



OKLAHOMA DEPARTMENT OF HUMAN SERVICES AGENCY SPECIAL ACCOUNTS

Operational Audit

For the period July 1, 2014 through June 30, 2016

Cindy Byrd, CPA
State Auditor & Inspector

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

**For the Period
July 1, 2014 through June 30, 2016**

June 25, 2019

TO THE DIRECTOR OF THE OKLAHOMA DEPARTMENT OF HUMAN SERVICES:

This is the audit report of the Oklahoma Department of Human Services' Agency Special Accounts for the period of July 1, 2014 through June 30, 2016. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.) and shall be open to any person for inspection and copying.

Sincerely,



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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Background

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

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

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

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**Scope and
Methodology**

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the areas of operations related to the five OKDHS Agency Special Accounts (ASA's) for the period July 1, 2014 through June 30, 2016 as listed below:

- Fund 700 – Client Trust Fund
- Fund 710 – OIG Food Stamp Investigation Fund
- Fund 720 – Group Home Allowance Fund
- Fund 725 – Client Recreation and Awards Account
- Fund 730 – Dedicated SSI Account

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the OKDHS' operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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OBJECTIVE

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

Conclusion

The Agency's internal controls provide reasonable assurance that expenditures for Fund 710 were accurately reported in the accounting records.

The Agency's internal controls over expenditures for Funds 700, 720, 725, and 730 and revenues for Funds 700, 710, 720, 725 and 730 generally provide reasonable assurance that revenues/expenditures were accurately reported in the accounting records. However, those internal controls could be improved as noted in the *Findings and Recommendations* section below.

Financial operations did not comply with 62 O.S. § 34.57 (depositing of receipts and adequate safekeeping of receipts awaiting deposit) or 21 O.S. § 590 (record retention) as noted in the *Findings and Recommendations* section below.

**Objective
Methodology**

To accomplish our objective we performed the following:

- Evaluated processes and identified significant internal controls related to expenditures and tested those controls which included:
 - Testing Fund 700 expenditure transactions and supporting documentation for a random sample of 25 out of 48,466 (0.05% of the population) to ensure they were reviewed and approved, properly supported, coded correctly, relate to an acceptable use of funds per the ASA application, and the check amounts correspond to the Daily Transaction Sheet.
 - Testing Fund 710 expenditure transactions and supporting documentation for 2 transactions (100% of the population) to ensure they were reviewed and approved, properly supported, coded correctly, and relate to an acceptable use of funds per the ASA application.
 - Testing Fund 720 expenditure transactions and supporting documentation for a random sample of 25 out of 1,426 (1.75% of the population) to ensure they were reviewed and approved, properly supported, coded correctly, relate

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- to an acceptable use of funds per the ASA application, and the check amounts correspond to the Daily Transaction Sheet.
- Testing Fund 725 expenditure transactions and supporting documentation for a random sample of 25 out of 326 (7.67% of the population) to ensure they were reviewed and approved, properly supported, coded correctly, and relate to an acceptable use of funds per the ASA application.
 - Testing Fund 730 expenditure transactions and supporting documentation for a random sample of 25 out of 68 (36.76% of the population) to ensure they were reviewed and approved, properly supported, coded correctly, relate to an acceptable use of funds per the ASA application, and the check amounts correspond to the Daily Transaction Sheet.
 - Testing monthly voucher stock reviews and follow-up support for a random sample of 6 out of 24 (25% of the population) to ensure the Report of Outstanding Warrants (Fund 7xx) Report was run at least once during the month, the items noted for follow-up appear reasonable, and support of the follow-up resolution was attached.
 - Testing monthly expenditure reconciliations and supporting documentation for a random sample of 6 out of 24 (25% of the population) to ensure the reconciliation was reviewed and approved by someone other than the preparer and reported amounts tie to supporting documentation.
 - Evaluated processes and identified significant internal controls related to receipts and tested those controls which included:
 - Testing Fund 700 receipt transactions and supporting documentation for a random sample of 40 out of 72,191 (0.06% of the population) to ensure transactions were accurate and properly supported, deposits were posted to the appropriate client trust account and relate to an acceptable source of funds per the ASA application, and receipts were properly handled in accordance with 62 O.S. § 34.57.

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- Testing Fund 710 receipt transactions and supporting documentation for a random sample of 5 out of 46 (10.87% of the population) to ensure transactions were accurate and properly supported, deposits were posted to the appropriate client trust account and relate to an acceptable source of funds per the ASA application, and receipts were properly handled in accordance with 62 O.S. § 34.57.
- Testing Fund 720 receipt transactions and supporting documentation for a random sample of 5 out of 22 (22.73% of the population) to ensure transactions were accurate and properly supported, deposits were posted to the appropriate group home account and relate to an acceptable source of funds per the ASA application, and receipts were properly handled in accordance with 62 O.S. § 34.57.
- Testing Fund 725 receipt transactions and supporting documentation for a random sample of 20 out of 174 (11.49% of the population) to ensure transactions were accurate and properly supported, deposits were posted to the appropriate client trust account and relate to an acceptable source of funds per the ASA application, and receipts were properly handled in accordance with 62 O.S. § 34.57.
- Testing Fund 730 receipt transactions and supporting documentation for a random sample of 25 out of 1790 (1.40% of the population) to ensure transactions were accurate and properly supported, deposits were posted to the appropriate client trust account and relate to an acceptable source of funds per the ASA application, and receipts were properly handled in accordance with 62 O.S. § 34.57.
- Testing monthly receipt reconciliations and supporting documentation for a random sample of 6 out of 24 (25% of the population) to ensure the reconciliation was reviewed and approved by someone other than the preparer and reported amounts tie to supporting documentation.
- Determined whether accurate and complete records of all financial and business transactions were maintained in accordance with 21 O.S. § 590.

FINDINGS AND RECOMMENDATIONS

*Ineffective
Review of
Receipts
(client trust
fund, group
home
allowance
account, and
dedicated SSI
account)*

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

For a sample of receipts recorded in the ASA accounts during our audit period, we noted:

- Four out of 40 (10.0%) or \$5.32 of \$6,527.41 (0.08%) receipt transactions in the client trust fund (Fund 700) and four out of 25 (16.0%) or \$16.79 of \$4,343.68 (0.39%) receipt transactions in the dedicated SSI account (Fund 730) were not supported by an interest recalculation indicating a proper review was not performed.
- One out of five (20%) or \$4,320 of \$31,320 (13.79%) receipt transactions in the group home allowance account (Fund 720) was improperly calculated indicating a proper review was not performed.

It appears the internal control regarding the adequate review of receipts was not operating effectively. Inadequate review of receipt transactions could result in inaccurate financial reporting due to improper coding and an increased risk of misappropriation of assets.

Recommendation

We recommend that OKDHS strengthen its review process to ensure all revenues are properly deposited in accordance with agency policy and statutory requirements and to mitigate the risk of misappropriation of assets.

Views of Responsible Officials

We concur. We identified the lack of documentation for Funds 700 and 730 interest calculation and corrected as of July 2016. In addition, we have modified our review procedures to ensure ADM-12 submitted by program staff is mathematically correct before creation of F S-17.

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*Failure to
Comply with
62 O.S. §
34.57 (client
trust fund,
OIG food
stamp
investigation
fund, client
recreation and
awards
account)*

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

According to GAO Standards for Internal Control in the Federal Government, OV3.02 “An effective internal control system provides reasonable assurance that the organization will achieve its objectives. ...”

Additionally, OV4.08 states “Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity’s internal control system objectives. ...”

According to 62 O.S. § 34.57(C) Agency clearing accounts - Deposits - Transfers - Exemptions, “All such monies collected pursuant to this section shall be deposited as follows in the agency clearing account or agency special account established therefor:

1. Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received; and
2. Receipts of less than One Hundred Dollars (\$100.00) may be held until accumulated receipts equal One Hundred Dollars (\$100.00) or for five (5) business days, whichever occurs first, and shall then be deposited no later than the next business day.”

Additionally, per 21 O.S. § 590, “Every state governmental entity shall, for a period of two (2) years, maintain accurate and complete records, as defined in Section 203 of Title 67 of the Oklahoma Statutes, reflecting all financial and business transactions, which records shall include support documentation for each transaction. No such records shall be disposed of for three (3) years thereafter, except upon a unanimous vote of the members of the Archives and Records Commission pursuant to Section 306 of Title 67 of the Oklahoma Statutes, or upon a majority vote of the members of the Commission for records more than five (5) years old.”

340:2-11-86(b) states in part, “Each facility is responsible for the safety of and accounting for all client trust fund cash that is handled by staff, and for maintaining detailed documentation that clearly demonstrate the integrity of such cash-handling activities.”

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For a sample of receipts recorded in the ASA accounts during our audit period, we noted:

- One out of 40 (2.5%) or \$23.10 of \$6,527.41 (0.35%) receipt transactions in the client trust fund (Fund 700) and one out of five (20%) or \$119 of \$32,589.96 (0.37%) receipt transactions in the OIG food stamp investigation fund (Fund 710) were not properly supported by a bank deposit slip. Consequently, compliance with 62 O.S. § 34.57 could not be determined.
- Four out of 20 (20%) or \$598.56 of \$86,404.52 (0.69%) receipt transactions in the client recreation and awards account (Fund 725) were not supported by a bank-endorsed deposit slip. Consequently, compliance with 62 O.S. § 34.57 could not be determined.
- Two out of 20 (10%) or \$40 of \$86,404.32 (0.05%) receipt transactions in the client recreation and awards account (Fund 725) were not deposited timely and, therefore, not handled in accordance with 62 O.S. § 34.57.

The designed internal control regarding the adequate retention and review of receipts in accordance with 21 O.S. § 590 and the Agency's administrative policy 340:2-11-86 were not operating effectively. Inadequate retention and review of receipt transactions could result in inaccurate financial reporting due to improper coding and an increased risk of misappropriation of assets.

Recommendation

We recommend OKDHS strengthen its review process to ensure all revenues are properly deposited in accordance with agency policy and statutory requirements and to mitigate the risk of misappropriation of assets. Furthermore, we recommend that OKDHS implement procedures to ensure deposit of receipt transactions occurs in a timely manner in accordance with 62 O.S. § 34.57 and supporting documentation is properly retained in accordance with 21 O.S. § 590.

Views of Responsible Officials

We concur. OKDHS will include receipted deposit slips for revenue types 11 and 19 in state office revenue transactions and advise county office staff to include receipted deposit slips for transactions at local banks. As always, we advise county offices to deposit revenues timely upon receipt in order to ensure compliance with 62 O.S. § 34.57(C). In addition, we will keep documentation on site to maintain effective internal controls.

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*Improper
Coding of
Expenditure
Transactions
(dedicated SSI
account)*

A basic objective of Generally Accepted Accounting Principles is to provide accurate and reliable information. Furthermore, an effective internal control system provides for the adequate review of transactions.

According to GAO Standards for Internal Control in the Federal Government, OV3.02 "An effective internal control system provides reasonable assurance that the organization will achieve its objectives. ..."

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

Based on a sample of ten expenditure transactions, we noted four (40%) recorded to the dedicated SSI account (Fund 730), although made for an acceptable disbursement of funds, were improperly recorded to an expenditure code not listed as an acceptable disbursement of funds per the ASA application in force at the time the expenditure was made.

Improper coding of expenditures could result in inaccurate financial reporting.

Recommendation

We recommend OKDHS develop and implement appropriate processes to ensure that expenditure transactions are coded to acceptable sources of funds using source coding corresponding to the nature of each transactions and the transaction codes listed in the approved ASA application.

Views of Responsible Officials

We concur. OMES has amended the ASA application for Fund 730 to include expenditure code 5423 as of May 1, 2019.

*Ineffective
Review of
Expenditures
(client trust
fund, group
home
allowance
account,
client
recreation and
awards
account)*

A basic objective of Generally Accepted Accounting Principles is to provide accurate and reliable information. Furthermore, an effective internal control system provides for the adequate review of transactions.

According to GAO Standards for Internal Control in the Federal Government, OV3.02 "An effective internal control system provides reasonable assurance that the organization will achieve its objectives. ..."
Additionally, OV4.08 states "Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation

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is required for the effective design, implementation, and operating effectiveness of an entity's internal control system. ..."

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

Additionally, per 21 O.S. § 590(A), "Every state governmental entity shall, for a period of two (2) years, maintain accurate and complete records, as defined in Section 203 of Title 67 of the Oklahoma Statutes, reflecting all financial and business transactions, which records shall include support documentation for each transaction. No such records shall be disposed of for three (3) years thereafter, except upon a unanimous vote of the members of the Archives and Records Commission pursuant to Section 306 of Title 67 of the Oklahoma Statutes, or upon a majority vote of the members of the Commission for records more than five (5) years old."

We noted that:

- Eight out of a sample of 25 (32%) or \$628.25 of \$4,765.06 (13.18%) sampled expenditure transactions in the client trust fund (Fund 700) were supported by withdrawal forms signed by unauthorized OKDHS personnel.
- One out of a sample of 25 (4%) or \$120 of \$920 (13.04%) expenditure transactions in the group home allowance account (Fund 720) was supported by a withdrawal form that did not contain a signature of an approving official.
- Four out of a sample of 25 (16%) or \$1,130.76 of \$18,816.20 (6.01%) expenditure transactions in the client recreation and awards account (Fund 725) were not sufficiently documented or OKDHS staff was unable to locate supporting documentation.

The designed internal control regarding the adequate retention of documentation and approval of the transactions prior to payment in accordance with the Agency's administrative policy 340:2-11-86 was not operating effectively. The lack of proper approval and adequate documentation of expenditure transactions could result in the recording of improper or inaccurate expenditures and/or misappropriation of funds. Additionally, this lack of documentation indicates OKDHS may not be in compliance with 21 O.S. § 590.

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Recommendation

We recommend OKDHS ensure all claims are properly reviewed and approved prior to payment. This review should include ensuring the use of funds is proper in accordance with acceptable sources and uses of funds detailed on the appropriate approved ASA Applications (OMES Form 18A), and the presence of proper supporting documentation. Further, we recommend OKDHS ensure all records are retained in a manner compliant with statutory and administrative requirements.

Views of Responsible Officials

We concur. OKDHS will ensure all claims reviewed and approved with authorized signatures and with proper supporting documentation. We will ensure all records are retained in a manner compliant with statutory and administrative requirements.

*Ineffective
Review of
Revenue*

Adequate internal controls over access and accountability for resources include (1) limiting access to resources and records to authorized individuals and (2) assigning and maintaining accountability for the custody and use of resources.

Additionally, the GAO Standards for Internal Control in the Federal Government 10.13 states, in part, "Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties."

Policies and procedures established to ensure that warrants are properly safeguarded upon arrival from the mailroom were not properly designed. Specifically, to mitigate the risk of unrecognized revenue caused by a loss of warrants due to theft, fraud, or error, the revenue unit signs off on all mail received from the mailroom. Additionally, the revenue unit tracks the number of letters, number of checks, and the total dollar amount of checks received for each business day on a separate spreadsheet. The total dollar amount of checks are matched up with the deposit slip at the end of the day to ensure that all checks received have been deposited. However, the control is ineffective because the mail/checks tracked by the revenue unit are not verified by a person who is independent of the check deposit process.

Furthermore, while the mail/checks received were documented by a person independent of the check deposit process, the reported totals were not independently verified but rather reported by the Accountant

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responsible for preparing the daily deposits which does not constitute an independent verification of mail/checks received and deposited.

The policies and procedures currently in place are not adequate to ensure warrants are properly safeguarded, which exposes OKDHS to loss of warrants and/or misappropriation of assets in the form of fraud and/or theft.

Recommendation

We recommend OKDHS modify its procedures to ensure that mail/checks received from the mailroom are counted and tracked by a person independent of the check deposit process. Specifically, the tracking process should include the verification of number of checks and total dollar amount of checks received which should subsequently be agreed to the deposit slip for that business day.

Views of Responsible Officials

We do not concur. Child Welfare (CW) monitor the return spenddowns from client guardians and Developmental Disability Services (DDS) monitor court ordered Child Support payments to clients. Both CW and DDS know when client benefit payments from the U.S. Treasury do not post because they monitor care and treatment cost to be reimbursed to be OKDHS. Both programs contact the accountant if these Type 11 payments do not post to the Trust Account system. Type 19 court ordered restitution payments from the Oklahoma County District Attorney's office are monitored by the accountant which total 24 -36 revenue transactions per year. OKDHS feels these additional controls mitigate the risk of unrecognized revenue caused by loss of warrants due to theft, fraud, or error.

Auditor's Response

Management states in their response that DDS monitors client payments; however, processes performed by DDS were considered when assessing the control weakness related to Fund 700 (client trust account). Based on inquiries with DDS, it was determined that the processes in place do not mitigate the risk discussed in this finding. Furthermore, Fund 710 (Food Stamp Investigative Fund) payments received via mail remain at risk for loss or theft of warrants. Inquiries with the DHS Office of Inspector General did not reveal control processes that would mitigate this risk. We reiterate the need for management to modify the mail receipt process to ensure proper accounting of checks received by individuals independent of the revenue process.

O·K·L·A·H·O·M·A
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