

TURNOVER AUDIT

OKLAHOMA HEALTH CARE AUTHORITY

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



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Oklahoma Health Care Authority**

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



Oklahoma State Auditor & Inspector

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February 9, 2018

TO GOVERNOR MARY FALLIN

This is the audit report of the Oklahoma Health Care Authority for the period July 1, 2014 through September 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,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is written in a cursive style.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Oklahoma Health Care Authority Turnover Audit

Background

It is the policy of the state to provide comprehensive health care as an employer to state employees and officials and their dependents and to those who are dependent on the state for necessary medical care. To that end, the legislature established the Oklahoma Health Care Authority (OHCA or the Agency) and its governing Board (the Board). OHCA is has the responsibilities to:

1. Purchase state and education employees' health care benefits and Medicaid benefits;
2. Study all state-purchased and state-subsidized health care, alternative health care delivery systems and strategies for the procurement of health care services in order to maximize cost containment in these programs while ensuring access to quality health care; and
3. Make recommendations aimed at minimizing the financial burden which health care poses for the state, its employees and its charges, while at the same time allowing the state to provide the most comprehensive health care possible.

Former CEO Joel Nico Gomez separated from the Agency and was replaced by current CEO Rebecca Pasternik-Ikard on October 4, 2016. This turnover resulted in the Governor's request for this engagement, discussed later under Scope and Methodology.

The Board has the power and duty to establish OHCA policies, appoint the administrator of the authority, adopt and promulgate rules as necessary and appropriate to carry out the duties and responsibilities of the authority. Board members as of September 30, 2016 were:

Charles Ed McFall.....	Chairman
Tony Armstrong.....	Vice-Chairman
Carol Robison	Member
Marc Nuttle.....	Member
Melvin R. McVay Jr.....	Member
Ann Bryant.....	Member
Tanya Case.....	Member

Oklahoma Health Care Authority Turnover Audit

Scope and Methodology

Our audit was conducted in response to Governor Fallin’s request in accordance with 74 O.S. § 212.C and § 213.2.B.

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 major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2014 through September 30, 2016.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Health Care Authority 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.

OBJECTIVE I

Determine whether controls provide reasonable assurance that administrative expenditures were accurately reported in the accounting records.

Conclusion

The Agency’s internal controls generally provide reasonable assurance that administrative expenditures were accurately reported in the accounting records. However, the Agency’s internal controls over the review of payroll changes should be strengthened.

Methodology

In planning and conducting our procedures for Objective I, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2014 through September 30, 2016.

To accomplish our objective, we documented our understanding of internal controls over OCHA's expenditure and payroll processes. We then performed procedures to determine whether controls were properly designed and implemented, and whether they were operating effectively. We further performed procedures to confirm OHCA complied with the statutory requirement that Board members are not compensated for their services but may be reimbursed for certain travel expenses (74 O.S. § 500.1 et. seq., State Travel Reimbursement Act).

FINDINGS AND RECOMMENDATIONS

**No Independent,
Documented
Review of Payroll
Changes
Performed**

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*¹ (2014 Revision) states, "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, and reviewing the transactions." Independent review is key in ensuring payroll changes are legitimate. The standards further require that, "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination, and documentation and records are properly managed and maintained."

No documented review is performed to ensure major payroll changes (changes with a fiscal impact such as hires, pay raises, and terminations) have been properly implemented. As a result, errors in employees' favor could go undetected (as employees would likely report errors not in their favor). While the OHCA payroll supervisor reportedly reviews detailed payroll reports after payroll changes have been made, the review is not documented.

Recommendation

We recommend the payroll personnel document their review of the detailed payroll documents after changes have been made, for example by signing and dating the payroll register report from OMES. Documentation of this review should be retained, whether on paper or electronically.

¹ Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

Views of Responsible Officials

Employee transactions including terminations, hires and pay rate changes are currently entered by one Human Resource Specialist for consistency. In order to comply with accuracy and audit verification, it is suggested that prior to the monthly payroll process, a query of all transactions entered for the month will be run and a second Human Resource Specialist will check the entries against supporting documents including the signed offer letter, freeze exception request and Full Time Employee Change Request. Any discrepancies will be identified and corrected prior to the payroll process to avoid erroneous information permanently documented in the PeopleSoft record system.

Due to the delay in approval of the OPM-14 by HCM, HR will use our internal offer letter as verification that the transaction entered has been checked. This document will be used for hires and salary changes. Resignation letters, discharge notices, or emails from the supervisor (in absence of resignation letter) stating the termination date will be used as verification for terminations. All the above documents will include initials and date by the HR Specialist completing the check.

OBJECTIVE II

Analyze OHCA's administrative expenditures and determine whether they appear reasonable given the statutory responsibilities and mission of the agency.

Conclusion

OHCA administrative expenditures and related trends appear reasonable given the statutory responsibility and authority of the agency.

Methodology

In planning and conducting our procedures for Objective II, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2014 through September 30, 2016.

To accomplish our objective, we analyzed administrative expenditures, identified significant laws, regulations, and other guidance outlining the responsibilities and authority of the agency in administrative (non-program) spending, and verified the data analyzed were reasonable and appropriate given those guidelines.

No findings were identified as a result of these procedures.



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