

STATE AUDITOR AND INSPECTOR

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December 29, 2010

Michael O'Brien, Ed. D., Director
Department of Rehabilitation Services
3535 N.W. 58th Street, Suite 500
Oklahoma City, Oklahoma 73112

Dear Dr. O'Brien:

This communication is provided pursuant to the parameters of the 2010 Office of Management and Budget (OMB) pilot project. Such project requires auditors of entities that volunteer for the project to issue, in writing, an early communication of significant deficiencies and material weaknesses in internal control over compliance for certain federal programs having expenditures of American Recovery and Reinvestment Act of 2009 (ARRA) funding at an interim date, prior to the completion of the compliance audit. Accordingly, this communication is based on our audit procedures performed through November 30, 2010, an interim period. Because we have not completed our compliance audit, additional significant deficiencies and material weaknesses may be identified and communicated in our final report on compliance and internal control over compliance issued to meet the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

In planning and performing our audit procedures through November 30, 2010, of the Rehabilitative Services-Vocational Rehabilitation Grants to States, Recovery Act, CFDA 84.390, we are considering the Oklahoma Department of Rehabilitation Services compliance with activities allowed or unallowed, allowable costs and cost principles, cash management, eligibility, reporting, and special tests and provisions-R1-separate accounting for funds provided under the Recovery Act, as described in the *OMB Circular A-133 Compliance Supplement* for the year ended June 30, 2010. We are considering the Oklahoma Department of Rehabilitation Services internal control over compliance with the requirements previously described that could have a direct and material effect on the Rehabilitative Services-Vocational Rehabilitation Grants to States, Recovery Act, program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Oklahoma Department of Rehabilitation Services internal control over compliance.

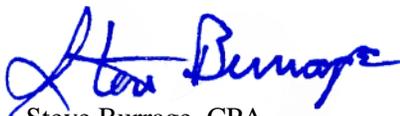
Our consideration of internal control over compliance is for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies as defined in the following paragraph. However, as discussed subsequently, based on the audit procedures performed through November 30, 2010, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings to be significant deficiencies.

The Oklahoma Department of Rehabilitation Services' responses to our findings are described in the accompanying schedule. We did not audit the Oklahoma Department of Rehabilitation Services' responses and, accordingly, we express no opinion on them.

This interim communication is intended solely for the information and use of management, the Department of Rehabilitation Services Director and Commission, others within the entity, 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.

Sincerely,



Steve Burrage, CPA
State Auditor and Inspector

Schedule of Findings

FINDING NO: 10-805-001 (**Repeat Finding**)

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: U.S. Department of Education

CFDA NO: 84.390

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Services Grants to States, Recovery Act

FEDERAL AWARD NUMBER: H390A-090053

FEDERAL AWARD YEAR: 2009

CONTROL CATEGORY: Allowable Costs/Cost Principles

Criteria: A component objective of an adequate internal control system is to ensure appropriate procedures are in place to provide reasonable assurance that the costs of goods and services charged to the Federal award are allowable and in accordance with the applicable cost principles.

2CFR § 225 – Cost Principles for State, Local, and Tribal Governments (OMB Circular A-87) establishes principles and standards to provide a uniform approach for determining allowable costs. Appendix A, section A(2)(a) states, “The application of these principles is based on the fundamental premises that... (3) Each governmental unit... will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.”

Condition: During the process of documenting the agency’s internal controls over allowable costs/cost principles, we noted that the agency does not review charges made to the Vocational Rehabilitation program to determine if they are allowable under OMB Circular A-87. The CPO (Certified Procurement Officer) we spoke with was not aware that allowable costs/cost principles (OMB Circular A-87) should be considered during the review of the requisition. In addition, we spoke to the accountant who assigns funding to requisitions and they appeared to be familiar with the term allowable costs, but did not know where to find information regarding allowable costs.

Cause: There appears to be a lack of written procedures for proper review and approval of costs charged to the Vocational Rehabilitation program. In addition, it appears that some confusion exists about who is responsible for reviewing charges for allowability and at what stage of the procurement process this should be performed.

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

Recommendation: We recommend that the Department of Rehabilitation Services develop written procedures for reviewing and approving costs charged to the Vocational Rehabilitation program to determine allowability in accordance with OMB Circular A-87. These procedures should specifically state who is responsible for this review and when the review should be performed.

Views of Responsible Official(s): While there are no specific procedures in place to review for A-87 allowability, there are safeguards in place that prevent the lapse in internal controls described. The items listed as unallowable in A-87 are also identified as unallowable in the Central Purchasing Rules, Office of State Finance Procedures and the p-card training identifies unallowable purchases consistent with A-87, but does not link the reason for disallowance back to A-87. Staff that were questioned do review for allowance, but may be unable to point to A-87 as the document used if in fact they are more readily familiar with the DCS Rules or OSF Procedures. A-87 compliance takes place at many levels and is not, nor should it be limited to the procurement process. In a proactive usage, A-87 is as much a guide as a compliance document and in that vein is referred to during budgeting or program planning discussions to determine how to structure a particular function so that it is compliant with all regulations.

Contact Person: Kevin Statham

Anticipated Completion Date: June 30, 2011

Corrective Action Planned: The Agency concurs with the need for an internal process document that identifies the workflow and compliance reviews regarding costs charged to the programs. This document will encompass all the regulatory

oversight for the program, the existing workflow and document at what point a compliance review is performed regarding a potential cost.

Contact Person and contact information for high level management official who will assume overall responsibility for ensuring appropriate corrective action: Cheryl Gray, Chief Fiscal Officer (cjgray@drs.state.ok.us, 405.951.3418)

FINDING NO: 10-805-002 (**Repeat Finding**)

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: U.S. Department of Education

CFDA NO: 84.390

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Services Grants to States, Recovery Act

FEDERAL AWARD NUMBER: H390A-090053

FEDERAL AWARD YEAR: 2009

CONTROL CATEGORY: Allowable Costs/Cost Principles

Criteria: A component objective of an adequate internal control system is to ensure appropriate procedures are in place to provide reasonable assurance that the costs of goods and services charged to the Federal award are allowable and in accordance with the applicable cost principles.

2CFR § 225 – Cost Principles for State, Local, and Tribal Governments (OMB Circular A-87) establishes principles and standards to provide a uniform approach for determining allowable costs. 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 firsthand knowledge of the work performed by the employee.”

Condition: During the process of documenting the agency’s internal controls over direct employee payroll certifications, it was noted that several payroll certifications had not been completed during SFY 2010. According to the DRS employees responsible for ensuring payroll certifications are completed, as of September 9, 2010, there were some payroll certifications that had not been completed for the periods July-December 2009 and for January-June 2010.

Cause: There are no formal agency policies or procedures for performing the semi-annual payroll certifications. Some supervisors were uncertain on how to complete the payroll certifications. Therefore, it appears proper training was not provided to ensure accurate and complete preparation of the payroll certifications. In addition, it appears DRS lacks backup procedures for the completion of payroll certifications when the direct supervisor is not available.

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

Recommendation: To ensure payroll certifications are completed and approved by the employees’ direct supervisor in a timely manner, we recommend that DRS develop and implement policies and procedures regarding the completion of direct employee payroll certifications and provide training to ensure the certifications are properly completed. The policies should include who is to fill out payroll certifications in the absence of the direct supervisor. In addition, it may be beneficial if copies of the procedures are provided to the supervisors when it is time to complete the semi-annual payroll certifications.

Views of Responsible Official(s): The Agency concurs that documentation of certifications has been problematic. Responsibility for the completion of the certifications was transferred to align the certifications with other payroll oversight mechanisms already in place. Procedures will be forthcoming once system modifications and an efficient workflow has been developed, trained and adequately tested. DRS does review all Agency personnel transactions to establish funding regarding FTE. This review allows for the assignment of funding prior to new assignments taking place based on the reporting structure and assigned duties. It is recognized that an efficient certification process will complete and fully document the effectiveness of the controls already in place.

Contact Person: Kevin Statham and Paula Nelson

Anticipated Completion Date: June 30, 2011

Corrective Action Planned: Complete the retooling of the certification system, train appropriate staff and develop internal procedure documents.

Contact Person and contact information for high level management official who will assume overall responsibility for ensuring appropriate corrective action: Cheryl Gray, Chief Fiscal Officer (cjgray@drs.state.ok.us, 405.951.3418) and Kevin Statham, Financial Services Administrator (kdstatham@drs.state.ok.us, 405.951.3422)

FINDING NO: 10-805-03

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: U.S. Department of Education

CFDA NO: 84.390

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Services Grants to States, Recovery Act

FEDERAL AWARD NUMBER: H390A-090053

FEDERAL AWARD YEAR: 2009

CONTROL CATEGORY: Reporting, Special Tests and Provisions for Awards with ARRA Funding – R-1 Separate Accountability for ARRA Funding

Criteria: A component objective of an effective internal control system is to ensure accurate and reliable information through proper review and approval and to ensure adequate source documentation is retained.

Condition: During our internal control walkthrough we noted that management compares the numbers reported on the SEFA to the DRS financial statements. The DRS financial statements do not breakdown the client service expenditures by American Recovery and Reinvestment Act (ARRA) and non-ARRA. Therefore, this review would not detect errors in reporting expenditures which may be inaccurately reported between CFDA # 84.390 and CFDA #84.126 (Rehabilitation Services – Vocational Rehabilitation Services Grants to States – Non-ARRA).

In addition, we noted that DRS prepares a spreadsheet which tracks and reconciles the ARRA draws and ARRA expenditures. This reconciliation is used to prepare the ARRA Section 1512 report and to ensure all ARRA funds are separately recorded. Management stated that this reconciliation is periodically reviewed to ensure it was properly completed. However, no documentation that this review occurred is maintained and the supporting documentation for this reconciliation was not maintained throughout the audit period. Therefore, we were unable to confirm that this review occurred.

Cause: There does not appear to be a proper review process in place for reporting and the Department has failed to maintain appropriate documentation to support the ARRA Section 1512 report reconciliation.

Effect: It appears management's review has not been adequately designed to detect errors in reporting. Therefore, expenditures could be improperly reported and not be detected in a timely manner.

Recommendation: We recommend the Department develop and implement procedures for a detailed review and approval of the SEFA which includes determining if the amounts reported as ARRA and non-ARRA expenditures are accurate and complete. We also recommend that the Department develop and implement procedures to ensure that its internal controls operate effectively, including procedures for record retention of all pertinent documents.

Views of Responsible Official(s): The regulations for the ARRA funds (84.390) mirrored the Title I dollars (84.126) already in place for the VR program. This allowed for both funds to be a source for client service. Due to the short nature of ARRA funding, automated computer systems were not modified. Though cumbersome, manual reporting processes were determined to be the most cost efficient and the agency resorted to other parameters to isolate ARRA expenditures. The financial statement, by itself does not isolate individual program costs within a Division. The ARRA worksheets bring together an aggregate cost of infrastructure costs and client service costs for ARRA funds. The procedure for record retention is previously established in the Grant regulations and is documented at 34 CFR, part 80.42.

Contact Person: Kevin Statham

Anticipated Completion Date: June 30, 2011

Corrective Action Planned: DRS concurs with the need to document the internal procedures regarding reviews performed on reports.

Contact Person and contact information for high level management official who will assume overall responsibility for ensuring appropriate corrective action: Cheryl Gray, Chief Fiscal Officer (cjgray@drs.state.ok.us, 405.951.3418)

FINDING NO: 10-805-004

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: U.S. Department of Education

CFDA NO: 84.390

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Services Grants to States, Recovery Act

FEDERAL AWARD NUMBER: H390A-090053

FEDERAL AWARD YEAR: 2009

CONTROL CATEGORY: Cash Management

Criteria: Good internal controls dictate that management properly document internal controls in the form of written policies and procedures to ensure compliance with applicable laws and regulations.

Condition: During our documentation of internal controls, we noted there are no formal written policies and procedures for preparation of the cash draws or the monitoring of cash management activities.

Effect: Failure to properly document internal controls in the form of written policies and procedures could lead to a breakdown in the internal control process that could result in misappropriation of assets or material noncompliance with applicable laws and regulations.

Recommendation: We recommend the Department develop formal written policies and procedures for the preparation of cash draws and cash management activities.

Views of Responsible Official(s): The Cash Management Information Act Agreement currently in place dictates the manner in which draws requests are compiled and processed. Controls exist that isolate program costs within specific departments established in the Agency's Chart of Accounts. Program accountants do know which departments are assigned to their programs.

Contact Person: Kevin Statham and Elaine Shetley

Anticipated Completion Date: June 30, 2011

Corrective Action Planned: Controls exist to allow for accurate and timely collection of expenditure information for Cash Management compliance. What does not exist is an internal procedures document that defines the steps performed by staff to complete the necessary draws. The Agency concurs, the process will be documented.

Contact Person and contact information for high level management official who will assume overall responsibility for ensuring appropriate corrective action: Cheryl Gray, Chief Fiscal Officer (cjgray@drs.state.ok.us, 405.951.3418) and Kevin Statham, Financial Services Administrator (kdstatham@drs.state.ok.us, 405.951.3422)

FINDING NO: 10-805-005

STATE AGENCY: Department of Rehabilitation Services

FEDERAL AGENCY: U.S. Department of Education

CFDA NO: 84.390

FEDERAL PROGRAM NAME: Rehabilitation Services – Vocational Rehabilitation Services Grants to States, Recovery Act

FEDERAL AWARD NUMBER: H390A-090053

FEDERAL AWARD YEAR: 2009

CONTROL CATEGORY: Eligibility

Criteria: A component objective of effective internal controls is to provide accurate and reliable information through adequate supervision and review.

DRS Vocational Rehabilitation Specialist Level Descriptors for Level I Code K21A states, “This is the basic level where employees are assigned responsibilities for performing entry-level work under direct supervision. Direct supervision includes, but is not limited to, supervisor’s signature authority on approval on eligibility decision, Individual Plans for Employment (IPE) and amendments, authorizations for services, evaluation, and case closure.”

Condition: During our testwork of controls, we noted that 5 out of 37 or 13.51% of IPE's assigned to counselors that were Level I or Carl Albert Executive Fellows Interns did not have the required supervisor signatures, which indicates approval of the IPE and eligibility determination.

Cause: It appears supervisors are either not documenting their review and approval or a supervisory review is not being performed for Level I specialists or Carl Albert Executive Fellows Interns.

Effect: The Client may not be eligible for the services they are provided.

Recommendation: We recommend that the Department ensure all supervisors have been properly informed and trained regarding the policy on restrictions pertaining to entry-level counselors. Emphasis should be on the restrictions for entry-level counselors involved in eligibility decisions, Individual Plans for Employment (IPE) and amendments, authorizations for services, evaluations, and case closures.

Views of Responsible Official(s): The five cases in question will be reviewed to determine the validity of the case.

Contact Person: Mark Kinnison

Anticipated Completion Date: March 31, 2011

Corrective Action Planned: The Division Administrator will conduct training to VR Programs Managers and Field Coordinators at the next quarterly meeting, which will be in February or March. At that time the cases identified in the finding will be reviewed and discussed. Part of the agenda will include training regarding DRS Vocational Rehab Specialist level descriptors and the function of those levels. In addition to that, I will also provide training consisting of an overview of DRS 612:10-7-87 actions requiring supervisor’s approval.

Contact Person and contact information for high level management official who will assume overall responsibility for ensuring appropriate corrective action: Mark Kinnison, Field Service Coordinator (mdkinnison@drs.state.ok.us, 918.581.2332)