

OKLAHOMA COMMISSION ON CHILDREN AND YOUTH

FOR THE PERIOD
JANUARY 1, 2008 THROUGH
DECEMBER 31, 2009

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Commission on
Children and Youth**

**For the Period
January 1, 2008 through December 31, 2009**

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

August 16, 2010

TO THE OKLAHOMA COMMISSION ON CHILDREN AND YOUTH

This is the audit report of the Oklahoma Commission on Children and Youth for the period January 1, 2008 through December 31, 2009. 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,

A handwritten signature in blue ink, reading "Steve Burrage", is positioned above the printed name.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Oklahoma Commission on Children and Youth Operational Audit

Background

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

Operations are governed by 10 O.S. §§ 600 through 601.13 and Title 135 of the Oklahoma Administrative Code. Oversight is provided by 19 commissioners:

Bart Bouse	Chairman
The Honorable Thomas Alford.....	Member
Dr. Sid Brown	Member
Darlene Callahan	Member
Robert E. "Gene" Christianson.....	Member
Dr. Terry Cline.....	Member
Ken Couchman	Member
Wanda Felty.....	Member
Mike Fogarty	Member
The Honorable Sandy Garrett	Member
Terrica Grunewald	Member
The Honorable Lisa Hammond.....	Member
Howard Hendrick.....	Member
The Honorable Richard Kirby	Member
Ben Loring	Member
Dr. Michael O'Brien.....	Member
Claudette Selph.....	Member
Brent Thackerson.....	Member
Terri White	Member

Table 1 summarizes the Agency's sources and uses of funds for fiscal years 2008 and 2009 (July 1, 2007 through June 30, 2009).

Table 1 - Sources and Uses of Funds for FY 2008 and FY 2009

	2008	2009
Sources:		
State Appropriations	\$ 2,334,472	\$ 2,605,318
Federal Grants-In-Aid	323,869	386,499
Federal Funds from Other Agencies	281,107	277,021
Other	42,509	22,614
Total Sources	<u>\$ 2,981,957</u>	<u>\$ 3,291,452</u>
Uses:		
Personnel Services	\$ 1,817,630	\$ 1,933,905
Professional Services	745,803	641,401
Travel	72,288	67,652
Miscellaneous Administrative	84,813	38,636
Other	235,568	181,595
Total Uses	<u>\$ 2,956,102</u>	<u>\$ 2,863,189</u>

Source: Oklahoma PeopleSoft Accounting System (unaudited, for informational purposes only)

**Purpose, Scope, and
Sample Methodology**

This audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's Office to audit the books and accounts of state officers whose duty it is to collect, disburse or manage funds of the state.

The audit period covered was January 1, 2008 through December 31, 2009.

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Objective 1 - To determine if the Agency's internal controls provide reasonable assurance that revenues, expenditures (including payroll), and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls:

- Do provide reasonable assurance that revenues and payroll expenditures were accurately reported in the accounting records;
- Do not provide reasonable assurance that expenditures (excluding payroll) and inventory were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure, and inventory processes which included discussions with Agency personnel, observation, and review of documents;
- Tested controls which included:
 - Ensuring the person preparing the reconciliation is independent of the receipting process, ensuring a reconciliation was performed for each month of the audit period, and reviewing a random sample of six monthly reconciliations to ensure the amounts were mathematically accurate and agreed to supporting documentation;
 - Reviewing a random sample of three months' payroll claims to ensure they were approved by the executive director as well as haphazardly selecting two employees from each of the claims and ensuring their timesheet was signed by them and a supervisor, and their hours agreed to the claim;

- Randomly selecting five¹ employees who had a payroll change during the audit period and ensuring the change was noted on an OPM-14 form which was approved by the executive director; and
- Randomly selecting two² employees who separated from the Agency during the audit period and ensuring they were not included in the payroll the month following their separation date.
- Discussed with personnel and observed location where funds are retained prior to deposit to ensure they are adequately safeguarded as required by 62 O.S. § 34.57 C.2.a³.

Observation

Inadequate Segregation of Duties Related to Expenditures

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*⁴ states in part, "Key duties and responsibilities need to be...segregated among different people to reduce the risk of error or fraud....No one individual should control all key aspects of a transaction..."

Agency policy titled "Expenditures" states in part, "...the executive secretary receives warrants from the Treasurer's Office...Check off each warrant received against the listing of warrants received with the warrants..."

The accountant is responsible for:

- Entering disbursements into the PeopleSoft accounting system;
- Receiving warrants from the State Treasurer's Office (OST) ; and
- Mailing warrants to vendors.

The Agency is not following their internal policy. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend the Agency follow their policy and ensure someone other than the accountant receive and reconcile the warrants received from OST. If management believes their policy should be revised requiring the accountant to perform duties as they are currently performed, other mitigating controls should be developed and implemented. For example, the comptroller could periodically review the OST warrant register or PeopleSoft's miscellaneous warrant report. This review could be performed at her discretion.

Views of Responsible Officials

OCCY has delegated the duties of receipt and mailing out of the warrants to the Assistant Director. OCCY policy has been changed to reflect this practice. The Accountant will continue to enter disbursements into the PeopleSoft accounting system. OCCY has also instituted a practice of the Executive Director reviewing a PeopleSoft generated list of warrants for each month in order to discover any unauthorized payments that might be made.

¹ The five employees reviewed represent 12% (5/ 43 = 12%) of the total changes during the audit period.

² The two employees reviewed represent 20% (2/ 10 = 20%) of the total separations during the audit period.

³ Prior to July 1, 2009, this reference was 62 O.S. § 7.1 C.2.a.

⁴ Even though this publication addressed controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

Observation

Inadequate Segregation of Duties Related to Inventory

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*⁴ states in part, "Key duties and responsibilities need to be...segregated among different people to reduce the risk of error or fraud....No one individual should control all key aspects of a transaction..."

The accountant is responsible for:

- Inventory recordkeeping;
- Initiating surplus transactions.

Additionally, all employees of the Agency have access to the inventory records through the network drive.

Management was unaware of the risks created by not ensuring there was adequate segregation of duties or by allowing all employees access to the inventory records. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend:

- Access to the Agency's inventory records be restricted to only the employee responsible for recordkeeping. If needed, additional employees could have "read-only" access;
- An employee without the ability to update inventory records should be responsible for completing the DCS Form 001 surplus inventory form.

**Views of Responsible
Officials**

OCCY has restricted the computer access to the inventory records by moving the database to a secure drive on the OCCY network. Only the employee responsible for recordkeeping and the employee responsible for maintenance of the functionality of the database have access to the inventory database. OCCY has also modified our procedures to include separation of duties between the employee who completes the DCS Form 001 (Surplus Property Form) and the employee responsible for the actual record keeping of the inventory database. In addition, a third employee will be responsible for delivering of the surplus property to the Department of Central Services and providing the acknowledgement of receipt to the employee responsible for record keeping.



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

WWW.SAI.OK.GOV