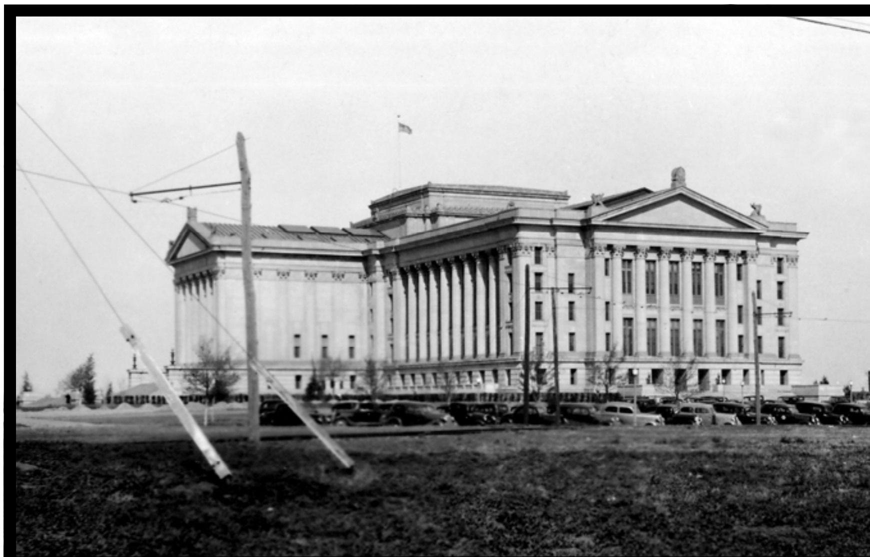

Audit of the J.D. McCarty Center for Children with Developmental Disabilities

January 1, 2006 through June 30, 2007

Office of the Oklahoma State Auditor and Inspector
Jeff A. McMahan, CFE

Audit Report of the

J.D. McCarty Center
for Children with Developmental Disabilities

For the Period
January 1, 2006 through June 30, 2007

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October 23, 2007

TO THE EXECUTIVE DIRECTOR OF THE J. D. McCARTY CENTER FOR CHILDREN WITH DEVELOPMENTAL DISABILITIES

Pursuant to 63 O.S. § 485.3, transmitted herewith is the audit report for the J. D. McCarty Center for Children with Developmental Disabilities for the period January 1, 2006 through June 30, 2007. 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,

JEFF A. McMAHAN
State Auditor and Inspector

Mission Statement

The mission of the J.D. McCarty Center is to provide a comprehensive program of rehabilitative care to Oklahoma's children (ages 0-21) with developmental disabilities.

In addition, the Center seeks to...

- Utilize measurable quality standards and to ensure excellence in health care through a comprehensive, multi-disciplinary approach to service delivery which will enable children with developmental disabilities to maximize their potential and enhance their quality of life.
- Provide an intensive and comprehensive rehabilitative environment through direct services, referrals and consultations that will lead to increased productivity and a quality standard of living throughout adulthood.
- Increase the physical and emotional well-being of patients and their families through an empowering process of education, training, transitional planning and community support.
- Advocate for the needs of children with developmental disabilities by increasing awareness and supplementing rehabilitative services in all communities as well as pro-actively seeking solutions to expressed concerns.
- Facilitate ongoing education and training for staff in order to ensure continuous quality improvements.

Board Members

John Knight……………………………………………………………………………………………Chairman
Joe Sher……………………………………………………………………………………………..Secretary
Karen S. Rieger…………………………………………………………………………………….....Member
Rob McCalla……………………………………………………………………………………….....Member
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Ken Younkin……………………………………………………………………………………………..Comptroller

TO THE EXECUTIVE DIRECTOR OF THE J. D. McCARTY CENTER FOR CHILDREN WITH DEVELOPMENTAL DISABILITIES

We have audited the J.D. McCarty Center for Children with Developmental Disabilities for the period January 1, 2006 through June 30, 2007. The objectives of this audit were to:

- Determine whether the agency's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- Determine compliance with certain laws and regulations;
- Determine the extent to which recommendations included in prior engagements were implemented.

As part of our audit we obtained an understanding of internal controls significant to the audit objectives and considered whether the specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of the design and operation of the controls. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of the laws and regulations significant to the audit objectives and assessed the risk that illegal acts, including fraud, violation of contracts, grant agreements, or other legal provisions could occur. Based on this risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the laws and regulations. However, providing an opinion on compliance with these laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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.

JEFF A. McMAHAN
State Auditor and Inspector

October 18, 2007

Background

The J.D. McCarty Center for Children with Developmental Disabilities (Center) was created in 1948 for the care, maintenance, treatment, training, education, and physical and mental rehabilitation of residents of Oklahoma under the age of 21 afflicted with cerebral palsy or other developmental disabilities. The Center's operations are governed by *Oklahoma Statutes* Title 63, Sections 485.1-485.10 and Title 130 of the Oklahoma Administrative Code. Oversight of the Center is provided by a five member board appointed by the Governor. The Center employs approximately 200 staff, the majority of which are health care professionals.

Objective 1: Determine whether the agency's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

The Board pays for its operations through three funds: its General Revenue Fund, the J.D. McCarty Center Revolving Fund, and the Gifts and Bequests Fund. By statute, the Center is authorized to accept and receive gifts and bequests of money and property, both real and personal, for the use of the Center. The Center is to administer the property or funds in the manner consistent with the terms of the gift and provisions of law. Money received by gift or bequest is accounted for in the Gifts and Bequests Fund.

Table 1 summarizes the Center's sources and uses of funds during fiscal years 2006 and 2007.

Table 1-Sources and Uses of Funds by Fiscal Year

	2006	2007
Sources:		
State Appropriations	$3,792,282.95	$4,278,944.00
Reimbursement for Services[1]	8,037,650.03	9,262,455.56
Hospital Sales and Services	789,444.59	906,712.83
Private Gifts	120,739.46	41,818.69
Other	11,499.97	18,769.55
Total Sources	$12,715,617.00	$14,508,700.63
Uses:		
Personnel Services	$8,887,857.80	$9,960,413.38
Professional Services	397,009.69	395,543.87
Travel	88,761.52	79,108.86
General Operating	1,130,747.79	1,228,863.75
Property and Equipment[2]	1,266,242.17	1,121,209.79
Other	216,536.62	566,887.25
Total Uses	$11,987,155.59	$13,352,026.90

Source: Oklahoma CORE Accounting System.

[1] Many of the Center's patients are Medicaid eligible and the Center is reimbursed by the federally-funded Medicaid program for a portion of the costs of providing services for these patients. These funds are passed to the Center through the Oklahoma Health Care Authority which administers the Medicaid program. The majority of funds in this line item are attributable to Medicaid reimbursement.

[2] Includes $1,019,987.54 (FY 2006) and $1,000,956.58 (FY 2007) in payments related to bond indebtedness for the construction of the Center's new facility which opened in the fall of 2004.

Internal controls over receipts need improvement

During our documentation of internal controls and performance of detailed procedures, we noted the following:

- Checks are not immediately endorsed upon receipt when received at the main reception area of the Center or when received by the Director of Development (donations);
- Seven deposits were not posted into CORE in a timely manner. The average span between the bank deposit date and the CORE journal date was 10 days. In the CORE system, the cash is not available until the journal entry is made and added to the agency's cash balance;
- A receipt was not issued for $50 in cash which was deposited;
- One receipt less than $100 was not deposited within 5 business days;
- Four receipts in excess of $100 were not deposited within one banking day of receipt.

An effective internal control system provides adequate supporting documentation and prompt recording of accounting transactions. 62 O.S. § 7.1 C. states in part, "All such monies collected pursuant to this section shall be deposited as follows in the agency clearing account or agency special account established therefore:

> 1. Receipts of One Hundred Dollars ($100.00) or more shall be deposited on the same banking day as received.
>
> 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.
>
> > a. Each state agency that has custody of receipts of less than One Hundred Dollars ($100.00) shall provide adequate safekeeping of such receipts,
> >
> > b. No disbursements shall be made from such receipts prior to this deposit, and
> >
> > c. All checks received must be restrictively endorsed immediately upon receipt."

Recommendation: We recommend that:

- All checks be restrictively endorsed immediately upon receipt;
- Management post their accounting entries into CORE immediately upon deposit;
- Receipts be issued for all cash received;
- Receipts less than $100 be deposited within 5 business days or whenever accumulated receipts exceed $100;
- Receipts in excess of $100 be deposited within one banking day.

Views of Responsible Officials: Procedures concerning the handling of cash receipts and the importance of meeting statutory requirements has been discussed and emphasized with staff. Approximately half of the failures to deposit funds timely occurred during the prior audit period before the findings were reported. A receipt book will be provided to the Director of Development for receiving donations.

Controls related to cafeteria funds are inadequate

Employees have the option of purchasing their lunch in the Center's cafeteria. These funds are deposited into the Center's clearing account and subsequently transferred to its revolving fund to help fund the Center's operations. When employees pay for their lunch, they are to write their name on the log, indicate which lunch they purchased, put their money in a cash box, and make change if needed. This cash box is not monitored. Detailed procedures performed on 20 deposits indicate seven instances in which the amount received per the cafeteria log did not agree to the amount of funds placed in the cash box.

Table 2 – Discrepancy Between Cafeteria Log and Amount Deposited			
Amount On Log	Amount Deposited	Date of Deposit	Difference
$129.00	$134.50	4-19-06	$5.50
$219.00	$219.20	7-19-06	$.20
$131.00	$138.50	10-11-06	$7.50
$187.00	$173.30	11-29-06	$(13.70)
$218.50	$232.44	12-14-06	$13.94
$244.50	$252.39	1-26-07	$7.89
$291.50	$294.10	3-12-07	$2.60
TOTAL			$23.93

SOURCE: Center records and auditor analysis

An effective internal control system provides adequate safeguarding of assets as well as adequate accounting of funds received. Management stated they do not have the personnel available to monitor a cash register or the cash box. Management has indicated that the Center is planning on hiring a Food Service Director by the end of the fiscal year which would allow an employee to operate a cash register.

Recommendation: We recommend the Center discontinue the use of the honor system method for cafeteria funds received and begin utilizing a cash register operated by a Center employee. Additionally, if discrepancies related to funds receipts compared to sales are identified, management should investigate and resolve the discrepancy.

Views of Responsible Officials: As the result of inconsistencies in the cafeteria fund balance, a cash register and revised policies and procedures were put in place on October 8, 2007. A food service manager was hired and we believe that the changes put in place will maintain adequate controls.

Internal controls over capital assets are inadequate

Oklahoma Administrative Code (OAC) 580:70-3-1 states in part

> (a) **Report due date.** All agencies must submit an annual report of current inventory of tangible assets owned by the agency as of June 30 of the preceding fiscal year to the Department by August 15. The report shall include all tangible assets based upon the threshold stated in 580:70-1-3(a)…
>
> (c) **Inventory report contents.** The inventory report shall be signed by the agency inventory control officer and shall include for each tangible asset:
> (1) the agency number;
> (2) the asset tag number;
> (3) the model and serial number, if any;
> (4) the manufacturer;
> (5) the description;
> (6) product name;
> (7) physical location;
> (8) acquisition date and cost;
>
> (d) **Supporting documents.** An agency shall maintain supporting documents to identify tangible assets. Document types include acquisition, digital photographs or images and other documents that may provide pertinent tangible assets identification information.

OAC 580:70-5-1 states:

> (a) **Inventory tags.** An agency shall affix a unique identifier as an inventory tag to all tangible assets.

(b) **Inventory tag location.** The inventory tag shall be affixed in a location to ensure accessibility by an inventory control officer.

(1) An agency shall affix inventory tags in a similar fashion and location on tangible assets similar in nature and use.

(2) An agency shall place inventory tags for tangible assets that do not have an affixed tag in a central location readily accessible to inventory control officers.

(3) If an agency affixes an inventory tag in an inconspicuous location on a tangible asset, the agency shall indicate the location on an inventory list.

(c) **Inventory tag material.** Inventory tags shall be a durable material designed to withstand physical elements the tag may endure.

Based on conversation with management and procedures performed, we noted the following:

- Management has not conducted a physical inventory of capital assets since 2004;
- Of fifteen items selected from the capital assets listing and traced to the floor, eight did not have the serial number identified and one did not have the serial number and asset tag number identified;
- Of fifteen items selected from the floor and traced to the capital assets listing, eight did not have the serial number identified, one item was not identified on the listing, and one item's asset tag did not agree to the item description on the listing.

The capital asset listing is incomplete which could result in misappropriation of assets.

Recommendation: We recommend the agency conduct a physical inventory of all tangible capital assets on an annual basis as well as immediately update the listing with all applicable information related to the assets.

Views of Responsible Officials: A complete physical inventory is planned during November and December of 2007 with being finished not later than January 30, 2008.

Of the fifteen items selected from the capital asset listing, the serial numbers have been identified for five of the items. Some of the serial numbers were in locations that required partial disassembly of the equipment. Two of the items had been transferred to surplus property but had not been identified as going to surplus property. Two of the items are approximately twelve years old and we believe that they were sold during our authorized surplus property sale in 2004. An outside vendor was selected to manage this sale. We have found that the vendor did not use appropriate descriptions is some instances when reporting the property that had been sold. A list of correct serial numbers has been forwarded to the State Auditor's Office. The Department of Central Services will be contacted as to the proper handling of the items that cannot be located.

Of the fifteen items selected from the floor and traced to our records, we have identified the missing eight serial numbers, have added the missing item to the listing and corrected the description on the item that did not match the tag number indicated. A corrected listing of these items has also been forwarded to the State Auditor's Office.

Merchant Category Code Group should be addressed

According to State of Oklahoma Purchase Card Procedures 6.1.5.1, "State entities are required to establish the following categories of controls and limits on each p/card. These mandatory limits are required by JPMorgan Chase and Master Card. The mandatory categories are:

- Credit limit
- Single purchase limit
- Merchant Category Code Group."

We found during our review of purchase card profiles for the Center that one of four card holders did not have a mandatory Merchant Category Code Group assigned to them. This card holder had a MCCG of 12E, which is the corporate block. It does not restrict the cardholder from making purchases from vendors that offer products or services that are not related to the mission of the Center or to the cardholder's job duties.

Recommendation: If the Center deems it necessary for this cardholder to have a MCCG of 12E, we recommend they obtain an exemption through the State p-card administrator. If an exemption is not granted, we recommend the Center establish a MCCG for this cardholder appropriate to their job duties and the Center's mission.

Views of Responsible Officials: We had asked for this individual's P-Card to be opened up to have the same MCCG code capability as our Contract Purchasing Agent during the Purchasing Agent's absence. No change was made to the individual's MCCG code when the Purchasing Agent returned from vacation. The Comptroller felt we needed a back-up person that could handle most P-Card purchasing during the Purchasing Agent's absence for short periods such as vacations and sick leave. We did not ask for the code 12E nor did we know that code was in place. Since being made aware of this problem, State Purchase Card Director at DCS has been contacted to remove the 12E code.

Conclusion

Based on the items noted, the Agency's internal controls related to receipts and disbursements are generally effective; however, several areas, as noted above, need to be strengthened.

Methodology

Our methodology to accomplish this objective included reviewing 62 O.S. § 7.1, 62 O.S. § 195 A. 1., OAC 580: 70-3-1, OAC 580: 70-5-1, interviewing the Comptroller, three Accounting Technicians, the Contracts and Acquisitions Agent, the Materials Management Specialist and an Administrative Assistant of the Center regarding internal controls over deposits, expenditures, and capital assets; testing a selection of receipts and expenditures, and performing procedures related to petty cash.

Objective 2: Determine compliance with certain laws and regulations

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We did not identify any laws or regulations to test within the scope of this engagement which are not addressed elsewhere in this report.

Objective 3: Determine the extent to which recommendations included in prior engagements were implemented.

Prior Period Finding Not Addressed

We noted four findings in our report issued May 18, 2006. Due to the nature of two of those findings, follow-up procedures were not performed. However, procedures were performed on the two remaining prior period findings. The first finding was related to the Center's purchase cards and the approving officials not having signed cardholder agreements in place. This finding has been corrected. The second finding noted multiple exceptions related to the Center's compliance with certain portions of the State of Oklahoma's Purchase Card Procedures. To address this, we selected 3 transactions from each month of our audit period (54 transactions) and performed procedures related to those purchases.

Based on our tests of the 54 selected transactions, we noted the following;

- 19 of the receipts were not annotated "received";
- 15 of the receipts were not dated;
- 14 of the receipts were not signed by the receiving person;
- 1 cardholder statement was not approved by the approving official;
- 1 transaction log was not dated by the cardholder;
- 19 transactions included items on statewide contracts yet were not purchased from the statewide contract.

The State of Oklahoma Purchase Card Procedures 6.7.1 *Receiving goods and Services* states in part, "…The receiving employee must annotate 'Received', sign, and date the receipt and/or other supporting documents…"

The State of Oklahoma Purchase Card Procedures *6.9.1 Cardholder responsibility* states in part, "…After confirming the transaction on the memo statement the cardholder shall sign and date the transaction log, indicating that the cardholder did make the purchases…"

The State of Oklahoma Purchase Card Procedures 6.9.2 *Entity approving official (s) responsibility* states in part, "…The entity approving official shall indicate approval by initialing and dating the transaction log…the entity approving official shall sign and date the memo statement…"

The State of Oklahoma Purchase Card Procedures 6.2.5.3 *Mandatory statewide contracts* states, "State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity."

Although not included in our 54 selected transactions, we also noted two transactions had a total of $38.10 in Oklahoma sales tax charged. The State of Oklahoma Purchase Card Procedures 6.6 *State Sales Tax* states in part, "…State entity purchases are exempt from the State of Oklahoma sales tax…"

Recommendation: We recommend management review the State of Oklahoma's Purchase Card procedures to ensure:

- The receiving employee annotates "Received", signs, and dates all receipts;
- Transaction logs are dated by the cardholder;
- Memo statements are approved by the approving official;
- Oklahoma sales tax is not paid on purchases;
- Items on statewide contracts are purchased from the statewide contract vendor unless waiver is granted by the State Purchasing Director. We realize due to the Center's mission and the clients they serve, it may not be feasible to obtain a waiver from the State Purchasing Director in all instances due to timing or other extenuating circumstances; however, management should consider contacting the State Purchasing Director and discussing the possibility of a permanent waiver for certain items imperative for proper patient care.

Views of Responsible Officials: Many of items tested fell into that period while the last audit was being completed and the report prepared. Failure to indicate received, date and signed should not have happened after the last audit. Staff again has been instructed as to the statutory P-Card requirements to indicate received, date and sign that the item purchased was obtained and put to use at the agency. Purchase Card Procedures have been updated and have been forwarded to the Department of Central Services for review and approval.

Upwards of 90% of the diapers purchased are from the statewide contract. We generally do not get a waiver because of the time factor. We get an admission without any prior notice and the diapers we have in stock will not properly fit the child. Normal turnaround time is 10 - 15 days to get an order filled with Sheltered Workshops of Bryan County. They have worked with us to provide more of the unique sizes required by our patients. There are many sizes and types of diapers that the Sheltered workshop does not stock and those unique sizes make up the bulk of what we buy off state contact.

Personal hygiene items fall into the same area. For example we could not originally get Suave products through the sheltered workshops but now are buying them direct from New Horizons. Suave products are the only such products most of children with sensitive or other skin problems can tolerate per Doctor's order.

<u>Conclusion</u>

Based on the procedures performed, it appears the recommendation from one prior period finding has been implemented and recommendations from one prior period finding have not been implemented.

Methodology

Our methodology to accomplish this objective included reviewing the four prior period audit findings, interviewing management, as well as performing detailed tests of selected purchase card transactions.

Protecting Your Tax Dollars

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