J.D. McCARTY CENTER FOR CHILDREN WITH DEVELOPMENTAL DISABILITIES

FOR THE PERIOD
JULY 1, 2007 THROUGH
JUNE 30, 2009

OPERATIONAL AUDIT

Oklahoma State Auditor
& Inspector

Audit Report of the J.D. McCarty Center for Children with Developmental Disabilities

For the Period July 1, 2007 through June 30, 2009

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November 23, 2009

TO THE CEREBRAL PALSY COMMISSION

This is the audit report of the J.D. McCarty Center for Children with Development Disabilities for the period July 1, 2007 through June 30, 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,

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Background

The J.D. McCarty Center for Children with Developmental Disabilities (the Agency) was created for the care, maintenance, treatment, training, education, and physical and mental rehabilitation of residents of Oklahoma under the age of twenty-one afflicted with cerebral palsy or other developmental disabilities.

Oversight is provided by the Cerebral Palsy Commission composed of five members appointed by the governor serving three-year terms.

Commission members are:

Karen Rieger .... Chair
Joe Sher........ Vice-Chair
Bill Logan........ Secretary
Joe Knight........ Commissioner
Rob McCalla........ Commissioner

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

Sources:				
State Appropriations	$	4,452,961	$	4,103,230
Refunded Money		701,388		5,166
Reimbursement For Personnel Services		11,678,864		10,740,291
ARRA Interagency Receipts		-		239,311
Private Grants and Donations		69,904		39,698
Sale of Service		109,348		94,247
Hospital Services		109,312		142,643
Outpatient Health Services and Sales		683,986		572,687
Other		17,593		78,917
Total Sources	$	17,823,356	$	16,016,190
Uses:				
Personnel Services	$	10,415,276	$	10,435,326
Professional Services		407,910		407,999
Travel		69,873		65,763
Miscellaneous Administrative		439,828		448,753
Rent Expense		55,848		54,641
Maintenance and Repair Expense		205,485		173,023
Specialized Supplies and Materials		524,007		554,413
Production, Safety, and Security		31,665		35,353
General Operating Expense		55,155		47,700
Office Furniture and Equip		162,863		53,052
Buildings-Purchase, Construction, and Renovation		41,925		270,754
Bond Indebtedness		1,081,999		1,062,382
Refunds, Idemnities, Restitution		1,410,995		1,391,747
Other		24,093		24,650
Total Uses	$	14,926,922	$	15,025,556

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

Purpose, Scope, and Sample Methodology

This audit was conducted in response to 63 O.S. § 485.3 which requires the Office of the State Auditor and Inspector to audit the books and records of the Agency.

The audit period covered was July 1, 2007 through June 30, 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, and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls generally provide reasonable assurance that expenditures were accurately reported in the accounting records. However, one area should be strengthened. The internal controls do not provide reasonable assurance that revenues and inventory were accurately reported in 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 and observation and review of documents;
- Tested controls which included:
  - Reviewing a random sample of 40 expenditure claims from the period to determine if the payment was reviewed and approved. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, the expenditure appeared reasonable given the Agency's mission, and the expenditure agreed to an approved requisition.
- 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. § 7.1.C.2.a; and
- Reviewed a PeopleSoft accounting system deposit report for the audit period to ensure funds are transferred from the Agency's clearing account at least once per month as required by 62 O.S. § 7.1. E.

Observation

Inadequate Monitoring Related to the Receipting Process

An effective internal control system provides for adequate monitoring of funds received.

According to PeopleSoft data and discussions with management, the majority of fees received and deposited into the clearing account[1] are insurance payments and co-payments presented by a patient's family. The administrative programs officer creates an invoice for these costs as well as receipts the funds when they are received. He is independent of preparing the deposit which is performed by the purchasing and acquisitions agent. Although these duties are segregated, a control has not been designed to allow the purchasing and acquisitions agent to have reasonable assurance that all funds received are actually being presented to her for deposit.

We considered if management's monthly "budget to actual" comparison by revenue type would reduce this risk to an acceptable level. However, the "actuals" portion of this analysis is provided to management by the purchasing and acquisitions agent who receives the majority of the amounts from the administrative programs officer. We determined it did not reduce the risk.

Management was unaware of the risks created by not ensuring a control exists to ensure all funds received are actually deposited. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

For funds deposited into the clearing account, we recommend an employee independent of the billing and receipting process compare what was billed, as applicable, to what was received and ultimately deposited. Support for this comparison should be obtained from sources other than the employees involved in the billing and receipting process.

Views of Responsible Officials

A photocopy will be made of all checks received. The accounting technician not responsible for daily deposits will make the photocopies of the checks before they are passed on to the Administrative Programs Officer. The copies of the checks will be stapled together and a calculator tape produced, dated, initialed and attached to the copies. The daily total will be compared to the Administrative Programs Officer's daily deposit log when the log is received by Finance.

Observation

Lack of Segregation of Duties Related to Expenditures

An effective internal control system provides for adequate segregation of duties.

The account technician is responsible for:

- Entering disbursements into the PeopleSoft accounting system;
- Receiving warrants from OSF; and
- Mailing warrants to vendors.

It should be noted the management does review a PeopleSoft expenditures report each month which could reduce this risk. However, the report is summarized by account code and provides no detail as to what vendors were paid or the amount.

[1] The amount manually receipted during the audit period was approximately $2 million.

Management was unaware of the risks created by not ensuring there was adequate segregation of duties. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend an employee other than the account technician receive the warrants from OSF and mail them to the vendors. If management decides the account technician should continue performing all of the duties discussed earlier, we recommend management review a detailed monthly expenditure report which includes the vendors' names.

Views of Responsible Officials

A copy of the list of vendors produced from PeopleSoft when the vouchers are recorded will be kept and matched against the actual warrants and warrant issue list that is received from OSF. This will be performed by the accounting technician in the Finance Office that does not disburse funds. At this time we would like our accounts payable person to continue with the mailing function as she has copies of invoices that must be attached to the checks and likewise keeps a record of all vendors paid and the warrant number issued to that vendor. The Comptroller will also review weekly the 6 Digit Object of Expenditure Detail Report for vendors.

Observation

<u>Inadequate Segregation of Duties Related to Inventory</u>

An effective internal control system provides for adequate segregation of duties.

The purchasing and acquisitions agent is responsible for purchasing items and has access to the inventory listing. The materials management specialist is responsible for:

- Initiating surplus transactions;
- Adding and deleting items from the inventory listing; and
- Conducting the inventory count.

In addition to the two employees mentioned, all other employees in the Agency's finance division have access to the inventory listing. Management was unaware of the risks created by not ensuring there was adequate segregation of duties or having the inventory listing available to all finance staff. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend:

- An employee without the ability to update inventory records should be responsible for completing the DCS Form 001 surplus inventory form;
- The physical inventory count should be conducted by employee not responsible for purchasing/surplusing goods or maintaining the inventory records. If discrepancies are noted, the executive director or designee, other than the personnel involved in the physical count, should investigate and resolve. The Agency should also retain documentation to support who performed the actual count, when the count was performed, and any discrepancies noted during the count; and
- Access to the inventory listing should be restricted to applicable personnel only and should not include the employees responsible for purchasing/surplusing goods or conducting the inventory count.

Views of Responsible Officials

The finance department is recommending that the center purchase a scanner for use in control of inventory. Approximate cost is $850-$900. Comptroller will maintain the inventory records to include adding items purchased for $500 and over as well as surplus items that are to be removed and placed on the DCS Form 001. Other members of the Finance Department will have read only access to the inventory (MIS will have access also). The new accounting technician will apply the identification tags to the items added to inventory. An individual that has no responsibilities to surplus or receive property into inventory will be responsible for performing a physical count of inventory items annually. The individual performing the inventory will sign and date the inventory record when completed. Any discrepancies noted will be reported to the Agency Director or his designee.

Additional Procedures Performed

Methodology

As a result of the control deficiencies identified under objective 1 of this report, the following procedures were performed:

- Reviewed the Agency's "budget to actual" comparison by revenue type from the audit period and discussed the report with management;
- Reviewed a PeopleSoft expenditure report for payments made to the account technician and/or vendor names that appeared unusual[2] given the mission of the Agency;
- From a PeopleSoft expenditure report, we isolated claims with the account code 41XX (furniture and equipment) to determine if any high appeal items had been purchased. We reviewed 14 claims and determined one of them contained high appeal items (three laptop computers). We ensured the laptops existed by comparing the serial numbers from the invoice to the asset and were present on the inventory records;
- Scanned the expenditure report for vendor names that would have appeared to require an account code of 41XX but did not; and
- Selected 15 high appeal items from the Agency's inventory listing and verified their existence.

No exceptions were noted as a result of these procedures.

[2] Unusual was defined as a vendor name that was unfamiliar to the auditor or strange given the mission of the Agency.

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