals who have been authorized to gain such access.

Condition: During a tour of the ODOT data center facility and related wiring closets in the main ODOT building and Annex, we noted the following:

- There is no documented hardware/software inventory maintained for the data center facility.
- The wiring junction located in the basement of the main ODOT building is exposed in a common area with no physical barriers to prevent access by unauthorized personnel or vendors who may access.
- The wiring closet located at the ODOT Annex is not locked. (This enables any ODOT employee access)
- There have been no documented reviews of access rights within the card key access system to the data center facility.
- With the exception of hand held fire extinguishers, non-aqua phase fire suppression systems are not in place for the data center facility.

Effect: An increased risk of loss of hardware/software components, as well as an increased risk of unauthorized access to the ODOT network and network components.

Recommendation: Where IT resources are located in public areas, they should be appropriately protected to prevent or deter loss or damage from theft or vandalism. Management should perform periodic physical inventories of the hardware / software components located within the data center. All changes to the physical inventory should be explained by approved documentation this would include, but not be limited to, known project activities, surplus, IT sales and purchasing activities, etc.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned:

- Inventory data for the data center facility is available, but is identified within master inventory listings.
- The wiring junction in the basement of ODOT will be secured as funds allow.
- The wiring closet in the ODOT Annex will be locked.
- The card key entry system was recently modified for ODOT and the Annex by the Maintenance Division. ISD is currently reviewing the access list as it related to all ISD entry locations.
- The use of non-aqua phase fire suppression systems will be discussed by ISD staff, and with Building Maintenance.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

REF NO: 03-345-010
STATE AGENCY: Department of Transportation
FEDERAL AGENCY: Department of Transportation
CFDA NO: 20.205
FEDERAL PROGRAM NAME: Highway Planning and Construction
CONTROL CATEGORY: Other

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Delivery & Support objective #5, IT security administration should ensure that security activity is logged and any indication of imminent security violation is reported immediately to all who may be concerned, internally and externally, and is acted upon in a timely manner.

Condition: We found no evidence of any active security monitoring of information security events, e.g., unauthorized access to IT resources housing the Trns*port, FMS and PFS applications. It was noted during the review there are unprotected mainframe consoles located in the ODOT Annex, e.g., not physically secured, no screen locking, etc.

Effect: An increased risk of unauthorized and undisclosed access to ODOT systems and data.

Recommendation: IT security administration should ensure that activity is logged and any indication of imminent security violations are reported immediately to all who may be concerned. Internal and external security violations should be acted upon in a timely manner. The following should be taken into consideration:

- Confidentiality and privacy requirements.
- Authorization, authentication, and access control.
- User identification and authorization profiles.
- Cryptographic key management.
- Need-to-have and need-to-know.
- Incident handling, reporting and follow-up.
- Centralized security administration.
- User training.
- Tools for monitoring compliance, intrusion testing, and reporting.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: Security activity reports are housed up to 5 years in paper and electronic forms. Security activity reports will be reviewed on a daily basis for imminent violations and for recurring issues.

REF NO: 03-345-012
STATE AGENCY: Department of Transportation
FEDERAL AGENCY: Department of Transportation
CFDA NO: 20.205
FEDERAL PROGRAM NAME: Highway Planning and Construction
CONTROL CATEGORY: Other

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Delivery & Support #8, Management should ensure that any problem experienced by the end user is appropriately resolved.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

Condition: ODOT currently uses a centralized application system "Tivoli" to provide its "help desk" function. Due to a bankruptcy of the application vendor, support agreements between the vendor and ODOT have not been honored. Only one ISD employee has the experience and skill to assist help desk personnel in supporting this application. No evidence was obtained that the ODOT Trns*port application has a valid technical support or license agreement from the vendor.

Effect: The lack of vendor support and back-up personnel supporting the help desk function increases ODOT's risk of ineffective support and may not ensure all user problems are appropriately resolved through the help desk. ODOT may be in violation of software license agreements if the application cannot be compared to approved license requirements from the software vendor.

Recommendation: ODOT Management should consider the risk to the organization from using unsupported software and take steps to mitigate the above noted risks. Such steps could include the involvement of additional ISD staff in the application support or investigate possible third parties who might provide such services. Where the use of purchased application systems cannot be supported by valid supporting contracts or other agreements, ODOT should take steps to secure such agreements and ensure legal compliance.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: ODOT is in legal compliance with the use of the Tivoli Service Desk software. Although this software is no longer supported by the developer, it is supported by other vendors, according to IBM (the purchaser of other Tivoli systems). This information is being forwarded to ISD from IBM. The Tivoli Help Desk is a stable platform and ISD has not had experienced difficulty with integration of this software and any new systems.

REF NO: 03-345-013

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: According to the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT) Delivery & Support #13, Management should ensure that important IT support functions are performed regularly and in an orderly fashion.

Condition: No documented procedures exist for monitoring the production mainframe console. These procedures should include:

- Processing operations procedures and instructions manuals.
- System start-up and shut down documentation.
- Job Scheduling.
- Departures from job schedules.
- Instructions for monitoring operations logs for program ABENDS.

Effect: The lack of documented procedures from the above increases the risk of data loss and inaccuracies due to application processing errors.

Recommendation: Management should develop a documented schedule that records the completion of all support activities. Such documentation should take into consideration:

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

- Operations procedure manual.
- Start-up process documentation.
- Network services management.
- Workload and personnel scheduling.
- Shift hand-over processes.
- System event logging.
- Coordination with change, availability and business continuity management.
- Preventative maintenance.
- Service level agreements.
- Automated operations.
- Incident logging, tracking, and escalation.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: Attachment B provides documentation addressing operations procedures and instructions, including start-up and shut-down documentation. As ODOT does not process a significant number of batch jobs, job scheduling is not considered an issue for ISD.

REF NO: 03-345-016

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobiT), Acquisition & Implementation objective #4, management should ensure the proper use of the applications and the technological solutions put in place. This is enabled by a structured approach to the development of user and operations procedure manuals, service requirements and training materials, which take into consideration:

- Business process re-design.
- Treating procedures as any other technology deliverable.
- Timely development.
- User procedures and controls.
- Operational procedures and controls.
- Training materials.
- Managing change.

Condition: The FMS and PFS systems grossly lack documentation to detail both the end user and applications operations procedures and controls. System administration activities and procedures for the Trns*port application are not documented. Such documentation would include, but not be limited to:

- Descriptions of the systems.
- Descriptions of all source documents and procedures for their preparation.
- Identified application controls over data input, processing, output and storage.
- Error identification and correction procedures.
- Online edits which ensure data integrity.
- Data balancing or reconciliation procedures within and between systems.
- Input and Output descriptions.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

- Job restart/recovery procedures.
- Error messages and reconciliation techniques.
- Descriptions of output reports and their use.
- Report distribution procedures.
- Data capture instructions.

Effect: There is a high risk of inadequate or inappropriate "end user" or ISD use of the applications and technological solutions.

Recommendation: Effective and adequate documentation as described above should be prepared and approved by responsible ISD and End User management where appropriate. Back-up copies of this documentation should also be stored off site in accordance with an approved disaster recovery plan.

Management's Corrective Action Plan

Contact Person: David Ooten / Mike Patterson

Anticipated Completion Date:

Corrective Action Planned: Manpower and financial constraints will not allow ISD to directly address documentation issues at this time. ISD will consider this finding and meet with appropriate end user Divisions to discuss this issue.

REF NO: 03-345-019

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association, Control Objectives for Information Technology (CobIT), Delivery & Support objective #10, management should ensure that problems and incidents are resolved, and the cause investigated to prevent recurrence.

Condition: During audit fieldwork, we noted PFS system application ABENDS (abnormal ends) while processing the FHWA billing. These situations have not been reported to the help desk for recording, analysis, and resolution. We were told these occur with regularity and the cause of the ABEND has not been determined. The ABEND resulted in the need for data restoration to a prior point of processing resulting in a loss of time and resources by end user personnel.

Effect: Due to the recurrence of the ABEND, and lack of documented resolution, there is an increased risk of possible data loss, processing delays, or erroneous federal billing.

Recommendation: Management should ensure that all abnormal program ends are reported to the help desk for recording, analysis, and follow-up activities to ensure resolution.

Management's Corrective Action Plan

Contact Person: Mike Patterson

Anticipated Completion Date:

Corrective Action Planned: The Comptroller agrees with the recommendation. All reports of ABEND will be routed through the Help Desk for data collection.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

REF NO: 03-345-022

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: The Information Systems Audit and Control Association management guidelines, Control Objectives for Information Technology (CobIT) Delivery and Support objective #11, states that management should ensure that data remains complete, accurate and valid during its input, update and storage. The organization should establish procedures for assuring that output is routinely balanced to the relevant control totals. Audit trails should be provided to facilitate the tracing of transaction processing and the reconciliation of disrupted data.

Condition: We reconciled the ODOT FHWA billing dated 3/14/03 to data extracted from the Project Funding System (PFS) system and noted 3 transactions totaling \$2,523.38 that were never billed to FHWA. These were discussed with the Comptroller Division and we were told the transactions occurred prior to the date of approval for federal participation. However, our confirmations with the Programs Division indicate that these charges should in fact be federally reimbursable by FHWA. We extracted similar transactions from the PFS that also appear to have not been billed to FHWA and found 737 transactions totaling \$2,281,841.19.

The Comptroller Division has offered no additional explanation or documentation for the participating transactions that may not have been billed to FHWA.

Effect: A high risk of lost federal funds due to omission from the weekly FHWA billing.

Recommendation: The Comptroller Division should implement controls to ensure that all output transactions are balanced to control totals and that all transactions eligible for federal reimbursement are included in the billing process to collect amounts due.

Management's Corrective Action Plan

Contact Person: Mike Patterson

Anticipated Completion Date:

Corrective Action Planned: No action will be taken. The Comptroller currently reconciles transactions from all sources to ensure the project funding system (PFS) is properly updated. In reviewing this audit condition, the Comptroller is not aware of the instance identified by the Auditor and questions the assertion of "Questioned Costs" and that there exists a "High Risk of Lost Federal Funds...".

REF NO: 03-345-028

STATE AGENCY: Department of Transportation

Criteria: An important aspect of effective internal control over cash is the control activity of adequate physical safeguards, such as secure storage devices for checks and credit card information.

Condition: The following was noted in two offices:

- Checks received after 4:00 p.m. are not deposited, not restrictively endorsed, and are placed in an unlocked desk drawer in the Office Engineer's office.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

- Completed Proposal and Plan Order Forms, which contain credit card numbers, type of credit card, and expiration date, are placed in an unsecured box behind a desk in the Printing Services office until the box is full. Once the box is full, it is closed and sent to the warehouse for storage.

Cause: The staff has not been properly informed of the importance of adequate physical safeguards over checks and credit card information.

Effect: Checks received that are placed in an unsecured location are susceptible to theft. The credit card information may be used for purposes not intended by the owner of the card. In addition, the owner's personal confidential information is vulnerable for misuse and possible identity theft.

Recommendation: We recommend the Department educate employees responsible for handling checks and credit card information of the importance of adequate physical safeguards over these items. We also recommend the Department ensure the credit card information is destroyed after it has been used for the intended purpose.

Management's Corrective Action Plan

Contact Person: J. Michael Patterson, AD-Finance

Anticipated Completion Date: January 15, 2004

Corrective Action Planned: The Comptroller will distribute a reminder to all areas of the agency regarding the policy, procedures, and statutes that pertain to the receipt of money.

In addition, a separate communication will be given to the Information Services Division regarding the care and custody of credit card information and documentation.

REF NO: 03-345-029

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: One component of internal control is monitoring. Monitoring is a process that assesses the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective action.

The internal audit function contributes to the monitoring of an entities activities.

Condition: Management does not appear to have an adequate monitoring process in place to ensure the quality of its internal control performance as noted below.

- Management is not consistently taking corrective action to reportable and non-reportable findings. Findings have been noted for several audit cycles before corrective action was complete. Other repeat findings have not been corrected as of June 30, 2003.
- The internal audit division's function to monitor the design and operation of controls is not performed on a timely basis. No internal audit reports were issued during fiscal year 2003.

Cause: These conditions may be a result of:

- management's attitudes and actions toward monitoring its controls to consider whether they are operating as intended and that they are modified as appropriate.
- limited resources. The Department experienced a \$12,492,081 (6.3%) reduction in state appropriations.

Other Findings

This section contains audit findings not required to be reported in accordance with *Government Auditing Standards* or OMB Circular A-133. However, we believe these findings are significant enough to bring to management's attention.

- limited staffing. The Department's Administration Division, which includes the Comptroller Division, lost 24 staff members during the fiscal year.

Effect: Ineffective monitoring of controls may increase or allow non-detection of control weaknesses to occur. The lack of effective monitoring increases the risk of misstatement and misappropriation of assets.

Recommendation: Management is responsible for establishing and maintaining internal controls and monitoring the design, operation, and effectiveness of those controls. Therefore, we recommend that management;

- develop on-going monitoring process of controls to assess compliance and ascertain necessary modifications.
- design and implement corrective action plans for all audit findings, for example, a corrective action log.
- communicate information about strengths, weaknesses, and recommendations on improving internal control to division heads.
- conduct performance evaluations on programs, activities, or measures to ensure compliance with operational missions, policies and procedures and practices.
- assess the need to define and communicate staff responsibilities and duties; and the need to increase/decrease staff.
- evaluate its internal audit plan to ensure it includes monitoring activities to assess internal controls and risks on a timely basis for management consideration.

Management's Corrective Action Plan

Contact Person: J. Michael Patterson

Anticipated Completion Date: September 1, 2004

Corrective Action Planned: Prepare the necessary proposals for senior staff and Commission Audit Committee approval. This effort will be initiated with the assistance of OR&E.