OPERATIONAL AUDIT

J.D. McCarty Center for Children with Developmental Disabilities

For the period July 1, 2012 through June 30, 2014

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

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

For the Period July 1, 2012 through June 30, 2014

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Oklahoma State Auditor & Inspector

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January 29, 2015

TO THE CEREBRAL PALSY COMMISSION

This is the audit report of the J.D. McCarty Center for the period July 1, 2012 through June 30, 2014. 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,

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

Background

The J.D. McCarty Center for Children with Developmental Disabilities (the Agency) was created in order to provide care, maintenance, training, treatment, habilitation and rehabilitation to persons afflicted with cerebral palsy and other developmental disabilities.

The Agency's stated mission is to provide a comprehensive program of rehabilitative care to Oklahoma's children (ages 0-21) with developmental disabilities.

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

Commission members as of January 2015 are:

Joseph Steil .... Chairman

Karen Rieger. .... Vice-Chairman

Chuck Thompson..Secretary

Rob McCalla.. Commissioner

Joe Sher. .... Commissioner

The following charts illustrate the Agency's primary funding sources, and where those funds are expended.[1]

Chart 1 – Revenues by Category for FY 2013 and FY 2014

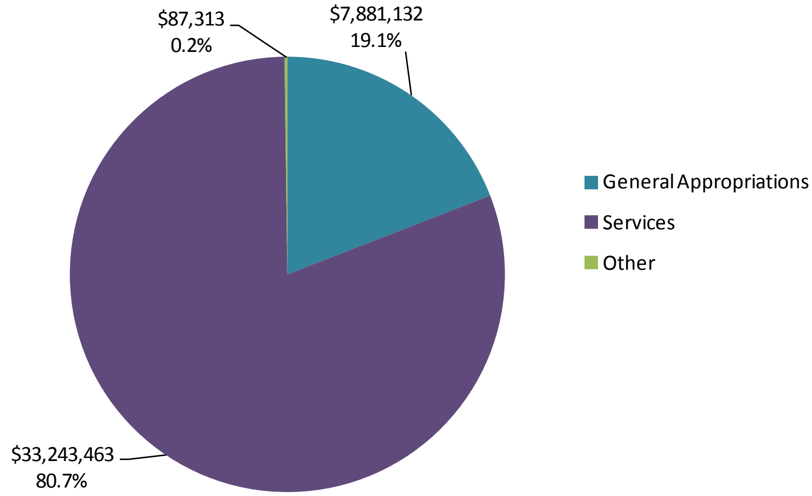
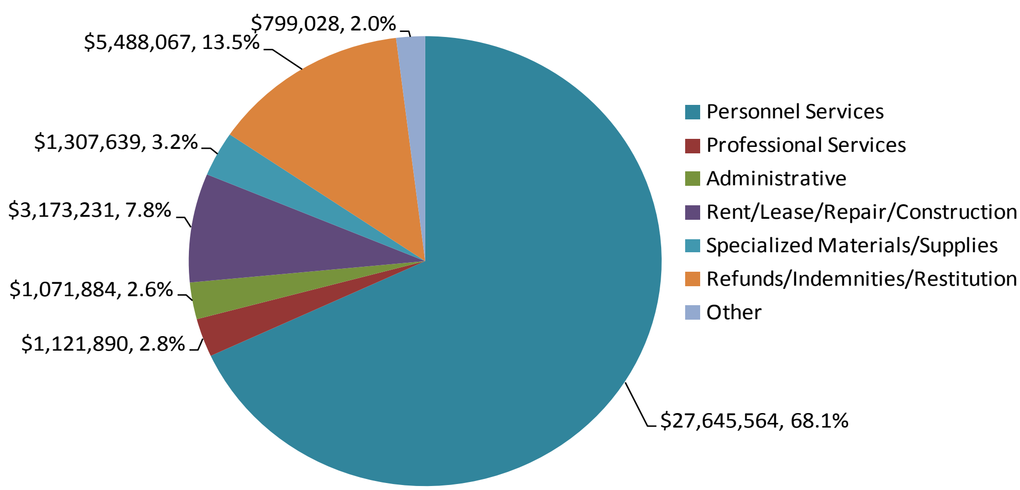


Chart 2 – Expenditures by Category for FY 2013 and FY 2014



[1] This information was obtained from Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

Scope and Methodology

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

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, 2012 through June 30, 2014. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of J.D. McCarty Center operations. We also utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, both random sample and judgmental sample methodologies were 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

Determine whether the Agency's internal controls provide reasonable assurance that revenues, expenditures (including payroll), and inventory were accurately reported in the accounting records and financial operations complied with significant finance-related laws and regulations.

Conclusion

The Agency's internal controls provide reasonable assurance that revenues and payroll expenditures were accurately reported in the accounting records, and generally provide reasonable assurance that miscellaneous expenditures were accurately reported. The Agency's internal controls did not provide reasonable assurance that inventory was accurately reported.

Financial operations complied with the following statute:

- 63 O.S. §485.11 – Expenditures from the Agency's revolving fund may include up to $25,000 in expenditures for capital improvements within a single fiscal year or as otherwise provided by the Legislature.

FINDINGS AND RECOMMENDATIONS

Inadequate Inventory Records and Missing Asset Tags

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*[2] states that in order to safeguard vulnerable assets, "such assets should be periodically counted and compared to control records." In addition, Oklahoma Administrative Code 260:110-5-1 requires that agencies affix inventory tags to all tangible assets, and 260:105-3-1 requires that surplus inventory be transferred to the Office of Management and Enterprise Services using an appropriately approved form.

While the Agency conducts annual inventory counts to ensure items are present, differences between inventory records and physical inventory items are not identified and corrected during these annual counts. Out of forty items tested, the following conflicting conditions were identified:

[2] 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.

- There were no serial numbers in inventory records for four items that bore serial numbers; four additional items had an incorrect serial number in inventory records.
- Two inventory items were missing asset tags.
- One inventory item listed in inventory records had been disposed of. However, there was no associated Surplus Property Transfer form (DCS-001A) documenting the approved disposal of the item.

Failure to properly implement adequate record keeping and asset tagging procedures may provide the opportunity for inventory to be misstated or misappropriated without detection.

Recommendation

We recommend management conduct a complete inventory in order to establish accurate inventory records and to assure that all tangible assets listed in the inventory records have an asset tag.

Views of Responsible Officials

The Agency currently audits all capital inventories yearly with the assistance of interns and/or volunteers with minor assistance from the finance department. The Agency reviews records of each asset and ensures that they have proper paperwork, documentation, and asset tags. As a result of this audit we are reviewing this process to include more oversight from a finance staff member who has no role in purchasing or receiving as to still allow it to be free from undue influence. We plan to implement this full audit review during our annual yearly capital audit period in May 2015.

Independent Review of Expenditures Is Not Documented

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government,* states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. "

The Agency's expenditure process allows for a monthly, independent review of expenditure transactions by division directors. However, there was insufficient documentation for us to verify this independent review was occurring on a consistent basis.

Directors were not aware of the need to retain documentation reflecting their regular reviews, and generally performed the reviews using cumulative spreadsheets that do not reflect monthly totals. Without this independent review, the potential exists that the accounts payable technician could make unauthorized purchases without being detected.

Recommendation

Following their monthly review of detailed expenditure transactions, each director should retain documentation of his or her review and sign and date this documentation.

Views of Responsible Officials

Department directors will be instructed to initial their detailed expenditure budget report and the report will then be scanned and saved to a central location. Further the finance department will also have the payroll accounting technician who is currently charged with opening incoming mail compare checks received from the Treasurer's Office with the miscellaneous warrants report and the voucher batch slips for the corresponding time frame to safeguard against any irregularities. The initiated report and batch slips then will be saved with all of the voucher documentation.

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