



STATE OF OKLAHOMA
OFFICE OF THE STATE AUDITOR & INSPECTOR

A
G
R
E
E
D

U
P
O
N

P
R
O
C
E
D
U
R
E
S

E
N
G
A
G
E
M
E
N
T

J.D. McCARTY CENTER

REPORT ON AGREED-UPON PROCEDURES

JULY 1, 2004 TO DECEMBER 31, 2005



JEFF A. McMAHAN, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

J.D. McCarty Center
Agreed-upon Procedures Report
For the Period
July 1, 2004 to December 31, 2005



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

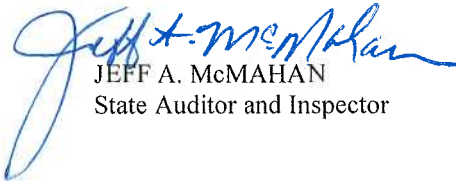
July 7, 2006

TO THE BOARD OF DIRECTORS OF THE J. D. McCARTY CENTER

Transmitted herewith is the agreed-upon procedures report for the J.D. McCarty Center. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,



JEFF A. McMAHAN
State Auditor and Inspector

Table of Contents

Mission Statement, Board Members, and Key Staff.....	iii
Accountant’s Report on Applying Agreed-upon Procedures.....	1-6
Other Information	
Schedule of Receipts, Disbursements, and Changes in Cash, FY2005	7

Mission Statement

The mission of J.D. McCarty Center for Children with Developmental Disabilities is to enhance the quality of life for Oklahoma's developmentally delayed children by providing a comprehensive program of rehabilitative care that will help each child to develop to their greatest potential and to provide additional social services for their families.

Board Members

William Logan..... Member
John Knight..... Member
Joe Sher..... Member
Karen S. Rieger..... Member

Key Staff

Curtis Peters.....Director
Ken Younkin.....Comptroller
Vicki Kuesterstaffen.....Principal Assistant
Debbie Barrett.....Human Resource Director



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below; which were agreed to by management of the J.D. McCarty Center, solely to assist you in evaluating your internal controls over the receipt and disbursement process, the safeguarding of capital assets, and in determining whether selected receipts and disbursements are supported by underlying records for the period of July 1, 2004 to December 31, 2005. This agreed-upon procedures engagement was conducted in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We compared the agency's internal controls over receipts and disbursements with the following criteria:
 - Accounting duties were segregated by functions into those who initiate or authorize transactions; those who execute transactions; and those who have responsibility for the asset, liability, expenditure, or revenue resulting from the transaction;
 - Receipts were issued for cash and/or checks received;
 - Incoming checks were restrictively endorsed upon receipt;
 - Receipts not deposited daily were safeguarded;
 - Voided receipts were retained;
 - Receipts and disbursements were reconciled to Office of State Treasurer and Office of State Finance records;
 - Disbursements were supported by an original invoice;
 - Timesheets were prepared by employees and approved by supervisory personnel;

We reviewed the Office of State Finance (OSF) system access authorization role descriptions for Financials, Budgeting and HRMS. We found excessive access and incompatible roles within the CORE PeopleSoft system. Segregation of duties is a basic control that prevents or detects errors, improprieties, and fraud. We recommend management be aware of this condition and realize the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of the Center's operations and periodic review of operations.

Management Response: Because of the size of our accounting staff, most of the jobs in the department are backed up by each other. We understand that there are potential risks associated with the combined duties, as they now exist. The Comptroller monitors all purchases and activities conducted by department staff. This includes reviews of deposits, vouchers and reports generated. Vacation days are used as an opportunity for certain task to be done by others in the department and checked to see that duties are being performed correctly and to look for errors, irregularities or fraud. The Comptroller will continue to monitor individual performance in the job as well as review whether access rights for certain roles in PeopleSoft are needed by each individual employee. Adjustments in access to those roles that are no longer required will be removed.

With respect to other procedures applied, there were no findings.

2. We randomly selected 20 deposits and:
 - Compared the Treasurer's deposit date to agency deposit slip date to determine if dates were within one working day.
 - Examined receipts to determine if they were pre-numbered and issued in numerical order.
 - Agreed cash/check composition of deposits to the receipts issued.
 - Agreed the total receipts issued to the deposit slip.
 - Inspected agency receipts to determine whether receipts of \$100 or more were deposited on the same banking day as received.
 - Inspected agency receipts to determine whether receipts of less than \$100 were deposited on the next business day when accumulated receipts equaled \$100 or after five business days, whichever occurred first.
 - Inspected agency receipts to determine whether receipts were safeguarded.
 - Compared the fund type to which the deposit was posted in CORE to the CAFR fund type listing for consistency;
 - Compared the nature of the deposit to the account code description to determine consistency.

There were no findings as a result of applying the procedures.

3. We randomly selected 60 vouchers and:
 - Compared the voucher amount and payee to the invoice amount and payee;
 - Compared the voucher amount and payee to the CORE system;
 - Compared the fund type to which the disbursement was charged in CORE to the CAFR fund type listing for consistency;
 - Compared the nature of the purchase to the account code description to determine consistency.

There were no findings as a result of applying the procedures.

4. We compared salaries set by statute, if any, to the actual salary paid to determine the statutory limit was not exceeded.

There were no findings as a result of applying the procedures.

5. We randomly selected 10% of the employees who appeared on the June 2005 payroll but not on the June 2004 payroll and observed the initial "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.

There were no findings as a result of applying the procedures.

6. We randomly selected 10% of the employees who appeared on the June 2004 payroll but not on the June 2005 payroll and:
 - Observed the final "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.
 - Observed the main payroll funding sheet for the month subsequent to termination to determine employee no longer appeared.

There were no findings as a result of applying the procedures.

7. We randomly selected 10% of the employees whose gross salary at June 2005 had increased since June 2004 (excluding legislative pay raises) and observed the "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.

There were no findings as a result of applying the procedures.

8. We randomly selected 10% (but no more than 20) of the employees from the June 2005 payroll and agreed the amount paid to the "Request for Personnel Action" (OPM-14) or equivalent form that was in effect for June 2005.

During our inspection we noted one employees salary that did not agree to the amount paid. The employee was underpaid by 85 cents. Miscalculation of employee's monthly salary could result in under or over payment to employees. We recommend the Agency recalculate payroll each month to ensure accuracy.

Management Response: We believe this to be a system error that occurred on the Office of Personnel Management System. Our Human Resources Staff entered the correct data in accordance with the employee's form OPM 14. We do not have an option at our location to override the OPM system to correct the \$0.85 error. We believe that this is an error that should be reviewed at the Office of Personnel Management to insure that this error does not affect other employees or occur again at other agencies.

With respect to other payroll selections tested, there were no findings.

9. We compared the agency's internal controls over purchase cards with the following criteria:
- Purchase card policies and procedures were incorporated into the agency's policies and procedures;
 - Purchase card Administrator, designated back-up Administrator, and Approving Official were established;
 - Purchase card Administrator, designated back-up Administrator, Approving Official(s), and purchase cardholders completed the training prescribed by the State Purchasing Director and signed the State of Oklahoma Purchase Card Employee Agreement form;
 - Cardholders submitted monthly transaction logs with supporting documentation which were reviewed and approved by the appropriate personnel;
 - Mandatory categories of controls and limits were established for each purchase card, i.e. credit limit, single purchase limit, and Merchant Category Code Group;
 - Controls were established to ensure that purchase cards are not used for prohibited purchases, i.e. travel, cash advances, motor fuel, etc....;
 - Duties, control responsibilities, and the appropriate channels of communication were established and communicated to purchase cardholders to report suspected improprieties regarding purchase card usage.

During our inspection, we noted that the P-card Administrator and the designated back-up Administrator had not signed the State of Oklahoma Purchase Card Employee Agreement form since they were not issued actual purchase cards. According to the State of Oklahoma Purchase Card Procedures (3.10. *Purchase Card Employee Agreement*), the Administrator, designated back-up Administrator, Approving Official(s), and purchase cardholders must sign the State of Oklahoma Purchase Card Agreement. We recommend the Agency ensure that all employees involved in the Purchase Card process sign the Oklahoma Purchase Card Employee Agreement.

Management Response: The administrative staff signed the State of Oklahoma Purchase Card Employee Agreement as soon as the finding was reported to the agency's Comptroller. Finance department personnel have been instructed on the requirements of the State of Oklahoma Purchase Card Procedures

With respect to other procedures applied, there were no findings.

10. We identified employees that are purchase card holders and determined the agency retained the original employee signed copy of the State of Oklahoma Purchase Card Employee Agreement.

There were no findings as a result of applying the procedures.

11. We examined all purchase card transactions to determine:
- A credit limit (dollar amount per cycle) was established for each cardholder;
 - The dollar amount of each transaction did not exceed the single purchase limit of \$2,500;

- Each purchase card was assigned an approved Merchant Category Code Group;
- Any purchases from the same vendor on the same date for the same item, and whether in the aggregate, the card purchase limit was exceeded (i.e. split purchasing).

There were no findings as a result of applying the procedures.

12. We randomly selected 60 of the agency's purchase card transactions and:
- Determined transactions were **not** for prohibited purchases:
 - Travel including, but not limited to, transportation, entertainment, food and beverages, travel agencies, and lodging.
 - Cash, cash advances, automatic teller machines (ATM).
 - Any transaction or series of transactions, which exceed the limits established on the individual purchase card.
 - Motor fuel or fluids.
 - Gift certificates.
 - Inspected transaction logs to determine they were supported by receipts and/or other supporting documentation and the cardholder and approving official reconciled the supporting documentation to the monthly memo statement;
 - Reviewed transaction receipts to determine if the use of the purchase card was limited to the employee whose name is embossed on the card;
 - Examined transaction logs to determine the log was reviewed and approved (signed) by the cardholder and the approving official;
 - Reviewed receipts and/or other supporting documentation to determine they were annotated "Received", signed, and dated by the receiving employee;
 - Examined the receipt and/or supporting documentation to determine state sales tax was **not** charged during the transaction;
 - Verified with the Department of Central Service that the Purchase card Administrators, back-up Administrators, Authorized Signers, Approving Officials, and Cardholders have successfully completed the Purchase Card Training conducted by the Department of Central Services prior to being issued purchase cards;
 - Inspected transactions to determine if merchant preference was used by the agency for certain merchants or types of contracts, i.e. statewide contractions;
 - Determined documents were retained in accordance with the agency's procedures;
 - Compared the nature of the purchase to the commission's mission for consistency.

During our test of 60 purchase card transactions, we noted the following:

- Three transaction logs did not include the correct amount of the transaction.
- Ten transaction logs were not signed and dated by the cardholder.
- Nine transaction logs were signed but not dated by the cardholder.
- None of the statements were signed and dated by the Approving Official.
- Two statements dated after June 9, 2005 were not signed by the cardholder.
- All receipts were not annotated "Received"
- Thirty-nine receipts were not signed by the cardholder.
- One transaction included sales tax.
- Four transactions did not use merchant preference and there was not supporting documentation for the exception.
- One transaction lacked proper purchase requisition approval.

According to the State of Oklahoma Purchase Card Procedures (6.9.1. *Cardholder responsibility and 6.9.2 Entity approving official(s) responsibility*) the cardholder must sign and date the transaction log(s) and after June 9, 2005 the cardholder must sign and date the statements. The Approving Official(s) must sign and date the statements. We recommend the Agency ensure that Cardholder and Entity approving official(s) responsibilities are performed.

According to the State of Oklahoma Purchase Card Procedures(6.7. *Receiving goods and services*) the receiving employee must annotate "Received", sign, and date the receipt and/or other supporting documentation. We recommend the receiving employee annotate "Received", sign and date all receipts and/or other supporting documentation.

According to the Sate of Oklahoma Purchase Card Procedures(6.2.5 *Merchant preference*) merchant preference must be used by the agency for certain merchants or types of contracts, i.e. statewide contractions and if merchant preference is not used for a particular reason, approval must be given from DCS and documentation must be obtained. We recommend the Agency obtain proper approval for their exception from DCS and document any exceptions.

According to the JD McCarty Center's policies and procedures, an approved Purchase Requisition must be presented to the Finance Department before purchase may be made. Lack of proper supervision and approvals could lead to fraudulent activities; furthermore, we recommend the agency assure all policies and procedures are adhered to.

Management Response: State Purchase Card procedures have been reviewed and new agency rules and procedures have been put in place to prevent the errors reported above from occurring in the future. Both cardholders and entity approving officials have been made aware of their individual responsibilities. Outlines reminding purchase cardholders of their responsibilities have been signed by the cardholder and placed with their transaction log as a reminder.

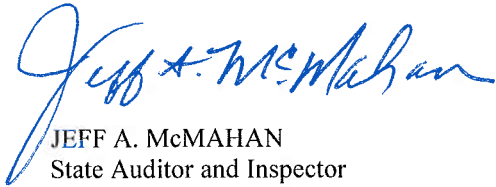
In regards to Merchant Preference, every effort is made to buy from state use vendors. There are instances where for example diapers are needed that are not in state use vendor inventory. We try to carry a full range of diapers by size that the state use vendor has available. There are times when a patient being admitted requires a size of diaper that we normally do not stock. The timing for the admission of the patient may be such that we will have to obtain the diaper locally more quickly that it can be obtained from the state use vendor. Once the size of diaper needed is known, we work with the vendor to request the additional diapers sizes not on the current contract. In most instances the vendor has been successful in adding new sizes to the contract. Because many of the patients we care for are medically fragile or are underdeveloped for their age, trial and error is required to find a size that is the best fit to protect the child from leakage.

With respect to other procedures applied, there were no findings.

We were not engaged to, and did not, conduct an examination or a review, the objective of which would be the expression of an opinion or limited assurance on the cash, receipts, disbursements, and capital assets for the agency. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We have also compiled a Schedule of Receipts, Disbursements and Changes in Cash from information obtained from the statewide CORE accounting system, which is presented in the "Other Information" section. The schedule, compiled for fiscal year 2005 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants, has been included for informational purposes only. A compilation is limited to presenting financial information that is the representation of management. We have not audited or reviewed the accompanying Schedule of Receipts, Disbursements and Changes in Cash, and accordingly, do no express an opinion or any other form of assurance on it.

This report is intended solely for the information and use of management of the JD McCarty Center and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



JEFF A. McMAHAN
State Auditor and Inspector

May 18, 2006

Other Information

J.D. McCarty Center
Schedule of Receipts, Disbursements, and Changes in Cash
For the Fiscal Year Ending June 30, 2005
(UNAUDITED)

RECEIPTS:

Reimbursement for Personal Services	\$ 7,107,780
Appropriations	3,162,767
Sale of Surplus Property	1,225,001
Other	741,978

Total Receipts 12,237,526

DISBURSEMENTS:

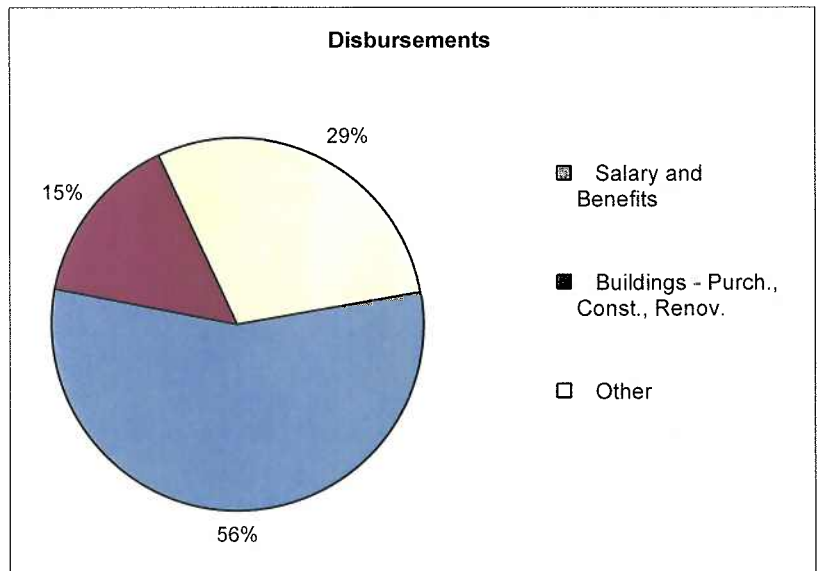
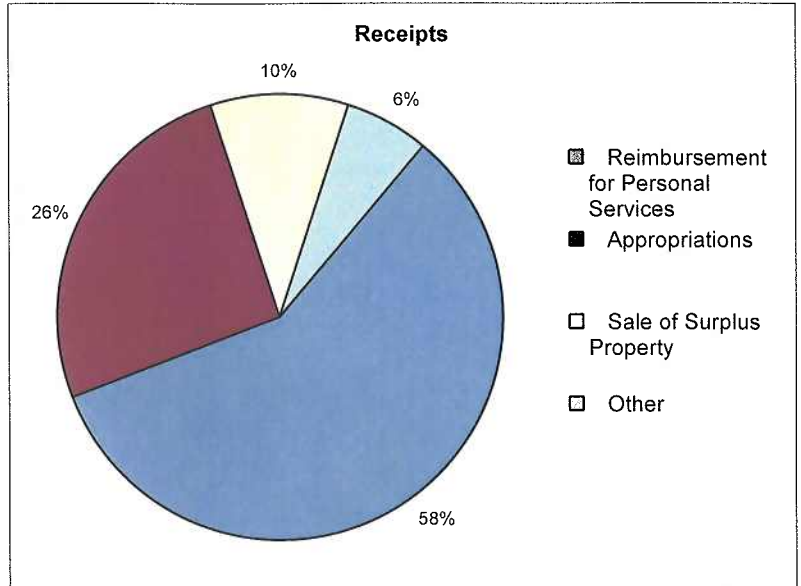
Salary and Benefits	7,521,653
Buildings - Purch., Const., Renov.	2,022,890
Other	3,955,764

Total Disbursements 13,500,306

RECEIPTS OVER (UNDER)
DISBURSEMENTS (1,262,780)

CASH--Beginning of Year 3,681,015

CASH--End of Year \$ 2,418,235



SEE ACCOUNTANT'S REPORT

This schedule is presented solely for the information and use by the management of the JD McCarty Center and not intended to be and should not be used by any other party.



Office of the State Auditor & Inspector
2300 North Lincoln Boulevard, Room 100
Oklahoma City, Oklahoma 73105-4896
405-521-3495

www.sai.state.ok.us