



OKLAHOMA DEPARTMENT OF CORRECTIONS

Operational Audit

For the period July 1, 2018 through June 30, 2021

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Department of Corrections**

**For the Period
July 1, 2018 through June 30, 2021**



August 15, 2022

TO THE OKLAHOMA DEPARTMENT OF CORRECTIONS

We present the audit report of the Oklahoma Department of Corrections for the period July 1, 2018 through June 30, 2021. 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,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

The core mission of the Oklahoma Department of Corrections (Agency) is to protect the public, promote a safe working environment for staff, and encourage positive change in offender behavior by providing rehabilitation programs to enable successful reentry.

The Board of Corrections (Board) consists of five members appointed by the Governor, two members appointed by the President Pro Tempore of the Senate, and two members appointed by the Speaker of the House of Representatives. The Board is the governing body for the Department. Members are responsible for establishing and reviewing policies and confirming the appointment of wardens. The Director of the Agency is appointed by the Governor.

Board members as of June 2022 are:

T. Hastings Siegfried	Chairman
Calvin Prince	Vice-Chairman
Dr. Kathryn A. LaFortune.....	Secretary
Randy Chandler	Member
Betty R. Gesell.....	Member
Erick Harris.....	Member
F. Lynn Haueter	Member
Stephan Moore	Member
Daryl Woodard.....	Member

Oklahoma Department of Corrections
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The following table summarizes the Agency's sources and uses of funds for fiscal years 2020 and 2021 (July 1, 2019 through June 30, 2021).

Sources and Uses of Funds for FY 2020 and FY 2021

	2020	2021
Sources:		
Net Appropriations	\$ 555,621,513	\$ 540,192,154
Non-Revenue Receipts	20,326,499	18,197,147
Sales & Services	8,128,780	8,600,880
Grants, Refunds & Reimbursements	7,584,233	2,442,632
Fines, Forfeits & Penalties	304,893	261,328
Income From Money & Property	51,923	144,374
Licenses, Permits & Fees	13,306	16,919
Total Sources	\$ 592,031,147	\$ 569,855,434
Uses:		
Personnel Services	\$ 305,484,207	\$ 295,095,869
Professional Services	130,032,284	105,830,704
Administrative Expenses	91,234,339	89,047,638
Assistance & Payments to Local Govn'ts	23,137,514	27,503,310
Property, Furniture, Equipment	14,412,536	21,044,698
Transfers and Other Disbursements	12,927,380	12,873,156
Travel	583,353	569,851
Total Uses	\$ 577,811,613	\$ 551,965,226

Source: Oklahoma statewide accounting system (unaudited, for informational purposes only)

**Scope and
Methodology**

Our audit was conducted in response to 74 O.S. § 212(F), which requires the State Auditor and Inspector's office to perform an annual operational audit of books and accounts of the Department of Corrections.

We conducted this operational 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 major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2018 through June 30, 2021. To assess risk and develop our audit objectives, we held discussions with management, distributed surveys to the Agency's personnel, and performed data analysis and prior audit follow-up. These procedures included:

- Reviewing revenue, expenditure, and asset-related data from the statewide accounting system and gathering information from Agency personnel to assess the related financial processes and trends for any notable risks.
- Reviewing changes to the Agency's organizational and management structures.
- Reviewing the Agency's HR All Actions report from the Statewide Accounting System to assess changes that had a financial impact during the audit period and discussing the payroll processes with staff.
- Reviewing inventory listings and discussing the inventory tracking and count processes with staff.
- Reviewing internal policies and procedures and internal audit reports.

Three objectives were developed as a result of the procedures performed, as discussed in the body of the report. No other significant risks or findings were identified for objective development in this engagement.

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.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

¹ *Standards for Internal Control in the Federal Government*, or the "Green Book," sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

OBJECTIVE I Determine whether substantial payroll changes, including pay rate increases and newly created positions, were approved in line with GAO *Standards for Internal Control*.

Conclusion Substantial payroll changes, including pay rate increases and newly created positions, were approved in line with GAO *Standards for Internal Control*.

Objective Methodology To accomplish our objective, we performed the following:

- Documented our understanding of the payroll processes through discussion with management and review of documentation.
- Testing payroll changes to determine whether key changes were documented and approved as necessary by someone with appropriate authority. Our population included:
 - 16 management position changes that occurred during the audit period, identified through changes to the Agency organizational chart
 - 14 payroll changes with pay increases above \$2,700 (near or above a \$3,000 threshold)

No findings were identified as a result of these procedures.

OBJECTIVE II Determine whether employee leave and compensatory time, specifically for employees exceeding 200 hours of compensatory time, is accurately tracked, accrued, and used, in compliance with 74 O.S. § 840-2.15 and 2.20, OK Admin Code 260:25-15-10, and the agency's Overtime Pay and Compensatory Time policy.

Conclusion Employees leave and compensatory time, specifically for employees exceeding 200 hours of compensatory time, are accurately tracked, accrued, and used, in compliance with 74 O.S. § 840-2.15 and 2.20, OK Admin Code 260:25-15-10, and the agency's Overtime Pay and Compensatory Time policy.

Objective Methodology To accomplish our objective, we performed the following:

- Documented our understanding of the Agency's leave and compensatory time (comp time) processes through discussion with management and staff and review of documentation.
- Identified all employees with 200 or more hours of accrued comp time using records from the statewide accounting system and reviewed to ensure no balances were over the limits established by statute or Agency policy.
- Performed detailed review of timesheets from each of the 14 employees with comp time balances over 200 hours to ensure that comp time was accurately tracked, accrued, and used by performing the following procedures:
 - Manually recalculated employees' comp time earned and used balances for selected months from throughout the audit period (March 2019, September 2019, July 2020, and December 2020) using supervisor-approved employee timesheets.
 - Compared comp time calculations to leave accrual reports from the statewide accounting system.
 - Verified the comp time balances did not exceed the limit set in statute.

No findings were identified as a result of these procedures.

OBJECTIVE III Determine whether the Agency's inventory controls are operating effectively as defined by *GAO Standards for Internal Control*.

Conclusion The Agency's inventory controls are not operating effectively as defined by *GAO Standards for Internal Control*.

Objective Methodology To accomplish our objective, we performed the following.

- Documented our understanding of the inventory processes through discussion with management and staff and review of documentation.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.

FINDINGS AND RECOMMENDATIONS

**Independent,
Comprehensive
Inventory
Count Needed**

The Agency's inventory control officer is responsible for maintaining the inventory database. Due to the inventory system being outdated, there is only one computer capable of accessing the system to make entries. The Agency is currently in the process of implementing a new inventory system, Asset Panda. However, management was unable to provide us specific details regarding the implementation plan and an estimated completion date.

High Appeal Items

The Internal Audit Division performs inventory counts on high appeal items at the Agency's locations throughout the state. High appeal items include weapons and vehicles. These counts also include a selection of items that are not considered high appeal. We reviewed the inventory count that was conducted in FY 2021 at the Dick Conner Correctional Center, which indicated 22 of approximately 450 items in the inventory listing were found onsite but were not recorded in the inventory database. It was discovered that these items had been purchased in 2019. Agency management in the Inventory Department noted that these instances are probably happening at other locations as well. The inventory counts may not be reliable as the items were purchased two years prior and were not detected in previous inventory counts. In addition, the records resulting from these counts were not reliable and accurate.

The results of the high appeal inventory counts are provided to the Director of Auditing & Compliance and the Board of Corrections. However, based on the information we gathered from personnel, errors detected during the inventory count process can be corrected before the results are presented to the top-level reviewers, therefore upper

management may not have a complete understanding of the findings and changes that occur during the internal audit inventory count process.

IT Inventory

IT items are entered into the inventory system by the inventory control officer but are not tracked by location and inventory counts are not conducted for these items. Management noted that this was initially due to their understanding that the Office of Management and Enterprise Services would be performing inventory counts on IT items after statewide IT services were consolidated. However, according to the Chief of Technical Services and the Chief Information Officer, in 2020 IT inventory discrepancies were discovered and they began immediately to recreate an IT inventory listing using purchasing records. This process is still ongoing.

Non-IT Inventory

As noted above, the Internal Audit Division performs an inventory count that incorporates a selection of non-IT inventory. However, a comprehensive inventory count has not been performed for non-IT items since 2015.

Without reliable IT and non-IT inventory counts, the inventory records may be inaccurate and items may be lost or stolen without detection. In addition, inventory reports provided to the Office of Management and Enterprise Services for statewide accounting and risk management purposes may be inaccurate.

The GAO *Standards for Internal Control* state that:

- Assets should be periodically counted and compared to control records.
- Management must design an internal control system to provide reasonable assurance of prevention or detection of unauthorized acquisition, use, or disposition of assets.
- Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Recommendation

We recommend management:

- Ensure a comprehensive, annual count of IT and other high appeal inventory is performed and documented to ensure the records are complete and accurate and all items have been accounted for. General inventory should also be physically verified as it is entered into the new inventory system. The employees responsible for performing the count should not have access to modify inventory records.
- After a full inventory count has been performed to confirm the current records are accurate and complete, regular counts should

be conducted as appropriate based on the Agency's own assessment of the inventory risks. The results of each inventory count, and any resulting modifications to inventory records, should be reviewed and approved by management, and documentation of the review should be maintained.

Views of Responsible Officials

The agency concurs with the finding related to Inventory Control. Recognizing the need to better identify and account for inventoriable assets, ODOC engaged with Asset Panda, a cloud based comprehensive inventory software, to replace the current Fixed Asset Inventory System (FAIS). An Initial attempt to implement the new asset program in 2019 stalled upon recognizing the need to reconfigure the program & processes to better fit ODOC. In 2020, the COVID pandemic delayed progress even further.

One of the requirements of Asset Panda implementation is for each asset to be photographed and marked with a unique inventory number and barcode. The assets are then cross referenced with FAIS, purchasing documents, and any other available information to determine a purchase cost and purchase date. In December 2021, the quality assurance unit, in conjunction with the business services unit, began converting the Administrative Complex assets into Asset Panda. The Administration Complex has been a pilot in implementation with adjustments being made to the process before moving to remote locations. Roll-out to facilities, offices, and other remote locations will begin in late July-August 2022. The administrative services staff is working through the last few years of purchases to identify items that should be on FAIS or Asset Panda.

In February 2022, OP-120801 was released outlining the agency's asset management procedures to include requiring each facility, unit, and region to designate an Inventory Control Officer (ICO) and Inventory Control Agent to assist the ICO. The policy also defines assets to be accounted for in Asset Panda as described below.

- Machinery, implements, tools, furniture, vehicles, and other apparatus with an acquisition cost of \$500.00 or above.
- Telecommunications Machinery, implements, tools, furniture, vehicles, and other apparatus with an acquisition cost of \$500.00 or above.
- Licensed Software, regardless of value, will be inventoried and an inventory control number will be assigned.
- Cellphones, tablets, and other communication devices owned or leased by the agency, regardless of cost.
- Weapons, scopes, binoculars, bulletproof vests, two-way radios, and cameras, regardless of purchase price.

OP 120801 also identifies the actions expected of the Inventory Control Officers and Agents, intensifies accesses and processes within the software, institutes an annual inventory for each facility, unit, or region, and facilitates an annual audit by the internal auditors.

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S·A·I
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