



STATE OF OKLAHOMA
OFFICE OF THE STATE AUDITOR & INSPECTOR

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OKLAHOMA 2004

Fiscal Year Ended June 30, 2004



JEFF A. MCMAHAN, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

OKLAHOMA 2004

Single Audit Report For The Fiscal Year Ended June 30, 2004

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

May 24, 2005

**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, 2004. 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 black ink 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***



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

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, 2004, which collectively comprise the State's basic financial statements and have issued our report thereon dated May 20, 2005, which included emphasis paragraphs on the unfunded actuarial accrued liability of the Teachers' Retirement System and the implementation of Governmental Accounting Standards Board Statement No. 39. We did not audit:

- the financial statements of the Commissioners of the Land Office, the Oklahoma Department of Commerce, the Native American Cultural and Educational Authority, 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, and two percent of both the assets and revenues of the general fund.
- the financial statements of the Water Resources Board which in the aggregate represent sixty-seven percent and eight percent, respectively, of the assets and revenues of the business-type activities and the enterprise funds;
- the financial statements of the aggregate discretely presented component units;
- the financial statements of the Commissioners of the Land Office permanent fund, the Oklahoma Department of Wildlife Conservation Lifetime Licenses permanent fund, or the Tobacco Settlement Endowment permanent fund, which in the aggregate represent one hundred percent of the permanent funds;
- 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.

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 financial statements and not to provide an opinion 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 responses as items: 04-090-002, 04-090-003, 04-090-006, 04-345-002, 04-345-016, 04-345-017, 04-452-009IT, 04-452-010IT, and 04-807-017.

A material weakness is a reportable 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 caused by error or fraud 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, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 04-345-016 and 04-345-017.

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.



Jeff A. McMahan
State Auditor and Inspector

May 20, 2005

**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**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**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, 2004. 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 1.2% 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, 2004. 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, 2004. 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 and question costs as items:

04-265-001	04-265-005	04-265-007	04-290-002	04-340-001	04-340-002
04-340-004	04-340-004IT	04-340-009IT	04-340-010IT	04-345-001	04-345-018
04-345-020	04-452-001	04-452-002	04-452-012	04-452-014	04-580-001
04-580-006	04-650-003	04-650-004	04-650-007	04-650-008	04-805-007
04-805-008	04-805-009	04-805-010	04-805-012	04-807-001	04-807-003
04-807-004	04-807-005	04-807-006	04-807-007	04-807-008	04-807-010
04-807-011	04-807-012	04-807-013	04-807-014	04-807-015	04-807-016
04-807-019	04-807-020	04-807-021	04-830-003	04-830-004	04-830-005
04-830-006	04-830-007	04-830-009	04-830-010	04-830-013	04-830-014
04-830-017	04-830-019	04-830-021	04-830-023	04-830-024	04-830-025
04-830-026	04-830-032	04-830-033			

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 operation 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 and question costs as items:

04-265-001	04-265-005	04-265-007	04-290-002	04-340-001	04-340-002
04-340-004	04-345-001	04-345-004IT	04-345-006IT	04-345-007IT	04-345-008IT
04-345-009IT	04-345-010IT	04-345-012IT	04-345-013IT	04-345-018	04-452-001
04-452-002	04-452-004	04-452-006IT	04-452-007IT	04-452-008IT	04-452-009IT
04-452-010IT	04-452-012	04-452-013	04-452-014	04-452-015	04-580-001
04-650-003	04-650-004	04-650-007	04-650-008	04-805-007	04-805-012
04-807-001	04-807-004	04-807-005	04-807-006	04-807-007	04-807-008
04-807-011	04-807-015	04-807-018	04-807-019	04-807-021	04-830-003
04-830-004	04-830-007	04-830-008	04-830-010	04-830-013	04-830-014
04-830-019	04-830-020	04-830-021	04-830-022	04-830-025	04-830-026
04-830-032	04-830-033	04-830-035			

A material weakness is a reportable 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 caused by error or fraud 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. Of the reportable conditions described above, we consider none of items to be a material weakness.

Other Findings

In addition to the findings stated above, we also noted other matters involving requirements of laws, regulations, contracts, and grants applicable to federal programs. These matters are not considered to be reportable in accordance with *Government Auditing Standards* or OMB Circular A-133; 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 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, 2004, and have issued our report thereon dated May 20, 2005, which included emphasis paragraphs on the unfunded actuarial accrued liability of the Teachers' Retirement System and the implementation of Governmental Accounting Standards Board Statement No. 39. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Oklahoma's basic financial statements. 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.

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.



Jeff A. McMahan
State Auditor and Inspector

May 20, 2005

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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, 2004

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	537,766	
		Department of Wildlife Conservation	5,144	
		Boll Weevil Eradication	437,000	979,910
Federal-State Marketing Improvement Program	10.156	Department of Agriculture		19,585
Market Protection and Promotion	10.163	Department of Agriculture		35,692
Small Farmer Outreach Training and Technical Assistance	10.443	Department of Agriculture		46,948
Crop Insurance	10.450	Department of Agriculture		13,130
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	Department of Agriculture		1,473,983
Food Distribution	⌘ 10.550	Department of Human Services		14,888,249 ⌘
Food Stamps	⌘ 10.551	Department of Human Services		383,292,734
School Breakfast Program	10.553	Department of Education		30,129,435
National School Lunch Program	10.555	Department of Education	91,620,449	
		Department of Human Services	1,122,778	92,743,227
Special Milk Program for Children	10.556	Department of Education		41,857
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	State Department of Health		63,266,860 ⌘
Child and Adult Care Food Program	10.558	Department of Education		47,040,523
Summer Food Service Program for Children	10.559	Department of Education		2,149,787
State Administrative Expenses for Child Nutrition	10.560	Department of Education	1,892,909	
		Department of Human Services	358,284	2,251,193
State Administrative Matching Grants for Food Stamp Program	10.561	Department of Human Services		31,603,837
Emergency Food Assistance Program (Administrative Costs)	10.568	Department of Human Services		718,726
Cooperative Forestry Assistance	10.664	Department of Agriculture		2,912,172
Rural Development, Forestry and Communities	10.672	Department of Agriculture		358,830
Soil and Water Conservation	10.902	Conservation Commission		3,216,922
Subtotal				677,183,600
U.S. Department of Defense				
Direct Programs:				
Procurement Technical Assistance For Business Firms	12.002	Department of Career & Technology Education		305,576
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	Department of Environmental Quality		53,439
Basic and Applied Scientific Research	12.300	Water Resources Board		17,498
Information Security Grant Program	12.902	Department of Career & Technology Education		78,678
Cost Reimbursement Contract - National Guard Military Construction	12.400	Oklahoma Military Department		691,478
Cost Reimbursement Contract - National Guard Military Operations and Maintenance (O&M) Projects	12.401	Oklahoma Military Department		14,563,838 ⌘
Cost Reimbursements Contract - National Guard Civilian Youth Opportunities Program	12.404	Oklahoma Military Department		2,862,714
Other Federal Assistance - Troops to Teachers	-	Department of Education		110,313
Subtotal				18,683,534
U.S. Drug Enforcement Administration				
Direct Programs:				
Other Federal Assistance - Marijuana Eradication Suppression Program	-	Bureau of Narcotics & Dangerous Drugs Control		307,499
Subtotal				307,499
U.S. Department of Housing and Urban Development				
Direct Programs:				
Community Development Block Grants - State's Program	14.228	Department of Commerce		28,906,875 ♦
Emergency Shelter Grants Program	14.231	Department of Commerce		942,205 ♦
Supportive Housing Program	14.235	Mental Health and Substance Abuse Services		479
Shelter Plus Care	14.238	Department of Commerce	184,113	
		Mental Health and Substance Abuse Services	99,081	283,194
Fair Housing Assistance Program - State's Program	14.401	Human Rights Commission		140,283
Subtotal				30,273,036

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor for the Fiscal Year Ending June 30, 2004

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		139,506
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	Department of Mines		800,886
Abandoned Mine Land Reclamation (AMLR) Program	15.252	Conservation Commission		1,424,659
Small Reclamation Projects	15.503	Department of Tourism and Recreation		119,374
Reclamation and Water Reuse Programs	15.504	Department of Wildlife Conservation	108,298	
		Water Resources Board	240,479	348,777
Sport Fish Restoration	15.605	Department of Wildlife Conservation		5,907,596
Wildlife Restoration	15.611	Department of Wildlife Conservation		3,832,407
Cooperative Endangered Species Conservation Fund	15.615	Department of Wildlife Conservation		94,641
Sportfishing and Boating Safety Act	15.622	Department of Tourism and Recreation		458,007
Wildlife Conservation and Restoration	15.625	Department of Wildlife Conservation		144,352
Hunter Education and Safety Program	15.626	Department of Wildlife Conservation		183,451
Land Owners Incentive Program	15.633	Department of Wildlife Conservation		18,531
Formula Grant to Develop & Implement Programs to Benefit Wildlife and Their Habitat	15.634	Department of Wildlife Conservation		365,243
Historic Preservation Fund Grants-In-Aid	15.904	Historical Society		444,802
Outdoor Recreation - Acquisition, Development and Planning	15.916	Department of Tourism and Recreation		1,058,442
Rivers, Trails and Conservation Assistance	15.921	Historical Society		24,895
American Battlefield Protection	15.926	Historical Society		4,200
Cost Reimbursement Contract - Cooperative Inspection Agreements with States and Tribes	15.222	State Auditor and Inspector		415,195
Subtotal				15,784,964
U.S. Department of Justice				
Direct Programs:				
State Domestic Preparedness Equipment Support Program	16.007	Department of Public Safety		2,294,939
Serious and Violent Offender Reentry Initiative	16.202	Department of Corrections	211,967	
		Office of Juvenile Affairs	4,959	216,926
Comprehensive Approaches to Sex Offender Management	16.203	Department of Corrections		39,950
Juvenile Accountability Incentive Block Grants	16.523	Office of Juvenile Affairs		2,425,250
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	Office of Juvenile Affairs		1,053,733
National Institute for Juvenile Justice and Delinquency Prevention	16.542	State Bureau of Investigation		26,876
Title V - Delinquency Prevention Program	16.548	Office of Juvenile Affairs		237,831
Part E - State Challenge Activities	16.549	Office of Juvenile Affairs		114,534
State Justice Statistics Program for Statistical Analysis Centers	16.550	Legislative Service Bureau		29,901
National Criminal History Improvement Program (NCHIP)	16.554	District Attorneys Council		921,738
National Institute of Justice Research, Evaluation and Development Project Grants	16.560	District Attorneys Council		264,400
National Institute of Justice Crime Laboratory Improvement Program	16.564	State Bureau of Investigation		213,265
Crime Victim Assistance	16.575	District Attorneys Council		4,559,499
Crime Victim Compensation	16.576	District Attorneys Council		1,058,566
Byrne Formula Grant Program	16.579	District Attorneys Council		6,871,082
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	Mental Health and Substance Abuse Services		51,345
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	Department of Corrections		1,209,377
Violence Against Women Formula Grants	16.588	District Attorneys Council		1,602,222
Local Law Enforcement Block Grants Program	16.592	District Attorneys Council		553,339
Residential Substance Abuse Treatment for State Prisoners	16.593	District Attorneys Council		1,066,885
State Criminal Alien Assistance Program	16.606	Department of Corrections		1,314,060
Planning, Implementing, and Enhancing Strategies in Community Prosecution	16.609	Legislative Service Bureau	66,168	
		District Attorneys Council	106,148	172,316
Public Safety Partnership and Community Policing Grants	16.710	Department of Public Safety		117,045
Police Corps	16.712	Department of Public Safety		907,630
Enforcing Underage Drinking Laws Program	16.727	Department of Public Safety		495,645
Cost Reimbursement Contract - Public Safety Partnership and Community Policing	16.710	State Bureau of Investigation		150,627
Subtotal				27,968,981

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor
for the Fiscal Year Ending June 30, 2004

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		1,160,700
Compensation and Working Conditions Data	17.005	Department of Labor		86,081
Labor Certification for Alien Workers	17.203	Employment Security Commission		173,713
Employment Service	17.207	Employment Security Commission		10,345,806
Unemployment Insurance	17.225	Employment Security Commission		350,050,907 *
Senior Community Service Employment Program	17.235	Employment Security Commission		1,435,173
Trade Adjustment Assistance - Workers	17.245	Employment Security Commission		5,792,709
Welfare-to-Work Grants to States and Localities	17.253	Employment Security Commission		1,484,421
Workforce Investment Act - Adults	17.258	Employment Security Commission		7,155,119 *
Workforce Investment Act - Youth	17.259	Employment Security Commission		8,505,330 *
Workforce Investment Act - Dislocated Workers	17.260	Employment Security Commission		9,125,117 *
Employment and Training Administration Pilots, Demonstration and Research Programs	17.261	Oklahoma Military Department	100,000	
		Department of Career & Technology Education	108,822	208,822
Work Incentive	17.266	Employment Security Commission		457,030
State Utilization of WIA Section 503 Incentive Grant Resulting from Fiscal Year 2001 State Performance	17.267	Employment Security Commission		323
Consultation Agreements	17.504	Department of Labor		1,250,865
Mine Health and Safety Grants	17.600	Department of Mines		91,410
Disabled Veterans' Outreach Program (DVOP)	17.801	Employment Security Commission		819,535
Local Veterans' Employment Representative Program	17.804	Employment Security Commission		1,395,505
Cost Reimbursement Contract - Job Corps	-	Employment Security Commission		367,392
Subtotal				<u>399,905,958</u>
U.S. Department of Transportation				
Direct Programs:				
Boating Safety Financial Assistance	20.005	Department of Public Safety		686,974
Airport Improvement Program	20.106	Oklahoma Aeronautics Commission		132,287
Highway Planning and Construction	20.205	Department of Transportation		468,327,302 *
National Motor Carrier Safety	20.218	Department of Public Safety		2,927,744
Recreational Trails Program	20.219	Department of Tourism and Recreation		908,277
Formula Grants for Other Than Urbanized Areas	20.509	Department of Transportation		5,414,455
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	Department of Human Services		675,752
State and Community Highway Safety	20.600	Department of Public Safety		3,019,832
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	Department of Emergency Management		148,568
Cost Reimbursement Contract - Pipeline Safety	20.700	Corporation Commission		565,183
Subtotal				<u>482,806,374</u>
U.S. Treasury				
Direct Programs:				
Jobs and Growth Tax Relief	21.999	State of Oklahoma		14,822,467 *
Subtotal				<u>14,822,467</u>
Equal Employment Opportunity Commission				
Direct Programs:				
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	Human Rights Commission		74,130
Subtotal				<u>74,130</u>
General Services Administration				
Direct Programs:				
Donation of Federal Surplus Personal Property	* 39.003	Department of Central Service		4,247,896 *
Election Reform Payments	39.011	State Election Board		14,864
Subtotal				<u>4,262,760</u>
National Foundation on the Arts and the Humanities				
Direct Programs:				
Promotion of the Arts - Partnership Agreements	45.025	State Arts Council		586,500
Promotion of the Humanities - Division of Preservation and Access	45.149	Historical Society		78,867
State Library Program	45.310	Department of Libraries		1,961,307

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor for the Fiscal Year Ending June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
Other Federal Assistance - National Commission on Library and Information Studies	-	Department of Libraries		812
Subtotal				<u>2,627,486</u>
Small Business Administration				
Direct Programs:				
Congressional - Special Initiative	59.000	Department of Career & Technology Education		213,628
Cost Reimbursement Contract - Business Development Assistance to Small Business	59.005	Center for Advancement of Science and Technology		86,783
Subtotal				<u>300,411</u>
U.S. Department of Veterans Affairs				
Direct Programs:				
Veterans State Domiciliary Care	64.014	Department of Veterans Affairs		58,431
Veterans State Nursing Home Care	64.015	Department of Veterans Affairs		24,935,308 *
All-Volunteer Force Educational Assistance	64.124	Department of Veterans Affairs		298,772
Cost Reimbursement Contract - Grants to States for Construction of State Home Facilities	64.005	Department of Veterans Affairs		7,408,991 *
Subtotal				<u>32,701,502</u>
U.S. Environmental Protection Agency				
Direct Programs:				
Surveys Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act Water Pollution Control - State and Interstate Program Support	66.034	Department of Environmental Quality		438,852
State Underground Water Source Protection	66.419	Water Resources Board		3,146,729
Water Quality Management Planning	66.433	Corporation Commission		312,279
Nonpoint Source Implementation Grants	66.454	Water Resources Board		363,162
Wetlands Protection - Development Grants	66.460	Water Resources Board		3,382,833
National Pollutant Discharge Elimination System Related State Program Grants	66.461	Water Resources Board		405,987
Capitalization Grants for Drinking Water State Revolving Fund	66.463	Water Resources Board		96,220
Rural Communities Hardship Grants Program	66.468	Department of Environmental Quality		2,503,455 ♦
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.470	Water Resources Board		24,731
Water Protection Coordination Grants to the States	66.471	Department of Environmental Quality		458,235
Performance Partnership Grants	66.474	Department of Environmental Quality		192,079
Surveys, Studies, Investigations and Special Purpose Grants	66.605	Department of Environmental Quality		3,988,241
One Stop Reporting	66.606	Department of Environmental Quality	207,502	
Children's Health Protection	66.608	Water Resources Board	<u>471,518</u>	679,020
Consolidated Pesticide Enforcement Cooperative Agreements	66.609	Department of Environmental Quality		174,118
Toxic Substances Compliance Monitoring	66.700	Department of Health		16,392
Pollution Prevention Grants Program	66.700	Department of Agriculture		421,398
Capacity Building Grants and Cooperative Agreements for States and Tribes	66.701	Department of Environmental Quality	(8,113)	
Superfund State Site - Specific Cooperative Agreements	66.708	Department of Labor	<u>223,995</u>	215,882
State and Tribal Underground Storage Tanks Program	66.709	Department of Environmental Quality		66,881
Leaking Underground Storage Tank Trust Fund Program	66.709	Department of Agriculture		29,178
Brownfields-State and Tribal Response Program	66.802	Department of Environmental Quality		2,074,245
Subtotal	66.804	Corporation Commission		287,500
	66.805	Corporation Commission		625,415
	66.817	Department of Environmental Quality		143,538
				<u>20,046,370</u>
U.S. Department of Energy				
Direct Programs:				
State Energy Program	81.041	Department of Commerce		1,368,487 ♦
Weatherization Assistance for Low-Income Persons	81.042	Department of Commerce		2,417,401 ♦
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Tech Analysis	81.117	Department of Commerce		24,966
State Energy Program - Special Projects	81.119	Department of Commerce		126,842
Subtotal				<u>3,937,696</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

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Schedule of Expenditures of Federal Awards By Federal Grantor
for the Fiscal Year Ending June 30, 2004

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		92,385
Crisis Counseling	83.539	Department of Emergency Management		113,766
Fire Suppression Assistance	83.542	Department of Emergency Management		34,326
Individual and Family Grants	83.543	Department of Emergency Management		275,845
Public Assistance Grants	83.544	Department of Emergency Management	14,663,964	
		Historical Society	6,992	14,670,956
Hazard Mitigation Grant	83.548	Department of Emergency Management		7,557,843
National Dam Safety Program	83.550	Water Resources Board		319,238
Emergency Management Performance Grants	83.552	Department of Emergency Management		1,682,513
Pre-Disaster Mitigation (PDM)	83.557	Department of Emergency Management		36,606
FEMA 1465-DR Oklahoma Disaster Relief	83.560	Department of Emergency Management		749,980
State and Local All Hazards Emergency Planning	83.562	Department of Emergency Management		239,175
Emergency Operations Center Initiative	83.583	Department of Emergency Management		19,654
Homeland Security - Citizen Corp	83.584	Department of Emergency Management		212,184
Homeland Security - Pre-Disaster Mitigation	83.999	Department of Emergency Management		30,000
Subtotal				<u>26,283,476</u>
U.S. Department of Education				
Direct Programs:				
Adult Education - State Grant Program	84.002	Department of Education		6,465,048
Title I Grants to Local Educational Agencies	84.010	Department of Education		133,591,491 *
Migrant Education - Basic State Grant Program	84.011	Department of Education		2,120,840
Title I Program for Neglected and Delinquent Children	84.013	Department of Education		510,438
Special Education - Grants to States	84.027	Department of Education		101,333,628 *
Vocational Education - Basic Grants to States	84.048	Department of Career & Technology Education		15,049,723
Statewide Systems Change Project	84.086	Department of Education		54,970
Rehabilitation Services - Vocational				
Rehabilitation Grants to States	84.126	Department of Rehabilitation Services		28,098,599 *
Rehabilitation Services - Client Assistance Program	84.161	Office of Handicapped Concerns		125,079
Immigrant Education	84.162	Department of Education		102,905
Independent Living - State Grants	84.169	Department of Rehabilitation Services		226,469
Special Education - Preschool Grants	84.173	Department of Education		3,100,748 *
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177	Department of Rehabilitation Services		371,380
Special Education - Grants for Infants and Families with Disabilities	84.181	Department of Education		4,892,742
Safe and Drug-Free Schools and Communities - National Programs	84.184	Department of Education		522,654
Byrd Honors Scholarships	84.185	Department of Education		475,055
Safe and Drug-Free Schools and Communities - State Grants	84.186	Department of Education	4,331,418	
		Department of Health	665,499	4,996,917
Supported Employment Services for Individuals with Severe Disabilities	84.187	Department of Rehabilitation Services		410,335
Bilingual Education Support Services	84.194	Department of Education		(23,590)
Education for Homeless Children and Youth	84.196	Department of Education		474,803
Even Start - State Educational Agencies	84.213	Department of Education		2,672,885
Fund for the Improvement of Education	84.215	Department of Education		632,627
Tech-Prep Education	84.243	Department of Career & Technology Education		1,268,093
Literacy Programs for Prisoners	84.255	Department of Corrections		184,997
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	Department of Rehabilitation Services		78,217
Eisenhower Professional Development State Grants	84.281	Department of Education		297,727
Charter Schools	84.282	Department of Education		1,001,207
Twenty-First Century Community Learning Centers	84.287	Department of Education		4,817,557
Innovative Education Program Strategies	84.298	Department of Education		4,935,472
Technology Innovation Challenge Grants	84.303	Department of Education		19,619
Technology Literacy Challenge Fund Grants	84.318	Department of Education		6,625,671

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

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Schedule of Expenditures of Federal Awards By Federal Grantor for the Fiscal Year Ending June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	Department of Education		572,914
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	Department of Education		62,713
Advanced Placement Incentive Program	84.330	Department of Education		14,522
Grants to States for Incarcerated Youth Offenders	84.331	Department of Corrections		409,324
Comprehensive School Reform Demonstration	84.332	Department of Education		1,865,416
Reading Excellence	84.338	Department of Education		2,121,033
Class Size Reduction	84.340	Department of Education		280,915
Occupational and Employment Information State Grants	84.346	Department of Career & Technology Education		138,829
Title I Accountability Grants	84.348	Department of Education		150,419
School Renovation Grants	84.352	Department of Education		2,011,519
Reading First	84.357	Department of Education		6,697,246
Rural and Low Income Schools	84.358	Department of Education		3,995,182
English Language Acquisition Grants	84.365	Department of Education		2,146,646
Math and Science Partnerships	84.366	Department of Education		249,144
Improving Teacher Quality Grants	84.367	Department of Education		28,813,834 *
Grants for Enhanced Assessment Instruments	84.368	Department of Education		724,627
State Assessments and Related Activities	84.369	Department of Education		1,946,967
Subtotal				<u>377,635,556</u>
National Archives and Records Administration				
Direct Programs:				
National Historical Publications and Records Grants	89.003	Department of Libraries		69,261
Subtotal				<u>69,261</u>
U.S. Department of Health and Human Services				
Direct Programs:				
Public Health and Social Services Emergency Fund	93.003	State Department of Health		1,115,430
Special Programs for the Aging - Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	Department of Human Services		52,434
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	Department of Human Services		180,567
Special Programs for the Aging - Title III, Part F - Disease Prevention and Health Promotion Services	93.043	Department of Human Services		282,204
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Department of Human Services		4,031,830 *
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	Department of Human Services		7,306,298 *
Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	93.048	Insurance Department		155,449
New Demonstration Grants to States With Respect to Alzheimer's Disease	93.051	Department of Human Services		383,569
National Family Caregiver Support Program	93.052	Department of Human Services		1,924,075
Nutrition Services Incentive Program	93.053	Department of Human Services		2,728,050 *
Food and Drug Administration Research	93.103	Department of Agriculture		2,000
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	Mental Health and Substance Abuse Services		1,567,500
Maternal and Child Health Federal Consolidated Programs	93.110	State Department of Health		610,368
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	State Department of Health		809,869
Primary Care Services - Resource Coordination and Development Primary Care Offices	93.130	State Department of Health		133,091
Injury Prevention and Control Research and State and Community Based Programs	93.136	State Department of Health		1,129,869
Projects for Assistance in Transition from Homelessness (PATH)	93.150	Mental Health and Substance Abuse Services		298,164
Health Programs for Toxic Substances and Disease Registry	93.161	State Department of Health		253,199
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		226,998
Family Planning Services	93.217	State Department of Health		3,324,166
Consolidated Knowledge Development and Application Program	93.230	Mental Health and Substance Abuse Services		3,506,893

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor
for the Fiscal Year Ending June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
Traumatic Brain Injury	93.234	State Department of Health		80,144
Abstinence Education	93.235	State Department of Health		364,662
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	State Department of Health	89,901	
		Mental Health and Substance Abuse Services	<u>83,029</u>	172,930
Oklahoma Capacity Grant	93.243	Mental Health and Substance Abuse Services		65,594
Universal Newborn Hearing Screening	93.251	State Department of Health		151,999
State Planning Grant-Health Care Access for Uninsured	93.256	Health Care Authority		21,202
Rural Access to Emergency Devices Grant	93.259	State Department of Health		62,620
Immunization Grants	❖ 93.268	State Department of Health		23,205,643 *
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	State Department of Health		13,737,159 *
Promoting Safe and Stable Families	93.556	Department of Human Services		9,075,853
Temporary Assistance for Needy Families	93.558	Department of Human Services		116,629,622 *
Child Support Enforcement	93.563	Department of Human Services		30,829,149
Refugee and Entrant Assistance - State Administered Programs	93.566	Department of Human Services		553,923
Low-Income Home Energy Assistance	93.568	Department of Human Services		11,934,742 *
Community Services Block Grant	93.569	Department of Commerce		7,497,017 ♦
Community Services Block Grant Discretionary Awards - Community Food and Nutrition	93.571	Department of Commerce		57,043
Child Care and Development Block Grant	93.575	Department of Human Services		61,738,969 *
Refugee and Entrant Assistance - Discretionary Grants	93.576	Department of Education	114,281	
		Department of Human Services	<u>79,649</u>	193,930
Empowerment Zones Program	93.585	Department of Commerce	4,527	
		Department of Human Services	<u>80,784</u>	85,311
State Court Improvement Program	93.586	Supreme Court		170,814
Community-Based Family Resource and Support Grants	93.590	State Department of Health		1,101,745
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Department of Human Services		55,481,125 *
Grants to States for Access and Visitation Programs	93.597	Department of Human Services		171,669
Chafee Education and Training Vouchers Program	93.599	Department of Human Services		332,248
Head Start	93.600	Department of Commerce		207,092
Developmental Disabilities Basic Support and Advocacy Grants	93.630	Department of Human Services		977,711
Children's Justice Grants to States	93.643	Department of Human Services		179,423
Child Welfare Services - State Grants	93.645	Department of Human Services		2,223,253
Foster Care - Title IV-E	93.658	Department of Human Services		25,852,764 *
Adoption Assistance	93.659	Department of Human Services		14,448,517
Social Services Block Grant	93.667	Department of Human Services		20,495,579
Child Abuse and Neglect State Grants	93.669	Department of Human Services		263,171
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		1,302,375
Independent Living	93.674	Department of Human Services		1,139,610
State Children's Insurance Program	93.767	Health Care Authority		46,073,212 *
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	Health Care Authority		151,039
Medicare - Hospital Insurance	93.773	State Department of Health		4,805,369
State Medicaid Fraud Control Units	93.775	Attorney General		904,760 *
State Survey and Certification of Health Care Providers and Suppliers	93.777	Health Care Authority		4,043,857 *
Medical Assistance Program	93.778	Health Care Authority		1,959,891,417 *
Health Care Research, Demonstrations and Evaluations	93.779	Insurance Department	211,579	
		Health Care Authority	<u>228,332</u>	
		Department of Human Services	<u>301,561</u>	741,472
HIV Care Formula Grants	93.917	State Department of Health		6,309,546
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	Department of Education		235,234
HIV Prevention Activities - Health Department Based	93.940	State Department of Health		2,767,745
Human Immunodeficiency Virus (HIV) - Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	State Department of Health		346,644

OKLAHOMA

Schedule of Expenditures of Federal Awards By Federal Grantor for the Fiscal Year Ending June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Agency	Expenditures/Expenses	
			Agency	State
Assistance Programs for Chronic Disease Prevention and Control	93.945	State Department of Health		1,216,183
Trauma EMS	93.952	State Department of Health		9,155
Block Grants for Community Mental Health Services	93.958	Mental Health and Substance Abuse Services		4,684,091
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Mental Health and Substance Abuse Services	19,605,393	
		Alcoholic Beverage Laws Enforcement	<u>7,464</u>	19,612,857 *
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	State Department of Health		1,611,812
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	State Department of Health		225,884
Preventive Health and Health Services Block Grant	93.991	State Department of Health		1,271,757
Maternal and Child Health Services Block Grant to the States	93.994	State Department of Health		5,044,012
Other Federal Assistance - X-Ray Inspections	-	State Department of Health		53,352
Other Federal Assistance - Clinical Laboratory Improvement Amendments	-	State Department of Health		223,957
Other Federal Assistance - Alcohol and Drug Data Collection Information Systems	-	Mental Health and Substance Abuse Services		26,194
Cost Reimbursement Contract - Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	Center for Advancement of Science and Tech.		<u>39,354</u>
Subtotal				<u>2,491,115,534</u>
Corporation for National and Community Service				
Direct Programs:				
Learn and Serve America - School and Community Based Programs	94.004	Department of Education		55,222
Learn and Serve America - Higher Education	94.005	Department of Education		328,660
Foster Grandparent Program	94.011	Department of Human Services		<u>409,958</u>
Subtotal				<u>793,840</u>
Social Security Administration				
Direct Programs:				
Social Security - Disability Insurance	96.001	Department of Rehabilitation Services		17,155,291 *
Social Security - Research and Demonstration	96.007	Department of Rehabilitation Services		<u>260,391</u>
Subtotal				<u>17,415,682</u>
Total Federal Assistance			\$	<u>4,645,000,117</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, 2004

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, 2004. 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. However, it appears that 'returns' from donees are included in the Schedule of Federal Awards, which would indicate double counting of some surplus property items. Based on a discussion with General Services Administration, they are aware that certain items may be double counted on the Schedule.

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 2004:

<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 \$265,672,294. The federal portion of UI funds amounted to \$84,378,612.

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 \$163,438,926 at June 30, 2004. 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%. During fiscal year 2004, the WRB withdrew no federal funds. Therefore, CFDA 66.458 will not be shown on the Schedule.

The Oklahoma Department of Environmental Quality (ODEQ) administers the Oklahoma Drinking Water State Revolving Fund Program. The program had loans outstanding of \$43,543,979 at June 30, 2004. 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 2004, the ODEQ withdrew federal funds in the amount of \$8,696,768. Of these funds, \$7,108,308 was used for disbursements on loans originated.

Note 5. Cost Recovery of Federal Program Expenditures

During fiscal year 2004, the Oklahoma Department of Health received cash rebates from infant formula manufacturers in the amount of \$16,820,272 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 \$2,849,000 were in suspense at June 30, 2004, and once the modified contracts are approved by the U.S. Department of Transportation an estimated 100 percent will be considered available.

Note 6. Audits Provided by Auditors Other Than Principal Auditor

Audits provided by auditors other than the principal auditor include:

- Oklahoma Department of Commerce
- Oklahoma Department of Wildlife Conservation
- Oklahoma 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 Education Grant Transfers

The Department of Education made the following transfers between programs for the fiscal year 2004:

	Transferred From:				Total
	Improving Teacher Quality State Grants (CFDA #84.367)	Education Technology State Grants (CFDA #84.318)	Safe and Drug-Free Schools and Communities_State Grants (CFDA #84.186)	State Grants For Innovative Programs (CFDA #84.298)	
Transferred To:					
Title I Grants To LEAs (CFDA #84.367)	\$1,254,919.75	\$4,234.47	\$62,948.16	\$25,837.50	\$1,347,939.88
Improving Teacher Quality State Grants (CFDA #84.367)		\$3,889.44	\$9,733.55	\$6,566.50	\$20,189.49
Education Technology State Grants (CFDA #84.318)	\$114,566.01		\$2,759.50		\$117,325.51
Safe and Drug-Free Schools and Communities_State Grants (CFDA #84.186)	\$52,500.48			\$18,290.23	\$70,790.71
State Grants For Innovative Programs (CFDA #84.298)	\$604,555.12	\$9,390.30	\$22,300.22		\$636,245.64
Totals:	\$2,026,541.36	\$17,514.21	\$97,741.43	\$50,694.23	\$2,192,491.23

Notes to the Schedule of Expenditures of Federal Awards

Note 8. 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 \$68,227,155.69 of the soft match provision for projects billed during fiscal year 2004. 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 2004 Schedule as Federal Highway Administration federal expenditures may include all or part of the previously approved soft match.

Schedule of Findings and Question Costs

Schedule of Findings and Question Costs

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?no

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

Noncompliance material to financial statements noted?.....yes

Federal Awards

Internal control over major programs:

Material weakness(es) identified?no

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:\$13,927,490

Auditee qualified as low-risk auditee?.....no

Identification of Major Programs:

	<u>Program and CFDA Number</u>	<u>State Agency</u>
	10.550 Food Distribution	Department of Human Services
	10.557 Special Supplemental Nutrition Program for Women, Infants and Children	Department of Health
	12.401 Nat'l Guard Military Operations and Maint. Projects	Military Department
	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
	16.634 Formula Grant to Develop & Implement Programs to Benefit Wildlife and Their Habitat	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

	<u>Program and CFDA Number</u>	<u>State Agency</u>
	20.205 Highway Planning and Construction	Department of Transportation
	21.999 Jobs and Growth Tax Relief Grant	State of Oklahoma
	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
	81.041 State Energy Program	Department of Commerce
	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	
	84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States	Department of Rehabilitation Services
	84.367 Improving Teacher Quality State Grants	Department of Education
Aging Cluster	93.004 Special Program for the Aging Title III, Part B	Department of Human Services
	93.045 Special Program for the Aging Title III, Part C	
	93.053 Nutrition Services Incentive Program	
	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
	93.767 State Children's Insurance Program	Health Care Authority
Medicaid Cluster	93.775 State Medicaid Fraud Control Units	Health Care Authority
	93.777 State Survey and Certification of Health Care Providers and Suppliers	Attorney General
	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

Schedule of Findings and Responses Financial Statement Findings (Internal Control and Compliance)

Office of State Finance

REF NO: 04-090-002

STATE AGENCY: Office of State Finance

During the performance of our testwork, we noted certain disbursements related to six Agency Special Accounts (8815A, 8132Y, 8830F, 8131R, 8132X, and 8185C) had not been recorded in the CORE system. These transactions were those related to the transfer of monies to a treasury fund, clearing account, or other Agency Special Account (ASA) and were identified on the agency's Form 11A by account codes 562120, 562130, or 562140. Due to these disbursements not being recorded, the June 30, 2004 cash balances for these ASA's were overstated. We were unable to determine the cause of the unrecorded transactions.

We also noted two ASA accounts (8695B and 8695U) with disbursements coded to 555210 on the agency's Form 11. These disbursements were recorded in the CORE system; however, a portion of the disbursements were also recorded as a reduction in revenue. As a result, cash in the CORE system for these two accounts was understated.

While these items were corrected through adjusting journal entries on the State of Oklahoma financial statements, it appears the controls in place to ensure ASA activity is correctly recorded in the CORE system are not adequate.

Recommendation: We recommend the Office of State Finance develop procedures to ensure all ASA activity is correctly recorded in the CORE system. To help ensure all ASA activity is correctly recorded, we recommend periodic reconciliations between the ASA cash balances recorded in the CORE system to the ASA cash balances per the State Treasurer's Office.

Management's Corrective Action Plan:

Contact Person: Jennie Pratt

Anticipated Completion Date: June 30, 2005

Corrective Action Planned: Based upon further review of the operating processes, human error appears to be responsible for the unrecorded transactions. The Form 11A will be modified to ensure an effective format to allow agencies to record ASA transactions and for proper reconciliation and entry into the Core system. Additionally, OSF plans to hold several training sessions for completion of the revised form.

REF NO: 04-090-003

STATE AGENCY: Office of State Finance

As part of the CAFR preparation process, the Office of State Finance (OSF) eliminates entries of intrafund payments between agencies. The method used by OSF to determine payments made from one agency to another is based on the payee's vendor identification number. Since each state agency has a unique vendor identification number, this is an effective method for determining the intrafund payments. However, this method provides for only determining the expenditure side of the eliminating entry. Since the method uses only payment data, there is no way of determining which revenue accounts should be decreased because the revenue account code used by the payee to deposit the payment is not known.

Since the revenue account code used by the payee agency was available in the ICS system, trend information was prepared using prior years actual revenue data to estimate which revenue accounts to make the eliminating entry against. While this estimate was reasonable for fiscal year 2004, it is not a long term solution since actual revenue data will not be available in the future to continue the trend analysis.

Recommendation: We recommend OSF develop procedures to determine the revenue account codes used by agencies when depositing payments from other state agencies.

Schedule of Findings and Responses

Financial Statement Findings

(Internal Control and Compliance)

Management' Corrective Action Plan:

Contact Person: Deric Berousek

Anticipated Completion Date: June 30, 2005

Corrective Action Planned: Inter-unit transfer transactions are provided for in the new accounting system in conjunction with the accounts receivable application. Since implementation of that application has been delayed, the off-setting entries are not available through the system at this time. As an interim measure, a generally accepted accounting principles (GAAP) conversion package will be developed for the identification and elimination of related revenue accounts by depositing agencies. A report of amounts paid by other State agencies will be provided to the appropriate depositing agencies. It will then be the responsibility of the depositing agencies to identify the correct revenue accounts for the elimination entry.

REF NO: 04-090-006

STATE AGENCY: Office of State Finance

An essential part of the internal controls established by the Office of State Finance (OSF) is the performance of a year-end cash reconciliation between the CORE general ledger and the State Treasurer's Office (OST). The reconciliation is an important process in ensuring the accuracy of the accounting records and ensuring that errors are detected and corrected in a timely manner. As of May 2005, several funds had not yet been completely reconciled. The delay in completing the reconciliation was due to the implementation of a new statewide accounting system during the fiscal year. Staff hours generally dedicated to completing the reconciliation were instead directed towards working with implementation issues.

In addition, during our review of the reconciliation, we noted many adjustments were necessary to correct journal entries that had been recorded to an incorrect agency/fund. Based on discussion with OSF personnel, incorrectly recorded journal entries also appear to be the cause of many of the unreconciled balances. It appears there was a breakdown in communication between OSF and OST regarding the correct recording of these transactions. However, had the reconciliation been performed in a timely manner, many of these errors would have been detected and avoided.

Recommendation: We recommend a cash reconciliation between OSF and OST be performed, at a minimum, on a quarterly basis and that each reconciliation be completed in a timely manner.

Management's Corrective Action Plan:

Contact Person: Deric Berousek

Anticipated Completion Date: July 30, 2005

Corrective Action Planned: The new accounting system procedures for checks and cash clearing are different than under the old system, requiring certain implementation adjustments between the new system and OST. Consequently, a number of adjustments were needed between funds either within the new system, or at OST. OSF now intends to reconcile cash balances with OST at least quarterly, beginning after the 12 month period ended June 30, 2005.

Health Care Authority

REF NO: 04-807-017

STATE AGENCY: Oklahoma Health Care Authority

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

Schedule of Findings and Responses Financial Statement Findings (Internal Control and Compliance)

Condition: As part of our testing of the Medicaid Payables GAAP package we obtained the Service Date Reimbursement Analysis (Report MAR-2300-M) Report for the months of July, August, and September 2004 and the claim data to support these reports. During our testing procedures we noted:

- 1) The "Total Reimbursement This Month" column on this report does not total for all lines. The variances noted in total by month are as follows:

<u>Month</u>	<u>Report Amount</u>	<u>SA&I Amount</u>	<u>Variance</u>
July 2004	\$179,341,833.86	\$179,302,442.15	\$39,391.71
August 2004	\$194,544,709.48	\$194,521,235.41	\$23,474.07
September 2004	\$260,190,672.30	\$260,165,052.94	\$25,619.34

Each month's variance appears to be a result of claims with a last date of service after the last day of the report month being included in the "Total Reimbursement This Month" column; however, they have not been included in any of the individual month's totals.

July 2004 Report			
<u>COS</u>	<u># Claims</u>	<u>Date Range</u>	<u>Amount</u>
700	51	08/31/2004 - 09/18/2004	\$ 853.97
800	1,572	08/01/2004 - 12/31/2299	\$ 38,463.88
2200	1	06/30/2007	\$ 73.86
Totals	1,648		\$ 39,391.71

August 2004 Report			
<u>COS</u>	<u># Claims</u>	<u>Date Range</u>	<u>Amount</u>
700	22	09/04/2004 - 10/19/2004	\$ 405.11
800	987	09/01/2004 - 12/24/2004	\$ 23,028.12
2900	2	07/24/2007 - 12/31/2299	\$ 40.84
Totals	1,103		\$ 23,474.07

September 2004 Report			
<u>COS</u>	<u># Claims</u>	<u>Date Range</u>	<u>Amount</u>
700	15	10/01/2004 - 11/17/2004	\$ 206.03
800	1,127	10/01/2004 - 12/31/2299	\$ 25,370.20
2300	3	07/27/2104 - 12/31/2299	\$ 43.11
Totals	1,145		\$ 25,619.34

- 2) In addition to the claims discussed above, we noted an additional 229 claims (\$32,356.66) throughout the three months that also had a last date of service after the last day of the report month.

<u>Month</u>	<u>COS</u>	<u># Claims</u>	<u>Date Range</u>	<u>Amount</u>
July 2004	600	24	08/07/2004 - 12/31/2299	\$ 2,600.46
July 2004	3000	37	09/07/2004 - 07/19/2204	\$11,505.34
August 2004	600	29	09/03/2004 - 12/31/2299	\$ 2,414.01
August 2004	1800	1	09/30/2009	\$ 982.27
August 2004	3000	62	09/04/2004 - 12/31/2299	\$ 5,892.22
September 2004	600	23	12/14/2004 - 12/31/2299	\$ 646.84
September 2004	3000	52	08/23/2005 - 12/31/2299	\$ 8,303.65
September 2004	5300	1	09/14/2007	\$ 11.87
Totals		229		\$ 32,356.66

Schedule of Findings and Responses

Financial Statement Findings (Internal Control and Compliance)

- 3) We also noted 4 financial transactions for the months of August 2004 and September 2004 totaling \$156,507.31 that appear to have been included in the monthly total for the first dates of service rather than the last dates of service.
- 4) Additionally, we noted a calculation error on the 'SFY 2004 Encumbered Funds By Date of Service' Report. For the report month of December 2003 and the Date of Service Month of September 2003 an amount of \$62,586,326 was included in the report calculation however, the December 2003 report reflects a total of \$6,256,326.95 for the Date of Service Month of September 2003.

Effect: Since the report may not properly reflect claims in the month the last date of service actually occurred, and there was a calculation error, Medicaid payables could be misstated.

Recommendation: We recommend the Authority perform the necessary procedures to ensure that amount reported as "Total Reimbursement This Month" on the Service Date Reimbursement Analysis (MAR-2300-M) Report totals for each line. In addition we recommend they implement procedures to ensure claims are not included on the report that have a last date of service after the last day of the report month.

Management's Corrective Action Plan

Contact Person: Lynn Puckett

Anticipated Completion Date: July 2005

Corrective Action Planned: The claim data provided to SAI for review included Medicare Crossover claims. OHCA receives the crossovers from Medicare Intermediaries. OHCA does not validate the dates for these claims because they are received as paid claims by Medicare. OHCA evaluates the Crossover claims for payment and pays the appropriate co-insurance and/or deductibles. A large part of the date problem identified in Parts 1 and 2 of the finding are attributable to Medicare Crossover claim dates of service.

OHCA is continuing to investigate Parts 1 and 2 of the finding and will create a system change order when the issues have been analyzed to correct the report or explain the differences to the SAI.

Part 3 of the finding was identified last year and a change order was created and has been implemented. The CO 5961 was implemented 9/3/2004.

OHCA is continuing to investigate the issues with Part 4 of the finding and will write a system Change Order to remedy the problem after it has been fully analyzed or the differences will be explained to the SAI.

Department of Mental Health and Substance Abuse Services

Reference number 04-452-009IT and 04-452-010IT 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 these findings may be seen in the section Schedule of Findings, Federal Award Findings and Questioned Costs.

Schedule of Findings and Responses Financial Statement Findings (Internal Control and Compliance)

Department of Transportation

REF NO: 04-345-002

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: Nineteen out of 50 projects tested were coded with a work code in the Project Funding System that did not agree to the supporting documentation (approved contract) in the project file. This resulted in a 38% error rate.

Cause: The lack of policy and formal written procedures to ensure the work code assigned to a project during the planning stages traces and agrees to the work code assigned to the project after the contract has been awarded. Also, it appears numerous departments have access to change the work code assigned to a project.

Effect: The Department's accounting records in the Project Funding System do not reflect the same information as contained in the project files regarding the work code assigned to a project.

Recommendation: We recommend the Department develop and implement policies and written procedures to ensure the final coding assigned to a project traces and agree to the supporting documentation (final awarded contract) in the project files. We also recommend the Department inform personnel of the importance of assigning the proper work codes to a project and limit access to change the project work code once the final contract has been awarded.

Management's Corrective Action Plan

Contact Person: J. Michael Patterson, AD-Finance

Anticipated Completion Date: 10/01/2005

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

REF NO: 04-345-016

STATE AGENCY: Department of Transportation

Criteria: Internal controls should include reviews to verify accuracy, completeness, and authorization of transactions and account balances.

In addition, basic objectives of governmental generally accepted accounting principles are to provide for accurate and reliable information.

Condition: The amount of minimum future payments for Underwriter Fund 310H was overstated by \$30,379,566.76 on the GAAP Package M, Lessor Summary.

Cause: Incorrect amounts were used to determine the underwriter total for GAAP Package M, Lessor Summary.

Schedule of Findings and Responses

Financial Statement Findings

(Internal Control and Compliance)

Effect: Deferred Revenue is overstated by \$30,379,566.76.

Recommendation: We recommend that the Department review the GAAP Packages thoroughly prior to approval to ensure the amounts reported to the Office of State Finance are accurate and reliable.

Management's Corrective Action Plan

Contact Person: Kathleen Croy

Anticipated Completion Date: March 2005

Corrective Action Planned: The Comptroller Division will implement procedures for review of GAAP reasonableness comparison. The incorrect Grand Total was used for the GAAP Report. A programming change in Grand Total pages will be made by March 2005.

REF NO: 04-345-017

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 ensures transactions are recorded correctly in a timely manner.

Condition: Out of fifty-two leases tested, there is a variance between the State Auditor and Inspector's calculated future minimum payments and the Department's calculated future minimum payments for eleven leases.

Cause: The Comptroller Division and the Local Government Division do not have written policies and procedures regarding the communication of new leases and leases that have been paid in full. The Comptroller Division is subsequently not recording leases until receiving the first payment from the lessee.

Effect: The Comptroller Division's lease records may not include all leases and are not consistent with generally accepted accounting principles. Amounts reported to the Office of State Finance on the GAAP Package M (Lessor Summary) and Department records are misstated. Accounts receivable and deferred revenue amounts are consequently understated.

Recommendation: We recommend that the Department develop and implement policies and procedures to inform personnel of required communication between the Comptroller Division and the Local Government Division so that new lease information is recorded in an accurate and timely manner. We also recommend that the Comptroller Division utilize the first invoice date to record lease payments receivable to ensure that assets and liabilities are recorded in the proper accounting period.

Management's Corrective Action Plan

Contact Person: Kathleen Croy

Anticipated Completion Date: April 2005

Corrective Action Planned: The Comptroller Division and Local Government Division will meet and implement written policies and procedures regarding new leases and leases "paid in full". We have notified personnel to use the proper accounting date when recording new leases and to convey this information to Local Government. Written Policies and Procedures will be in place by April 2005.

Schedule of Findings Federal Award Findings And Question Costs

Note: Findings are presented alphabetically by state agency.

Department of Central Services

REF NO: 04-580-001

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: 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.”

According to 41 CFR § 102-37.400, the agency “must maintain the records required by your State plan to document donee eligibility.”

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.”

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.

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.”

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

Condition: During our review of internal controls, we noted that 987 donees were recorded as “active” in the OKFP system. ‘Active’ indicates each donee is eligible to receive federal surplus property. Of these 987 donees, we noted the following:

- Seven (7) active donees had an incorrect application date listed, which was dated in the years 2005-2007.
- Three (3) active donees had an expiration date between the years of 2000-2003.
- Sixty-two (62) active donees had an expiration date between 2/7/04 and 6/30/04.
- One hundred and two (102) active donees did not have an application date listed in the system.
- One (1) active donee did not have an application or expiration date listed in the system.
- Two (2) donees were listed as “mailing list” with a group code of “90”. These donees are not eligible entities and therefore should not be considered active.
- One (1) donee was listed as “non-donee income” with a group code of “0”. This donee is not an eligible entity and therefore should not be considered active.

Further, we noted the following during substantive testing of ninety-three (93) active eligibility files:

Schedule of Findings

Federal Award Findings

And Question Costs

- Twenty-four (24) files did not contain a current application or the most recent application expired during our audit period.
- One (1) file did not contain proper management approval of the application or update form.
- Two (2) donees were listed as “mailing list” with an account number beginning with “90”. These donees are not eligible entities and therefore should not be considered active.
- Three (3) donees did not properly receive surplus property during the fiscal year because a purchase was made by a person not authorized per the approved contract.
- Three (3) donees did not properly receive surplus property during the fiscal year because a purchase was made when the donee did not have an approved contract on file.
- Six (6) donees had an incorrect application or expiration date listed in the OKFP system.

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

Recommendation: We recommend the agency implement controls to ensure that those donees listed as active in the OKFP system are eligible to receive federal surplus property.

Management’s Corrective Action Plan

Contact Person: Jerry Holland, Surplus Property Administrator

Anticipated Completion Date:

Corrective Action Planned:

We concur. It is not unusual to have expired applications or donees that choose not to re-apply. We have a manual process of checking current eligibility. Many times expired applications are not located until they have passed expiration date. However as a mitigating control, the invoicing program will not allow a donee account to be invoiced if the eligibility expiration has passed. Also, the four donees listed as “mailing list” are now shown as inactive in the OKFP system. There is no invoicing or donation history for these entities. They will be removed from the OKFP system.

REF NO: 04-580-006

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 CATEGORY: Special Test 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 cost, or unusually high expenses are involved.”

Condition: Based on review of all inventory items donated during state fiscal year 2004, we noted the following:

- Service charges for 231 of the 1027 donations were greater than twenty percent; this represents 22.5% of the population.
- Service charges for 151 of the 1027 donations were less than 5%; this represents 15% of the population.

Effect: It appears, the agency is not consistently following the State Plan of Operation relating to service charges assessed.

Schedule of Findings Federal Award Findings And Question Costs

Recommendation: We recommend 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: Jerry Holland, Surplus Property Administrator

Anticipated Completion Date:

Corrective Action Planned:

We concur. It is my goal to get different modules on our program to separate the donation, resale & auction items to be less confusing for our staff and the auditors. Also, effective August 2004, management started looking at each invoice and making a notation or having a comment on OKFP if an item is not in the 5%-20% range. In the criteria you can see exceptions as low GAC or unusually high expenses are acceptable out of this range. The high expenses could be freight charges, repair charges and the low side could be a donation to a homeless shelter or non-profit which GSA encourages us to support. We also have other programs other than the donation program that don't have to fall within this range (resale items).

Department of Education

REF NO: 04-265-001

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: H027A030051, H173A030084

FEDERAL AWARD YEAR: 2003

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:

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.

According to 34CFR 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 Sections 300.200-300.250, 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.

Schedule of Findings Federal Award Findings And Question Costs

Condition: On February 3, 2004, the Oklahoma State Department of Education (OSDE) identified 267 out of 543 LEAs that did not meet the level of effort/maintenance of effort requirement for the 2003 federal grant year. OSDE sent letters to LEAs on July 9, 2003, stating that they had not met this requirement. These letters also stated that the LEA could submit documentation explaining why they did not meet the level of effort/maintenance of effort requirement. There are certain circumstances in the grant requirements that allow LEAs to be exempt from the level of effort/maintenance of effort requirement.

As of November 18, 2004, OSDE had received additional documentation from 161 of the 267 LEAs that had originally not met the level of effort/maintenance of effort requirement. From this, OSDE was able to determine that these 161 LEAs had either met the requirement or were eligible to receive an exemption based on extenuating circumstances as allowed by grant requirements. However, as of the conclusion of our testwork, OSDE had not taken any further action, such as reducing subsequent funding, regarding the remaining 106 LEAs that did not meet the level of effort/maintenance of effort requirement.

Cause: There are no written policies and procedures in place regarding the reduction of funding for LEAs identified as not meeting the Level of Effort/Maintenance of Effort requirements.

Effect: The Department may not be in compliance with the Level of Effort/Maintenance of Effort requirement and other federal regulations. Additionally, LEAs may not be able to implement corrective actions to resolve the deficiencies in a timely manner. This could result in the LEA receiving two consecutive funding reductions in one year, which could cause an undue hardship.

Recommendation: We recommend that the Department implement policies and procedures to ensure that the SEA and the LEAs are in compliance with the Level of Effort/Maintenance of Effort requirement and other federal regulations and to ensure the proper actions are taken in a timely manner to reduce funding appropriately for those LEAs that do not meet the requirement.

Management's Corrective Action Plan:

Contact Person: Misty Kimbrough, Interim Assistant State Superintendent, Special Education Services.

Anticipated Completion Date: February 4, 2005

Corrective Action Planned: Special Education Services staff along with Financial Accounting Staff met with the Deputy State Superintendent, and the auditor regarding Maintenance of Effort (MOE) in November of 2004.

Immediately following the meeting, written procedures were put in place regarding MOE on November 8, 2004. In addition, it should be noted that the Office of Special Education and Rehabilitative Services (OSERS) issued a letter to State Superintendent Sandy Garrett dated November 5, 2004, addressing a previous audit citation regarding MOE. OSERS did not sustain the auditor's finding.

Auditor Response: The State Auditor's office made multiple attempts to obtain clarification from OSERS regarding their inability to sustain the prior year finding. OSERS was unresponsive regarding this issue. Consequently, we contacted the Dallas regional office of the United States Department of Education – OIG and forwarded the prior year finding and relevant correspondence for their review. After reviewing the information, OIG informed us that the finding is valid and should have been followed up on more closely at the federal level in the prior year. In addition, they stated that the current year finding would be "flagged" for detailed review at the federal level.

REF NO: 04-265-005

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: S010A030036A

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FEDERAL AWARD YEAR: 2003
CONTROL CATEGORY: Subrecipient Monitoring
QUESTIONED COSTS: \$-0-

Criteria: OMB Circular A-133, Subpart D § __.400 (d) states in part, “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 contracts or grant agreements and that performance goals are achieved.”

The Oklahoma State Department of Education (OSDE) Monitoring Procedures for Title I-Project 511 states in part, “Each local educational agency (LEA) will be monitored once every five (5) years. Other monitoring priorities are as follows:

- Complaints – It is the Oklahoma State Department of Education’s (OSDE) policy to monitor within thirty days any project for which we have received a written complaint.
- The amount of funds that project receives – Any project that has less than \$300,000 in federal funds.
- Projects that are at higher risk – Projects that have had problems in past monitoring.

Also, the monitoring follow-up procedures states in part that OSDE will:

- Prepare a written report to the LEA within two weeks of the monitoring visit. LEAs will have 30 days to correct any areas of non-compliance.
- Follow-up to ensure findings are corrected.

Condition: During testwork, we noted the following:

- 18 out of the 45 LEAs tested had not received a review in the past five years.
- There were 540 subrecipients for fiscal year 2004 and 108 (540 x 20%) reviews to be performed. Out of the 108, only 92 reviews were performed.
- One school was included in the 92 reviews performed as a desk review; however, no information was ever received from the school. After the initial letter was sent to the school informing them they had been selected to participate in desk monitoring of their Title I Program, no further contact was made with the school.
- Three out of the 45 subrecipients tested did not receive follow-up after deficiencies were noted as a result of during-the-award monitoring.
- 15 out of the 45 LEAs tested during state fiscal year 2004 did not receive a written report addressing the monitoring visit until late January 2005.

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

Recommendation: We recommend that the Department monitor subrecipients in accordance with federal requirements and according to OSDE’s established monitoring procedures. We also recommend that the Department develop and implement policies and procedures that will enable them to submit monitoring findings to the LEAs in a more timely manner. This could include, but might not be limited to, scheduling monitoring procedures throughout the fiscal year and not just the final quarter of the fiscal year.

Management’s Corrective Action Plan

Contact Person: Carol Lingreen, Title I Team Leader

Anticipated Completion Date:

Corrective Action Planned:

- 18 out of the 45 LEAs tested had not received a review in the past five years. Title I agrees that these districts have not been monitored in the last five years and has designated a target date of June 30, 2005 for monitoring those districts.

Schedule of Findings Federal Award Findings And Question Costs

- There were 540 subrecipients for fiscal year 2004 and 108 (540 x 20%) reviews to be performed. Out of the 108, only 92 reviews were performed.

Title I will ensure that future initial monitoring notices are sent to districts prior to June 30.

- One school was included in the 92 reviews performed as a desk review; however, no information was ever received from the school. After the initial letter was sent to the school informing them they had been selected to participate in desk monitoring of their Title I Program, no further contact was made with the school.

Title I agrees that one school included in the monitoring list of 92 did not return information from the request for desk monitoring. Desk monitoring in this form was a new process this year and we admit that this was overlooked. We will be sure to follow up with schools next year within thirty days to ensure that the documentation is being sent.

- Three out of the 45 subrecipients tested did not receive follow-up after deficiencies were noted during-the-award monitoring.

Title I agrees that these schools were found to have deficiencies marked during their monitoring visits. While too much time had passed between their visit and their notification, each district's follow-up letter did mention the item that needed to be revised or updated. These revisions were requested to be sent with their district plans in May, rather than at a separate time. This seemed appropriate this year since school districts are currently revising and updating their overall Title I plans and they should be looking at these components (Parent's Right to Know and School-Parent Compacts) at the same time.

- 15 out of the 45 LEAs tested during state fiscal year 2004 did not receive a written report addressing the monitoring visit until late January 2005.

Title I agrees that these schools received late follow-up letters in response to their monitoring visit or desk monitoring. The department policy is that follow-up should be completed within 30 days. The proposed purchase of laptop computers that the program directors can take on the monitoring visits this year will allow more efficient completion of this process.

REF NO: 04-265-007

STATE AGENCY: Department of Education

FEDERAL AGENCY: Department of Education

CFDA NO: 84.367

FEDERAL PROGRAM NAME: Improving Teacher Quality State Grants

FEDERAL AWARD NUMBER: S367A030035A

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Subrecipient Monitoring

QUESTIONED COSTS: \$-0-

Criteria: According to OMB Circular A-102 (the Common Rule), Sec. 40 (a), "Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant 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 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 sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved."

The guidance also states that:

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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.

Condition: Prior year testwork revealed that the Oklahoma State Department of Education (OSDE) Title II-A division did not have during-the-award monitoring procedures in place as required by OMB Circular A-133. In response to the prior year finding, a Self-Assessment Monitoring Tool was developed by OSDE staff. However, the division has not developed or implemented a comprehensive written monitoring plan for this program.

During testwork performed on the during-the-award monitoring procedures performed by the division for state fiscal year 2004, we noted that only six (6) out of 541 subrecipients who received Title II-A funding were sent a Self-Assessment monitoring tool to complete. This does not appear to be an adequate number of subrecipients to monitor during any one award period. In addition, according to division management, no Self-Assessment Monitoring Tools had been sent out for state fiscal year 2005 as of the time of our testwork.

Additionally, we noted the following exceptions during testwork performed on the six (6) Self-Assessment Monitoring Tools completed for state fiscal year 2004:

- There was no documentation to indicate an OSDE Compliance Review Officer had reviewed the assessments on any of the six completed.
- Two of the assessments did not provide reasonable assurance that the subrecipient had used Federal awards for authorized purposes.
- One of the assessments did not provide reasonable assurance that subrecipients complied with laws, regulations, and the provisions of contracts and grant agreements.
- Three of the assessments appeared to identify deficiencies; however, there was no follow-up by OSDE to ensure these deficiencies were corrected.

Cause: The Oklahoma State Department of Education does not have a comprehensive written subrecipient monitoring plan for Title II-A. Changes in monitoring proposed by OSDE at the end of the fiscal year 2003 audit was in the form of a Self-Monitoring Checklist to be completed by school districts. These assessments were to be reviewed and approved by OSDE Compliance Review personnel. If any discrepancies were noted, there was to be a documented corrective action taken and follow-up performed. These proposed changes have not been fully implemented.

Effect: The Oklahoma State Department of Education is not in compliance with Title II-A guidelines and federal requirements for monitoring sub-grantees. The Department does not appear to be adequately monitoring subrecipients.

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

We further recommend OSDE include in their written monitoring procedures a plan outlining the number of LEAs that will receive during-the-award monitoring each year. This plan should be designed to ensure all LEAs are monitored at a reasonable frequency, such as once every five years.

Management’s Corrective Action Plan

Contact Person: Gayle Castle, Team Leader Title II (A/B), Title V, and Title VI

Anticipated Completion Date:

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Corrective Action Planned: Staff of the Title II-A office have a plan and policies and procedures in place to ensure that throughout the period of the grant award, districts are monitored for compliance with program requirements as set forth in OMB Circular A-87, and in OMB Circular A-133 Compliance Supplement Part 3.M. The Compliance Review (Self-Monitoring Checklist) is only one facet of the entire compliance review process. In addition, staff use the following procedures to meet the requirements of 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
- The SDE Student Testing Section also collects data to ensure that the district performance goals are being achieved.

In FY 2004 a Compliance Review document was developed in response to the requirements of the FY 2003 audit.

Professional staff of the Title II-A office consists of a Team Leader and a Director. The Team Leader who was reviewing the Title II-A Compliance Reviews retired in June 2004 at the beginning of the Compliance Review process. Size of staff has been a consideration in the development of a reasonable monitoring and compliance process. Staff of the Title II-A office also have responsibilities for 4 other programs under NCLB.

According to the most recent calculations, only 259 of 541 districts participated in the Title II-A program in FY 2004. The other districts that received Title II-A funds used the Title VI flexibility provisions and implemented a REAP Flex program instead. Title VI REAP Flex requirements would apply to those Programs.

The FY 2004 District Compliance Reviews have been completed. Discrepancies have been corrected, and all of the districts have received written notice of compliance.

CORRECTIVE ACTION PLAN: Staff of the Title II-A office agree to implement a monitoring plan for this program based on the example communicated to the auditors. Titles II-A staff agree that the FY 2004 District Compliance Reviews must be followed to completion and compliance by the Title II-A Compliance Officer. Staff also plans to identify twelve districts that are participating in the 2004-2005 school year program and twenty districts that are participating in the 2005-2006 program for Compliance Review. Staff intend to increase the number of districts reviewed annually as is necessary and reasonable to ensure district compliance with applicable Federal program requirements and to ensure that performance goals are being achieved. Anticipating the addition of one new FTE to the Title II, V, VI office, staff will be able to increase the number of LEAs that will receive during-the-award monitoring.

Auditor Response: Based on our review of the Oklahoma Consolidated State Plan, we did not locate a "monitoring plan" for Title II-A as referenced by management in their response. We maintain that there was no formal, comprehensive, written monitoring plan in place for the time period audited. The Self-Monitoring Checklist developed by the Department, if utilized, could be a valuable component of an effective monitoring plan. However, based on our testwork, this tool was only minimally used during fiscal year 2004. There were also deficiencies noted for the six Self-Monitoring Checklists sent out in fiscal year 2004. Although management states in their response that the discrepancies have been corrected and districts notified, it should be noted that management was not able to provide evidence at the time of our testwork that this had been done during the time period audited. In addition, as noted in the finding above,

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management indicated that no Self-Monitoring Checklists had been sent out for fiscal year 2005. We recommend that the Department develop and implement a comprehensive monitoring plan to address “during the award” monitoring requirements. The “monitoring plan” (Title II (A) Compliance Review Policy and Procedures) referenced in management’s corrective action plan is a good starting point for such a plan. However, this plan should also include the criteria for selecting subrecipients for monitoring and the frequency at which they will be monitored.

Employment Security Commission

REF NO: 04-290-002

STATE AGENCY: Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.225

FEDERAL PROGRAM NAME: Unemployment Insurance

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, 2004, ETA 227 Overpayment Detection and Recovery Activities report, we were unable to determine a reconciliation for the ETA 227 had been performed. In addition, detailed documentation was not maintained to support the amounts reported on the ETA 227.

Effect: The lack of evidence of a reconciliation and maintaining supporting documentation may result in inaccurate data reported on the ETA 227.

Recommendation: We recommend OESC develop a system to maintain detail documentation and evidence that reconciliations are performed for the applicable data reported on the ETA 227 report.

Management’s Corrective Action Plan

Contact Person: Helen Rambo, Director of Internal Audit

Anticipated Completion Date:

Corrective Action Planned:

To ensure the accuracy of the 227 report, the Investigations unit manually track collections for TRA, DUA, and FSC overpayments. Collections are taken from the daily deposit reports and logged in a manual ledger. These totals are then adjusted for non-sufficient checks, write-offs, or other recorded adjustments. The reconciliation and supporting documentation is maintained in the Investigations unit. To further ensure the accuracy of the 227 report, a system generated “Daily 227” report has been created to show collections applied to overpayments on a daily basis. This report will be reconciled periodically and evidenced by signature or initials of the preparer to ensure compliance. A detailed electronic version of the 227 report will be made available to the State Auditor & Inspector upon request.

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Department of Health

REF NO: 04-340-001

STATE AGENCY: Oklahoma State Department of Health

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.283

FEDERAL PROGRAM NAME: Centers for Disease Control & Prevention – Investigations & Technical Assistance

FEDERAL AWARD NUMBER: U90/CCU616982-04-02

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Real Property and Equipment Management

QUESTIONED COSTS: \$12,831

Criteria: A critical aspect of effective inventory management is the maintenance of accurate inventory records. The A-102 Common Rule requires that equipment records shall be maintained, and a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records for equipment purchased with Federal awards.

OMB Circular A-87 Attachment A, C. states: “To be allowable under Federal awards, costs must meet the following general criteria . . . e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.”, and “g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.”

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

- A. The Director of Central Services shall have the authority to promulgate rules to implement the provisions of this section.
- B. For entities included in subsection A of this section, the Director of Central Services shall specify a tangible asset reporting threshold for each entity, ...
- C. 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 77 individual equipment items purchased for \$982,430.13 out of a sample of 61 claims totaling \$2,520,559.85. Our sample was selected from a total of 101 claims totaling \$2,813,597.04. During our testwork we identified the following:

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- 17 equipment items totaling \$113,885.04 were on the agency's master equipment inventory system, but not on the agency's master equipment inventory listing for our program at June 30, 2004;
- 10 equipment items totaling \$139,129.51 were never entered into the agency's master equipment inventory listing, one of which, on claim # 400614 for \$1,646.88, we were unable to verify the existence of and on one item on claim # 413098 for \$11,183.76, we were unable to identify or verify the existence of because there was no supporting detail included with the contractor's expenditure report;
- 9 equipment items totaling \$34,192.27 for software items were never entered into the agency's master equipment inventory system;
- 15 equipment items totaling \$396,328.12 were entered into the agency's master equipment inventory listing with an owner other than Bioterrorism;
- 2 equipment items totaling \$9,843.06 for cubicle panels were never entered into the agency's master inventory system because the agency does not inventory these items;
- 4 equipment items totaling \$6,377.46 were entered into the agency's master equipment inventory listing at the purchase order prices totaling \$7,916.40 rather than the invoiced prices*;
- 1 equipment item in the amount of \$2,400.00 for installation was not included in the inventoried cost of the item;
- 5 equipment items totaling \$9,103.00 verified as to existence through written confirmation by the contact person at the equipment location had a different serial number than the one showing on the agency's master equipment inventory system;
- 11 items totaling \$330,381.28 did not have a serial number showing on the agency's master equipment inventory system.

*The price errors caused the inventory to be overstated for the items tested. The claims tested included other like items that we did not test, but that also were inventoried at the higher price causing inventory to be overstated.

Further, a physical inventory of equipment had not been taken and reconciled to the equipment master equipment inventory listing within the last two years.

In addition to our findings of non-compliance during substantive testwork for equipment, we noted the following during our substantive testwork for Allowable Costs-Cost Principles:

- Claim #416430, paid to Applied Biosystems for a mass spectrometer for the Office of the Chief Medical Officer in the amount of \$178,532.75, was expensed as medical supplies instead of equipment.

We then scanned the expenditure listing in the medical supplies cost category to determine if there appeared to be any other claims that might have been expensed as medical supplies instead of equipment. We then noted the following:

- Claim #416429, paid to Applied Biosystems in the amount of \$51,525.00, was also for equipment purchased for the Office of the Chief Medical Officer.

Cause: The need to purchase a significant number of equipment items for the Bioterrorism program led to a decision to allow Bioterrorism contractors to purchase equipment items directly. OSDH did not have a policy in place to identify, tag and inventory contractor purchased equipment until May 2004. This lack of policy and procedure has resulted in unreliable inventory records. Further, within the Bioterrorism program, Focus Area Leaders and other staff members may be organizationally located in an area, such as Communications or Nursing and when these staff members request a purchase of equipment, the request comes from their organizational area and not necessarily Bioterrorism. The existing OSDH policies and procedures do not include a provision for communication of the owner and location regarding the

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equipment purchase from the requesting party to the shipping, receiving and inventory department. The Shipping, Receiving, and Inventory department is currently assigning inventoried equipment to the area from which it was requested unless they are instructed differently.

Effect: Without accurate and timely inventory records, OSDH is unable to demonstrate proper accountability over equipment purchased with Federal awards.

Recommendation: To ensure equipment is recorded in the master inventory listing accurately and timely, we recommend OSDH make the following changes:

- 1) Update and revise inventory policies and procedures,
- 2) Correct and update inventory records, and
- 3) Perform a physical inventory and reconcile to the master equipment inventory listing.

In addition, we recommend the following:

- a) An inventory policy on software to ensure all software items costing more than \$500 are inventoried and labeled with an OSDH equipment number tag,
- b) An inventory policy on cubicle panels to ensure all components costing more than \$500 are inventoried and labeled with an OSDH equipment number tag (the supplier may need to itemize these components on their invoices to OSDH),
- c) An inventory policy to ensure equipment purchases are entered into the master inventory system at actual cost
- d) Requiring the requesting program or area to indicate on their purchase order who the owner of the equipment will be and where the equipment will be located to enable the Shipping, Receiving, and Inventory personnel to enter the information correctly into the inventory system on a timely basis,
- e) Comprehensive training on the inventory system for all persons entering inventory information,
- f) A separate accounting, by the contract monitor, of each contractor's equipment purchases and a reconciliation of contractor reimbursed equipment purchases to the master inventory system by the contract monitor or other designated person in the program area, and
- g) To ensure equipment is recorded in the FISCAL system to the correct object code, funding of all equipment expenditures should be properly classified to an equipment (41XX) object code.

Management's Corrective Action Plan

Contact Person:

Anticipated Completion Date:

Corrective Action Planned:

In general, we concur with this finding and offer the following comments. In one or more areas we would appreciate additional guidance or input from the Auditor:

The Auditor makes the following recommendations to ensure equipment is recorded in the master inventory listing accurately and timely.

- 1. That OSDH update and revise inventory policies and procedures,**
Current policies are being reviewed for updating based on this recommendation and changes required by the HIPAA security implementation scheduled for April 20, 2005. We will incorporate the necessary changes into procedures that are revised due to the change in policy, the new inventory software implementation and these recommendations.
- 2. That OSDH correct and update inventory records, and**

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Inventory staff are currently working to update the records identified in these findings. Inventory staff will continue to review the individual findings for process discrepancies and make any adjustments necessary.

3. That OSDH perform a physical inventory and reconcile to the master equipment inventory listing.

90% of the county health department sites have reported completion of a physical inventory as of 12-31-04. We will begin on the Central Office site within the next 60 days once programming difficulties with the new software have been resolved. Tulsa and Oklahoma City-County Health Departments will be targeted upon completion of the central office site. Our goal is to complete all of these physical inventory audits by 06-30-05.

In addition, the Auditor recommends the following:

a. That an inventory policy on software to ensure all software items costing more than \$500 are inventoried and labeled with an OSDH equipment number tag,

OSDH Internal Services will work with Information Technology Services to create effective procedures related to software purchases. HIPAA security requirements will be incorporated into the policy & procedures with a required implementation timeline of April, 2005. The initial inventory query regarding software products will be expanded to include identification of all software purchases with a value of \$500 and above in an attempt to add these items to the existing inventory system. Purchase orders for the last two fiscal years will be audited for software purchases as a secondary identification review and reconciliation to all responses received from program staff to the HIPAA audit review of software. Based on the recommendations, OSDH inventory numbers will be assigned for software purchases identified for at least the last two years by 06-30-05 and procedures will identify the location of backup documents for software.

b. That an inventory policy on cubicle panels to ensure all components costing more than \$500 are inventoried and labeled with an OSDH equipment number tag (the supplier may need to itemize these components on their invoices to OSDH)

OCI currently provides a detailed itemized quote with each job. We will provide instructions to program areas to reference the OCI quote number and separately identify any individual items costing \$500 or more on the requisition along with a description of the item(s) to insure this information is visible on the purchase order. A request will also be sent to OCI requesting they enter a statement on all invoices that documents "no individual items with a cost of \$500 or more are included in this invoice" OR "## number of items with a cost of \$500 or more are included in this invoice".

c. That an inventory policy to ensure equipment purchases are entered into the master inventory system at actual cost

Until the Peoplesoft Projects module has been fully implemented and OSDH is completely operating in a single software environment, this recommendation will be challenging. We will work with the appropriate staff in OSDH Accounting Services to find a solution to this reconciliation issue.

d. That OSDH require the requesting program or area to indicate on their purchase order who the owner of the equipment will be and where the equipment will be located to enable the Shipping, Receiving, and Inventory personnel to enter the information correctly into the inventory system on a timely basis

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Based on our discussions, identifying the owner is not an accurate statement but rather the auditor wants to identify the funding entity. Since the owner changes at grant-closeout to the State of Oklahoma, we believe a correction to the title of this field is needed. At this time, we are working with Accounting Services to find the solution to this recommendation. We believe it may be possible to utilize source of revenue or service chief code from our legacy system funding structure until the Peoplesoft Projects module has been implemented. Once the Projects module is in operation, project data and payment information will be tied to the asset system in a single software environment.

e. That comprehensive training on the inventory system for all persons entering inventory information

We have contacted the OSDH Internal Audit staff to provide two training sessions OMB and GAAP training on equipment related issues to Inventory, Procurement and Budget & Funding staff within the next 60 days (first training held on 02/24/05). ITS is working to complete the necessary software revisions to allow bar code scanning hardware to interact effectively. When programming and central office physical inventory are completed and resolution to the above issues have been incorporated into the system, software training with the staff will be completed. At this time, we have restricted entry of new assets into the system to two individuals until all necessary revisions have been completed.

f. That a separate accounting, by the contract monitor, of each contractor's equipment purchases and a reconciliation of contractor reimbursed equipment purchases to the master inventory system by the contract monitor or other designated person in the program area, and

The new contract manual is being reviewed in the final stages before implementation. We will work with the committee to incorporate the recommendations into the new system. In addition, we have implemented an audit by Accounting Services' staff to require verification of Inventory processing if a contractor submits an invoice containing equipment prior to payment processing. Internal Services will also work with the TRPS (BT) contract monitors on all contracts with equipment reimbursement and continue to restrict contracts in other program areas from equipment reimbursement.

g. To ensure equipment is recorded in the FISCAL system to the correct object code, funding of all equipment expenditures should be properly classified to an equipment (41XX) object code.

Efforts will be made to ensure that equipment is recorded in the FISCAL system to the correct (41XX) object code.

REF NO: 04-340-002

STATE AGENCY: Oklahoma 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/CCH622541-04-4

FEDERAL AWARD YEAR: CY 2003

CONTROL CATEGORY: Special Tests and Provisions

QUESTIONED COSTS: \$-0-

Criteria: The Common Rule, Subpart C, Section 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."

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In addition, OMB Circular A-133, Subpart D §_____. 400(d) Pass-through entity responsibilities, states: 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 the 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 the 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: During our testwork of 55 provider enrollment forms, we found that the Department was unable to locate 2 signed provider enrollment forms.

In addition, of the 55 provider profiles we tested, we found the Department did not have either an updated 2003 Provider Profile and/or had no provider profile form for 25 providers.

Effect: The Department is not in compliance with the record retention requirements of the Common Rule. In addition, for the above two (2) providers included in our sample, we could not verify that the Department had notified the subrecipient of award information (e.g., CFDA title and number, award name, name of federal agency), requirements imposed by laws, regulations, and the provisions of the contract or grant agreements. We also could not verify that the Department had approved only allowable activities in the award documents. Lastly, without an updated provider profile the Department does not have record of those who possess a medical license or are authorized to write prescriptions.

Recommendation: We recommend that the Department ensure that copies of all agreements with providers be maintained in the providers file in the Immunization Department at the Oklahoma State Department of Health.

Management's Corrective Action Plan

Contact Person: Dorothy Cox

Anticipated Completion Date: April 2005

Corrective Action Planned: To correct the problem of missing enrollment agreements the Immunization Service has prepared a renewal of the VFC agreement, which will be sent to all providers. The renewal agreement explains all the requirements of participation in the VFC program (including award information). These agreements will be sent to all currently enrolled providers by the end of February 2005.

When the Immunization Service receives the agreements they will be checked for completeness and noted as received on a master list of providers. Calls will be made to all providers who do not return the agreement by March 2005. If providers do not return the agreement, vaccine shipments will be stopped until the agreement is received.

The renewed agreements will be filed in each provider's file and the files will be checked on an annual basis to ensure that the agreement is present and maintained for the period of time required by federal regulations.

REF NO: 04-340-004

STATE AGENCY: Oklahoma 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/CCH622541-04-4

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FEDERAL AWARD YEAR: CY 2003

CONTROL CATEGORY: Special Tests and Provisions

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 55 QA site visits forms, we noted the following:

Fourteen (14) QA site visit forms did not appear to monitor the subrecipient for compliance with control and accountability of vaccine by performing a Doses Distributed to Doses Administered Analysis.

Two (2) QA site visit forms did not appear to monitor the subrecipient for compliance with Immunization record keeping.

Two (2) QA site visit forms were not properly completed to ensure the subrecipient was being monitored adequately with all supporting documentation attached or included in the subrecipient’s file.

Sixteen (16) QA forms did not appear to provide proper follow-up in reaction to the findings from the monitoring process (Quality Assurance Site Visits) when deficiencies were noted.

Further, during our testwork of 110 Client VFC Quality Assurance Chart Reviews we noted the following:

One (1) QA client chart review form reviewed by the field representative did not appear to include the date of the administration of the vaccine.

Two (2) QA client chart review forms reviewed by the field representative did not appear to include the vaccine lot number.

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:

- Implement policies and procedures to ensure the department is in compliance with laws, regulations and provision of the contract or grant agreements and performance goals are achieved.
- Follow their own updated policies and procedures for QA Site Visit follow-up which includes ensuring the subrecipient is taking timely corrective action for the problems noted during the QA visit.
- Follow their own policies and procedures for Vaccine Accountability by documenting whether the subrecipient is administering an adequate percentage of the doses distributed to avoid loss, theft and/or spoilage.

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- Ensure that their Quality Assurance Site Visit forms are completed with all supporting documentation attached or included in the subrecipient's file.

Management's Corrective Action Plan

Contact Person: Susan Mendus

Anticipated Completion Date: January 2005

Corrective Action Planned: Beginning in 2004 the department instituted the following procedures to ensure that all Quality Assurance (QA) Site Visit forms are completed with all supporting documentation including Vaccine Accountability or Doses Distributed vs. Doses Administered Reports and to ensure that QA Site Visits follow-up is completed.

1) All Quality Assurance site visit forms are reviewed by department staff using a form developed for this purpose, which includes a checklist of required documentation. If the Quality Assurance Visits Form is not completed or if required documentation is not attached, the form is returned to the staff person who conducted the visit. This staff person will complete the form and attach all required documentation and return the form to their supervisor with notation that the missing information has been completed or an explanation of why the documentation cannot be obtained. The supervisor will review the form and documentation for completeness and approve it as appropriate.

2) Follow-up procedures were reviewed with all staff conducting QA Visits. The form to record follow-up activities was revised and updated to clarify required follow-up activities. Technical supervisors of staff conducting QA Visits will be responsible for monitoring follow-up activities. All staff conducting QA Visits will participate in formal training reviewing follow-up procedures twice a year.

REF NO: 04-340-004IT

STATE AGENCY: Department of Health

FEDERAL AGENCY: United States Department of Health

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH622541-04-4

FEDERAL AWARD YEAR: CY 2003

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: Data communications with remote sites are currently not encrypted and are subject to interception. This was 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.

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Management's Corrective Action Plan

Contact Person: Joe Camp, MIS Director

Anticipated Completion Date: March, 2005

Corrective Action Planned: OSDH will have encryption between all remote offices and the central office in place by April 20, 2005. We are in the process of procuring an e-mail encryption appliance which will also be in use by April 20, 2005. (We do not plan to encrypt video conferencing.)

REF NO: 04-340-009IT

STATE AGENCY: Department of Health

FEDERAL AGENCY: United States Department of Health

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH622541-04-4

FEDERAL AWARD YEAR: CY 2003

CONTROL CATEGORY: Other

QUESTIONED COSTS: \$-0-

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 4), 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)
- 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.

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

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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: OSDH is a “covered entity” within the HIPAA standards. 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 ensure that OSDH for the security guidelines and procedure requirements of HIPAA effective April 21, 2005. We suggest that once the plan is completed, OSDH should test their disaster recovery capabilities.

Management’s Corrective Action Plan

Contact Person: Joe Camp, MIS Director

Anticipated Completion Date: April, 2005

Corrective Action Planned: Since the initial finding awareness of the situation has been raised. OSDH is gathering the information necessary for the creation of a Continuation of Business Plan (which includes disaster recovery) and will have it in place by April 20, 2005, as required by HIPAA. 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.

REF NO: 04-340-010IT

STATE AGENCY: Department of Health

FEDERAL AGENCY: United States Department of Health

CFDA NO: 93.268

FEDERAL PROGRAM NAME: Immunization Grants

FEDERAL AWARD NUMBER: H23/CCH622541-04-4

FEDERAL AWARD YEAR: CY 2003

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 managements’ emphasis on information security.

Management’s Corrective Action Plan

Contact Person: Joe Camp, MIS Director

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Anticipated Completion Date: April, 2005

Corrective Action Planned: ITS is working to create draft policies which will be proposed to the agency.

Health Care Authority

REF NO: 04-807-001

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: 5-0305OK5048, 5-0405OK048

FEDERAL AWARD YEAR: 2003, 2004

CONTROL CATEGORY: Cash Management

QUESTIONED COSTS: \$-0-

Criteria: According to the Treasury-State Agreement between the State of Oklahoma and the Secretary of the Treasurer, United States Department of Treasury:

Part 6.3.2 states:

“CFDA #93.778 Medical Assistance Program

Recipient: Health Care Authority

Component: Payroll

Technique: Payment Schedule – Monthly – Variance #6”

Part 6.2.4 states:

“Payment Schedule – Monthly – Variance #6

The State shall request funds such that they are deposited in a State account on the (A) 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 (B) and adjusted to actual on (C) basis.

A – last working day of the month

B – an estimate based on the actual allocation of costs to the program for the preceding six months, or one-third the quarterly grant award

C – quarterly”

Condition: Although the SFY 05 Treasury-State Agreement was amended to reflect OHCA’s actual procedures, the procedures performed in SFY 04 did not appear to comply with the funding technique stated in the SFY 04 Treasury-State Agreement. 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 SFY 04 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.

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Cause: Finance personnel had requested a change to the funding technique in May of 1999 to allow them to draw based on prior months actual costs. However, it appears the Treasury-State Agreement was not changed to reflect those procedures until SFY 05.

Effect: By not following the Treasury-State 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 OHCA's Finance Division closely monitor the funding techniques outlined in the Treasury-State Agreement to ensure compliance. In addition, we further recommend the Finance Division establish and implement internal control procedures to ensure all applicable personnel are aware of the Treasury-State agreement requirements.

Management's Corrective Action Plan

Contact Person: Marianne Lingle

Anticipated Completion Date: Completed

Corrective Action Planned: We concur with the finding. OHCA requested May 13, 1999 that our CMIA agreement be changed to reflect our procedure of drawing our administrative monies based on actual payments of the prior month. This request through the Office of State Finance (OSF) was not done that year so we again requested our CMIA agreement be changed September 4, 2003 which would have amended our FY 2003 and FY 2004 agreements. OSF processed our changed and sent the request to Treasury Department. The Treasury Department delayed acting upon this request so FY 2004 agreement did not get changed. FY 2005 agreement did get corrected therefore no further corrective action is needed.

REF NO: 04-807-003

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK5028, 5-0405OK5028

FEDERAL AWARD YEAR: 2003, 2004

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 organizations 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."

According to the SFY 2004 contract between OHCA and its quality improvement organization (QIO), Amendment One, Attachment A "Hospital Retrospective Reviews Fee-For-Service Program", Section A.5 states in part, "OFMQ shall analyze these cases with the first level of review being completed 50 days from the date of selection or 65 days from receipt of the tape, whichever comes first."

Condition: During testing of forty-five (45) cases, we noted in twenty-seven (27) where, the first level of review was initiated more than 50 days from the date of selection. We also noted six cases in which OFMQ had performed the sample selection in June 2004 and at the time we performed our testwork in October 2004, the first level of review had not yet been initiated. Therefore, we were unable to test these six files.

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As a result, it appears a total of thirty-three (33) (27 + 6 = 33) cases did not meet the 50 day requirement stipulated in the contract between OFMQ and OHCA.

Cause: According to OFMQ's project manager, time delays in the inpatient hospital retrospective review process are a combination of three issues. 1) Data – February 2004 was the first sample selected utilizing an EDS/MMIS paid claims extract following the data conversion in January 2003. With the difficulty in receiving paid claims information, OHCA and OFMQ agreed on a work-around. Even though the work-around included a reduced number of claims to be reviewed, this caused a back log of cases. 2) Case-load – Effective January 1, 2004, the contract was amended to accommodate changes to the Medicaid Program. OFMQ agreed to increase the number of inpatient hospital retrospective reviews from 525 a month to 1025 a month. 3) Personnel – OFMQ has experienced a shortage of manpower and it has been difficult to hire qualified reviewers.

Effect: It appears OFMQ is not performing reviews in accordance to the timeframe outlined in the contract.

Recommendation: We recommend OHCA monitor and coordinate activities to ensure the timeliness of the reviews performed by OMFQ.

Management's Corrective Action Plan

Contact Person: Angela Shoffner

Anticipated Completion Date: March 31, 2005

Corrective Action Planned: We concur with the finding. Subsequent to OHCA staff identifying this issue in November 2004. An action plan was developed, based on the number of outstanding and current reviews, to eliminate the backlog of reviews. A completion date was set for March 31, 2005; bi-weekly status reports were required to keep us aware of the progress. It appears the completion date will be met. For continued monitoring, OFMQ will continue to submit bi-weekly status reports through this contract period and any applicable future contract periods.

REF NO: 04-807-004

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.767, 93.778

FEDERAL PROGRAM NAME: State Children's Insurance Program, Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0205OK5021, 5-0305OK501, 5-0305OK5028, and 5-0405OK5028

FEDERAL AWARD YEAR: 2002, 2003, and 2004

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 CMS Medicaid Drug Rebate Program Release #94 for State Medicaid Directors:

We are requesting that all States report to HCFA, on an ongoing basis, those labelers that are not paying rebates to States in accordance with section 1927 of the

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Social Security Act and the Rebate Agreement. If the labeler is not paying rebates and is not disputing the corresponding units for those rebates, the labeler should be reported as soon as possible. However, before reporting the labeler(s), please ensure that you have contacted the labeler(s) to discuss the reason for nonpayment and that your contacts are documented. Although HCFA is not responsible for collecting rebates, we can assist States in obtaining labeler compliance. In addition, HCFA's knowledge of nonpaid rebates would be a consideration in the reinstatement of any labeler to the program.

Condition: Based on conversations with personnel in the Drug Rebate Division and testwork performed, it appears OHCA is not applying interest to disputed or unpaid amounts and late rebate payments.

Fourteen (14) of the thirty-eight (38) labelers tested did not pay interest on either a late payment and/or a disputed amount. Of the fourteen (14) labelers:

- Six (6) labelers did not pay interest on the disputed amount withheld.
- Three (3) labelers did not pay interest on their late rebate payment.
- Five (5) labelers did not pay interest on their late rebate payment or disputed amount withheld.

During testwork we also noted that no response was received from one labeler to OHCA's invoice. Based on our conversation with the Drug Rebate Manager, it appears OHCA has continued billing the labeler; however, the labeler's nonpayment has not been reported to CMS.

Cause: According to personnel in the Drug Rebates Division, OHCA has not been billing for interest due to errors in the drug labelers accounts receivable balances. OHCA is currently working to correct these errors; however, until they are sure the amounts in the system are correct, interest will not be billed.

Effect: Without proper controls and receivable balances, it is possible OHCA is not receiving all interest payments due from the labelers. If a labeler is not reported to HCFA for nonpayment, the labeler may continue to participate in the drug rebate program without paying the rebate.

Recommendation: We recommend the Drug Rebate Division adjust the accounts receivables to reflect the correct billing and payment histories and bill labelers for unpaid interest. We also recommend the Drug Rebate Division pursue other avenues for contacting the labeler and if this yields no results, OHCA report the labeler to HCFA.

Management's Corrective Action Plan

Contact Person: Tom Simonson, Drug Rebate Manager

Anticipated Completion Date: June 2005

Corrective Action Planned: We concur with the finding.

1. We have already implemented procedures to manually compute and bill interest due on late payments and disputed payments, and have been doing so since 10-1-2004. We are also sending out late notices on past due payments. One notice is a reminder for current quarter rebates, and the second notice contains a full accounts receivable statement for all outstanding quarters.
2. Currently, we are posting all rebate payments to the NDC/Quarter level, from 1-1-91 thru 12-31-98, and we expect to complete this task by 3-31-2005.
3. After the payments have been posted, we will adjust all receivable accounts to the correct balances.
4. The computer program is already in place to automatically bill interest on late payments and disputed amounts, and after the accounts receivable have been adjusted to the correct balances, we will "turn on" the interest billing program.

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5. We will document all attempts to collect outstanding rebates from labelers, and if this yields no results, we will report the labeler to CMS.

REF NO: 04-807-005

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK5028, 5-0405OK5028

FEDERAL AWARD YEAR: 2003, 2004

CONTROL CATEGORY: Special Tests and Provisions – ADP Risk Analysis and System Security Review

QUESTIONED COSTS: \$-0-

Criteria: 45 CFR section 96.621 ADP Reviews

(2) ADP Security Program: State ADP Security requirements shall include the following components:

- (iii) Periodic risk analyses. State agencies must establish and maintain a program for conducting period risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analysis whenever significant system changes occur.

(3) ADP System Security Reviews. State agencies shall review the ADP system security of installations involved in the administration of HHS program on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.

Condition: Based upon discussions with personnel in the Information Systems Division, it appears the last risk analyses and system security review was performed in September 2001. Although OHCA has a risk analyses and system security review scheduled for March 2005, this does not appear to meet the biennial requirement as stated above.

Effect: The Authority may not be in compliance with 45 CFR section 96.621

Recommendation: We recommend the Authority continue in there plans to perform the risk analyses and system security review. However, we recommend the Authority establish and implement policies to ensure the risk analyses and security reviews are performed at least on a biennial basis.

Management's Corrective Action Plan

Contact Person: Judi Worsham

Anticipated Completion Date: April 2005 and July 2005

Corrective Action Planned: We concur with the finding. OHCA is currently having a Security Assessment / Vulnerability and Penetration Testing performed. The assessment / testing measures OHCA and their fiscal agent EDS's compliance with regulatory security policies (OMB A -130) and OHCA's own policies that demand security, privacy and data protection. The draft assessment will be delivered on March 23, 2005 with the final document due on April 1, 2005. OHCA will establish documentation of policy and procedures for performing risk analyses and security reviews on an annual basis

REF NO: 04-807-006

STATE AG-NCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK028, 50405OK028

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FEDERAL AWARD YEAR: 2003, 2004

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$4,453

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."

317:30-5-123 (a) Medical Eligibility. Initial approval of medical eligibility for long-term care is determined by the OKDHS area nurse, or nurse designee. The certification is obtained by the facility at the time of admission.

Condition: We tested a sample of 40 recipients with possible duplicates (106 claims, totaling \$120,504.47) to ensure the same provider did not receive more than one payment for the same recipient for the same dates of service and/or a different provider did not also receive payment for the same recipient for the same date of service. We noted the following results:

- One (1) recipient was shown as being in the hospital (Revenue Code 185) and in Room & Board (Revenue Code 120) on the same days. (Questioned Costs \$1,127)
- One (1) recipient had different providers, for the same service on the same date; this appears to be a duplicate payment. (Questioned Costs \$1,145)
- Two (2) recipients had two different providers submit claims for the same days; however, the EDS system only has one facility determined eligible for this recipient. As a result, only the eligible provider should have received payment for services; therefore, the funds should be recouped from the provider that is not eligible. (Questioned Costs \$2,180)

Effect: OHCA could be paying for the same services more than once or to providers in which medical eligibility has not been approved.

Recommendation: We recommend the Authority review the claims discussed above and perform the necessary procedures to recoup any overpayments made. Also, review procedures to ensure only eligible providers are paid for services.

Management's Corrective Action Plan

Contact Person: Justin Etchieson, Auditor

Anticipated Completion Date: July, 2005

Corrective Action Planned: We concur with the finding. A review of long term care claims will be performed and appropriate recoveries will be initiated.

REF NO: 04-807-007

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.767, 93.778

FEDERAL PROGRAM NAME: State Children's Insurance Program, Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0205OK5021, 5-0305OK5021, 5-0305OK5028, and 5-0405OK5028

FEDERAL AWARD YEAR: 2002, 2003, and 2004

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$1,011

Criteria: According to the OMB A-133, Compliance Supplement (March 2004): To be allowable, Medicaid costs for medical services must be: (3) properly coded.

Condition: While performing analytical procedures on 1,492,311 physician's services paid under the Medical Assistance Program, we noted twenty-one (21) claims that appear to have been improperly coded.

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- Two (2) of the twenty-one (21) claims noted, were claims in which the procedure code was identified in the “2004 Ingenix CPT Expert, 4th Edition” book as a gender specific and the recipient was of the opposite gender. (Questioned Costs \$189)
- Eighteen (18) claims had age specific procedure codes according to the “2004 Ingenix CPT Expert, 4th Edition” book and the recipient did not meet the age requirement. (Questioned Costs \$535)

While performing analytical procedures on 88,507 physician’s services paid under the State Children’s Insurance Program, we noted one (1) claim that appears to have been improperly coded. The one claim had an age specific procedure code according to the “2004 Ingenix CPT Expert, 4TH Edition” book and the recipient did not meet the age requirement. (Questioned Costs \$287)

Cause: The age restriction does not appear to be set up in MMIS to correspond with the procedure code. In addition, although the gender restrictions appear in the MMIS system, it does not seem the system is denying claims that fail to meet that restriction.

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

Recommendation: We recommend the Authority perform the necessary procedures to ensure edits are in place and operating on the claims system to ensure age and gender requirements are met for those procedure codes that are gender or age specific. We further recommend the Authority review the above-mentioned claims and perform the necessary procedures to recoup those funds if determined necessary.

Management’s Corrective Action Plan

Contact Person: Justin Etchieson

Anticipated Completion Date: July 2005

Corrective Action Planned:

1. We concur the gender specific codes were inappropriately processed. Appropriate action will be taken.
2. We concur with the age specific errors. Appropriate action will be taken.

REF NO: 04-807-008

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK028, 5-0405OK5028

FEDERAL AWARD YEAR: 2003, 2004

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

QUESTIONED COSTS: \$135,241

Criteria: Oklahoma’s Medicaid State Plan states in part, “Required Provider Agreement – With respect to agreements between the Medicaid agency and each provider furnishing services under the plan: (a) For all providers, the requirements of ...42 CFR Part 442, Subparts A and B (if applicable) are met ... (c) For providers of ICF/MR services, the requirements of participation in 42 CFR Part 483, Subpart D are also met.”

42 CFR, Part 442, Subpart B, states in part, “...a Medicaid agency may not execute a provider agreement with a facility for nursing facility services nor make Medicaid payments to a facility for those services unless the Secretary or the State survey agency has certified the facility ... to provide those services.”

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OMB Circular A-133 Compliance Supplement states in part, "To be allowable, Medicaid costs for medical services must be ... paid to eligible providers..."

The Authority's internal control should ensure documentation (HCFA 1539 forms) is maintained to support that the provider met the prescribed health and safety standards.

Condition: We obtained a listing of the long-term care facilities that, according to the Oklahoma State Department of Health (OSDH), had been decertified from the Medicaid program during SFY 2004. We then performed tests to ensure that no Medicaid payments were made for services rendered after these facilities had been decertified. We noted the following:

- Two (2) of the nine facilities listed had continued to receive Medicaid payments for services rendered after the date of decertification by OSDH and the appeals process. (Questioned Costs \$135,241)

We also selected a sample of fifty-five long-term care providers to ensure the Authority had documentation that the provider met the prescribed health and safety standards. We noted the following:

- Four provider files did not include a HCFA 1539 form; however, this form was included in the same provider files at the OSDH.
- Two provider files did not include a HCFA 1539 form indicating the facility had been recertified. The HCFA 1539 noted indicated "pending certification, facility not in compliance". However this form, with the recertification date, was included in the same provider files at OSDH.

Effect: Providers may continue to receive Medicaid payments even though they have not met the required health and safety standards.

Recommendation: We recommend the Authority and the Department of Health review the procedures in place for the Department of Health's notification to the Authority regarding provider certification. Consideration should be given as to whether these procedures are adequate. Additionally, we recommend the Authority and the Department of Health ensure all HCFA 1539 forms are maintained to ensure each provider has met the required health and safety standards.

Management's Corrective Action Plan

Contact Person: Beth Van Horn

Anticipated Completion Date: April 2005

Corrective Action Planned: We concur that the general rule is to terminate payments at the time of decertification, but there are a number of exceptions to this rule. These include:

42 CFR 442.40 (d)	Continuation of FFP for 120 days during appeals
42 CFR 444.11	30 day extension for relocating patients
42 CFR 442.16	2-month extension when survey is impractical
42 CFR 442.110	Conditional certification with automatic cancellation

Due to the difficulty of finding other placements and the disruptive potential for patients, OHCA generally chooses to continue these payments where appropriate.

Condition # 1

For one provider, we concur that an error was made. Payments were made properly during the appeal period, but the facility withdrew their appeal on July 7, 2004 and payments should have stopped at that time. The facility was recertified as of October 25, 2004. Payments for the period July 8, 2004 through October 24, 2004 will be recouped.

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For the second provider, the OHCA is performing continuing research regarding this finding. OHCA will take appropriate actions at completion.

Condition # 2

We concur with the finding that HCFA 1539's are missing from some files. We will obtain copies of these from the Oklahoma State Department of Health.

REF NO: 04-807-010

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK028, 5-0405OK5028

FEDERAL AWARD YEAR: 2003, 2004

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$1,712

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."

OAC 317:30-5-241(a)(2) states in part:

Each type of service to be received must be delineated in the service plan and the practitioner who will be providing and responsible for each service must be identified. In addition, the anticipated frequency of each type of service must be included. This service is provided by the client treatment team. This includes all staff responsible for the treatment services delineated in the plan, the client (if over age 14), and the parent/guardian if under age 18. The service plan is not valid until it is signed and dated by the responsible MHP, the treating physician, the client, the guardian (if applicable), and any other direct service provider, and all requirements have been met. Each signature must have the date written by the signing party on the date of signing.

OAC 317:30-5-248 states in part:

All outpatient behavioral health services must be reflected by documentation in the patient records.

- (1) Individual, group and family counseling and individual and group rehabilitative treatment services must include the following:
 - (a) Date;
 - (b) Start and stop time for each session;
 - (c) Signature of the therapist;
 - (d) Credentials of therapist;
 - (e) Specific problems addressed (problem must be identified on master treatment plan);
 - (f) Methods used to address problem(s);
 - (g) Progress made toward goals;
 - (h) Patient response to the session or intervention; and any new problem(s) identified during the session.

OAC 317:30-5-241 (a)(5) states in part:

The individual client's behavior, the size of the group, and the focus of the group must be included in each client's medical record.

Condition: Based upon a medical professional's review of medical records to support seventy-four (74) clinic services charges, the following exceptions were noted:

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- Five (5) instances (services) in which the medical records did not appear to support the procedure billed; however, the records did support a lower level of care had been provided. (Questioned Costs \$270)
- Thirteen (13) instances (services) in which the medical records did not appear to support the procedure billed or a lower level of care as required by OHCA policy. (Questioned costs \$891)
- Two (2) instances (services) in which the medical records did not support the procedure billed or a lower level of care as required by OHCA policy, nor did the services appear to be medically necessary. (Questioned cost \$100)
- One (1) instance (service) in which the provider was paid for three units; however, only one unit should have been paid. (Questioned costs \$257)

In addition, while reviewing records for one services, it was noted a duplicate payment occurred on the physician services claim associated with our selected service. (Questioned costs \$194)

Effect: Providers are not completing all required information in the medical files or treatment plans, they also are not coding the claims correctly. All of which may result in OHCA paying claims that are not allowable. 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 medically necessary.

Management's Corrective Action Plan

Contact Person: Kelly Shropshire

Anticipated Completion Date: July 2005

Corrective Action Planned: We concur with the finding. Appropriate action will be taken.

REF NO: 04-807-011

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.767, 93.778

FEDERAL PROGRAM NAME: State Children's Insurance Program, Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0205OK5021, 5-0305OK5021, 5-0305OK5028, and 5-0405OK5028

FEDERAL AWARD YEAR: 2002, 2003, and 2004

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$14

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 amounts received from the resource and the Medicaid allowable".

Condition: During our testing of 168 Mental Health services with TPL amounts, we noted five (5) instances in which the TPL amount was considered before payment was made by OHCA; however, the TPL amount does not appear to be a reasonable (amounts range from \$0.01 to \$8.10).

During testing of 149 physician services with TPL amounts, we noted a total of twenty-six (26) instances in which it appears the cents in the TPL amount were not considered in the payment amount. In addition, we noted three (3) instances in which the TPL amount did not appear to have been credited before payment nor

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did it appear to be a reasonable amount (amounts ranged from 0.01 to 0.05). We also noted one (1) instance in which it appears the TPL amount was credited, however, it did not appear to be a reasonable amount (TPL amount was 0.01) (Questioned costs \$14)

In addition to the errors noted in the Medical Assistance Program we would expect these errors to also be occurring in the SCHIP program due to the fact that all claims are processed the same regardless of funding source.

Cause: It appears some of the errors are a result of the claim system misinterpreting the TPL amount from the handwritten claim. Other errors appear to be due to the system not using the cents in the TPL amount before calculating OHCA's payment amount.

Effect: The Authority may be paying more than its' share of the reimbursement amount or should the TPL amount be completely invalid paying the providers less than necessary.

Recommendation: We recommend the Authority ensure TPL is being considered when calculating the amount OHCA should pay to service providers. We also recommend the Authority review other services paid (in addition to mental health services and physician services) to ensure TPL is consider in calculating reimbursement amounts. We further recommend the Authority establish controls to ensure valid TPL amounts are being considered in the TPL field.

Management's Corrective Action Plan

Contact Person: Lisa Gifford

Anticipated Completion Date: July 2005

Corrective Action Planned: For the five instances mentioned in the condition were reviewed and actually included information in the form of a primary EOB that showed the third party denied payment for the services. Each claim had something in the field that the scanner converted to a number and entered into the TPL field. However, we did not overpay any of these claims and the provider has not requested an adjustment.

Additional TPL claim finding for the 26 instances, this was a rounding issue in the MMIS system that was addressed in change order 6266. This correction has been put into production. The three claims with the unusual TPL amounts were keying errors. The provider indicated that no TPL payments were received on each claim but a processor inadvertently placed something in that field.

Appropriate action will be taken on items processed in error.

REF NO: 04-807-012

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK5028, 5-0405OK5028

FEDERAL AWARD YEAR: 2003, 2004

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$8,198

Criteria: Oklahoma Administrative Code (OAC) 317:30-5-3. Documentation of services

"Records in a physician's office or a medical institution (hospital, nursing home or other medical facility), must contain adequate documentation of services rendered. Such documentation must include the physician's signature or identifiable initials in relation to every patient visit, ever prescription, or treatment. . . ."

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

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- “(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.”

OAC 317:30-5-4. Procedure and diagnosis coding

“(a) The Authority uses the Health Care Financing Administration Coding Procedure Coding System (HCPCS). This system is a five digit coding system using numbers and letters. Modifiers are used to further identify services. There are two sets of codes in the HCPCS system, which are maintained by different organizations. First are the CPT codes, established and maintained by the American Medical Association. Second, are the second level of HCPCS codes assigned and maintained by the Federal Health Care Financing Administration, the American Dental Association, etc. These codes are common to all Medicare Carriers.”

According to the Medicare Carrier's Manual 3060.7 Payment Under Locum Tenens Arrangements.—

- B. Payment procedure—A patient's regular physician may submit the claim, and (if assignment is accepted) receive the Part B payment, for covered visit services (including emergency visits and related services) of a locum tenens physician who is not an employee of the regular physician and whose services for patients of the regular physician are not restricted to the regular physician's office, if:
- The substitute physician does not provide the visit services to Medicare patients over a continuous period of longer than 60 days;

According to the 2005 Professional ICD-9-CM for Physician volumes 1 and 2 by Ingenix Section IV Diagnostic Coding and Reporting Guidelines for Outpatient Services

These coding guidelines for outpatient diagnoses have been approved for use by hospitals/physicians in coding and reporting hospital-based outpatient services and physician office visits.

- L. For patients receiving diagnostic services only during an encounter/visit, sequence first then diagnosis, condition, problem, or other reason for encounter/visit shown in the medical record to be chiefly responsible for the outpatient services provided during the encounter/visit. Codes for other diagnoses (e.g., chronic conditions) may be sequenced as additional diagnoses.

Condition: Based upon a medical professional's review of medical records to support seventy-four (74) physician services charges, the following exceptions were noted:

- Six (6) instances (services) in which the medical records did not appear to support the procedure billed; however, the records did support a lower level of care had been provided. (Questioned Costs \$140)
- Ten (10) instances (services) in which the medical records did not appear to support the procedure billed or a lower level of care. (Questioned Costs \$353)

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- Two (2) instances (services) in which the medical record did not appear to support the procedure billed or a lower level of care. In addition, these services did not appear to be medically necessary. (Questioned Costs \$90)

We also noted that seven (7) of nine (9) charges sampled for one provider had a Q6 modifier (services furnished by a locum tense physician). According to personnel in the Human Resource Department of the office where the services were furnished, the provider's last admission date was in March 2002. These charges all occurred more than 60 days after March 2002 (dates of service range from August 2002 to March 2003). For the two (2) sampled claims that did not contain a Q6 modifier a review of the medical records indicates another physician actually provided the services. For this same provider, we noted an additional 230 instances of services paid during SFY 2004 with a date of service more than 60 days after March 2002. (Questioned costs \$7,485)

In addition, the medical professional identified six (6) instances (services) in which a coding error appears to have occurred on the diagnosis. The diagnosis code listed on the claim did not appear to support the services provided; however, upon review of the medical records, it was determined a more specific diagnosis was available and the services were medically necessary.

While performing testwork to ensure claims were paid at the allowable rate we noted five (5) services in which the provider used a modifier of 50 (bilateral procedure); however, upon review of the procedure billed, this modifier does not appear to be consistent with the procedure billed. (Questioned costs \$130)

Effect: The Authority may be paying for procedures which are not being performed or are not consistent with the 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). We further recommend the Authority implement an edit in the system to verify the diagnosis on the claim is consistent with the procedure performed.

Management's Corrective Action Plan

Contact Person: Kelly Shropshire

Anticipated Completion Date: July 2005

Corrective Action Planned: We concur with the finding. Appropriate action will be taken.

REF NO: 04-807-013

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK5028, 5-0405OK5028

FEDERAL AWARD YEAR: 2003, 2004

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$803

Criteria: According to OAC 317:30-5-70.2., Record Retention, "The Pharmacy is required 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 Compliance Supplement (March 2004), to be allowable, costs must be supported by medical records or other evidence indicating that the service was actually provided.

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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: We selected a sample of 64 recipients for a total of 106 prescriptions from eight pharmacies and requested each pharmacy submit documentation to verify the prescriptions were received by the recipient. This documentation could include delivery tickets, signature logs, etc.. Based on a review of the documentation received from the providers, we noted nine (9) prescriptions were returned with no signature log or delivery ticket. (Questioned costs \$803)

Effect: We were unable to verify the drugs for these claims were received by the recipient. Also , OHCA could be paying for services more than once.

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 providers and, if necessary, recoup funds for services not supported by adequate documentation or paid in duplicate. We further recommend the Authority review the duplicate claims and determine if edits could be put into place to help ensure duplicate payments are not made.

Management's Corrective Action Plan

Contact Person: Nancy Nesser

Anticipated Completion Date: July 2005

Corrective Action Planned:

The pharmacy department disagrees with the conditions cited in this audit finding.

The first finding states that nine (9) prescriptions were returned with no signature log or delivery ticket. The questioned cost is \$803. OHCA auditors have visited the provider to review their corporate policy on prescription pick up. They do not collect signatures, but their electronic point of sale system tracks prescriptions as they are picked up by their customers. At this time, the auditors are satisfied that these electronic records meet the guidelines stated in the OMB circulars cited in the audit finding.

Only one of the nine prescriptions was from a pharmacy not operated by the above provider. We agree with the finding (\$6.62) and have continually stressed to providers the need to document prescriptions as they are dispensed or delivered to the end user, not simply as they are billed through their pharmacy systems. We will follow up with this provider and recoup the funds if necessary.

Auditor Response: In regards to the provider with additional on-site controls, the Authority personnel has performed a review of the provider's controls regarding the delivery of prescription drugs and determined it meets the OMB requirements for maintaining adequate documentation. However, the controls for this process do not appear to agree with OHCA's internal policy requiring documentation including signature logs. As a result, these exceptions will remain; however, we recommend if OHCA has determined different information is available from providers to ensure services are provided and adequately documented, we recommend the internal policy be revised to reflect these changes.

REF NO: 04-807-014

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S Department of Health and Human Services

CFDA NO: 93.767

FEDERAL PROGRAM NAME: State Children's Insurance Program

FEDERAL AWARD NUMBER: 5-0205OK5021, 5-0305OK501

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$70

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Criteria: 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 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 medical professional's review of medical records to support ten (10) physician services charges, the following exceptions were noted:

- Two (2) instances (services) in which the medical records did not appear to support the procedure billed; however, the records did support a lower level of care had been provided. (Questioned Costs \$24)
- Two (2) instances (services) in which the medical records did not appear to support the procedure billed or a lower level of care. (Questioned Costs \$46)

Effect: The Authority may be paying for procedures which are not being performed or are not consistent with the 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

Anticipated Completion Date: July 2005

Corrective Action Planned: We concur with the finding. Appropriate action will be taken.

REF NO: 04-807-015

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.767, 93.778

FEDERAL PROGRAM NAME: State Children's Insurance Program, Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0205OK5028 5-0405OK5021, 5-0305OK5028, 5-0405OK5028

FEDERAL AWARD YEAR: 2002, 2003, 2004

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CONTROL CATEGORY: Allowable Costs/Cost Principles

QUESTIONED COSTS: \$-0-

Criteria: The Oklahoma Health Care Authority Cost Allocation Plan, Random Moment Time Study Section states, “a sample size of 3 candidates will be generated at the top of each hour, between the days of Monday through Friday, and the hours of 7am to 7pm. These sample records will be created from the three (3) distinct sample population candidates with no duplicate values for that hour.” The Cost Allocation Plan further states, “a safe sample size would be 7,751 per year or 646 per month.”

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

Condition: We obtained the Random Moment Time Study surveys for the period of April 2004 through June 2004 to perform testwork. We noted the following:

1. Twenty (20) instances where an employee was chosen twice during the same hour of the same day to receive a survey.
2. Six (6) days where less than 36 surveys (3 per hour 12 hours per day) were sent out for the day. Although the number of surveys was sent to meet the safe sample size of 646 per month, the requirement of 36 surveys per day was not met; which could cause a future problem in meeting the monthly safe sample size.
3. We noted that there is a control policy in place indicating that all Random Moment Time Study non-responses are investigated. Any employee that does not respond to a survey within 7 days is sent a second request to respond. However, we noted numerous instances where the surveys were not responded to for several days after they were sent. The table below indicates the number of days between the initial dates the surveys were sent to the dates of response.

# of Days To Respond	# of Surveys Sent
0-1	1,863
2-4	243
5-7	52
8-14	49
15-25	49
27-49	17
50-98	17
101-181	6
Total	2,296

4. We were unable to obtain a count of the number of employees included in the Random Moment Time Study universe during the SFY 2004 testing period.

Cause: For condition one and two, it appears there may be a systematic issue that is allowing the same individual to be selected within the same hour and allowing the number of surveys sent daily to vary. For condition three, it appears that the control in place to follow up on non-responses may not be adequate to ensure timely responses. For the fourth condition, we determined that the “date created” field was not added to the system until December 2004; therefore, we were unable to determine a count of the population for the SFY 2004 testing period. We were informed that after December 2004, it would be possible to determine how many employees were included in the Random Moment Time Study population on any date.

Effect: The Random Moment Time Study may not be producing accurate data to be used as a basis for the allocation of administrative costs to various state and federally supported programs.

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Recommendation: We recommend the Authority review the Random Moment Time Study system to ensure that the requirements of the approved Cost Allocation Plan are met and that all required employees are included in the population. Additionally, we recommend that the Authority develop policies and procedures to better ensure that the surveys will be responded to in a timely manner.

Management's Corrective Action Plan

Contact Person: Erick Tadeffa

Anticipated Completion Date: July 2005

Corrective Action Planned: We concur with the finding.

- 1) The audit refers to the Cost Allocation Plan section that states "These sample records will be created from the 3 distinct sample population candidates with *no duplicate values* for that hour." The programming source code will be analyzed and modified to accommodate this particular specification.
- 2) OHCA will determine why, on some days, less than 36 surveys are sent out and correct the problem.
- 3) OHCA will determine why non-responses are not being timely investigated and correct the issue.
- 4) This issue has already been addressed and rectified. A time stamp field has been added to a user record so that it can be used to determine when a person was added to the active RMTS pool of eligible recipients of surveys. This is required for purposes of statistical analysis.

REF NO: 04-807-016

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.767, 93.778

FEDERAL PROGRAM NAME: State Children's Insurance Program, Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0205OK5021, 5-0305OK501, 5-0305OK5028, and 5-0405OK5028

FEDERAL AWARD YEAR: 2002, 2003, 2004

CONTROL CATEGORY: Allowable Costs/Cost Principles

QUESTIONED COSTS: \$-0-

Criteria: OMB Circular A-87 Attachment B 8.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 testing of direct payroll expenditures, we noted the Authority does not maintain certifications for employees charged directly (solely) to a program.

Effect: Unallowable costs may be charged to the federal award.

Recommendation: We recommend the Authority ensure certifications are maintained for employees charged directly to a federal program.

Management's Corrective Action Plan

Contact Person: Carrie Evans

Anticipated Completion Date: July 2005

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Corrective Action Planned: Except for the Managed Care Unit, employee costs associated with the salaries and wages for the Medical Assistance Program and State Children's Health Insurance Program are based on allocations provided by OHCA's random moment sampling system and actual claims processed percentages. These employees work on either more than one Federal award or an indirect cost activity and a direct cost activity. The random moment sampling system has been approved by OHCA's cognizant agency, CMS. The employee costs for the Managed Care Unit are directly charged to the Medical Assistance Program.

Per OMB Circular A-87 Attachment B 8.h. (4) "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...(6)."

Per OMB Circular A-87 Attachment B 8.h. (6) "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, case counts, or other quantifiable measures of employee effort."

OHCA's management, therefore, concurs with the audit finding as it pertains to the Managed Care Unit employee costs and will implement recommended changes.

REF NO: 04-807-018

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 5-0305OK028, 5-0405OK5028

FEDERAL AWARD YEAR: 2003, 2004

CONTROL CATEGORY: Activities Allowed or Unallowed

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

According to OAC 317:30-5-123, Medical Eligibility, "Initial approval of medical eligibility for long-term care is determined by the OKDHS area nurse, or nurse designee. The certification is obtained by the facility at the time of admission."

According to OAC 317:30-5-123, Pre-admission screening, "Federal Regulations govern the State's responsibility for Pre-admission Screening and Resident Review (PASRR) for individuals with mental illness and mental retardation. PASRR applies to the screening or reviewing of all individuals for mental illness or mental retardation or related conditions who apply to or reside in Title XIX certified nursing facility regardless of the source of payment for the nursing facility services and regardless of the individual's or resident's known diagnoses."

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

Condition: We selected a sample of 72 nursing facility patients for a review of their Pre-admission Screening and Resident Review (PASRR). The following control weaknesses were noted:

- Eleven (11) PASRR Level I reviews could not be provided by (LOCEU); however, they were obtained from the nursing facilities.
- Fourteen (14) database screen prints were provided to support a Level I review had been performed; however, the form did not document whether a licensed analyst reviewed the PASRR

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Level I form to determine if the recipient needed a PASRR Level II. However, the actual LTC 300A form was obtained from DHS Central files for these sixteen recipients.

- One (1) PASRR Level I forms indicated a Level II was required; however, documentation of the Level II review was not provided.

Effect: OHCA could be paying for nursing facility patients that may not be eligible.

Recommendation: We recommend the Authority maintain the PASRR Level I and Level II reviews to support that one was provided. In addition, we recommend the Authority follow up and, if necessary, recoup funds for services not supported by adequate documentation.

Management's Corrective Action Plan

Contact Person: Kathy Smith

Anticipated Completion Date: April 2005

Corrective Action Planned: We concur with the finding.

REF NO: 04-807-019

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.778

FEDERAL PROGRAM NAME: Medical Assistance Program

FEDERAL AWARD NUMBER: 50305OK5028 and 50405OK5028

FEDERAL AWARD YEAR: 2003 and 2004

CONTROL CATEGORY: Special Tests and Provisions – Provider Eligibility

QUESTIONED COSTS: \$197

Criteria: According to Oklahoma Administrative Code 317:30-3-2. Provider agreements

In order to be eligible for payment, providers must have on file with OHCA, an approved Provider Agreement. Through this agreement, the provider certifies all information submitted on claims is accurate and complete, assures that the State Agency's requirements are met and assures compliance with all applicable Federal and State regulations. These agreements are renewed annually with each provider.

According to OMB A-133 Compliance Supplement, 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: We tested a sample of sixty (60) providers which are required to have current contracts, license and disclosure information. During testwork, we noted one (1) provider was no longer in business and surrendered their license on 11/14/03 according to the Service Contracts Operations Manager and the ambulance license verification authority. The Service Contracts Operations Manager stated this provider number was keyed in error and the reimbursement amounts paid to this provider should have been paid to another provider.

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

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Recommendations: We recommend the Authority request to be put on the email notification list regarding license status of ambulance service providers and maintained by the Administrative Assistant to the State EMS Director and any other licensing agencies in which mailing lists are provided.

Management's Corrective Action Plan

Contact Person: Beth Van Horn

Anticipated Completion Date: April, 2005

Corrective Action Planned: Regarding the provider that was no longer in business and surrendered their license, claims for services after their license was surrendered, were processed and paid in error due to a data entry error. We will process an adjustment to recoup the money from the wrong provider and pay the correct provider.

REF NO: 04-807-020

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.767

FEDERAL PROGRAM NAME: State Children's Insurance Program

FEDERAL AWARD NUMBER: 0205OK5021, 0305OK5021

FEDERAL AWARD YEAR: 2002, 2003

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$6,893

Criteria: OAC 317:30-3-15. Record Retention

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 Health and Human Services. Records in a provider's office must contain adequate documentation of services rendered. Documentation must include the provider's signature and credentials. Where reimbursement is based on units of time, it will be necessary that documentation be placed in the patient's record as to the beginning and ending times for the service claimed. All records must be legible.

OAC 317:30-5-1. Creation and implementation of rules; applicability states:

- (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 and promote functional capacity.

Condition: Based upon a medical professional's review of medical records to support two hundred thirty (230) dental service charges, the following exceptions were noted:

- Fifty-seven (57) instances (services) in which it appears the records were not signed as required by OHCA policy. (Questioned costs \$4,712)

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- Two (2) instances (services) in which it appears the records were not signed as required by OHCA policy. In addition, the services provided did not appear to be medically necessary. (Questioned costs \$268)
- Four (4) instances (services) in which it appears the records were not signed as required by OHCA policy. In addition, the medical records supported a lower level of service had been performed. (Questioned costs \$349)
- Eleven (11) instances (services) in which it appears the records were not signed as required by OHCA policy. In addition, the medical records did not appear to support the services billed nor a lower level of service. (Questioned costs \$611)
- Seven (7) instances (services) in with the records were not signed as required by OHCA policy. In addition, the medical records did not appear to support the services had been provided nor that they were medically necessary. (Questioned costs \$244)
- Seven (7) instances (services) in which the records were signed as required by OHCA policy; however, the medical records did not appear to adequately support the services billed nor could a lower level of service be supported. (Questioned costs \$293)
- Four (4) instances (services) in which the records were signed as required by OHCA policy; however, the medical records did not appear to adequately support the services billed nor could a lower level of service be supported. In addition, the services did not appear to be medically necessary. (Questioned costs \$226)
- Seven (7) instances in which the records were signed as required by OHCA policy; however, the medical records did not appear to support the billed service. However, the records did appear to support a lower level of service had been performed. (Questioned costs \$190)

Effect: Providers are not completing all required information in the medical files or treatment plans; they also are not coding the claims correctly. All of which may result in OHCA paying claims that are not allowable. 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 adequately supported by medical records and/or do not appear to be medically necessary.

Management's Corrective Action Plan

Contact Person: Kelly Shropshire

Anticipated Completion Date: July 2005

Corrective Action Planned: The OHCA is performing continuing research regarding this finding. OHCA will take appropriate actions at completion.

REF NO: 04-807-021

STATE AGENCY: Oklahoma Health Care Authority

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.767, 93.778

FEDERAL PROGRAM NAME: State Children's Insurance Program, Medical Assistance Program

FEDERAL AWARD NUMBER: 0205OK5021, 0305OK5021, 50305OK5028, and 50405OK5028

FEDERAL AWARD YEAR: 2002, 2003, and 2004

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$-0-

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 at different rates.

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According to the OMB A-133, Compliance Supplement (March 2004): 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: While performing analytical procedures on 1,088,381 clinic services paid under the Medical Assistance Program and State Children's Insurance Program, we noted 1,998 services that appear to have been billed at the adult rate when it appears the recipient was a child. As a result, the claim was paid at the incorrect rate.

- 1,857 of the services were paid under the Medical Assistance Program. (Net under payment of \$ -2,207)
- 141 of the services were paid under the State Children's Health Insurance Program. (Net under payment of \$ -406)

We also noted 99 clinic services paid under the Medical Assistance Program which appeared to have been billed at the child rate when the recipient appeared to be an adult. This also resulted in the claim being paid at an incorrect rate. (Net under payment of \$ -3,992)

Cause: For 125 of the services noted in which a child was billed as an adult, it appears the provider used the adult procedure code; therefore, receiving the adult rate as payment. For the remaining 1,873 services, it appears the provider billed at a rate opposite of the recipients' age. In addition, there does not appear to be an edit in place in the system to ensure compliance with age requirements (i.e. children are billed as children, adults billed as adults).

Effect: OHCA may be paying the incorrect rate for adults or children if the provider bills at the incorrect rate. This results in both over and under payments occurring.

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

Management's Corrective Action Plan

Contact Person: Kelly Shropshire

Anticipated Completion Date: July 2005

Corrective Action Planned: The Oklahoma Health Care Authority will further research this issue. Appropriate notifications and actions will be taken.

Department of Human Services

REF NO: 04-830-003

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.044, 93.045

FEDERAL PROGRAM NAME: Title III, Part B and Title III, Part C1 and Title III, Part C2

FEDERAL AWARD NUMBER: 0203AAOK1320, 0203AAOK1712, 0203AAOK1713

FEDERAL AWARD YEAR: 2003

CONTROL CATEGORY: Cash Management

QUESTIONED COSTS: Undeterminable

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Criteria: Management should establish and foster a strong system of internal controls over the disbursement of Federal Awards to subrecipients. To be effective, the system of internal controls must be both adequately designed and complied with.

Department of Treasury, 31 CFR 205, Subpart B, Sec 205.33 states;

- (a) A State must minimize the time between the drawdown 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 accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. 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.
- (b) Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this Subpart B.

Condition: Based on testwork performed and discussion with management, it appears there are no written procedures in place to determine the monthly disbursement amount for each subrecipient (Area Agency on Aging (AAA)). Also, it appears the program director is judgmentally determining the amount disbursed to each subrecipient without a methodology that complies with Treasury Subpart B.

Cause: There are no written procedures in place for determining the disbursement amount.

Effect: By not following the Treasury Subpart B, 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. In addition, if the current director were to become absent from his position, any new director or accounting personnel would not know the methodology used to determine each subrecipients monthly disbursement amount without written procedures.

Recommendation: We recommend the Department establish and implement written procedures to ensure subrecipients receive only the actual, immediate cash requirements necessary in carrying out the Aging program. The procedures implemented should be designed to assure that subrecipients minimize the time elapsing between the transfer of Federal funds and the pay out of funds for program purposes.

Management's Corrective Action Plan

Contact Person: Carey Garland, Deputy Director of Aging Services

Anticipated Completion Date: September 30, 2005

Corrective Action Planned: Aging Services will prepare written procedures for determining the disbursement amounts to each subrecipient (Area Agency on Aging). These procedures, after development and approval, will be incorporated in the agency's Oklahoma Administrative Code for Aging Services.

REF NO: 04-830-004

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: G0401OKTANF

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FEDERAL AWARD YEAR: 2004
CONTROL CATEGORY: Eligibility
QUESTIONED COSTS: \$4,812

Criteria: DHS Policy Instructions to Staff 340:10-20-1(C) states, "The applicant(s) completes Form FSS-1, Comprehensive Application and Review, which states the applicant(s) agrees to not apply for TANF for one year from the date of application for DA"

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 111 cases that received both TANF and Diversion Assistance during SFY 2004 we noted:

1. One case that received both TANF and Diversion Assistance during the same month. (Questioned Costs \$127)
2. Seven cases that received both TANF and Diversion Assistance during the same year without documentation of approval from the county director. (Questioned Costs \$4,403)
3. One case that received both TANF and Diversion Assistance during the same year that was approved by the County Director, however the TANF was issued within three months of the Diversion Assistance resulting in a duplication of benefits. (Questioned Costs \$282)

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: 4/1/05

Corrective Action Planned: The county offices that approved TANF and Diversion benefits for the same month have been contacted. The county offices that issued TANF benefits less than a year after Diversion Assistance benefits issued 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 and subsequent training is planned for March 2005.

REF NO: 04-830-005

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: G0401OKTANF

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

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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 forty-five (45) case files for testing the TANF Data Report (ACF-199). During our testwork, we noted six 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: March 2004

Corrective Action Planned: FSSD modified report number ACF-199, Field 17, "Receives Subsidized Child Care" to correct the previous data inaccuracy. DSD changed the source of the data retrieval. This data source was changed in March 2004; therefore, data from the December 2003 would still contain inaccuracies. It is noted all the exception cases are from the final calendar quarter of 2003, first fiscal quarter of FFY 2004. The change in the data source took effect the first calendar quarter of 2004, second fiscal quarter of FFY 2004. This error should not recur.

REF NO: 04-830-006

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: G0401OKTANF

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$483

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

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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 6, we identified 29 cases that received TANF benefits for more than 60 months. We selected 8 of those cases for testing and noted:

1. One case where the client received benefits for more than 60 months without applying for an extension.

Cause: The case was not closed in a timely matter. It appears the case was closed on the 31st day of the 60th month, which is too late to cancel the following month's benefit.

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

Recommendation: We recommend the Department create a system edit that will notify the caseworker of a TANF applicant who is approaching 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: 5/1/05

Corrective Action Planned: Currently in place are procedures that alert the client and the county worker when the client's time limit for TANF is imminent. During the 57th month of receipt of TANF, a notice is issued to the client advising them of the approaching time frame and the steps to follow. There is a County Worker Activity (CWA) report that lists the case number and the name of the client(s) who have received 57 months of TANF. The client's name and case number remains on this report until the TANF cash benefit is terminated or approved for a hardship extension. During the Supervisor's Conference held August 2004, training was completed regarding the process a county worker is to follow for TANF cases that are approaching the 60 month time limit. Also included in the training were the appropriate procedures to be used when a client requests or does not request a hardship extension.

REF NO: 04-830-007

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: G0401OKTANF

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FEDERAL AWARD YEAR: 2004
CONTROL CATEGORY: Eligibility
QUESTIONED COSTS: \$10,146

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 6 population of 3,924 cases, we noted the following during eligibility testwork of forty-five cases:

1. Seven cases in which no TANF application or review was found for the time period tested in the case file provided by the county office. (Questioned Costs \$8,516)
2. Two cases where the county office was unable to locate the case file for review. (Questioned Costs \$1,282)
3. One case in which a TANF application or review was found for the time period tested however it was not completed in a manner which would allow for the determination of benefit eligibility. (Questioned Costs \$348)

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: 5/01/05

Corrective Action Planned: The county offices and Field Liaisons have been contacted regarding the lack of application or review forms in the case records. Back to Basics sessions have been planned as well as training to be presented at the state wide quarterly training in March 2005.

REF NO: 04-830-008
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: G0401OKTANF
FEDERAL AWARD YEAR: 2004
CONTROL CATEGORY: Eligibility

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

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Condition: During testing of TANF eligibility, the Department was unable to provide TANF recipient detail data to support the Citibank authorizations for SFY 2004. The Citibank authorizations totaled \$42,407,440.21 and the TANF recipient detail data totaled \$40,162,152. The difference is \$2,245,288.21, which is 5.29%. Based on discussion with management, it appears the TANF recipient data is being reconciled on a monthly basis to the Citibank authorization records; however, we were unable to obtain complete detail for this recipient data.

Effect: TANF eligibility data provided by the Department may not be accurate and reliable.

Recommendation: We recommend the Department retain accurate and reliable TANF recipient detail data.

Management's Corrective Action Plan

Contact Person: Jerry Davidson, Lisa Henley, Michelle Smith, Tom Wright

Anticipated Completion Date: 9/1/05

Corrective Action Planned: OKDHS plans to prepare a month-to-month reconciliation beginning with July 2003. Since OKDHS provides all benefit information to the EBT contractor, all pertinent data elements and amount are available and will be taken into consideration in the reconciliation process.

REF NO: 04-830-009

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: G0401OKTANF

FEDERAL AWARD YEAR: 2004

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 8,638 occurrences within cases with children under six that were closed for failure to cooperate with TANF work requirements (code 52A). In twenty-two occurrences tested, we could not locate in the case notes or in the case file an indication that the case was closed due to a refusal or failure to participate without good cause on the effective date for the occurrence being tested. In one other occurrence, we did note an indication of the case being closed under code 52A for failure to participate, however the case worker indicated that she was unsure why she had closed it under 52A instead of under code 45 for failure to provide necessary verification.

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.

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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: 05/01/05

Corrective Action Planned: Back to Basics training regarding the procedures to follow when TANF benefits are to be terminated when a participant fails or refuses to cooperate with TANF Work requirements has been mandated to be completed by April 1, 2005 for all TANF units in the appropriate counties. Training will be presented on this subject during the statewide quarterly training March 2005.

REF NO: 04-830-010

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: G0401OKTANF

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$-0-

Criteria: The A-133 Compliance Supplement states, "The State is required to review and compare information obtained from each data exchange against information contained in the case record to determine whether it affects the individuals eligibility or level of assistance, benefits or services under the TANF program..."

DHS Policy Instructions to Staff 340:65-3-4-14 states, "Data exchange information is routinely compared with OKDHS records. When discrepant information is detected, an automated system of notification posts discrepancy messages to IMS. These messages are accessible by using transactions G1DX, G3, and PY. All discrepancy messages must be cleared using the DXD transaction within 30 days of the error posting."

Condition: We performed analytical procedures on the G1DX Exception Report for Area 3 and 6 as of January 2005. Area 6 was the area selected to perform our eligibility testwork for SFY 2004. Area 3 is comparable in size and population to Area 6 and gave the most accurate comparison between areas.

Error Type	Area 3			Area 6		
	Total In Area 3	Area 3 Over 30 Days	% Over 30 Days	Total in Area 6	Area 6 Over 30 Days	% Over 30 Days
BEN	609	346	56.81%	609	313	51.40%
IEVDX	411	373	90.75%	543	506	93.19%
OWGD	668	624	93.41%	619	591	95.48%
SDX	706	252	35.69%	512	151	29.49%
SNH	1,029	551	53.55%	967	525	54.29%
UIB	196	87	44.39%	131	74	56.49%
Total	3,619	2,233	61.70%	3,381	2,160	63.89%

Cause: The discrepancies were not cleared within the allowable 30 days per OKDHS policy.

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

Recommendation: We recommend the Department develop a monitoring report for the G1DX discrepancies that would summarize these discrepancies by worker, supervisor, county and area. This would allow management to monitor not only the type of discrepancy and length of days outstanding, but also to distinguish who is responsible for clearing the discrepancy within the 30 days allowed under current OKDHS policy.

Management's Corrective Action Plan

Contact Person: Larry Johnson, Office of Field Operations for County Performance Issues, and Tom Wright, Family Support Services, Data Exchange and Management Reports

Anticipated Completion Date: Ongoing

Corrective Action Planned: This issue has been discussed at two Family Support Field Liaison meetings since the Audit finding. It has also been discussed as a priority item for county offices to accomplish at Monthly Human Services Center meetings with Area Directors and Family Support Services administration.

A series of reports have been developed measuring the timeliness of G1DX discrepancies on the system. The reports were produced for the months of January and February, 2005 and were distributed to Family Support administration, Area Directors, and Family Support Field Liaisons. Discrepancy clearances have definitely improved since December, 2004.

The importance of timely clearance of G1DX discrepancies has become a priority for Area Directors and Family Support Field Liaisons.

REF NO: 04-830-013

STATE AGENCY: 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: 0401OK1401

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$1,680

Criteria: According to the OMB A-133 Compliance Supplement, Foster Care benefits may be paid on behalf of a child only if all of the following requirements are met:

- a. Foster Care maintenance payments are allowable only if the foster child was removed from his or her home by means of a judicial determination or pursuant to a voluntary placement agreement, as defined in 42 USC 672(f) (42 USC 672(a) and 45 CFR section 1356.21).
 - b. The child's placement and care are the responsibility of either the State agency administering the approved Title IV-E plan or any other public agency under a valid agreement with the cognizant State agency (42 USC 672(a)(2)).
 - c. A child must meet the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program (i.e., meet the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act) (42 USC 672(a)). Unless the child is expected to graduate from a secondary educational, or an equivalent vocational or technical training, institution before his or her 19th birthday, eligibility ceases at the child's 18th birthday (45 CFR section 233.90(b)(3)).
- d. The provider, whether a foster family home or a child-care institution must be fully licensed by the proper State Foster Care licensing authority. A child care institution is defined as a

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private child-care institution, or a public child-care institution which accommodates no more than 25 children, which is licensed or approved by the State in which it is situated, but does not include detention facilities, forestry camps, training schools, or facilities operated primarily for the purpose of detention of children who are determined to be delinquent (42 USC 671(a)(10) and 672(c)).

- e. The foster family home provider must have satisfactorily met a criminal records check with respect to prospective foster and adoptive parents (45 CFR sections 1356.30(a) and (b)).
- f. The licensing file for the child-care institution must contain documentation that verifies that safety considerations with respect to staff of the institution have been addressed (45 CFR section 1356.30(f)).

Condition: Of the twenty-two (22) foster care providers in Area 6 selected for testing, we were unable to determine the eligibility of one (1) provider because the foster care provider case file could not be located for review.

Effect: The Department may be providing benefits to ineligible providers.

Recommendation: We recommend the Department ensure provider eligibility documentation is maintained and accessible for review to ensure only eligible providers are receiving foster care benefits.

Management's Corrective Action Plan

Contact Person: John Guin

Anticipated Completion Date: April 30, 2005

Corrective Action Planned: Although we do not believe the Department is providing benefits to ineligible recipients and/or providers, we concur the Department must continue to ensure eligibility documentation is maintained and readily accessible for review. Child Welfare field staff will be reminded of the importance to maintain case files in a manner that is easily tracked and accessible for review, as needed. This notification will be distributed prior to April 30, 2005.

REF NO: 04-830-014

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: 0301OKCCDF, 0401OKCCDF

FEDERAL AWARD YEAR: 2003, 2004

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$4,784

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. . . ."

DHS Policy 340:40-7-8(h) states: "(1) Approval for the higher special needs rate. Form ADM-123, Certification for Special Needs Child Care Rate, is completed and signed by the parent or guardian, the child care provider, Division of Child Care (DCC) licensing staff, and the child's Family Support Services worker or Child Welfare worker.

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

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- Three case files did not contain an application or current application for all or part of the period they received daycare services during state fiscal year 2004. As a result, we were unable to determine if these individuals were eligible for day care benefits. (Questioned costs of \$3,000)
- One case file did not contain a Form ADM-123 – Certification for Special Needs Child Care Rate. As a result, we were unable to determine if the individual was eligible for the higher special needs rate. (Questioned costs of \$1,784)

Effect: Persons may have received childcare services that were not eligible to receive the services.

Recommendation: We recommend the Department review established procedures to ensure they are adequate to facilitate compliance with internal policy.

Management's Corrective Action Plan

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

Anticipated Completion Date: 03-31-05

Corrective Action Planned: FSSD and OFO will issue a joint statewide memo quoting the policy regarding applications for child care benefits and giving guidance. We will also provide a reminder at each one of the up-coming statewide Quarterly Training Sessions reminding staff of this policy. The Child Care Web page will have an alert regarding application policy added by April 15, 2005. FSSD Child Care Section will issue a "reminder" regarding application policy on the "Tip of the Fortnight" in April, 2005.

REF NO: 04-830-017

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, G0401OKTANF

FEDERAL AWARD YEAR: 2003, 2004

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

Criteria: Form ACF-196 Instructions state for Line 5b. Expenditures on Assistance - Child Care, "Enter in columns (A), (B), (C), and (D) the cumulative total expenditures for child care that meet the definition of assistance from October 1 of the Federal fiscal year for which the report is being submitted through the current quarter being reported. The amounts reported in this category do not include funds transferred to CCDF or SSBG programs. Include child care expenditures for families that are not employed, but need child care to participate in other work activities such as job search, community service, education or training, or for respite purposes..."

Form ACF-196 Instructions state for Line 6b. Expenditures on Non-Assistance - Child Care, "Enter in columns (A), (B), (C), and (D) the cumulative total expenditures for child care that does not meet the definition of assistance from October 1 of the Federal fiscal year for which the report is being submitted through the current quarter being reported. Include child care provided to employed families and child care provided as nonrecurrent, short-term benefit..."

The ACF Guide "Helping Families Achieve Self-Sufficiency – A Guide on Funding Services for Children and Families through the TANF Program", indicates that assistance includes benefits directed at basic needs including child care for families that are not employed. Assistance excludes child care provided to families that are employed. Additionally, this guide states that "All State expenditures claimed under the MOE requirements must be made with respect to "eligible families." The definition of "eligible families" is similar to that of "needy families"; eligible families are families that meet the income and resource standards in

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the State Plan. In addition, they must be either: (1) eligible for TANF; or (2) eligible for TANF, but for the five-year limit on federally funded assistance or the restriction on benefits to immigrants found in title IV of the 1996 welfare law.

Condition: During our testwork we noted \$56,686,656 in daycare expenditures paid with TANF funds for the period of 10/01/2002 to 9/30/2003. Upon further inquiry, it was determined that the TANF Daycare expenditures are the daycare expenditures remaining after the CCDF funds are exhausted. Therefore, TANF funds are used to cover the difference between the total daycare expenditures and the CCDF funding. However, there is no distinction made as to whether these funds are paying for expenditures that meet the definition of assistance or non-assistance. Per review of the ACF-199 reports for the period of 10/01/2002 through 9/30/2003, we noted a total of \$17,582,213 paid in subsidized child care for TANF recipients. Therefore, it appears that \$17,582,213 of the TANF Daycare expenditures is assistance and should be reported on Line 5b Expenditures on Assistance - Child Care with \$10,630,233 of this amount being reported in Column (B) – State MOE Expenditures in TANF and the remaining \$6,951,980 being reported in Column (A) as Federal TANF Expenditures. The other \$39,104,443 in the TANF daycare expenditures should be reported on Line 6b. Expenditures on Non-Assistance - Child Care.

Cause: The Department does not differentiate between the TANF Daycare Expenditures being paid for assistance or non-assistance.

Effect: The Department may not be in compliance with the above instructions, which may result in incorrect reporting. Additionally, due to the requirement that State expenditures claimed under the MOE requirement must be made with respect to eligible families, it is possible in the future there could be an MOE problem arise if the “assistance” payments do not meet the Matching Fund MOE for Daycare (currently \$10,630,233).

Recommendation: We recommend the Department establish and implement procedures to differentiate between TANF Daycare assistance and non-assistance benefits in order to correctly report these expenditures.

Management’s Corrective Action Plan

Contact Person: Stuart Kettner

Anticipated Completion Date: April 2005

Corrective Action Planned: Concur with finding. We will work with our system unit to develop reports to identify day care expenditures for TANF clients and adjust reports as necessary.

REF NO: 04-830-019

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: 93.568G04B1OKLIEA

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$1,640

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.”

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Instructions to Staff 340:65-1-3

1. (a) Definition to 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.

OAC 340:20-1-14 states, "(4) **Computer-generated notices.** Computer-generated notices are mailed from State Office to the applicant or recipient showing the action taken on an energy case"...

(F) Notice #6, Form LIHEAP-37-K, Special ABCDS Authorization Notice, is mailed to A, B, C, D, and S clients who were pre-authorized for Low Income Home Energy Assistance Program (LIHEAP) heating assistance benefits. The notice advises the recipient that his or her heating assistance eligibility has been predetermined.

Condition: From the Area 6 population of 18,872 LIHEAP case files, we selected forty-five (45) cases for eligibility testwork and noted the following:

- Thirteen (13) case files did not contain an application for the time period in which the benefit was received (Question costs \$1,473.00);and
- Two (2) case files could not be located (Question costs \$167.00); and
- Thirteen (13) case files where the individual was pre-authorized to receive LIHEAP benefits; however, no pre-authorization letter (37-K) was sent to the individual.

In addition to the testwork above, we also selected an additional twenty-five (25) cases from the "Cases Selected to Receive LIHEAP 37-K" report to determine if a pre-authorization (37-K) letter was sent to each individual. Based on testwork performed, it appears no pre-authorization letters were sent to any of the twenty-five (25) individuals.

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

Recommendation: We recommend the Department review established internal procedures to ensure they are adequate to facilitate compliance with internal policy.

Management's Corrective Action Plan

Contact Person: Mel Phillips

Anticipated Completion Date: December 2005

Corrective Action Planned: Instruct all counties to review their procedures for filing LIHEAP applications in a timely manner and to assure that the procedure is followed.

REF NO: 04-830-020

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: 93.568G04B1OKLIEA

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Activities Allowed or Unallowed / Eligibility

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

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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.

According to OAC 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."

Condition: With exception to the policy noted above, the Department does not have a policy or procedure for verifying the income of certain individuals applying for LIHEAP benefits. Income is verified for individuals who receive other DHS assistance. However, for those who do not receive other types of assistance, their income is not verified.

Based on analytical procedures performed, it appears, income was not verified for 11,337 "N" case recipients who received \$1,399,679 in LIHEAP benefits during federal fiscal year 2004.

Cause: Income verifications are not being performed during the application period.

Effect: Not verifying income could result in ineligible individuals receiving LIHEAP benefits or the incorrect benefit amount.

Recommendation: We recommend the Department implement policies and procedures to ensure income is verified for all individuals who apply for LIHEAP.

Management's Corrective Action Plan

Contact Person: Mel Phillips

Anticipated Completion Date: December 2004

Corrective Action Planned: OKDHS will require a completed checklist for all walk in "N" cases which includes checking one or more income screens.

REF NO: 04-830-021

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: 93.568G04B1OKLIEA

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Reporting

QUESTION 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: During testing of the *Annual Report on Households Assisted by LIHEAP*, the following instances of noncompliance were noted:

- The number of households reported as receiving cooling assistance on the *Annual Report on Households Assisted by LIHEAP* for federal fiscal year ending September 30, 2004 appears to be incorrect. Management was unable to provide us with documentation supporting the 20,357 households receiving cooling assistance. The supporting documentation provided indicates only 18,866 households received cooling assistance. This is a difference of 1,491 or 7.3%. Therefore, the number of households within the certain poverty percentages was also incorrect.

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- The number of households reported as receiving heating assistance appeared to be supported with accurate documentation; however, the number of households identified in the poverty level percentage categories for heating assistance did not agree with the supporting documentation provided.
- The number of households reported as applying for heating assistance on the *Annual Report on Households Assisted by LIHEAP* indicated 74,530 households applied for assistance. The supporting documentation indicated that there were 81,922 households which applied for heating assistance. This is a difference of 7,392 or 9%.

In addition, we were unable to obtain data to support the amounts reported for heating, cooling, or 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; and
- The number of households where at least one individual is age 3 years through 5 years.

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: As needed for next State Audit

Corrective Action Planned: The same database used for federal reporting purposes will be supplied to the State Auditors during the next audit cycle. Therefore, the number of discrepancies should significantly decline.

REF NO: 04-830-022

STATE AGENCY: 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: 0401OK1401

FEDERAL AWARD YEAR: 2004

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 2004 was \$797,403.11.

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.

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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's system be changed to ensure client history data is not updated when a change in status occurs. If the Department's system can not be changed we recommend the Department save the clothing voucher data used to prepare the quarterly report at the end of each quarter.

Management's Corrective Action Plan

Contact Person: Bryan Moore

Anticipated Completion Date: 9/30/2005

Corrective Action Planned: The OKDHS Finance Systems Unit plans to follow the same routine for Foster Care Clothing Vouchers as followed for Foster Care Payments. Specifically, file information will be captured and isolated for the each reporting periods. Adjustments to the file will be made but the integrity of the original reports will be not be jeopardized.

REF NO: 04-830-023

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 (Revised), Attachment B, Section 37. 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. The provisions of Financial Accounting Standards Board Statement 13, Accounting for Leases, 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 Attachment B, section 23. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the governmental unit purchased the facility.

OMB Circular A-87 (Revised), Attachment B, Section 23. 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 which are associated with the otherwise allowable costs of building acquisition, construction, or fabrication, reconstruction or remodeling completed on or after October 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;

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- (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 (Revised), Attachment B, Section 11. 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.
- d. 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."

Condition: While performing analytical review procedures for costs incurred during state fiscal year 2004, we noted \$2,043,961.20 in costs coded as bond indebtedness. \$1,063,178.68 was coded as bond principle and \$980,782.52 as bond interest. The costs were charged to federal awards as follows:

\$ 70,570.00 to Child Care Development Fund

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\$ 180,777.96 to Medicaid
\$ 111,002.30 to Child Support Enforcement
\$1,681,610.94 allocated to various programs through 6XX pools

Upon further inquiry, we determined that these costs were payments to the Oklahoma Development Finance Authority (ODFA). The ODFA issued four series of lease revenue bonds to construct county office facilities that were in turn leased to the Department. All four 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
2004, Logan/Oklahoma 55A/Oklahoma 55H County	\$ 8,615,000

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 11.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 23.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, Heidi Mitchell, Richard Freeman and Russell Graves

Anticipated Completion Date: Unknown

Corrective Action Planned: OKDHS received a letter (dated 2/04/05) from the Division of Cost Allocation (DCA) relating to a similar finding in FY 03 (03-830-012). In part, the letter outlines the Federal position and demands repayment of an amount computed by DCA. Moreover, the letter constituted the initial notification of a claim by the United States Government and did not allow for compromise or negotiations. Accordingly, OKDHS is appealing this matter to the Grants Appeals Board and the outcome of this process is unknown at the present time. OKDHS would have preferred a less severe approach to resolving this matter. Nonetheless, OKDHS has started the appeal process since it is apparently the only avenue open to resolve this matter.

REF NO: 04-830-024

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

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FEDERAL AWARD NUMBER: G0401OKTANF

FEDERAL AWARD YEAR: 2004

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

QUESTIONED COSTS: \$3,018

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 sixty (60) of 759 cases that were referred by the Child Support Enforcement Division for child support non-cooperation. During our testwork, we noted the following:

- Ten (10) cases where we noted no indication that the case was reduced or denied as required for child support non-cooperation. (Questioned Costs - \$2,680)
- One (1) case where the benefits were reduced or denied, but not within a reasonable time frame (30 days). The benefits paid after the case should have been reduced or denied are not being recouped. (Questioned Costs - \$338)

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: Linda Hughes

Anticipated Completion Date: 5/1/05 to 9/1/06

Corrective Action Planned: The immediate short-term plan is for CSED to provide a weekly report of TANF cases with non-cooperation. The report will be provided to the county office for the appropriate sanctioning process. FSSD staff will monitor this report to verify that appropriate case action is taken. Statewide training on this new process was completed February 11, 2005 via satellite downlinks and face-to-face quarterly training will be completed in the month of March 2005. The long-term plan is the development of an automated process for TANF non-cooperation with CSED. FSSD has included this programming/process as a priority project for the division and the request will

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be elevated to a priority ranking for Data Services Division. It is estimated this project will be completed by the end of the first quarter of FY06.

REF NO: 04-830-025

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: G0401OKTANF

FEDERAL AWARD YEAR: 2004

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: Linda Hughes

Anticipated Completion Date: 5/1/05 to 9/1/06

Corrective Action Planned: There is an annual report produced by CSED that lists all the cases determined to be non-cooperation, however the report was not available until recently and did not reflect when cooperation was determined on a particular case. To amend this process to produce more timely information the immediate short-term plan is for CSED to provide a weekly report of TANF cases with non-cooperation. The report will be provided to the county office for the appropriate sanctioning process. FSSD staff will monitor this report to verify that appropriate case action is taken. Statewide training on this new process was completed February 11, 2005 via satellite downlinks and face-to-face quarterly training will be completed in the month of March 2005. The long-term plan is the development of an automated process for TANF non-cooperation with CSED. FSSD has included this programming/process as a priority project for the division and the request will be elevated to a

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priority ranking for Data Services Division. It is estimated this project will be completed by the end of the first quarter of FY06.

REF NO: 04-830-026
STATE AGENCY: Department of Human Services
FEDERAL AGENCY: U.S. Department of Agriculture
CFDA NO: 10.550
FEDERAL PROGRAM NAME: Food Distribution
FEDERAL AWARD NUMBER: N/A
FEDERAL AWARD YEAR: 2004
CONTROL CATEGORY: Special Tests – Reconciliation Process
QUESTIONED COSTS: \$-0-

Criteria: According to 7 CFR 250.16 (a)(2), “Distributing agencies shall require all subdistributing agencies to maintain accurate and complete records with respect to the receipt, distribution/disposal, and inventory of donated foods, including end products processed from donated foods...”

According to 7 CFR 250.16 (a)(4), “Each processor, food service management company, warehouse, or other entity which contracts with a distributing agency, subdistributing agency or recipient agency shall be required to keep accurate and complete records with respect to the receipt, distribution/disposal, storage and inventory ... The processor shall also be required to keep formula, receipts, daily or batch production records, load out sheets, bills of lading, and other processing and shipping records to substantiate the use made of such foods and their subsequent redelivery, in whatever form, to any distributing agency, subdistributing agency or recipients agency.”

Condition: Based on testwork of 46 (forty-six) CDU recipient agency files, the following instances of noncompliance were noted:

- Twenty-three (23) recipient agency files did not contain a copy of the processors Bill of Lading which shows how much processed commodities was delivered to the recipient agency.

Based on the condition above, it appears the CDU is not reconciling the amount of processed commodities received to the amount of processed commodities delivered to recipient agencies on a monthly basis.

Effect: Recipient agencies may not be receiving all their processed commodities.

Recommendation: We recommend the Department implement policies and procedures to ensure processed commodities are reconciled on a monthly basis to the processed commodities delivered to all recipient agencies.

Management’s Corrective Action Plan

Contact Person: Nancy Ebahotubbi for Paula Price

Anticipated Completion Date: 07/01/2005

Corrective Action Planned: The Department has implemented policies and procedures in the establishment of mandatory guidelines for the recipient agencies and the processors. Incomplete information retrieved from the recipient agencies and the processors have hindered the accomplishment of tracking the utilization of the USDA commodity processed products. A special provision has been inserted in the Master Processing Agreement between the processor and our agency requiring information necessary for tracking the processed commodities. This provision is in place for agreements scheduled to begin 07/01/2005. The Department is currently in the process of notifying recipient agencies of their responsibilities of forwarding the receipt documentation. The Department will also inform the recipient agencies and the processors the penalty for refusal to comply with the newly established policies and procedures is termination from the State’s processing program.

REF NO: 04-830-032

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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: 93.568G04B1OKLIEA
FEDERAL AWARD YEAR: 2004
CONTROL CATEGORY: Eligibility/Activities Allowed or Unallowed/Reporting
QUESTIONED COSTS: \$8,864

Criteria: 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 340:20-1-10. Program factors "(b) **Primary energy source.** The primary energy source during winter months is the fuel used by the household for heating. If a cooling program is implemented during the summer months, the fuel type used for cooling is the primary energy source. ..."

According to OAC 340:20-1-14, 'Contingent upon the receipt of federal funding, one payment will be made during the federal fiscal year to or on behalf of households included in paragraph (1) of this Section unless a situation arises which would cause two payments to be made..... (1) **Approvals.** Maximum household benefit levels will be determined by fuel type, household size, and household income. Normally, one direct payment will be made to designated energy suppliers on behalf of approved households.'

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

Condition: During analytical procedure testing, we noted the following:

- 26 of 97,726 cases appeared to have received the incorrect payment amount or received benefits when their household income was greater than the allowable rate. (Questioned Costs \$6,769)
- 25 of 97,726 cases appeared to have received duplicate payments. (Questioned Costs \$2,095)
- 18 of 18,866 cooling recipients appeared to have received payments for natural gas.
- 16 of 18,866 cooling recipients appeared to have received payments for firewood.

Effect: The State may be over-paying individual recipients during the year, therefore underutilizing funds provided. In addition, information provided for the Household report could be inaccurate.

Recommendation: We recommend the Department implement control procedures to ensure recipients receive the correct amount of assistance and ensure all benefits are properly classified and reported by fuel type.

Management's Corrective Action Plan

Contact Person: Mel Phillips

Anticipated Completion Date:

Corrective Action Planned: Incorrect Payment Amounts: The County staff makes corrections after taking into consideration household income and/or composition during the application month. The county staff to reflect changes in income and/or household composition updates initial payment information. When this is completed, a correct payment is issued. The system does not allow payments to be issued to households with income in excess of the standard for the declared household sizes.

Duplicate Payments: In the event a duplicate payment is made and identified, a refund is requested. The systems that generate the payments for the major vendors have built in edits that do not permit duplicated payments. By May 1st of 2005, all identified refunds should be collected.

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Eligible household miscoded: Establish edits to disallow natural gas or firewood for Summer Cooling.

Auditor Response: We were unable to obtain any documentation of the staff corrections made to the household income and/or composition. Therefore, we were unable to clear any of the incorrect payment amount exceptions

REF NO: 04-830-033

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: Department of Health and Human Services

CFDA NO: 93.767, 93.778

FEDERAL PROGRAM NAME: State Children's Insurance Program and Medicaid Assistance Program

FEDERAL AWARD NUMBER: 0205OK5021, 0305OK5021, 50305OK5028, and 50405OK5028

FEDERAL AWARD YEAR: 2002, 2003, and 2004

CONTROL CATEGORY: Eligibility

QUESTIONED COSTS: \$42,971

Criteria: 42 CFR 435.907(a), states: "The agency must require a written application from the applicant, an authorized representative, or, if the applicant is incompetent or incapacitated, someone acting responsibly for the applicant."

42 CFR 435.601(b), states in part: "...in determining financial eligibility of individuals as categorically and medically needy, the agency must apply the financial methodologies and requirements of the cash assistance program that is most closely categorically related to the individual's status."

Condition: During testwork of ninety (90) recipient case files (MAP and SCHIP), we noted the following instances of noncompliance:

- An application was not included in seven (7) of the recipient case files (Question costs \$39,234); and
- The monthly income recorded on the application was in excess of the monthly income standard for one (1) of the recipients (Question costs \$3,737).

Effect: Recipients receiving Medical Assistance benefits may not be eligible.

Recommendation: We recommend the Department review established procedures to ensure they are adequate to facilitate compliance with obtaining written applications to ensure that individuals meet the financial and categorical requirements for the Medical Assistance Programs. Also, we recommend the Department verify income standards are met when determining eligibility.

Management's Corrective Action Plan

Contact Person: Karen Hylton

Anticipated Completion Date: 4/30/05

Corrective Action Planned: On the cases where either the case or application has been lost, subsequent review forms can assist in establishing eligibility. We will look at the cases, data exchange screens and other available information to determine whether or not the recipients were eligible. On the case where the adult was over income, we will instruct the worker to submit an overpayment memo so Medicaid payments made on her behalf can be recouped.

REF NO: 04-830-035

STATE AGENCY: Department of Human Services

FEDERAL AGENCY: U.S. Department of Agriculture, Department of Health and Human Services

CFDA NO: 93.044, 93.045, 93.053, 93.558, 93.568, 93.575, 93.596, 93.658,

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FEDERAL PROGRAM NAME: Aging, Temporary Assistance for Needy Families, Low-Income Home Energy Assistance, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Foster Care IV-E

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

Anticipated Completion Date: FY05 for Cost Allocation on the Finance System. Other documentation is ongoing.

Corrective Action Planned: As stated in the 03 Audit, Cost Allocation is now hosted on the Finance System rather than an individual PC. During this conversion process flow charts and a host of other documentation was necessary in order to effectuate this change. In addition, the Finance Division now has dedicated a staff member to write & document policy and procedures throughout the Division.

Office of Juvenile Affairs

A special investigative audit of the Office of Juvenile Affairs was issued by the State Auditor and Inspector's Office on April 12, 2005. The scope of the special investigative audit covered the period July 1, 2002 through June 30, 2003. The audit was conducted as a result of an Attorney General request pursuant to 74 O.S. § 18.f. Questioned costs were noted during this audit with a portion of the questioned costs being expended under the Juvenile Accountability Incentive Block Grant, CFDA No. 16.523. A copy of the special investigative audit has been provided to the grantee agency, the U.S. Department of Justice.

Department of Mental Health and Substance Abuse Services

REF NO: 04-452-001

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S Department of Health and Human Services

CFDA NO: 93.959

FEDERAL PROGRAM NAME: Block Grants for Prevention and Treatment of Substance Abuse

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FEDERAL AWARD NUMBER: 04B1OKSAPT
FEDERAL AWARD YEAR: 2004
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 2004.

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 ensure the responsibility of monitoring subrecipients is assigned and performed in accordance with OMB Circular A-133.

Management’s Corrective Action Plan

Contact Person: Ben Brown

Anticipated Completion Date: June 30, 2005

Management’s Corrective Action Plan:

ODMHSAS is in the process of hiring a Prevention Program Coordinator and Prevention Program field representative to perform monitoring sub-recipients. With the additional staff the Department will conduct site visits to bring the program within compliance. The On-Site Review Procedure for the Substance Abuse Division has been approved by ODMHSAS’s Performance Improvement Committee.

REF NO: 04-452-002

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S. 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: 04B1OKSAPT

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Subrecipient Monitoring

QUESTIONED COSTS: \$-0-

Criteria: OMB circular A-133 Subpart C § __.320 requires audit reports to be submitted within nine months after the end of the fiscal year to a pass-through entity when the schedule of findings and questioned costs disclose audit findings relating to the federal awards the pass-through entity provided. Should the schedule of findings and questioned costs not disclose audit findings relating to the federal awards the pass-through entity provided, a subrecipient can provide written notification to the pass-through entity that an audit was conducted and no findings and/or questioned costs were noted relating to the federal award to comply with the submission requirement.

OMB circular A-133, § 400(d) *Pass-through entity responsibilities*, states: A pass-through entity shall perform the following for the Federal awards it makes:

- (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.

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The Department of Mental Health's Policies and Procedures 6.a. states, "Internal audit completes the reviews within three months after receipt of the audit report or as soon as possible thereafter..."

Condition: We selected a sample of twenty-five (25) subrecipients to review their independent audit reports. Of the twenty-five (25) selected, eighteen (18) subrecipients appeared to have been required to submit an OMB A-133 Single Audit. We noted two (2) facilities had failed to submit an OMB A-133 audit, or a written notice as of our testwork date (August 12, 2004). In addition, three (3) of the subrecipients failed to submit their OMB A-133 audit reports within the 9-month requirement.

In addition, ten (10) of the sixteen (16) OMB A-133 audits submitted had not been reviewed by the Department within three months after receipt of the report.

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: June 30, 2005

Corrective Action Planned: We have obtained and reviewed the missing audit reports. Additional help hired by the Department is helping in obtaining and reviewing audit reports on a more timely basis.

REF NO: 04-452-004

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S 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: 04B1OKSAPT

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Special Tests and Provisions – Independent Peer Reviews

Criteria: 45 CFR section 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.
- (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.

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Condition: While gathering an understanding of internal controls for this requirement, a Department employee stated that for FFY03 there were no written policies or procedures for conducting peer reviews. There were also no policies in practice to ensure that at least 5 percent of the entities providing services in the State were reviewed and were representative of the total population or to ensure that the reviews were independent. There was, however, a verbal agreement between the Department and the Oklahoma Substance Abuse Services Alliance (OSASA) that assigned the task of coordinating independent peer reviews to OSASA.

As stated in 45 CFR section 96.136(f), the Department is responsible for developing procedures to ensure implementation of this regulation.

The Department stated in their state Block Grant application, in response to goal #15 (pg. 180), there were seventy-eight entities providing services in Oklahoma and twenty had peer reviews performed for SFY 2003 yielding twenty-six percent.

During testwork it was noted only nineteen of the twenty appeared to qualify as an independent peer review as described in 45 CFR section 96.136 for the period of October 1, 2002 through September 30, 2003. Therefore, the Department met the criteria of five percent of the entities providing services receiving reviews (nineteen divided by seventy-eight equals twenty-four percent). However, we noted the following deficiencies:

- One of the reviews was performed by an Area Director of the Agency and therefore was not independent.
- The only documentation provided in the same file was a note in the application stating that an “eternal review” was performed and that their Area Director performed the review. Since a copy of the review was not included in the application, there was no way to determine if the required attributes were met.

Effect: Without written procedures it is more likely that the Department may not comply with 45 CFR section 96.136. The Department has no assurance the peer reviews they are using to meet the five percent requirement are independent or that they are representative of the population. Additionally, because the Department has not developed any procedures, they have no assurance that the peer reviewers are employing appropriate tests to complete the reviews.

Recommendation: We recommend the Department establish written policies and procedures to address the independent peer review process required by 45 CFR section 96.136. As part of these policies, we recommend the Department include a mechanism to ensure at least 5% of the providers receive a peer review each year, that the five percent is representative of the total population and that the reviewers performing the peer reviews are independent.

Management’s Corrective Action Plan

Contact Person: Brian Karnes, Fiscal Program Manager

Anticipated Completion Date:

Corrective Action Planned: The Department of Mental Health and Substance Abuse Services (DMHSAS) and Oklahoma Substance Abuse Services Alliance (OSASA) have executed a contract where OSASA will conduct independent peer reviews of SAPT subrecipients between July 1, 2004 and June 30, 2005. A statement of work has been developed between DMHSAS and OSASA ensuring compliance with 45 CFR § 96.136. Additionally, DMHSAS is developing policies regarding independent peer reviews that should be completed by the end of SFY 2005.

REF NO: 04-452-006IT

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S. Department of Health and Human Services

Schedule of Findings Federal Award Findings And Question Costs

CFDA NO: 93.959

FEDERAL PROGRAM NAME: Block Grants for the Prevention and Treatment of Substance Abuse

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT) Delivery and Support DS5, information services management should ensure that system's security safeguard information against unauthorized use, disclosure or modification, damage or loss.

Condition: Procedures are not in place to monitor unauthorized access to data and/or programs for the ICIS/Fee For Service Applications. The ICIS system is used to collect and validate information about clients and the services provided to them. This information is used for evaluation, audit, and payment of services. Fee For Service uses information in ICIS and from contract services to determine the appropriate source of payment for services. It produces invoices and provides management reports based on ICIS data.

Effect: Unauthorized accesses and changes to the system may go unnoticed.

Recommendation: We recommend the Department establish reports for security breaches, and formal resolution procedures. These reports should include:

- Unauthorized attempts to access system (sign on)
- Unauthorized attempts to access system resources.
- Unauthorized attempts to view or change security definitions and rules.
- Resource access privileges by user id.
- Authorized security definitions and rule changes.
- Authorized access to resources (selected by user and resource).
- Status change of the system security.
- Accesses to operation system security parameter tables.

Management's Corrective Action Plan

Contact Person: Leo Fortelney, MIS Director

Anticipated Completion Date: July 1, 2005

Corrective Action Planned: In Progress, reports are being developed to display access attempts. All in-house developed software (not just ICIS) is being modified to only be accessed thru the main web application portal "Courier" login. Courier is being modified to log access attempts. Formal resolution procedures are being developed.

REF NO: 04-452-007IT

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S Department of Health and Human Services

CFDA NO: 93.959

FEDERAL PROGRAM NAME: Block Grants for the Prevention and Treatment of Substance Abuse

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT) Delivery and Support DS5, information services management should ensure systems security safeguard information against unauthorized use, disclosure, modification or damage/loss through logical access controls that restrict access to systems, data and programs.

Condition: Policies and procedures do not exist for the following areas:

- Developer and support services access rights and responsibilities
- Remote access assignment, control and monitoring

Effect: Risks have not been identified for each type of access and controls may not be adequate to prevent or detect unauthorized use of the system, disclosure of sensitive data and modification to programs.

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There are several facilities that connect to the Talhequah facility. These facilities do not have any servers or firewalls but have valid IP addresses connected to the internet.

Recommendation: The Department of Mental Health:

- Perform a risk assessment to identify critical and sensitive data
- Develop written policies and procedures
- Implement procedures to monitor effectiveness of controls

Management's Corrective Action Plan

Contact Person: Leo Fortelney, MIS Director

Anticipated Completion Date: July 1, 2005

Corrective Action Planned: Risk assessment of critical and sensitive data is in progress and will be completed by the ODMHSAS Security Officer. Policies and procedures will be developed to control developer and support staff access rights and responsibilities.

REF NO: 04-452-008IT

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S Department of Health and Human Services

CFDA NO: 93.959

FEDERAL PROGRAM NAME: Block Grant for the Prevention and Treatment of Substance Abuse

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT) Monitoring M2, information services management should assess internal control adequacy to ensure the achievement of the internal control objectives set for the IT processes on a regular basis.

Condition: Facilities input their client services data into the ICIS system through the department's website. Facilities review and obtain their billing invoices through the website. This website has not been tested for common vulnerabilities and may allow access by unauthorized users.

Effect: Security breaches could go unnoticed because activity logs are not reviewed. Hackers could deface the web pages, redirect web traffic or gain access to the Department of Mental Health network and confidential information.

Recommendation: We recommend periodic assessment and review of the website security. Intrusion detection system or routine review of the logs should be implemented.

Management's Corrective Action Plan

Contact Person: Leo Fortelney, MIS Director

Anticipated Completion Date: January 1, 2006.....provided funding is available.

Corrective Action Planned: Intrusion Detection software will be bought and installed. Third party scanning software will be purchased that periodically scans and reports on network security. Logs and reports will be reviewed by the ODMHSAS Security Officer. *Anticipated Cost:* \$60,000

REF NO: 04-452-009IT

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: All CFDA's

FEDERAL PROGRAM NAME: All Federal Programs

CONTROL CATEGORY: Other

Criteria:

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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 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.

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- 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, MIS Director

Anticipated Completion Date: January 1, 2006.....provided funding and resources are made available.

Corrective Action Planned:

- 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.

Anticipated Cost: \$50,000 (Quality Assurance Staff within the IT division)

REF NO: 04-452-010IT

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: All CFDA's

FEDERAL PROGRAM NAME: All Federal Programs

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
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

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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.
- 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, MIS Director

Anticipated Completion Date: January 1, 2006

Corrective Action Planned: ODMHSAS will create separate test and production environments. The test and production environments will be on separate computers. Testing activities will only be done within the test environment. Different logon procedures will used for both systems and controls will be in places to ensure passwords are changed.

Anticipated Cost:

Initial Cost	\$50,000	Software and Hardware setup costs.
Yearly Cost	\$30,000	Additional software annual licensing.

REF NO: 04-452-012

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S. 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: 04B1OKSAPT

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Activities Allowed or Unallowed

QUESTIONED COSTS: \$324

Criteria: Oklahoma Administrative Code 450:18-3-21 **Outpatient Services** states in part:

(b) (6) Documentation:

(C) Consumer records shall document the start and stop time or the amount of time spent providing each treatment service.

Oklahoma Administrative Code 450:18-3-61. **Medically supervised detoxification** states in part:

(b) (6) Documentation:

(A) Progress notes shall clearly reflect implementation of the treatment plan and services provided, in addition to the consumer's response to treatment; and

Condition: We noted the following items while reviewing progress notes and other documentation to support 19 services totaling \$8,006 billed to DMHSAS by one substance abuse treatment facility.

Schedule of Findings Federal Award Findings And Question Costs

- One contact form to support “face-to-face outpatient crisis intervention” charges could not be located. (Questioned costs \$40)
- A contact form to support “face-to-face outpatient crisis intervention” charges was located; however, there was not documentation of a start or stop time nor of the length of time spent providing the service. (Questioned costs \$40)
- No progress notes could be located to support two days billed for “medically supervised detoxification” could be located by the facility for one consumer. (Questioned costs \$244)

Effect: Services paid by the Department may not be supported by adequate medical documentation.

Recommendation: We recommend the Department contact the facility and determine if records to support charges have been located. Should documentation not be provided to the Department, we recommend the Department recoup the amount paid to the facility for these services.

Management’s Corrective Action Plan

Contact Person: Jennifer Glover

Anticipated Completion Date: June 30, 2005

Management’s Corrective Action Plan:

Program staff is currently reviewing the audit finding. The Department will contact the program to see if they have the documentation and make a determination if a site visit is warranted. If documentation is not provided, the Department will consider recouping the amount paid to the facility for the undocumented services.

REF NO: 04-452-013

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S. 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: 04B1OKSAPT

FEDERAL AWARD YEAR: 2004

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 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 restriction and prohibitions of the statute authorizing the block grant.

Attachment 2, Addendum E1 of the SFY 2004 contract between DMHSAS and the prevention facilities states in part:

“Narrative logs must be available as “back-up” documentation of reach staff/service hour reported in the ICIS reporting system”

According to 45 CFR 96.125 (b),

In implementing the prevention program the State shall use a variety of strategies, as appropriate for each target group, including but not limited to the following:

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- (1) *Information Dissemination*
- (2) *Education*
- (3) *Alternatives*
- (4) *Community-Based Process*
- (5) *Environmental*

Condition: While reviewing four prevention facilities' supporting documentation for services billed on the ICIS system, we noted that although they were maintaining documentation of hours billed in ICIS, the documentation did not appear to be in "narrative" form. Rather the descriptions of services were often one to three word descriptions that appear to mirror the code description being charged. The documentation being maintained was often a database and/or employees' calendars which often times made it difficult to determine what services were performed without discussing the entries with the employee and/or supervisor. In addition, although there was some consistency between some facilities, the support for these services was left to the judgment of the facility and contained the information they determined necessary.

In addition, the facilities are being reimbursed for services based upon units of time; however, it appears not all prevention services are conducive to this type of billing. For example, according the CFR 96.125 information dissemination as a prevention service can include resource directories, media campaigns, brochures, radio/TV public service announcements, information lines. Under the current billing system, should the facility offer these services, they would have to assign a person's time to this project to receive reimbursement rather than asking for reimbursement for the cost of the service provided. As a result, based upon coding it appears the bulk of the services being provided are community-based, as those are more easily measured in increments of time.

Cause: The term "narrative log" does not appear to have been defined by the Department, nor has any specific documentation requirements been communicated to these facilities. In addition, it appears no on-site monitoring of these facilities has been performed; as a result, the facilities have judgmentally determined the amount of and source documentation to be maintained as support for these charges.

Effect: Unallowable costs could be charged to the program and not be detected in a timely manner.

Recommendation: We recommend the Department review its policies and contracts with regard to the prevention services and determine the type of documentation these facilities should be maintaining and communicate these requirements to the facilities. We further recommend the Department continue to re-evaluate the billing system for prevention services to allow for a more flexible billing that would be more conducive to the services actually being provided.

Management's Corrective Action Plan

Contact Person: Ben Brown

Anticipated Completion Date: July 1, 2005

Management's Corrective Action Plan: The new Prevention Program Coordinator will review the current documentation requirements and billing system along with other ODMHSAS staff and make a recommendation. A cost reimbursement system could be the result. If a cost reimbursement system is selected, ODMHSAS will clearly define allowable costs. ODMHSAS will request a detailed budget and budget narrative with the sub-recipient's contract application. The sub-recipient's contract will be developed from the submitted and approved application and budget. Any expenditures outside of the allowable costs will have to be justified by the contractor and receive written approval from ODMHSAS staff. ODMHSAS will more clearly define how prevention services are documented in the statement of work of the sub-recipient's contract.

REF NO: 04-452-014

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S. Department of Health and Human Services

CFDA NO: 93.959

Schedule of Findings Federal Award Findings And Question Costs

FEDERAL PROGRAM NAME: Block Grants for Prevention and Treatment of Substance Abuse
FEDERAL AWARD NUMBER: 04B1OKSAPT
FEDERAL AWARD YEAR: 2004
CONTROL CATEGORY: Activities Allowed or Unallowed
QUESTIONED COSTS: \$2,536

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 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 restriction and prohibitions of the statute authorizing the block grant.

According to 45 CFR 96.125 (b),

In implementing the prevention program the State shall use a variety of strategies, as appropriate for each target group, including but not limited to the following:

- (6) *Information Dissemination*
- (7) *Education*
- (8) *Alternatives*
- (9) *Community-Based Process*
- (10) *Environmental*

Condition: While reviewing four prevention facilities' supporting documentation for a sample of services billed on the ICIS system we noted the following items:

- One (1) instance (2 charges) in which the provider was paid for overlapping hours on the same day. In addition, documentation for this item could not be provided; therefore, we could not determine which hours were correct. As a result, both charges were questioned. (Questioned costs \$130)
- Five (5) instances in which documentation was provided to support charges billed; however, the documentation did not provide enough detail to ensure the services were prevention related. (Questioned costs \$1,665)
- Three (3) instances in which the documentation provided did not appear to support the services were for prevention services. (Questioned costs \$352)

We also scanned the selected invoices from these four facilities and noted an additional two (2) instance (4 charges) that appear to be for overlapping hours on the same day. (Questioned costs \$389)

Cause: The Department has not performed on-site monitoring of these facilities.

Effect: Unallowable costs could be charged to the program and not detected in a timely manner.

Recommendation: We recommend the Department review the documentation for these charges and if necessary, recoup the costs. We further recommend the Department implement edits into the ICIS system to ensure duplicate and/or overlapping hours can not be billed and paid for by the Department.

Management's Corrective Action Plan

Contact Person: Ben Brown

Anticipated Completion Date: June 30, 2005

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Management's Corrective Action Plan: Prevention program staff is reviewing the audit finding. Prevention program staff will conduct a site visit to further review the prevention facility. ODMHSAS anticipates possible recoupment of the questioned costs.

REF NO: 04-452-015

STATE AGENCY: Department of Mental Health and Substance Abuse Services

FEDERAL AGENCY: U.S. 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: 04B1OKSAPT

FEDERAL AWARD YEAR: 2004

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 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 restriction and prohibitions of the statute authorizing the block grant.

DMHSAS Internal Policy effective November 1, 2002 states in part:

Policy:

To ensure the proper distribution of federal funds DMHSAS shall maintain a time and effort reporting system for applicable Central Office employees who work on multiple grants or cost activities.

Procedure

3. Participating employees shall record personnel activities for two consecutive bi-weekly pay periods within an eight week time frame via the Executive Information System (EIS) Time Tracking System. The participating employee reporting processes include:
 - a. Personnel activity shall be recorded in 15 minute increments;
 - b. A summarized Personnel Activity Report for each pay period shall be generated from the EIS Time Tracking System and submitted to his or her immediate supervisor; and
 - c. Personnel Activity Reports shall correspond with the participating employee's payroll time card for hours reported, hours worked, and hours of leave and shall be signed by the employee and supervisor.

DMHSAS Internal Policy effective September 16, 2003 states in part:

Purpose

Block: Positions will be paid directly from the grant for a specific compliance issues in the grant application. For the administrative portion, a percentage of time for specific FTE will be determined that represent efforts in conjunction with the necessary compliance, reports, and accounting of the block grant.

Procedure

FTE will be determined based on involvement with grant.

A percentage of salary will be funded from grant.

Payroll reports will reflect FTE name and salary amounts assigned to grant funds.

Schedule of Findings Federal Award Findings And Question Costs

Condition: We selected a sample of eighty-one (81) employees whose payroll costs were charged to the SAPT Block Grant. Fourteen (14) of these employees payroll costs were indirectly (less than 100%) charged to the SAPT Block Grant, while the remaining sixty-seven (67) employees' payroll were charged directly (100%) to the grant.

We spoke with personnel in the Finance Division for documentation supporting the percentages of payroll charged to the grant. According to personnel in the Finance Division, the percentages charged to the SAPT Block Grant are determined judgmentally based upon each employee's job duties and/or a budgetary decision. The Department has a set amount of state and federal funding to support the substance abuse area and budgets are designed to balance out from each source.

In addition, we were informed the EIS system was never used to support SAPT Block Grant payroll expenditures; rather it was used for the Department's categorical grants.

Effect: The Department did not appear to charge payroll costs to the SAPT Block Grant in accordance with internal policies for part of the fiscal year. In addition, unallowable costs may be charged to the federal program.

Recommendation: We recommend the Department establish and implement policies and procedures that will ensure all payroll charges reported under the SAPT Block Grant are adequately supported by written documentation. These policies should address procedures for both direct and indirect payroll costs charged by both the Central Office as well as satellite facilities.

Management's Corrective Action Plan

Contact Person: Melissa Lange

Anticipated Completion Date: July 1, 2005

Corrective Action Planned: The Department agrees with the recommendation to establish and implement policies and procedures that will ensure all payroll charges reported under the SAPT Block Grant are adequately supported by written documentation. The Department will incorporate the following concepts in the new policies and procedures:

- 1) Personnel being 100% Federally funded by a single grant will have their time certified by their supervisors every six months as being related to a specific grant function.
- 2) Personnel being funded less than 100% from Federal grants, or split between grants will be certified by their supervisors with a time allocation attached to bi-weekly timecards.

Payroll charges will be adjusted quarterly based on the results of the previous quarter's time allocations.

Department of Rehabilitation Services

REF NO: 04-805-007

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: U.S. Department of Education

CFDA NO: 96.001

FEDERAL PROGRAM NAME: Social Security – Disability Insurance

FEDERAL AWARD NUMBER: 0304OKDI00, 0404OKDI00

FEDERAL AWARD YEAR: FFY 2003, FFY 2004

CONTROL CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

Criteria: According to DI 39506.231 "Preparation Instructions for Form SSA-4514":

- A. Description of Form SSA-4514

Schedule of Findings Federal Award Findings And Question Costs

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.

C.4. Procedure – For each staffing category listed under lines 1-3 (full-time, part-time, and temporary), enter the overtime hours worked during the report period by all personnel engaged in 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 forty-five (45) individuals whose hours were included in the “Time Report of Personnel Services for Disability Determination Services” (Form SSA-4514) for the quarter ending 6/30/04. During our testing we noted one (1) individual who was no longer employed by DDD that had work hours and holiday leave hours reported on the SSA-4514 and one (1) individual whose leave hours did not agree with their timesheet. As a result, the hours reported on the SSA-4514 are misstated. However, because some hours were over reported and some under reported, the net difference in hours was 884 hours overstated.

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 that the Monthly Time Report be reviewed periodically to ensure only active employees are included on the report.

Management’s Corrective Action Plan

Contact Person: Noel Tyler, Division Administrator

Anticipated Completion Date: March 31, 2005

Corrective Action Planned: DDD will continue its monthly review of the leave hours reported on the Unit Time Report to verify that they agree with the leave hours that are reported on the employees Daily Time Worksheets that are submitted to the DRS Payroll Unit. DDD proposes the implementation of two new procedures to insure that only active employees are shown on the Unit Time Report and the SSA-4514. DDD will printout and maintain copies of all emails submitted to the DDD Information Technology Department requesting that a terminated employee’s name be removed from the Unit Time Report. DDD will also have our Human Resources Department audit all employees listed on the Unit Time Report at the end of each quarter prior to filing the SSA-4514 to insure that only active employees are listed on the report.

REF NO: 04-805-008

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: U.S. Department of Education

CFDA NO: 84.126

FEDERAL PROGRAM NAME: Vocational Rehabilitation Grants to States

FEDERAL AWARD NUMBER: H126A-030053

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Allowable Costs/Cost Principles

Schedule of Findings Federal Award Findings And Question Costs

QUESTIONED COSTS: Unknown

Criteria: 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: 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 \$2,749,756 in costs not directly related to the program in the base amount. These items resulted in an overstatement of \$151,236 on the Schedule of Expenditures of Federal Awards.

Effect: Unallowable costs may be charged to the federal award.

Recommendation: We recommend the Department ensure only Vocational Rehabilitation Grants to States direct costs are being included in the base amount. In addition, the Department should recalculate the indirect costs of the program excluding the unrelated vocational rehabilitation areas and revise the SEFA accordingly.

Management's Corrective Action Plan

Contact Person: Kevin Statham, Accountant

Anticipated Completion Date:

Corrective Action Planned: The Department concurs that the SEFA reports were overstated. The adjustment will be made on the SFY-2005 SEFA Report. The Department is further aware of the need to adjust the base costs when utilizing the Financials Statements for reporting. The way in which the Department's Financial Statements are compiled and subsequently presented, causes a number of federal programs to be summarized and the associated indirect costs combined at a division level. The base calculation for the federal awards and indirect charges, as shown on the SF-269, are accurate and appropriate to each award.

REF NO: 04-805-009

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: U.S. Department of Education

CFDA NO: 84.126

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Grants to States

FEDERAL AWARD NUMBER: H126A-030053, H126A-040053

FEDERAL AWARD YEAR: FFY 2003, FFY 2004

CONTROL CATEGORY: Cash Management

QUESTIONED COSTS: \$-0-

Criteria: According to the Cash Management Treasury-State Agreement (the Agreement) for State Fiscal Year 2004 funds are to be drawn according to the following funding techniques:

Payroll – Average Clearance

- The amount shall be for the exact amount of that disbursement.

Medical/Pharmacy and Maintenance/Transportation – Monthly Variation #8

- The amount shall be requested
 - (1) fifteenth (or closest working day to the 15th)
 - (2) An estimate based on actual payments of the prior month
 - (3) Monthly

Administrative, nonpayroll, and nonmedical – Monthly Variation #3

- The amount shall be requested

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- (1) fifteenth (or closest working day to the 15th)
- (2) An estimate based on actual payments of the prior month
- (3) Quarterly

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, 2003 through June 30, 2004. The report consisted of 8 deposits totaling \$13,500,000. 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, 2002, and 2003.

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

Anticipated Completion Date: April 2005

Corrective Action Planned: The Department is aware of the need to comply with the agreement. The Department had made strides in developing the necessary documentation to fully comply with all the draw methods. The unanticipated conversion of the Agency's Accounts Payable System, to PeopleSoft, restructured the goals, priorities and available reports. The Agency is back to fully functioning on the Accounts Payable and is able to dedicate resources to resolve other issues resulting from the change. Additional worksheet compilations from existing source documents are accomplishing this correction.

REF NO: 04-805-010

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: U.S. Department of Education

CFDA NO: 96.001

FEDERAL PROGRAM NAME: Social Security – Disability Insurance

FEDERAL AWARD NUMBER: 0304OKDI00, 0404OKDI00

FEDERAL AWARD YEAR: FFY 2003, FFY 2004

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 timing and amount of each funds transfer 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. . . .”

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Condition: We reviewed an Office of State Finance report of all deposits coded with a CFDA of 96.001 for the time period of July 1, 2003 through June 30, 2004. The report consisted of 9 deposits totaling \$63,120,395.76. All draws were for whole amounts (e.g. \$1,000,000) except for one which appeared to be the final draw for the 2002 grant award. Which indicates the Department is not drawing funds in accordance with the Cash Management Act.

Management also stated they were not in compliance with the requirements of the Cash Management Act. This is a repeat finding from fiscal year 2003.

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

Anticipated Completion Date: April 2005

Corrective Action Planned: The Department is aware of the need to comply with the agreement. The Department had made strides in developing the necessary documentation to fully comply with all the draw methods. The unanticipated conversion of the Agency's Accounts Payable System, to PeopleSoft, restructured the goals, priorities and available reports. The Agency is back to fully functioning on the Accounts Payable and is able to dedicate resources to resolve other issues resulting from the change. Additional worksheet compilations from existing source documents are accomplishing this correction.

REF NO: 04-805-012

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-030053, H126A-040053

FEDERAL AWARD YEAR: FFY 2003, FFY 2004

CONTROL CATEGORY: Activities Allowed / Reporting

QUESTIONED COSTS: \$-0-

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

Condition: During testing of the Department of Rehabilitation Services financial statements, Management was unable to provide use with complete detailed data for fund 35X (Client Services) or Payroll to support the amounts used when preparing the financial statements.

Effect: Information used to prepare the Department's financial statements may not be accurate and reliable.

Recommendation: We recommend the Department retain accurate and reliable information for the financial statements.

Management's Corrective Action Plan

Contact Person: Kevin Statham

Anticipated Completion Date: July 2005

Corrective Action Planned: The Agency recognizes the need to review the electronic formatting of annual data extraction. This finding, as clarified with audit staff, is in reference to the reconciliation

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problems encountered when the data was extracted in an electronic format. The electronic data did not reconcile to the Financial Statements. The Agency's business process for reporting does not rely solely on the electronic data format. The Agency is still reliant on hard copy reports with manual reconciliation adjustments to develop the Financial Statements. The Agency is taking steps to isolate monthly reports in cumulative electronic formats to be used by Agency staff for reporting. These same electronic files would be available to satisfy the Auditor's need for electronic files that are reconciled to the Agency's Financial Statements.

Department of Transportation

REF NO: 04-345-001

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Davis Bacon Act

QUESTIONED COSTS: \$-0-

Criteria: 29 CFR § 5.6(a)3 states:

...Investigations shall be made of all contracts with such frequency as may be necessary to assure compliance. Such investigations shall include interviews with employees...

The procedures the Oklahoma Department of Transportation has implemented to fulfill this requirement is Construction Control Directive Number 971114 which 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 should be interviewed during the course of the project...

Condition: Based on information gathered during discussions with management, interviews are not being performed consistently and a minimum of ten percent of all workers is not being interviewed during the course of the project. Additionally, there is no documentation to support the methodology of how the Department ensures that a minimum of ten percent of all workers are interviewed during the course of a project. Further, the Department does not document reasons or alternate procedures performed if they are not able to interview a minimum of ten percent.

Cause: The control directive is written as a guideline to ensure compliance with 29 CFR § 5.6(a)3. It is vague concerning the number of interviews and how often they should be conducted. Additionally, there are no alternate procedures to ensure compliance if the ten percent objective cannot be met.

Effect: Project workers may not be interviewed adequately to ensure the minimum hourly rate was paid. The Department may not be in compliance with internal control policies and federal regulations.

Recommendation: We recommend that the Department review its policy as described in Control Directive Number 971114 and revise it as necessary to ensure compliance with 29 CFR § 5.6(a)3.

Management's Corrective Action Plan

Contact Person: George Raymond, Construction Division

Anticipated Completion Date:

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Corrective Action Planned: 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 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.

Construction Control Directive No. 971114 was revised to clarify the required interview frequency that “shall” be required for applicable projects. Other clarifications were made in the revision as well which were approved by the local FHWA on October 1, 2004. The directive was distributed for use on October 7, 2004.

REF NO: 04-345-004IT

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) 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.

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 exists. 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

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Anticipated Completion Date:

Corrective Action Planned: The capability of the current system does not allow for this process to be integrated automatically. TSD's tracking process provides for communication between TSD and the requesting Division upon completion for verification and a check on security issues.

REF NO: 04-345-006IT

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, 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 "SYS" and "SYSTEM" accounts. Existing Oracle RDBMS 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 IDs such as "SYS" or "SYSTEM" 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 ID's 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, TSD does not make these determinations. The modification of password settings and regular password changes will be reviewed by TSD.

REF NO: 04-345-007IT

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

Schedule of Findings Federal Award Findings And Question Costs

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 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:

- 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 Trns*port procedures exist for setting up new users.
- Trns*port user identification and authorization profiles are not documented.
- The Construction division administers the Trns*port system and maintains the users.
- Trns*port 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

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), FieldManager, 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.

SiteManager, another Trns*port module, was implemented in FY2004 and FY2005. SiteManager users are required to apply for a SiteManager userid, and it is required that a work unit supervisor 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 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.

Schedule of Findings Federal Award Findings And Question Costs

REF NO: 04-345-008IT

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.

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
- 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 should 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 has had for some the process and procedures in place to reconcile the project funding system (PFS) to the systems that feed expenditure. Those systems are the financial management system (FMS), the equipment system, the time and attendance system (A-), and the lab cost system. When and if, costs are not accepted by PFS from the other systems, a process is available to ensure that any valid costs are corrected and loaded into PFS for the capturing of projects cost and possible billing to a partnering entity.

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During the status meeting with the Auditor it was suggested that a resolution to this audit finding would be to provide automated reconciliations in PFS. While this feature is also preferred by ODOT, it is not an available option at this time.

REF NO: 04-345-009IT

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO:

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Other

Criteria: According to the standards of the Information Systems Audit and Control Association (CobiT, Planning and Organization 4.10), management should implement a division of roles and responsibilities that 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:

- Systems Development and Maintenance
- Change Management
- Security Audit and Administration

Condition: There is not an adequate segregation of duties between development, change management, maintenance and security audit and administration.

Cause: Lack of funding to adequately staff the ISD division and several cut backs have occurred in recent years.

Effect: Due to inadequate segregation of duties, the possibility exists for the breakdown of controls that could result in potential loss of:

- Financial data;
- Client Information; and
- Federal Reporting data.

Recommendation: We recommend management establish adequate segregation of duties to lessen the possibility of individual attempts to subvert critical functions in the Information Systems Department.

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: TSD customer support priorities in response to ODOT's work program have not allowed this finding to be address with the current level of resources. TSD responds to requests for changes in these systems through chain of command. Weekly reconciliations provide the opportunity to examine the systems at this level.

REF NO: 04-345-010IT

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 #4, management should

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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.

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: TSD staff performs regular disaster backup activities and periodic system backup checks, as the work processes allow. Funding levels did not allow this effort to be addressed in FY2005. TSD will request funding in FY2006 to develop such a plan through contract resources.

REF NO: 04-345-012IT

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), 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.

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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.

Management's Corrective Action Plan

Contact Person: Mike Patterson

Anticipated Completion Date:

Corrective Action Planned: This finding refers to the ability of the Comptroller personnel to develop ad hoc reports from production databases and historical files. The ability of those personnel to develop those reports is necessary and will not be restricted.

REF NO: 04-345-013IT

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) 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: 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.

Effect: Increase risk of unauthorized, undetected data manipulation or loss. An internal control structure incapable of monitoring and reporting the effectiveness of the established controls.

Recommendation: We recommend management establish a proper segregation of duties within the information services division. 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

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- Staffing levels and key personnel
- Organizational positioning of security, quality and internal control functions

Management's Corrective Action Plan

Contact Person: David Ooten

Anticipated Completion Date:

Corrective Action Planned: TSD responds to requests for changes in these systems through chain of command. A log of requests and actions is kept by TSD documenting these changes. Weekly reconciliation provides the opportunity to examine the systems at this level.

REF NO: 04-345-018

STATE AGENCY: Department of Transportation

FEDERAL AGENCY: Department of Transportation

CFDA NO: 20.205

FEDERAL PROGRAM NAME: Highway Planning and Construction

CONTROL CATEGORY: Procurement

QUESTIONED COSTS: \$-0-

Criteria: Oklahoma State Statute 61 O.S. 2001 § 104 states:

All proposals to award public construction contracts shall be made equally and uniformly known by the awarding public agency to all prospective bidders and the public in the following manner:

1. Notice thereof shall be given by publication in a newspaper of general circulation and published in the county where the work, or the major part of it, is to be done, such notice by publication to be published in two consecutive weekly issues of said newspaper, with the first publication thereof to be at least twenty (20) days prior to the date set for opening bids; and
2. Notice thereof shall be sent to trade or construction publications for their use and information whenever the estimated cost of the contract exceeds Fifty Thousand Dollars (\$50,000.00); provided however, that this section shall not be construed as requiring the publication of said notice in such trade or construction publication.

Condition: During testwork on 61 Project files, we noted that eight, or 13 percent, did not contain the required newspaper advertisement, which serves as public notification. Further, upon request, the documentation could not be obtained from ODOT personnel.

Effect: We were unable to determine whether or not bids had been advertised as required in 61 O.S. 2001 § 104 for all of the projects in our sample.

Recommendation: We recommend that Department of the Office Engineer ensure all proposals for construction contracts are made equally and uniformly known to the public and all prospective bidders as required by 61 O.S. 2001 § 104. Further, we recommend that the Department follow established policies and procedures to ensure that copies of notifications are retained in the project files.

Management's Corrective Action Plan

Contact Person: Jack Stewart, Office Engineer

Anticipated Completion Date:

Corrective Action Planned: A tracking system is in place that documents when notifications are submitted to the Oklahoma Press Association for publication and when copies of notices are received. It is unknown why eight project files did not contain copies of notices. This office will be more diligent at ensuring notices are properly filed.

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REF NO: 04-345-020
STATE AGENCY: Department of Transportation
FEDERAL AGENCY: Department of Transportation
CFDA NO: 20.205
FEDERAL PROGRAM NAME: Highway Planning and Construction
CONTROL CATEGORY: Other
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.

Condition: The Department is not closing projects within one year of construction completion. We noted that 1,522 federally participating projects had not claim activity since July 1, 2003. The final voucher for these projects has not been prepared as of June 30, 2004.

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: Mike Patterson

Anticipated Completion Date: N/A

Corrective Action Planned: The Department continues to strive to meet the expectations of the Federal Highway Administration (FHWA) as it relates to managing project funding. Various areas of the agency are impacted by this audit condition, and also by the recommendation. The Assistant Director of Finance has expanded the scope of project monitoring to provide additional success in funds management through project closure.

Department of Veterans Affairs

REF NO: 04-650-003
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 #40-020, FAI #40-023
FEDERAL AWARD YEAR: 2004
CONTROL CATEGORY: Davis-Bacon Act
QUESTIONED COSTS: \$-0-

Criteria: 29 CFR § 5.5 states in part:

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, . . . and which is subject to the labor standards provisions of any of the acts listed in § 5.1, the following clauses:

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(a)(3)(ii)(A)...The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the...Oklahoma Department of Veteran Affairs...Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor...

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 specifications, the Davis-Bacon and Copeland Acts Compliance Requirements... 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...

Condition: During testing of contractor and subcontractors' certified weekly payrolls for projects FAI #40-016, FAI #40-020, and #40-023, from July 1, 2003 through June 30, 2004, the exact time of submission to the Department of Veterans Affairs either could not be determined or if determined, the payrolls were not submitted within the time period required by the above-mentioned Code of Federal Regulation and Standard Operating Procedure.

Effect: The Oklahoma Department of Veterans Affairs is not in compliance with both the Davis-Bacon Act compliance requirements contained in the Code of Federal Regulations and the agency's internal policies and procedures.

Recommendation: We recommend the Oklahoma Department of Veterans Affairs ensure the general contractor and subcontractors' certified weekly payrolls are submitted weekly as required by the Code of Federal Regulation and the agency's internal policies and procedures.

Management's Corrective Action Plan

Contact Person: James Calkins, Comptroller

Anticipated Completion Date:

Corrective Action Planned:

Agency Response: The agency disagrees with the finding.

The agency believes that it is the Department of Central Services (DCS) who maintains title to the facility and who oversees the construction process. Furthermore, it is DCS and not the state agency that determines what provisions and language are inserted and it is DCS who has the authority to enforce the provisions contained in the contract. It seems unreasonable to hold this agency responsible for enforcing contract obligations for which it has no authority to change, modify, or enforce.

REF NO: 04-650-004

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, 40-018, 40-020, 40-023

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Reporting, Cash Management

Criteria: OMB Circular A-133, 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

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

Condition: During our testing of the SF-271 Reports submitted for federal reimbursement during July 1, 2003 through June 30, 2004, we noted nine (9) of the twelve (12) Reports included expenditures in the federal reimbursement request amount which were outside the 'specified time covered'.

Effect: The disbursements reported on the SF-271 do not accurately reflect the total disbursements for the time period covered by the report. In addition, the SF-271 reports submitted to the United States Department of Veterans Affairs may include the same claims in more than one federal reimbursement request amount. However, the results of our test work did not indicate that this had occurred.

Recommendation: We recommend the agency implement controls to ensure that expenditures in the federal reimbursement request amount are within the specified time period covered to reduce the risk of including expenditures in more than one request.

Management's Corrective Action Plan

Contact Person: James Calkins, Comptroller

Anticipated Completion Date:

Corrective Action Planned:

Agency Response: The agency concurs with the finding but disagrees with the conclusion.

The problem is the State accounting system ("Core") does not support multi year projects. This problem is being addressed by implementing the PeopleSoft projects module but this has not been accomplished yet. The proposed system does not support projects and the SEFA report that was generated in the audit year was inaccurate. The claims processing system in the audit year was dysfunctional and proved to be problematic. The system being used at the time of the audit was not a great solution. It had many flaws. It had a data sheet where expenditures were being recorded and the expenditures associated with a particular request for reimbursement were being identified. Because of an attempt to have a monthly report generated the spreadsheet became complicated to the point where it was very difficult to keep in balance. We have replaced this system in 2005 with another spreadsheet solution and attempted to replace it in 2004, but were unable to implement an alternative solution for the following reasons.

1. We were barred by OSF of purchasing a new internal accounting system, and forced to implement ICS and then (CORE). If we had of purchased an internal accounting system we would have purchased one that would have supported projects.
2. We could not go to a third party solution due to the time and expenditure trying to process claims and purchase orders in the (CORE), all of our time was spent trying to get simple claims to pay and purchase orders processed. Conversion to a new system at this time was impossible.
3. We could not follow the auditors recommendation because it would increase our audit risk not decrease it.

The agency believes that under the current conditions, the agency has implemented the controls necessary to reasonably ensure that all expenditures in the federal reimbursement request amount are with the specified time period.

REF NO: 04-650-007

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 #40-020, FAI #40-023

FEDERAL AWARD YEAR: 2004

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CONTROL CATEGORY: Davis-Bacon Act
QUESTIONED COSTS: \$-0-

Criteria: 29 CFR § 5.5 states in part:

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, . . . and which is subject to the labor standards provisions of any of the acts listed in § 5.1, the following clauses:

(a)(3)(ii)(A)...The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the...Oklahoma Department of Veteran Affairs...Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor...

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 specifications, the Davis-Bacon and Copeland Acts Compliance Requirements... 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...

Condition: General Contractors and subcontractors contracts for projects FAI #40-020 and #40-023, as well as the General Contractor agreement for FAI #40-016, did not contain the requisite contractual language as set forth in 29 CFR § 5.5 (a)(3)(ii)(A). While the Oklahoma Department of Central Services is the agency charged with writing contract provisions as they relate to state construction projects, the Oklahoma Department of Veterans Affairs is ultimately responsible for compliance with the requirements applicable to this grant.

Effect: The Oklahoma Department of Veterans Affairs is not in compliance with both the Davis-Bacon Act contained in the Code of Federal Regulations and its internal policies and procedures.

Recommendation: We recommend the Oklahoma Department of Veterans Affairs continue to work in conjunction with the Oklahoma Department of Central Services to ensure contracts between the State and general contractors as well as contracts between general contractors and subcontractors are written in conformity with the Davis-Bacon Act.

Management's Corrective Action Plan

Contact Person: James Calkins, Comptroller

Anticipated Completion Date:

Corrective Action Planned:

Agency Response: The agency disagrees with the finding. The agency believes that it is the Department of Central Services (DCS) who maintains title to the facility and who oversees the construction process. Furthermore, it is DCS and not the state agency that determines what provisions and language are inserted and it is DCS who has the authority to enforce the provisions contained in the contract. It seems unreasonable to hold this agency responsible for enforcing contract obligations for which it has no authority to change, modify, or enforce.

REF NO: 04-650-008

STATE AGENCY: Department of Veterans Affairs

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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 and FAI #40-023

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Davis-Bacon Act

QUESTIONED COSTS: Unknown

Criteria: 29 CFR § 5.5 states in part:

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, . . . and which is subject to the labor standards provisions of any of the acts listed in § 5.1, the following clauses:

(a)(1)(i) All laborers and mechanics employed or working upon the site of the work . . . will be paid . . . the full amount of wages . . . computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

(a)(1)(ii)(A) The contracting officer shall require that any class of laborers or mechanics, including helpers, which is not listed in the wage determination and which is to be employed under the contract shall be classified in conformance with the wage determination.

(a)(3)(i) Payrolls and basic records . . . shall be maintained by the contractor . . . Such records shall contain . . . the name . . . his or her correct classification . . .

(a)(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 and shall certify the following:

(1) That the payroll for the payroll period contains the information required to be maintained under § 5.5(a)(3)(i) of Regulations, 29 CFR Part 5 and that such information is correct and complete;

(3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into 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 specifications, the Davis-Bacon and Copeland Acts Compliance Requirements... 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.

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Condition: During testing of contractor and subcontractors weekly payrolls from July 1, 2003 through June 30, 2004, we noted the following:

Projects FAI #40-016 and FAI #40-023

- Fifteen (15) instances of thirty-seven (37) laborers tested for FAI #40-016 and four (4) instances of thirty-two (32) laborers tested for FAI #40-023 were noted in which laborers' classification on the weekly payrolls were not listed in the Secretary of Labor's computed wage rate determination. This determination reflects a lack of compliance with 29 CFR § 5.5 (a)(1)(ii)(A) and 29 CFR § 5.5 (a)(3)(i).
- One (1) instance of thirty-seven (37) laborers tested for FAI #40-016 and one (1) instance of thirty-two (32) laborers tested for FAI #40-023 were noted in which the laborers' classifications were omitted on the weekly payrolls. This determination reflects a lack of compliance with 29 CFR § 5.5 (a)(3)(i).
- One subcontract for both projects was selected and tested. It was noted for each subcontract that the wage determination of the Secretary of Labor was not attached to the subcontracts. This determination reflects a lack of compliance with 29 CFR § 5.5 (a)(1)(i).

Project FAI #40-023

- Three (3) instances of thirty-two (32) laborers tested were noted in which wages per hour as listed on weekly payrolls were below the Secretary of Labor computed wage rate determination. This determination reflects a lack of compliance with 29 CFR § 5.5 (a)(1)(i), (a)(3)(ii)(B)(1), (3)

Effect: The Oklahoma Department of Veterans Affairs is not in compliance with both the Davis-Bacon Act contained in the Code of Federal Regulations and its internal policies and procedures.

Recommendation: We recommend the Oklahoma Department of Veterans Affairs review payroll certifications and wage rates for compliance and promptly initiate action through appropriate authorities for the prompt resolution of any discovered deficiencies in compliance as outlined in its internal policies and procedures.

Management's Corrective Action Plan

Contact Person: James Calkins, Comptroller

Anticipated Completion Date:

Corrective Action Planned:

Agency Response: The agency disagrees with the finding.

The agency believes that it is the Department of Central Services (DCS) who maintains title to the facility and who oversees the construction process. Furthermore, it is DCS and not the state agency that determines what provisions and language are inserted and it is DCS who has the authority to enforce the provisions contained in the contract. It seems unreasonable to hold this agency responsible for enforcing contract obligations for which it has no authority to change, modify, or enforce.

Summary Schedule of Prior Findings

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Summary Schedule of Prior Findings

Note: Schedule is presented alphabetically by state agency.

Department of Central Services

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: Corrected.

Finding No: 03-580-002

CFDA: 39.003

Federal Agency: General Services Administration

Control Category: Special Tests and Provisions-Inventory

Finding Summary: The Surplus Property Division did not perform an annual inventory count for fiscal year 2003.

Status: Corrected.

Finding No: 03-580-003

CFDA: 39.003

Federal Agency: General Services Administration

Control Category: Special Tests and Provisions-Fair and Equitable Distribution and Fees

Finding Summary: The Department is not consistently following their State Plan of Operation relating to service charges assessed.

Status: Not Corrected. See current year finding 04-580-006.

Finding No: 03-580-004

CFDA: 39.003

Federal Agency: General Services Administration

Control Category: Eligibility

Finding Summary: Appropriate documentation was not maintained in various eligibility files.

Status: Partially Corrected. See current year finding 04-580-001.

Finding No: 03-580-005

CFDA: 39.003

Federal Agency: General Services Administration

Control Category: Special Tests and Provisions-Inventory

Finding Summary: During review of fifty-five inventory items received for fiscal year 2003, we noted twelve items had incorrect or incomplete documentation.

Status: Corrected.

Finding No: 03-580-006

CFDA: 39.003

Federal Agency: General Services Administration

Control Category: Special Tests and Provisions-Compliance and Utilization

Finding Summary: Thirteen items donated did not have either an in-use form from the donee or a physical compliance check performed within one year of receipt.

Status: Corrected.

Department of Education

Finding No: 96-265-003

CFDA: All Federal Programs

Federal Agency: Department of Education

Questioned Costs: \$6,200,000

Summary Schedule of Prior Findings

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: 03-265-003, 02-265-006, 02-265-007

CFDA: 84.010

Federal Agency: Department of Education

Control Category: Subrecipient Monitoring

Finding Summary: Department policy states each LEA will be monitored once every five years. During testing, it was noted 44 of 72 LEA's had not received a review in the last five years. We also noted 7 of the 72 LEA's had not received follow-up by the Department to ensure corrective action was taken on deficiencies noted during the monitoring process.

Status: Not Corrected. Title I agrees that some districts have not been monitored in the last five years and has designated a target date of June 30, 2005 for monitoring those districts. The proposed purchase of laptop computers that the program directors can take on the monitoring visits this year will allow more efficient completion of this process. The Department policy is that follow-up should be completed within 30 days. Title I will ensure that future initial monitoring notices are sent to districts prior to June 30.

Finding No: 03-265-006

CFDA: 84.367

Federal Agency: Department of Education

Control Category: Subrecipient Monitoring

Finding Summary: The Department does not have adequate monitoring procedures to assure compliance with applicable Federal requirements and that performance goals are being achieved.

Status: Not Corrected. Staff of the Title II-A office agree to implement the monitoring plan for this program. Titles II-A staff agree that the FY 2004 District Compliance Reviews must be reviewed and approved by the Title II-A Compliance Officer. Staff intend to increase the number of districts reviewed annually as is necessary and reasonable to ensure district compliance with applicable Federal program requirements and to ensure that performance goals are being achieved.

Finding No: 03-265-007

CFDA: 84.367

Federal Agency: Department of Education

Control Category: Eligibility

Finding Summary: The Department did not maintain fiscal year 2003 student data used to determine the calculation of each LEA's allocated portion of excess funds.

Status: Corrected.

Finding No: 03-265-010

CFDA: 84.027

Federal Agency: Department of Education

Control Category: Earmarking

Finding Summary: The Department expended only \$28,133 of the \$1,366,691 minimum amount required to be expended for capacity building.

Status: Corrected.

Finding No: 03-265-011

CFDA: 84.027, 84.173

Federal Agency: Department of Education

Control Category: Level of Effort, Maintenance of Effort

Summary Schedule of Prior Findings

Finding Summary: The Department did not reduce funding for LEA's that did not meet the required level of effort/maintenance of effort.

Status: Partially Corrected. Special Education Services staff along with Financial Accounting Staff met with the Deputy State Superintendent, and the auditor regarding Maintenance of Effort (MOE) in November of 2004. Immediately following the meeting, written procedures were put in place regarding MOE on November 8, 2004.

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: Corrected.

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: Corrected.

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: Corrected.

Finding No: 03-290-003

CFDA: 17.225

Federal Agency: Department of Labor

Control Category: Reporting

Finding Summary: The data used to prepare the ETA 227 Overpayment Detection and Recovery Activities report is computer generated and not reconciled to an independent source.

Status: Corrected.

Finding No: 03-290-013

CFDA: Various

Federal Agency: Department of Labor

Control Category: Other

Finding Summary: The security administration functions are performed by several people. The security duties are in addition to their other job responsibilities.

Status: No longer valid – Finding reported in error in prior year.

Finding No: 03-290-015

CFDA: 173225, 17.258, 17.259, 17.260

Federal Agency: Department of Labor

Control Category: Other

Summary Schedule of Prior Findings

Finding Summary: During the walkthrough of the claims phone center, it was noted the Commission was utilizing an instant messaging (IM) application. Messages sent via IM are not scanned for viruses or archived. In addition, these messages cannot be monitored to maintain security of the system or logged to ensure completeness of data.

Status: Corrected.

Finding No: 03-290-018

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 reported data and support documentation.

Status: Corrected.

Finding No: 03-290-021

CFDA: 17.225

Federal Agency: Department of Labor

Control Category: Reporting

Finding Summary: The ETA 581 Contribution Operations Report is not reconciled to an independent source.

Status: Corrected.

Finding No: 03-290-024

CFDA: 17.225

Federal Agency: Department of Labor

Control Category: Cash Management

Finding Summary: The Commission is not drawing federal funds in accordance with the Treasury-State Agreement.

Status: Corrected.

Department of Health

Finding No: 02-340-002, 03-340-023

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 providers, we noted instances in which the required health and safety standards survey was not completed within the required 15-month time period.

Status: Corrected

Finding No: 03-340-001

CFDA: 93.268

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions – Control, Accountability and Safeguarding of Vaccine

Finding Summary: Adjustments made to the Inventory on Hand Report could not be traced back to supporting documentation.

Status: Corrected.

Finding No: 03-340-004

CFDA: 93.268

Federal Agency: Department of Health and Human Services

Control Category: Reporting

Finding Summary: The Department could not provide support documentation for the Annual Progress Report. In addition, there was no indication that the report had been reviewed or approved by program management.

Status: Corrected.

Summary Schedule of Prior Findings

Finding No: 03-340-006

CFDA: 93.283

Federal Agency: Department of Health and Human Services

Control Category: Subrecipient Monitoring

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

Status: Corrected.

Finding No: 03-340-009

CFDA: 93.268

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions – Monitoring For-Profit Subrecipients, Special Tests and Provisions-Record of Immunization

Finding Summary: We noted the record information for 5 out of 60 Quality Assurance Site Visit Forms did not match the information recorded in the Oklahoma State Immunization Information System.

Status: Corrected.

Finding No: 03-340-012

CFDA: 93.268

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions – Monitoring For-Profit Subrecipients, Special Tests and Provisions-Record of Immunization

Finding Summary: During testing of 60 Quality Assurance Site Visit Reports, we found the Department was not:

- following its policies and procedures for conducting Quality Assurance Site Visit follow-up;
- completing the Quality Assurance Site Visit forms;
- tracking subrecipients monitored each year.

Status: Partially corrected. A policy and procedure review by all staff conducting site visits was performed once last year. Other corrective actions planned were completed.

Finding No: 03-340-013

CFDA: 93.283

Federal Agency: Department of Health and Human Services

Control Category: Reporting

Finding Summary: We noted various exceptions during testing of the Bioterrorism Interim Progress Report for Budget Period Three.

Status: Corrected.

Finding No: 03-340-014

CFDA: 93.283

Federal Agency: Department of Health and Human Services

Control Category: Equipment and Real Property Management

Finding Summary: During testing of 52 equipment purchases, we noted 13 claims containing equipment items not entered into the agency's equipment database nor identified by a tag.

Status: Partially corrected. Procedures have been put in effect to attempt to insure that inventory tags are properly affixed to all equipment items where cost exceeds the threshold set forth by the Director of Central Purchasing.

Finding No: 03-340-020

CFDA: 93.268, 93.283

Federal Agency: Department of Health and Human Services

Control Category: Cash Management

Finding Summary: During testing of 18 draws, 13 did not appear to be made for the agency's immediate cash disbursement needs and were held in excess of three working days.

Status: Corrected.

Summary Schedule of Prior Findings

Finding No: 03-340-1IT

CFDA: 93.268

Federal Agency: Department of Health and Human Services

Control Category: Other

Finding Summary: The Department's disaster recovery plan does not appear to be complete.

Status: Not Corrected. OSDH is gathering the information necessary for the creation of a Continuation of Business Plan (which includes disaster recovery) and will have it in place by April 20, 2005, as required by HIPAA.

Finding No: 03-340-2IT

CFDA: 93.268

Federal Agency: Department of Health and Human Services

Control Category: Other

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

Status: Not corrected. OSDH is drafting security policies and will have appropriate security policies and procedures in place by April 20, 2005, as required by HIPAA.

Finding No: 03-340-3IT

CFDA: 93.268

Federal Agency: Department of Health and Human Services

Control Category: Other

Finding Summary: Data communications with remote sites are not encrypted and are subject to interception.

Status: Not Corrected. OSDH will have encryption between all remote offices and the central office in place by April 20, 2005. We are in the process of procuring an e-mail encryption appliance which will also be in use by April 20, 2005. (We do not plan to encrypt video conferencing.)

Oklahoma Health Care Authority

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: No longer valid. Finding was reported in error.

Finding No: 03-807-001

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions-Utilization Control and Program Integrity

Finding Summary: The QIO was unable to perform inpatient hospital retrospective reviews for a portion of the fiscal year due to the Authority's fiscal agent being unable to provide them with an accurate tape of all inpatient hospital claims.

Status: Corrected

Finding No: 03-807-002

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Cash Management

Finding Summary: We noted the Authority was not in compliance with the Treasury-State Agreement in regards to its administrative draws.

Summary Schedule of Prior Findings

Status: Not Corrected. The Treasury-State agreement did not get amended during SFY 04 as planned. OHCA requested May 13, 1999 that our CMIA agreement be changed to reflect our procedure of drawing our administrative monies based on actual payment of the prior month. This request was through the Office of State Finance (OSF) was not done that year so we again requested our CMIA agreement be changed September 4, 2003 which would have amended or FY 2003 and FY 2004 agreements. OSF processed our changes and sent the request to the Treasury Department. The Treasury Department delayed acting upon this request so FY 2004 agreement did not get changed. FY 2005 agreement has been corrected

Finding No: 03-807-005

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions-Inpatient Hospital and Long Term Care Facilities

Finding Summary: We noted the long term care facility auditor did not provide an explanation of the actual process/criteria used to make sample selections. In addition, we noted several facilities had not been audited in recent years.

Status: No longer valid. Cost reports no longer have to be audited.

Finding No: 03-807-011

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Allowable Costs/Cost Principles

Finding Summary: We noted six labelers who submitted their drug rebate payments late and had not been billed for interest.

Status: Partially Corrected. Programming of the special "Interest Project" is in the testing phase and the required letters have been mailed or in the production phase. The completion of the corrective action plan for the finding recommendation should be completed by July 31, 2004

Finding No: 03-807-013

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed

Finding Summary: We noted 189 of 405,195 claims were billed for children; however, the procedure code was for an adult.

Status: Not Corrected. Due to higher priorities for system changes, age, gender and diagnosis/procedure code edits were not implemented during SFY 04. This will remain a goal of the agency. If not attained, post payment reviews will be conducted.

Finding No: 03-807-014

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Allowable Costs/Cost Principles

Finding Summary: We noted allocation percentages used to allocate administrative costs did not agree to supporting documentation.

Status: Corrected

Finding No: 03-807-015

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed

Finding Summary: We noted five possible duplicate nursing facility claims.

Status: Not Corrected. A post payment review of long term care claims will be performed and appropriate recoveries will be made.

Finding No: 03-807-017

CFDA: 93.778

Summary Schedule of Prior Findings

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed

Finding Summary: We noted seven of 26 long term care facilities were paid either in total or in part using an incorrect revenue code.

Status: Corrected

Finding No: 03-807-018

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Allowable Costs/Cost Principles

Finding Summary: We noted the random moment time study process was not functioning properly.

Status: Corrected

Finding No: 03-807-019

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed

Finding Summary: We selected a sample of 72 pharmacy claims and were unable to verify the drugs had been dispensed for five of the claims.

Status: Not Corrected. The OHCA is developing a provider education letter to be sent to pharmacy providers to further notify them that signature logs are required. Also, the agency is taking this subject under review to determine if changed to OHCA policy are warranted.

Finding No: 03-807-022

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed

Finding Summary: During a review of medical records, we noted various exceptions. As a result, the Authority may be paying for procedures not performed, or not consistent with the recipient's diagnosis.

Status: Partially Corrected. For some of the claims, recoupments have been made. However, for the remaining claims we are performing further investigation and if deemed necessary funds will be recouped.

Finding No: 03-807-023

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions-Provider Eligibility

Finding Summary: During testing of 44 providers, were unable to locate in the provider file a current license or a Provider Information Records form for 16 providers. However, through the appropriate licensing boards, we were able to determine all 16 providers were licensed during the fiscal year.

Status: No longer valid. Finding was reported in error in prior years.

Finding No: 03-807-024

CFDA: 93.778

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed

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

Status: Not Corrected. Maintenance change orders have been created to research the issues discussed in the finding.

Department of Human Services

Finding No: 99-830-028, 03-830-024

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

Summary Schedule of Prior Findings

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. Progress has been made. Cost allocation is now hosted on the AS-400 and by necessity, in-depth documentation of the process has occurred. Furthermore, the Finance Division is in the process of documenting policy & procedures for all unit within the Division. This process is quite lengthy & will take some time to complete properly. It is anticipated that this project will be completed by the end of calendar year 2005.

Finding No: 00-830-021, 01-830-028, 02-830-014, 03-830-003

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. The same database used for federal reporting purposes will be supplied to the State Auditors during the next audit cycle. Therefore, the number of discrepancies should significantly decline.

Finding No: 01-830-019, 02-830-003, 03-830-001

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 warranting further action. We have determined that this finding no longer warrants any further action based on reasons stated in Circular A-133. The reasons are (1) Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse, (2) The federal agency or pass-through entity is not currently following-up with the auditee on the audit finding, and (3) A management decision was not issued.

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: Not corrected. The immediate short-term plan is for CSED to provide a weekly report of TANF cases with non-cooperation. The report will be provided to the county office for the appropriate sanctioning process. FSSD staff will monitor this report to verify that appropriate case action is taken. Statewide training on this new process was completed February 11, 2005 via satellite downlinks and face-to-face quarterly training will be completed in the month of March 2005. The long-term plan is the development of an automated process for TANF non-cooperation with CSED. FSSD has included this programming/process as a priority project for the division and the request will be elevated to a priority ranking for Data Services Division. It is estimated this project will be completed by the end of the first quarter of FY06.

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

Summary Schedule of Prior Findings

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. The immediate short-term plan is for CSED to provide a weekly report of TANF cases with non-cooperation. The report will be provided to the county office for the appropriate sanctioning process. FSSD staff will monitor this report to verify that appropriate case action is taken. Statewide training on this new process was completed February 11, 2005 via satellite downlinks and face-to-face quarterly training will be completed in the month of March 2005. The long-term plan is the development of an automated process for TANF non-cooperation with CSED. FSSD has included this programming/process as a priority project for the division and the request will be elevated to a priority ranking for Data Services Division. It is estimated this project will be completed by the end of the first quarter of FY06.

Finding No: 02-830-020, 03-830-008

CFDA: 93.568

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed and Unallowed, Eligibility, Reporting

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: Corrected

Finding No: 03-830-002

CFDA: 93.568

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed, Eligibility

Finding Summary: The LIHEAP Handbook does not outline or include the policies and procedures for the Cooling program.

Status: Corrected.

Finding No: 03-830-004

CFDA: 93.658

Federal Agency: Department of Health and Human Services

Control Category: Reporting

Finding Summary: We were unable to obtain documentation for foster care clothing voucher expenditures included in the *Foster Care and Adoption Assistance Financial Report*.

Status: Not corrected. The OKDHS Finance Systems Unit plans to follow the same routine for Foster Care Clothing Vouchers as followed for Foster Care Payments. Specifically, file information will be captured and isolated for the each reporting period. Adjustments to the file will be made but the integrity of the original reports will be not be jeopardized.

Finding No: 03-830-006

CFDA: 93.575, 93.596

Federal Agency: Department of Health and Human Services

Control Category: Eligibility

Finding Summary: While testing 38 case files, we noted four files did not contain an application for all or a portion of the period in which daycare services were received. In addition, we noted three cases in which the client did not pay the full co-pay amount, resulting in the Department overpaying its portion.

Status: Not corrected. FSSD and OFO will issue a joint statewide memo quoting the policy regarding applications for child care benefits and giving guidance. We will also provide a reminder at each one of the up-coming statewide Quarterly Training Sessions reminding staff of this policy. The Child Care Web page will have an alert regarding application policy added by April 15, 2005. FSSD Child Care Section will issue a "reminder" regarding application policy on the "Tip of the Fortnight" in April, 2005

Finding No: 03-830-009

CFDA: 93.568

Summary Schedule of Prior Findings

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed, Reporting

Finding Summary: During testing of 38 cases, we noted one case appeared to have received an incorrect benefit type and another case file could not be located.

Status: Not corrected. Instruct all counties to review their procedures for filing LIHEAP applications in a timely manner and to assure that the procedure is followed.

Finding No: 03-830-010

CFDA: 93.575, 93.596

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed, Eligibility

Finding Summary: During testing of 38 case files, we noted six cases in which documentation could not be located to support the income amount listed on the DSD mainframe.

Status: Corrected

Finding No: 03-830-012

CFDA: 93.563, 93.575, 93.778

Federal Agency: Department of Health and Human Services

Control Category: Allowable Costs/Cost Principles

Finding Summary: The Department does not appear to be allocating building acquisition costs in accordance with OMB Circular A-87.

Status: Not Corrected. OKDHS received a letter (dated 2/04/05) from the Division of Cost Allocation (DCA) relating to a similar finding in FY 03 (03-830-012). In part, the letter outlines the Federal position and demands repayment of an amount computed by DCA. Moreover, the letter constituted the initial notification of a claim by the United States Government and did not allow for compromise or negotiations. Accordingly, OKDHS is appealing this matter to the Grants Appeals Board and the outcome of this process is unknown at the present time. OKDHS would have preferred a less severe approach to resolving this matter. Nonetheless, OKDHS has started the appeal process since it is apparently the only avenue open to resolve this matter.

Finding No: 03-830-013

CFDA: 93.568

Federal Agency: Department of Health and Human Services

Control Category: Eligibility, Activities Allowed or Unallowed

Finding Summary: The Department does not have a policy or procedure for verifying the income of certain individuals applying for LIHEAP.

Status: Not corrected. OKDHS will require a completed checklist for all walk in "N" cases which includes checking one or more income screens.

Finding No: 03-830-016

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Eligibility

Finding Summary: During testing of 38 cases, we noted three cases in which no TANF application or review was found for the time period tested. In addition, we noted one case where the application was denied; however, the recipient still received benefits.

Status: Not corrected. The county offices and Field Liaisons have been contacted regarding the lack of application or review forms in the case records. Back to Basics sessions have been planned as well as training to be presented at the state wide quarterly training in March 2005.

Finding No: 03-830-017

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Eligibility

Summary Schedule of Prior Findings

Finding Summary: During testing of 10 cases, we noted one case where the client was approved for TANF even though the client had already received TANF for 60 months. In addition, we noted one client received benefits for more than 60 months without applying for an extension.

Status: Not corrected. Currently in place are procedures that alert the client and the county worker when the client's time limit for TANF is imminent. During the 57th month of receipt of TANF, a notice is issued to the client advising them of the approaching time frame and the steps to follow. There is a County Worker Activity (CWA) report that lists the case number and the name of the client(s) who have received 57 months of TANF. The client's name and case number remains on this report until the TANF cash benefit is terminated or approved for a hardship extension. During the Supervisor's Conference held August 2004, training was completed regarding the process a county worker is to follow for TANF cases that are approaching the 60 month time limit. Also included in the training were the appropriate procedures to be used when a client requests or does not request a hardship extension.

Finding No: 03-830-018

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Eligibility

Finding Summary: During testing of 112 cases that received both TANF and Diversion Assistance, we noted three cases that received both types of assistance during the same month. In addition, we noted five cases that received both types of assistance in the same year without documentation of approval from the county director.

Status: Not corrected. The county offices that approved TANF and Diversion benefits for the same month have been contacted. The county offices that issued TANF benefits less than a year after Diversion Assistance benefits issued 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 and subsequent training is planned for March 2005.

Finding No: 03-830-019

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Reporting

Finding Summary: During testing of 24 case files reported on the Department's ACF-199 report, we noted four cases coded as receiving child care benefits; however, the cases did not receive child care benefits.

Status: Not corrected. FSSD modified report number ACF-199, Field 17, "Receives Subsidized Child Care" to correct the previous data inaccuracy. DSD changed the source of the data retrieval. This data source was changed in March 2004; therefore, data from the December 2003 would still contain inaccuracies. It is noted all the exception cases are from the final calendar quarter of 2003, first fiscal quarter of FFY 2004. The change in the data source took effect the first calendar quarter of 2004, second fiscal quarter of FFY 2004. This error should not recur.

Finding No: 03-830-020

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions-Adult Custodial Parent of Child Under Six When Child Care Is Not Available

Finding Summary: In five of 45 cases tested, we could not locate in the case notes an indication that the case was closed due to a refusal or failure to participate without good cause.

Status: Not corrected. Back to Basics training regarding the procedures to follow when TANF benefits are to be terminated when a participant fails or refuses to cooperate with TANF Work requirements has been mandated to be completed by April 1, 2005 for all TANF units in the appropriate counties. Training will be presented on this subject during the statewide quarterly training March 2005.

Finding No: 03-830-021

CFDA: 93.558

Summary Schedule of Prior Findings

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions-Child Support Non-Cooperation

Finding Summary: In 55 cases tested, we noted eight cases where we could not verify that the case was reduced or denied. In addition, we noted five cases where benefits were reduced or denied, but not within a reasonable timeframe (30 days).

Status: Not corrected. The immediate short-term plan is for CSED to provide a weekly report of TANF cases with non-cooperation. The report will be provided to the county office for the appropriate sanctioning process. FSSD staff will monitor this report to verify that appropriate case action is taken. Statewide training on this new process was completed February 11, 2005 via satellite downlinks and face-to-face quarterly training will be completed in the month of March 2005. The long-term plan is the development of an automated process for TANF non-cooperation with CSED. FSSD has included this programming/process as a priority project for the division and the request will be elevated to a priority ranking for Data Services Division. It is estimated this project will be completed by the end of the first quarter of FY06.

Finding No: 03-830-022

CFDA: 93.558

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions-Child Support Non-Cooperation

Finding Summary: We were unable to verify the non-cooperation cases received by the Child Support Enforcement Division were reported to the PS-2 system for resolution.

Status: Not corrected. There is an annual report produced by CSED that lists all the cases determined to be non-cooperation, however the report was not available until recently and did not reflect when cooperation was determined on a particular case. To amend this process to produce more timely information the immediate short-term plan is for CSED to provide a weekly report of TANF cases with non-cooperation. The report will be provided to the county office for the appropriate sanctioning process. FSSD staff will monitor this report to verify that appropriate case action is taken. Statewide training on this new process was completed February 11, 2005 via satellite downlinks and face-to-face quarterly training will be completed in the month of March 2005. The long-term plan is the development of an automated process for TANF non-cooperation with CSED. FSSD has included this programming/process as a priority project for the division and the request will be elevated to a priority ranking for Data Services Division. It is estimated this project will be completed by the end of the first quarter of FY06.

Finding No: 03-830-023

CFDA: 93.575, 93.596

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed

Finding Summary: We reviewed service/attendance records for 325 children at 38 day care providers and noted various exceptions.

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. The Department of Mental Health and Substance Abuse Services (DMHSAS) and Oklahoma Substance Abuse Services Alliance (OSASA) have negotiated a contract where OSASA would conduct independent peer reviews of subrecipients. OSASA is coalition of non-profit substance abuse treatment agencies and substance abuse prevention agencies. OSASA 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

Summary Schedule of Prior Findings

independent peer review requirements. OSASA completed development of the independent peer review format in 2003 and began voluntarily reviewing programs in December 2003. A statement of work has been developed between DMHSAS and OSASA ensuring compliance with 45 CFR §96.136. In Fiscal Year 2005, OSASA will conduct a total of fifteen independent peer reviews: ten (10) treatment subrecipients and five (5) prevention subrecipients. These subrecipients will be chosen by OSASA in a manner approved by DMHSAS that is in compliance with 45 CFR §96.136.

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.

Status: Partially Corrected. The Department of Mental Health and Substance Abuse Services (DMHSAS) monitors the activities of subrecipients in two ways. First, Provider Certification staff conducts verification of services for treatment programs with which ODMHSAS contract to ensure compliance with contractual provisions and to ensure that monies received from Department contracts and Federal awards are used for authorized purposes and in compliance with applicable laws, regulations and grant agreements. DMHSAS implemented procedure regarding Provider Certification's monitoring of subrecipients on January 26, 2004. Second, the Substance Abuse Services (SAS) Division monitors provider agencies' compliance with the provisions of the treatment contract and assess the appropriateness and effectiveness of the treatment services. DMHSAS expects to implement procedure regarding SAS's monitoring of subrecipients by the end of Fiscal Year 2005.

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 missing audit reports have been obtained. An agreed-upon procedure engagement has been completed on one subrecipient. Based on that engagement, the procedures for this type of engagement should be completed for a number of federal grants within the next two months.

Finding No: 02-452-008

CFDA: 93.959

Federal Agencies: 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: Not Corrected. Site visits will be performed on these two facilities.

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: Partially Corrected. Software is being modified to capture ICIS access attempts (authorized and non-authorized).

Finding No: 02-452-012

CFDA: 93.959

Summary Schedule of Prior Findings

Federal Agency: Department of Health and Human Services

Control Category: Other

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: Partially Corrected. Risk assessment was interrupted by a subsequent audit and the Peoplesoft Financial System implementation. The subsequent audit also found developer access to be deficient and recommended a complete separation of the Production Data from Test and Development areas. A complete risk assessment is still planned (anticipated completion October 1, 2004), but our internal action plan now consists of implementing a separate environment for Production and Test, with only developer access to the test system. Additional measures will be placed on the Test environment to assign developers to database roles that will secure developer access only to the areas of the data they need access to.

Process to separate Production and Test environments has begun. Hardware analysis is complete and hardware should be ordered by September 1, 2004. Migration of production programs and database should begin by January 1, 2005. Access roles and full implementation should be complete by July 1, 2005.

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: No longer valid. The Department has changed their financial system.

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: Partially Corrected. Network penetration testing has been scheduled and completed. Testing indicated a few possible vulnerabilities. Those vulnerabilities are in the process of being corrected.

Finding No: 03-452-001

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Other

Finding Summary: The Department does not have an IT strategic plan available for review. In addition, the Department does not have an IT steering committee to plan and direct the IT function or a quality assurance program to adequately review projects to ensure user requirements and agency standards are met.

Status: Partially Corrected. All actions planned are in progress the projected completion date is July 1, 2005

Finding No: 03-452-002

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Other

Finding Summary: The Integrated Client Information System does not have a separate development, testing, and production environment. The server housing the ICIS system is partitioned into development and production. Having two partitions on the same physical device increases the risk of unauthorized changes to the application or data.

Status: Partially Corrected. All actions planned are in progress. All actions here coincide with audit ref# 02-452-012. Suggest merging the two reference numbers. The projected completion date is July 1, 2005.

Summary Schedule of Prior Findings

Finding No: 03-452-005

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Subrecipient Monitoring

Finding Summary: The Department is not informing subrecipients of the CFDA title and number, program award name and number, or the name of the Federal agency.

Status: Corrected

Finding No: 03-452-006

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Subrecipient Monitoring

Finding Summary: Facilities receiving SAPT block grant funds have not received site-visits during fiscal year 2003. In addition, there are no written policy and procedures for monitoring prevention subrecipients.

Status: Partially Corrected

The Prevention Programs Coordinator was terminated as of July 23, 2004 and a Prevention Specialist resigned as of July 30, 2004. As a result of inadequate staffing and related personnel issues, the initial completion dates were not met. DMHSAS expects the procedure to be approved and in place by October 29, 2004. A calendar of monitoring site visits for prevention sub-recipients will be finalized by December 1, 2004. OMHDSAS has made necessary personnel changes in order to remedy this deficiency. Currently, the Substance Abuse Division's Prevention Section is pilot testing new procedures and as of September 7, 2004, the Prevention Section conducted one on-site review (8/30/2004) and have another site visit scheduled to occur before September 30, 2004. This will allow the Prevention Section make any revisions to the procedures prior to the October 29, 2004 deadline. The vacant Prevention Programs Coordinator and Prevention Specialist positions will be posted by November 1, 2004, the Substance Abuse Division hopes to have both positions filled no later than January 1, 2004. In the interim, the Oklahoma State Liaison with the CSAP's Southwest Center for the Application of Prevention Technologies, is providing technical assistance to the ODMHSAS and helping the Prevention Section more forward on this corrective action plan.

Finding No: 03-452-007

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Special Tests and Provisions-Independent Peer Review

Finding Summary: The Department has no assurance the peer reviews they are using to meet the five percent requirement are independent ore 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.

Status: Partially-Corrected. The Department of Mental Health and Substance Abuse Services (DMHSAS) and Oklahoma Substance Abuse Services Alliance (OSASA) have negotiated a contract where OSASA would conduct independent peer reviews of subrecipients. OSASA is coalition of non-profit substance abuse treatment agencies and substance abuse prevention agencies. OSASA 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 voluntarily reviewing programs in December 2003. A statement of work has been developed between DMHSAS and OSASA ensuring compliance with 45 CFR §96.136. In Fiscal Year 2005, OSASA will conduct a total of fifteen independent peer reviews: ten (10) treatment subrecipients and five (5) prevention subrecipients. These subrecipients will be chosen by OSASA in a manner approved by DMHSAS that is in compliance with 45 CFR §96.136.

Finding No: 03-452-008

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Activities Allowed or Unallowed

Summary Schedule of Prior Findings

Finding Summary: 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, the prevention expenditures are not direct services provided to a client.

Status: Not Corrected

The Prevention Programs Coordinator was terminated as of July 23, 2004 and a Prevention Specialist resigned as of July 30, 2004. As a result of inadequate staffing and related personnel issues, the initial completion dates were not met. Due to the vacant positions within the prevention section at ODMHSAS, the Substance Abuse Division will be hiring a contractor to help the Division develop a new policy and procedure for sub-recipient reporting, which will include requiring sub-recipients to submit proper supporting documentation for all prevention charges

Finding No: 03-452-009

CFDA: 93.959

Federal Agency: Department of Health and Human Services

Control Category: Subrecipient Monitoring

Finding Summary: Following review of 15 subrecipient audit reports we noted:

- Three facilities failed to submit their independent auditor's report in a timely manner.
- One auditor's report was not signed by the independent auditor.
- A formal and final review of all 15 facility's report had not been performed. However, ten had received a preliminary review.

Status: Not corrected. The Department is presently in the process of hiring an additional financial auditor. It is hoped that with the additional person, all audit reports will receive timely preliminary and final reviews. The reviews of the reports for fiscal years ended in 2003 should be completed by December 2004.

Department Of Rehabilitation Services

Finding No's: 00-805-005, 01-805-001, 02-805-001, 03-805-001

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. This is still a work in progress. Reports that had been identified on the legacy system were no longer relevant when the conversion to PeopleSoft occurred. The Agency has worked to identify the most timely and accurate reports available in the PeopleSoft system.

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: Corrected

Finding No: 02-805-008

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Allowable Costs/Cost Principles

Summary Schedule of Prior Findings

Finding Summary: The Department does not maintain certifications on employees charged directly (solely) to the program.

Status: Corrected

Finding No: 03-805-002

CFDA: 96.001

Federal Agency: Social Security Administration

Control Category: Cash Management

Finding Summary: The Department was unable to provide documentation to support that they were drawing for immediate cash needs.

Status: Not corrected. This is still a work in progress. Reports that had been identified on the legacy system were no longer relevant when the conversion to PeopleSoft occurred. The Agency has worked to identify the most timely and accurate reports available in the PeopleSoft system.

Finding No: 03-805-003

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Reporting

Finding Summary: We noted various items regarding the amounts reported on the SF-269 that may cause the amounts reported to not properly reflect the total cash disbursements for the quarter.

Status: Corrected

Finding No: 03-805-004

CFDA: 96.001

Federal Agency: Social Security Administration

Control Category: Reporting, Allowable Costs/Cost Principles

Finding Summary: We noted the costs for terminal leave was included on the Department's SSA-4513. In addition, the Department does not maintain certifications for employees charged solely to the program.

Status: Corrected

Finding No: 03-805-005

CFDA: 96.001

Federal Agency: Social Security Administration

Control Category: Reporting

Finding Summary: We noted the hours reported on the SSA-4514 report were misstated.

Status: Not corrected. DDD will continue its monthly review of the leave hours reported on the Unit Time Report to verify that they agree with the leave hours that are reported on the employees Daily Time Worksheets that are submitted to the DRS Payroll Unit. DDD proposes the implementation of two new procedures to insure that only active employees are shown on the Unit Time Report and the SSA-4514. DDD will printout and maintain copies of all emails submitted to the DDD Information Technology Department requesting that a terminated employee's name be removed from the Unit Time Report. DDD will also have our Human Resources Department audit all employees listed on the Unit Time Report at the end of each quarter prior to filing the SSA-4514 to insure that only active employees are listed on the report.

Finding No: 03-805-007

CFDA: 96.001

Federal Agency: Social Security Administration

Control Category: Reporting

Finding Summary: We were unable to verify the indirect costs reported on the Department's SSA-4513 report.

Status: Corrected

Finding No: 03-805-008

CFDA: 84.126

Federal Agency: Department of Education

Summary Schedule of Prior Findings

Control Category: Reporting

Finding Summary: The Department was unable to provide us with documentation to support the indirect costs reported on the RSA-2 report. In addition, we noted various discrepancies between costs reported on the RSA-2 and the SEFA. We also noted the payroll amount reported on the RSA-2 was not reconciled to the payroll costs per the Department's internal financial statements.

Status: Corrected

Finding No: 03-805-009

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Period of Availability

Finding Summary: During testing of 101 claims, we noted 11 claims were obligated against a prior year grant award by were paid with current year grant funds.

Status: Corrected.

Finding No: 03-805-010

CFDA: 84.126

Federal Agency: Department of Education

Control Category: Allowable Costs/Cost Principles

Finding Summary: We noted the Department included terminal leave when reporting personnel service costs for the fiscal year 2003 grant. In addition, we noted the Department does not maintain certifications for employees charged directly to the program.

Status: Corrected

Department Of Transportation

Finding No: 00-345-1IS

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Information Systems

Finding Summary: The Department does not have written policies and procedures regarding system security.

Status: Not corrected. TSD customer support priorities in response to ODOT's work program have not allowed this finding to be addressed with the current level of resources.

Finding No: 00-345-2IS, 01-345-037

CFDA: 20.205

Federal Agency: 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. TSD customer support priorities in response to ODOT's work program have not allowed this finding to be addressed with the current level of resources. TSD responds to requests for changes in these systems through chain of command. Weekly reconciliations provide the opportunity to examine the systems at this level.

Finding No: 01-345-023, 02-345-040, 03-345-046

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Davis Bacon Act

Finding Summary: Contractor payrolls were not present for each week worked.

Status: Corrected.

Finding No: 01-345-025, 02-345-035, 03-345-049

CFDA: 20.205

Federal Agency: Department of Transportation

Summary Schedule of Prior Findings

Control Category: Other

Finding Summary: The Department is not closing projects within one year of construction completion.

Status: Partially corrected. The Department continues to strive to meet the expectations of the Federal Highway Administration (FHWA) as it relates to managing project funding. Various areas of the agency are impacted by this audit condition, and also by the recommendation. The Assistant Director of Finance has expanded the scope of project monitoring to provide additional success in funds management through project closure.

Finding No: 01-345-038

CFDA: 20.205

Federal Agency: 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: Partially corrected. TSD continues to work with the Trns*port branch and with the software developer in developing direct transferring methods.

Finding No: 02-345-013

CFDA: 20.205

Federal Agency: 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: Corrected.

Finding No: 02-345-014, 03-345-002

CFDA: 20.205

Federal Agency: 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.

Status: Partially corrected. The capability of the current system does not allow for this process to be integrated automatically. TSD's tracking process provides for communication between TSD and the requesting Division upon completion for verification and a check on security issues.

Finding No: 02-345-023, 03-345-004

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Other

Finding Summary: The Department lacks segregation of duties within the change control process for the Financial Management System and 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. The personnel requirements necessary to correct these issues are not currently available to the Department.

Finding No: 02-345-024

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CFDA: 20.205

Federal Agency: 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: Corrected.

Finding No: 02-345-034

CFDA: 20.205

Federal Agency: 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: Does not warrant further action. We have determined that this finding no longer warrants any further action based on reasons stated in Circular A-133. The reasons are (1) Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse, (2) The federal agency or pass-through entity is not currently following-up with the auditee on the audit finding, and (3) A management decision was not issued.

Finding No: 02-345-038, 03-345-045

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Davis-Bacon Act

Finding Summary: Of the projects tested, not all of the files contained documentation that ten percent of employees were interviewed during the course of the project as required by the Control Directive.

Status: Partially corrected. ODOT Construction Control Directive # 971114 has been revised for FY2005. The revision should make the requirements more clear to the contractors, subcontractors, and ODOT inspectors.

Finding No: 03-345-007

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Other

Finding Summary: Controls over passwords on the mainframe and Oracle RDBMS are not adequate to ensure user passwords remain safe and secure.

Status: Not corrected. TSD customer support priorities in response to ODOT's work program have not allowed a regular periodic review process to be implemented with the current level of resources.

Finding No: 03-345-014

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Other

Finding Summary: Various security risks were noted regarding the Trns*port system.

Status: Partially corrected. Implementation of SiteManager has begun. This software suite was noted to address some of the audit findings.

Finding No: 03-345-017

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Other

Finding Summary: Review of the process to transfer data from the Financial Management System to the Project Funding System and subsequent creation of the weekly billing to FHWA found the procedures inadequate in ensuring the transfer was complete.

Status: Not Corrected. ODOT has had for some the process and procedures in place to reconcile the project funding system (PFS) to the systems that feed expenditure. Those systems are the financial management system (FMS), the equipment system, the time and attendance system (A-), and the lab cost

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system. When and if, costs are not accepted by PFS from the other systems, a process is available to ensure that any valid costs are corrected and loaded into PFS for the capturing of projects cost and possible billing to a partnering entity. During the status meeting with the Auditor it was suggested that a resolution to this audit finding would be to provide automated reconciliations in PFS. While this feature is also preferred by ODOT, it is not an available option at this time.

Finding No: 03-345-018

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Other

Finding Summary: There is no documented, approved, and tested disaster recovery plan or no alternative processing procedures to ensure the continuance of state business in the event of a disaster.

Status: Not corrected. Funding for the development of the disaster recovery plan is being considered.

Finding No: 03-345-020

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Other

Finding Summary: The Department does not document procedures to ensure disbursements for active projects are billed to FHWA in a timely manner.

Status: Corrected.

Finding No: 03-345-021

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Other

Finding Summary: End users within the Comptroller Division have direct access to change/modify production reporting through TSO. This ability jeopardizes the integrity of financial information.

Status: Not corrected. This finding refers to the ability of the Comptroller personnel to develop ad-hoc reports from production databases and historical files. The ability of those personnel to develop those reports in necessary and will not be restricted.

Finding No: 03-345-044

CFDA: 20.205

Federal Agency: Department of Transportation

Control Category: Davis-Bacon Act

Finding Summary: The Department's policy for payroll submission does not comply with federal regulations.

Status: Corrected.

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. See current year findings 04-650-003, 04-650-007 and 04-650-008.

Finding No: 03-650-002

CFDA: 64.005

Federal Agency: Department of Veterans Affairs

Control Category: Reporting

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Finding Summary: During testing of the SF-271 Report, we noted expenditures reported outside of the specified “time period covered.” The expenditures were included in the reimbursement calculation.

Status: Not Corrected. See current year finding 04-650-004.

Finding No: 03-650-003

CFDA: 64.005

Federal Agency: Department of Veterans Affairs

Control Category: Davis-Bacon Act

Finding Summary: For two of four facilities at which there was construction, the Department’s written policies and procedures for monitoring the Davis-Bacon Act were not followed.

Status: Partially Corrected. See current year findings 04-650-003, 04-650-007 and 04-650-008.

Finding No: 03-650-004

CFDA: 64.005, 64.015

Federal Agency: Department of Veterans Affairs

Control Category: Allowable Costs/Cost Principles

Finding Summary: Reimbursement for the same costs were requested under two different federal awards.

Status: Corrected.

Department of Wildlife Conservation

Finding No: 03-1

CFDA: 15.615

Federal Agency: Department of Interior

Control Category: Reporting

Finding Summary: “Title Vesting Evidence” documents were not submitted with the performance report submitted within 90 days after the end of the grant period.

Status: Corrected

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Schedule of Federal Programs by State Agency

Schedule of Federal Programs by State Agency

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Center for Advancement of Science/Technology

59.005 Business Development Assistance to Small Business
93.988 Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems

Central Services, Department of

39.003 Donation of Federal Surplus Personal Property

Civil Emergency Mangement, 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
83.542 Fire Suppression Assistance
83.543 Individual and Family Grants
83.544 Public Assistance Grants
83.548 Hazard Mitigation Grant
83.552 Emergency Management Performance Grants
83.557 Pre-Disaster Mitigation (PDM)
83.560 FEMA 1465-DR Oklahoma Disaster Relief
83.562 State and Local All Hazards Emergency Planning
83.583 Supp - EOCI
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

Schedule of Federal Programs by State Agency

Commerce, Department of (continued)

14.231	Emergency Shelter Grant Program
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/Assista
81.119	State Energy Program-Special Projects
93.569	Community Services Block Grant
93.571	Community Services Block Grant Discretionary Awards-Community Food and Nutrition
93.585	Empowerment Zones Program
93.600	Head Start

Conservation Commission

10.902	Soil and Water Conservation
15.252	Abandoned Mine Land Reclamation (AMLR) Program

Corporation Commission

20.700	Pipeline Safety
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
16.606	SCAAP - State Criminal Alien Assistance Program
84.331	Grants to States for Incarcerated Youth Offenders

District Attorneys Council

16.554	National Criminal History Improvement Program (NCHIP)
16.560	NFSIA
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
16.609	Planning, Implementing, and Enhancing Strategies in Community Prosecution

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 for Children
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	Statewide Systems Change Project
84.162	Immigrant Education
84.173	Special Education-Preschool Grants
84.181	Special Education-Grants for Infants and Families with Disabilities
84.184	Community Services for Expelled and Delinquent Students
84.185	Byrd Honors Scholarships

Schedule of Federal Programs by State Agency

Education, Department of (continued)

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
84.281	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 Innovation Challenge Grant
84.318	Technology Literacy Challenge Fund Grants
84.323	Special Education-State Program Improvement Grants for Children with Disabilities
84.326	Special Education - Tech Assistance and Dissemination to Improve Serv and Results for Childerns 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
84.357	Reading First
84.358	Rual and Low Income Schools
84.365	Title III Language Acquisition
84.366	Math and Science Partnership
84.367	Improving Teacher Quality Grants
84.368	Enhanced Assessments
84.369	State Assessments
93.576	Refugee and Entrant Assistance-Discretionary Grants
93.938	Coop Agreements to Support Comp School Health Programs
94.004	Learn and Serve - Community Based
94.005	Learn and Serve America-Higher EducationSpecial Benefits for Disabled Coal Miners

Election Board, State

39.011	Election Reform Payments
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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 - Adults
17.259	Workforce Investment Act - Youth
17.260	Workforce Investment Act - Dislocated Workers
17.266	Work Incentive
17.267	WIA Incentive Grants - Section 503 Grants to States
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	Surveys, Studies, Investigations and Special Purpose Grants

Schedule of Federal Programs by State Agency

Environmental Quality, Department of (continued)

66.608	One Stop Reporting
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements
66.708	Pollution Prevention Grants Program
66.802	Superfund State Site - Specific Coop Agreement
66.817	Brownsfields - State and Tribal Response Program

Health, Department of

93.000	X-Ray Inspections
93.000	Clinical Laboratory Improvement Amendments
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
66.609	Children's Health Protection
84.186	Safe and Drug-Free Schools and Communities-State Grants
93.003	Public Health and Social Service Emergency Fund
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
93.161	Health Programs for Toxic Substances and Disease Registry
93.197	Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance c
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
93.251	Newborn Hearing Screening
93.259	Rural Access to Emer. Devices
93.268	Immunization Grants
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
93.917	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	Rivers, Trails and Conservation Assistance
15.926	American Battlefield Protection
45.149	Promotion of the Humanities - Division of Preservation and Access
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 Distribution
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)
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation

Schedule of Federal Programs by State Agency

Human Services, Department of (continued)

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	New Demonstration Grants to States with Respect to Alzheimer's Disease
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
93.585	Empowerment Zones Program
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
93.599	Chafee Education and Training Vouchers
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
93.779	Health Care Research, Demonstration and Evaluations
94.011	Foster Grandparent Program

Insurance Department

93.048	Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs
93.779	Health Care Research, Demonstration and Evaluations

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	Planning, Implementing, and Enhancing Strategies in Community Prosecution

Libraries, Department of

45.000	National Commission on Libraries and Information Studies
45.310	State Library Program
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
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program
93.000	Implementation Alcohol/Drug Data Collection
93.104	Cooperative Agreements for the Comprehensive Community
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
93.243	Oklahoma Capacity Grant
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

Schedule of Federal Programs by State Agency

Mental Health and Substance Abuse, Department of (continued)

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
17.261 Employment Services and Job Training - Pilot and Demonstration Programs

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

93.256 State Planning Grant
93.767 State Children's Insurance Program
93.768 Medicaid Infrastructure Grants
93.777 State Survey and Certification of Health Care Providers and Suppliers
93.778 Medical Assistance Program
93.779 Health Care Research, Demonstration and Evaluations

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

Schedule of Federal Programs by State Agency

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
16.564 National Institute of Justice Crime Laboratory Improvement Program
16.710 Public Safety Partnership and Community Policing Grants

State of Oklahoma

21.999 Jobs and Growth Tax Relief Fund Grant

Supreme Court

93.586 State Court Improvement Program

Tourism & Recreation, Department of

15.503 Small Reclamation Projects
15.622 Sportfishing and Boating Safety Act
15.916 Outdoor Recreation - Acquisition, Development and Planning
20.219 Recreational Trails Program

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 Reclamation and Water Reuse Programs

Water Resources Board

66.419 WPC State and Interstate Program Support
66.454 Water Quality Management Planning
66.460 Nonpoint Source Implementation Grants
66.461 Wetlands Protection - Development Grants
66.463 National Pollutant Discharge Elimination System Related State Program Grants
66.470 Rural Communities Hardship Grants
66.606 Surveys, Studies, Investigations and Special Purpose Grants
83.550 National Dam Safety Program

Wildlife, Department of

10.025 Cost Reimbursement - Animal and Plant Health Inspection Service (Plant Protection and Quarantine)
10.025 Cost Reimbursement - Animal and Plant Health Inspection Service (Plant Protection and Quarantine)
15.504 Reclamation and Water Reuse Programs
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
15.633 Land Owners Incentive Program
15.634 Formula Grant to Develop & Implement Programs to Benefit Wildlife and Their Habitat

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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, 2004

	Office of State Finance Centrex	Capitol Improvement Authority	Department of Corrections - Oklahoma Correctional Industries	Department of Central Services	Total
Total Revenues	\$ 6,681,226	\$ 34,588,139	\$ 16,696,278	\$ 43,158,953	\$ 101,124,596
Total Expenditures	5,376,259	93,923,582	19,092,697	16,974,235	135,366,773
Revenues Over (Under) Expenditures	1,304,967	(59,335,443)	(2,396,419)	26,184,718	(34,242,177)
Other Financing Sources (Uses)					
Operating Transfers In	-	-	-	535,239	535,239
Operating Transfers Out	(6,858)	-	-	-	(6,858)
Bond Proceeds	-	43,570,000	-	-	43,570,000
Premium from Bond Issue	-	244,150	-	-	244,150
Discount on Bond Issue	-	(181,973)	-	-	(181,973)
Bond Refunding	-	(26,053,843)	-	-	(26,053,843)
Total Other Financing Sources (Uses)	(6,858)	17,578,334	-	535,239	18,106,715
Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,298,109	(41,757,109)	(2,396,419)	26,719,957	(16,135,462)
Fund Balances - Beginning of Year	6,200,136	172,010,561	12,915,544	17,888,373	209,014,614
Fund Balances - End of Year	\$ 7,498,245	\$ 130,253,452	\$ 10,519,125	\$ 44,608,330	\$ 192,879,152

Selected Activities for Internal Service Type Funds

UNAUDITED

Selected Activities for Internal Service Type Funds For the Year Ended June 30, 2004

	Office of State Finance Centrex	Capitol Improvement Authority	Department of Corrections - Oklahoma Correctional Industries	Department of Central Services	Total
June 30, 2003					
Ending Fund Balance	\$ 7,498,245	\$ 130,253,452	\$ 10,519,125	\$ 44,608,330	\$ 192,879,152
July 1, 2003					
Beginning Fund Balance	\$ 6,200,136	\$ 172,010,561	\$ 12,915,544	\$ 17,888,373	\$ 209,014,614
Cash Basis Data -					
FY 2004 Revenues	\$ 6,681,226	\$ 34,588,139	\$ 16,696,278	\$ 43,158,953	\$ 101,124,596
FY 2004 Expenditures	5,376,259	93,923,582	19,092,697	16,974,235	135,366,773
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	\$ 101,124,596
FY 2002 Expenditures	7,142,155	206,866,678	15,710,229	22,895,889	135,366,773
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

Selected Activities for Internal Service Type Funds

UNAUDITED

Selected Activities for Internal Service Type Funds
For the Year Ended June 30, 2004

Trend Analysis

	Office of State Finance Centrex	Capitol Improvement Authority	Department of Corrections - Oklahoma Correctional Industries	Department of Central Services	Total
June 30, 2003					
Ending Fund Balance	\$ 7,498,245	\$ 130,253,452	\$ 10,519,125	\$ 44,608,330	\$ 192,879,152
July 1, 2003					
Beginning Fund Balance	\$ 6,200,136	\$ 172,010,561	\$ 12,915,544	\$ 17,888,373	\$ 209,014,614
Cash Basis Data -					
FY 2004 Revenues	\$ 6,681,226	\$ 34,588,139	\$ 16,696,278	\$ 43,158,953	\$ 101,124,596
FY 2004 Expenditures	5,376,259	93,923,582	19,092,697	16,974,235	135,366,773
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	\$ 101,124,596
FY 2002 Expenditures	7,142,155	206,866,678	15,710,229	22,895,889	135,366,773
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

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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 Central Services

REF NO: 04-580-005

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 CATEGORY: Reporting

QUESTIONED COSTS: \$-0-

Criteria: OMB Circular A-133, Subpart C § ____ .300 (b) states in part: "Maintain internal control over Federal programs that 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."

A basic internal control objective is to ensure transactions are analyzed and accurately posted to the correct fund/account for the correct amount and recorded in the correct time period.

A basic internal control objective is to provide reliability of information by performing regular reconciliations.

Condition: During our review of internal controls and reporting testwork of the GSA Form 3040 for the four quarters ending during fiscal year ending June 30, 2004, we noted the following:

- Line items within the Property Received category of the 3040 Reports for quarters ending 9/2003, 12/2003, and 3/2004 do not agree to agency records.

Effect: The information used from the OKFP system does not agree with the amounts reported on the 3040 Quarterly Reports.

Recommendation: The agency should implement controls that would ensure that adequate support documentation used to generate quarterly 3040 Reports is maintained.

Management's Corrective Action Plan

Contact Person: Lisa McKim, Senior Auditor

Anticipated Completion Date:

Corrective Action Planned:

Do not concur. The 3040 reports are reconciled with supporting documentation generated from the OKFP system when the 3040 reports are reviewed and approved. Line items within the Property Received category do agree with agency records. We believe the adjustments to the 3040 were not calculated into the totals.

Auditor Response: Based on documentation provided by the Department of Central Services, SA&I determined that reports generated from the OKFP system did not facially agree with 3040 reports.

Employment Security Commission

REF NO: 04-290-001IT

STATE AGENCY: Oklahoma Employment Security Commission

FEDERAL AGENCY: Department of Labor

CFDA NO: 17.225

FEDERAL PROGRAM NAME: Unemployment Insurance

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.

CONTROL CATEGORY: Information Systems

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

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. Implementation of Peoplesoft has been delayed twice. As soon as the payroll module is fully implemented, phase two (grants and contract modules) will begin. After these phases are complete, we will interface or integrate the two systems.

Department of Health

REF NO: 04-340-005

STATE AGENCY: Oklahoma State 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: U58/CCU622832-01

FEDERAL AWARD YEAR: 2004

CONTROL CATEGORY: Allowable Costs/Cost Principles

QUESTIONED COSTS: \$3,098

Criteria: OSDH Administrative Procedures Manual #3-3, State Owned Cell Phone Use states in part: "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 a 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

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.

should be done by providing a personal check made payable to OSDH for the personal use portion of the invoice.”

Condition: During our testwork of 50 claims, we requested documentation of personal use of state owned cell phones billed from AT&T for account # 70594999 for the period of November 10 thru December 9, 2003, paid on claim # 418468 in the amount of \$291.79. Program administration was unable to provide documentation of any accounting of, or employee reimbursement for, personal usage of state owned cell phones for that claim. They did provide a current calculation of \$17.86, what they believed one employee would have owed for the personal usage portion of the cell phone charges on the AT&T invoice paid on claim #418468.

We then requested documentation directly from the employee for one cell number on the invoice that appeared to include personal calls. That employee believed the personal use cell phone charges had been paid to OSDH, but did not keep documentation of the reimbursement. The employee requested a listing of cancelled checks from their bank, and program administration stated they would continue to search for the documentation and provide it to us when it was located. However, we have not received any further response from the employee or program administration. We requested from Financial Management documentation of that employee's reimbursement for personal cell phone usage for the AT&T invoice paid on claim #418468. Financial Management was unable to provide the requested documentation.

Since program administration was unable to provide documentation for reimbursement of personal cell phone charges on claim #418468, we requested documentation of personal cell phone usage for any AT&T invoice during our audit period. Program administration was unable to provide the requested documentation. The total amount paid to AT&T from the Tobacco Use Prevention program during SFY 2004, not including claim #418468, was \$3,080.56.

Effect: Federal funds may have been used to pay non-program expenses. The Department cannot verify that employees have properly reimbursed the Department for the personal use of cell phones. Without documentation of reimbursement, OSDH is unable to demonstrate compliance with their internal policy regarding personal use of state-owned cell phones.

Recommendation: We recommend program administration maintain documentation of the accounting of employee reimbursement for personal usage of state-owned cell phones.

Management's Corrective Action Plan

Contact Person: Sally Carter

Anticipated Completion Date: 3/1/05

Corrective Action Planned: Program Management concurs with the recommendation from the SA&I and will ensure that accurate records are kept of employee reimbursements for personal usage of state-owned cell phones.

REF NO: 04-340-008

STATE AGENCY: Oklahoma State Department of Health

FEDERAL AGENCY: U.S. Department of Agriculture and Health and Human Services

CFDA NO: 10.557, 93.268 & 93.283

FEDERAL PROGRAM NAME: Supplemental Nutrition Program for Woman, Infants, and Children (WIC), Immunization Grants, Centers for Disease Control and Prevention, Investigations and Technical Assistance

FEDERAL AWARD NUMBER: 60K700505, H23/CCH622541-04-4, U58/CCU622832-01, U90/CCU616982-03-5

FEDERAL AWARD YEAR: 2004, CY 2003

CONTROL CATEGORY: Subrecipient Monitoring

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: OMB Circular A-133, Subpart C, Section 320(a) states, "The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt or the auditor's report(s) or nine months after the end of the audit period unless a longer period is agreed to in advance by the cognizant or oversight agency for audit."

Condition: Based on testwork performed for the WIC program, we noted three subrecipients' A-133 audits were submitted late or have yet to be submitted to OSDH.

Auditee	Audit Period End	A-133 due to be submitted to OSDH	Date of submission to OSDH
Mary Mahoney	12-31-03	9-30-04	10-29-04
Grady County Ind.	6-30-03	3-31-04	Never Submitted
OCCHD	6-30-03	3-31-04	Never Submitted

Further, the lack of an A-133 audit being submitted by OCCHD also affects the Tobacco Use Prevention, Bioterrorism and Immunization Grants with regard to subrecipient monitoring.

Cause: The Agency does not maintain an adequate tracking system to ensure the timely submission of A-133 audits.

Effect: The auditee is not in compliance with the above stated policy. Also, OSDH may not be informed of possible problems with regard to its subrecipients in a timely manner.

Recommendation: We recommend the Agency adopt a tracking system which will allow for timely follow-up of A-133 audits that have not been submitted by the Agency due date.

Management's Corrective Action Plan

Contact Person: Ray C. Hankins

Anticipated Completion Date: 4/1/05

Corrective Action Planned: We concur with this finding. Corrective action related to this issue will be accomplished through implementation of a Contract Monitoring/Contract Administration Procedures Manual and accompanying database that is currently under development. Implementation for the manual and database is scheduled for March 2005. Contract Administrators in the Procurement Division will perform risk assessment on sub-recipients using a standard screening tool. This tool will collect information relevant to the above issue, record such information in database fields and allow Internal Audit to query the information to plan work in relation to verification of receipt and review of sub-recipient audit reports.

Department of Veterans Affairs

REF NO: 04-650-002

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: Various

FEDERAL AWARD YEAR: Various

CONTROL CATEGORY: Equipment and Real Property 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.

Criteria: According to 38CFR §43.32 (d)(1):

Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition: The agency Capital Asset List does not include the following:

- All acquisition dates and funding source information for the Lawton facility.
- Equipment purchased for the Talihina Facility during the period July 1, 2003 and June 30, 2004.

The agency Disposal List does not include the following:

- Sale price
- Condition of the disposal.
- Funding source.

Effect: The agency does maintain property records that are required by the above referenced CFR. However, without a complete capital asset listing, proper accountability of equipment purchases may possibly not be maintained. Equipment may be disposed of without the awarding agency receiving its amount of the disposition and may also be disposed of before it has been retained for the required amount of time.

Recommendation: We recommend the agency maintain complete and accurate equipment and disposition listings to ensure proper accountability of equipment is maintained.

Management's Corrective Action Plan

Contact Person:

Anticipated Completion Date:

Corrective Action Planned:

Agency Response: The agency disagrees with the finding.

The property records are maintained that keep all of these fields and the agency believes it is compliance with all Equipment and Real Property requirements.

At the beginning of June 2003, the agency started a transition from Oasis accounting software to the state's CORE accounting system. Oasis was written by a vendor that the agency is currently in litigation with and the agency made a decision to not use the software system on advice of counsel. The Office of State Finance (OSF) wanted us to start using the state CORE system and prevented us from purchasing another agency accounting system. We were only allowed to buy a stop gap for assets and supply inventory and the agency was given a cap of \$10,000 for new software. We purchased a temporary accounting system and began the migration process. A system for under \$10,000 did not have a link to purchasing, so this system is at least a feature short. The state intends to implement some inventory control in PeopleSoft but has not done so to date. When the auditor asked for records spanning the two systems, he was asking for data that didn't map precisely. The data the auditor required is stored in the old system and is stored in the

Other Findings

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new system. The new system has fields for acquisition date, funding source and an indication if purchased with federal funds. The old system had acquisition date and funding source. Also there is period of time required to migrate data between systems. The old system did not use a bar code scanner and only used metal tags. Talihina was in the process of switching to the new system and some records didn't get entered in for this reason. They were however maintaining records to put in when they got up on the new system. The new system has a history file that all records go into when removed and also has a field for asset condition.

The agency maintains information on items disposed, including the sale price, condition of disposal and funding source. These are paper records but we believe that is still in compliance with the Equipment and Real Property Management standards.

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