



# OFFICE OF JUVENILE AFFAIRS

## Operational Audit

For the Period July 1, 2017 through June 30, 2019

**Cindy Byrd, CPA**  
State Auditor & Inspector

**Audit Report of the  
Office of Juvenile Affairs**

**For the Period  
July 1, 2017 through June 30, 2019**



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | [www.sai.ok.gov](http://www.sai.ok.gov)

November 20, 2020

**TO THE OFFICE OF JUVENILE AFFAIRS**

We present the audit report of the Office of Juvenile Affairs for the period July 1, 2017 through June 30, 2019. 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,

CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR



**Background**

The Office of Juvenile Affairs (OJA or Agency) was created as the state juvenile justice agency in 1994 when the Oklahoma Legislature passed the Juvenile Reform Act (H.B. 2640) and became effective July 1, 1995.

The mission of OJA, along with its community partners, is to provide prevention, education, and treatment services for at-risk youth throughout Oklahoma. This joint effort creates a statewide system that supports and encourages young people to achieve their full potential.

Oversight is provided by the Board, which consists of nine members, five members appointed by the Governor, two members appointed by the President Pro Tempore of the Senate, and two members appointed by the Speaker of the House; all members serve at the pleasure of the appointing authority.

Board members as of September 30, 2020 are:

Karen Youngblood.....	Chair
Dr. Stephen Grissom.....	Member
Mautra S. Jones.....	Member
Sean Burrage.....	Member
Janet Foss.....	Member
Jenna Worthen.....	Member
Dr. Amy Emerson .....	Member
Timothy Tardibono.....	Member
Dr. Sidney Ellington .....	Member

**Office of Juvenile Affairs  
Operational Audit**

---

The following table summarizes the Agency's sources and uses of funds for fiscal years 2018 and 2019 (July 1, 2017 through June 30, 2019).

**Sources and Uses of Funds for FY 2018 and FY 2019**

	2018	2019
<b>Sources:</b>		
Net Appropriations	\$ 91,263,830	\$ 92,783,912
Interest on Investments	1,265	1,180
Rent from Buildings	11,681	13,277
Fed Funds and Fed Grants	10,535,737	9,068,249
Other Revenues	375,543	347,847
<b>Total Sources</b>	<b>\$ 102,188,056</b>	<b>\$ 102,214,465</b>
<b>Uses:</b>		
Personnel Services	\$ 44,049,436	\$ 41,759,224
Professional Services	2,755,659	3,998,206
Travel	139,213	180,882
Administrative Expenses	4,602,764	4,570,920
Property, Furniture, Equipment	1,303,079	1,214,272
Assistance, Payments to Local Govn'ts	44,947,944	44,214,251
Transfers and Other Disbursements	46,768	37,713
<b>Total Uses</b>	<b>\$ 97,844,863</b>	<b>\$ 95,975,468</b>

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

**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, 2017 through June 30, 2019.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Office of Juvenile Affairs' operations. Further details regarding our methodology are included in Appendix A.

We utilized sampling of transactions to achieve Objective 2. 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.

***Internal Control Considerations***

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*<sup>1</sup> outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Each of these components, listed in Appendix B for your reference, includes a subset of principles that are expected to be operating at government entities.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are

---

<sup>1</sup> *Standards for Internal Control in the Federal Government*, or the "Green Book," sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

effectively designed, implemented, and operating together in an integrated manner. As required by *Government Auditing Standards*<sup>2</sup>, we have identified the aspects of internal control significant to each audit objective in this engagement; our assessments are detailed in Appendix B.

---

<sup>2</sup> *Government Auditing Standards*, or the “Yellow Book,” also promulgated by the GAO, guides our performance and operational audits. Last version 2018, accessible online at <https://www.gao.gov/products/GAO-18-568G>.

**OBJECTIVE I**

Determine whether the Agency's inventory controls are operating effectively as defined by *GAO Standards for Internal Control*.

**Conclusion**

The Agency's inventory controls are not properly designed, and therefore, are not operating effectively as defined by *GAO Standards for Internal Control*.

Our methodology is detailed in Appendix A.

**FINDINGS AND RECOMMENDATIONS**

**Inventory controls should be strengthened to prevent error or theft.**

The Inventory Control Officer and four other individuals have access to make changes to the inventory records, and those changes are not being reviewed by someone independent of the inventory process. A review of inventory changes would provide accountability and assurance that changes made to the inventory records are accurate, reliable, and timely. The lack of oversight from an independent party leaves the agency vulnerable to misappropriation of assets and inaccuracies.

For example, we noted an error in the value of three security cameras when recorded in the inventory listing. The cameras were listed at a value of \$339,900 each; however, the actual cost was \$3,399 each. The incorrectly priced inventory items were brought to management's attention by SAI.

In addition, annual inventory counts are conducted at remote office locations by employees who work at those locations. Individuals obtain the inventory listing from the inventory database, conduct the count and then report the results back to the Inventory Control Officer. Because the Inventory Control Officer is centrally located, he is not providing an independent oversight of the inventory counts.

Although management has worked towards improving the inventory process in recent years, related policies and procedures are out of date and internal control weaknesses still exist. Without current, effective policies and procedures, inventory controls are not designed to allow management to monitor activities, evaluate results, and respond to risks in a timely manner.

The deficiencies noted above also create the risk that annual inventory reports submitted to OMES as required by state law are inaccurate or incomplete.

The *GAO Standards for Internal Control* state that management is responsible for designing control activities to achieve objectives and respond to risks. In addition, the Office of Management and Enterprise Services (OMES) Statewide Accounting Manual states, "Internal controls should ensure individuals responsible for monitoring inventories should



not have the authority to authorize withdrawals of items maintained in inventory, and individuals performing physical inventory counts should not be involved in maintaining inventory records.”

The GAO *Standards for Internal Control* also state that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

### **Recommendation**

Management should update policies and procedures to establish a design of controls for inventory activities to be monitored, for inventory count results to be independently evaluated, and deficiencies to be identified and remediated in a timely manner. Inventory controls to consider:

- Inventory counts at remote office locations should be performed by two individuals with both signing off on the count.
- Inventory record additions and deletions should be reviewed at least annually. The review should be performed and documented by someone independent of the inventory process.
- The number of individuals who can edit electronic inventory records should be limited to a minimal number of individuals and they should be independent of purchasing and performing the inventory counts.

### **Views of Responsible Officials**

We agree with and accept the recommendations listed above and will implement them as follows:

1. We will revise our policy and practice to make sure that there are two responsible individuals that sign- off on periodic, at least annually, inventory verifications.
2. OJA will assign review of the performance and documentation of annual inventory to the Office of Public Integrity.
3. OJA has purchased and is in the process of installing a new inventory system. OJA Finance will make sure that access to the system is only granted to personnel independent of purchasing and the inventory control function.

Revising OJA's policy for inventory tracking will incorporate the recommendations and achieve a more accurate maintenance of reportable assets. We have established a team to quickly produce a draft revision to submit to leadership for review and approval.

**OBJECTIVE II**

Determine whether the Agency's payroll controls that are specifically related to payroll changes having a financial impact on the Agency are operating effectively as defined by GAO *Standards for Internal Control*.

**Conclusion**

The Agency's payroll controls that are specifically related to payroll changes having a financial impact on the agency are operating effectively as defined by GAO *Standards for Internal Control*.

No findings were identified as a result of the procedures detailed in Appendix A.

## APPENDIX A: Detailed Methodology

In gaining an understanding of the agency and developing our detailed objectives, in addition to routine discussions, surveys, analysis, research, and prior audit follow-up, we performed the following:

- Documented significant agency-wide controls by sending out an anonymous employee survey, agency internal self-assessment, and interviewing key employees to gather an understanding of the agency.
- Reviewed revenue and expenditure data from the statewide accounting system and gathered information from agency personnel to assess the related financial processes and trends for any notable risk. No significant risks were identified in these general areas.
  - In reviewing revenues, we noted that approximately 90% of the agency's total revenues are made up by appropriations.
  - We analyzed the expenditures using the 6-digit expenditure report from the statewide accounting system and noted that approximately 43% of the agency's expenditures are personnel related. We reviewed year to year changes in expenditures and analyzed any significant changes.

To accomplish our objectives, we performed the following:

- Evaluated processes and identified significant internal controls related to inventory.
  - Evaluated the design and implementation of the significant inventory controls. See finding above.
- Evaluated processes and identified significant internal controls related to payroll expenditures and tested those controls
  - Evaluated the design and implementation of the significant payroll controls.
  - Tested the operating effectiveness of the controls, which included:
    - Reviewing a random sample of 18 payroll change transactions with a financial impact (0.7% of the 2559 payroll change transactions in the population tested) to determine if the payroll changes were properly documented and completed as appropriate and approved by the HR Director, Finance – the Comptroller, Finance – the CFO, the agency Director.

## APPENDIX B: Internal Control Components and Principles

The table below outlines the components and principles of internal control, identifies those considered significant to our specific objectives in this engagement, and notes whether those principles were found to be operating effectively. For those *not* operating effectively, further discussion and related recommendations are included in the report.

As recommended by *Government Auditing Standards* section 9.32, the full outline of the fundamental components of internal control and their underlying principles is included for your reference.

Internal Control Component/Principle	Significant to Audit Objective I	Operating Effectively?	Significant to Audit Objective II	Operating Effectively?
<b>Control Environment Component</b> – Foundation that provides processes and structure to help an entity set expectations and achieve its objectives.				
1. The oversight body and management should demonstrate a commitment to integrity and ethical values.				
2. The oversight body should oversee the entity's internal control system.				
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.				
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.				
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.				
<b>Risk Assessment Component</b> – Dynamic process of identifying, analyzing, and managing risks facing the entity.				
6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.				
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.				
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.				
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.				

<b>Control Activities Component</b> – Actions management establishes through policies and procedures to protect against risks.				
10. Management should design control activities to achieve objectives and respond to risks.	✓	No	✓	Yes
11. Management should design the entity's information system and related control activities to achieve objectives & respond to risks.				
12. Management should implement control activities through policies.	✓	No	✓	Yes
<b>Information and Communication Component</b> – Quality information communicated and used to support the internal control system.				
13. Management should use quality information to achieve the entity's objectives.				
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.				
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.				
<b>Monitoring Component</b> – Activities to assess the quality of performance and promptly correct any deficiencies.				
16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	✓	No	✓	Yes
17. Management should remediate identified internal control deficiencies on a timely basis.	✓	No	✓	Yes

The GAO emphasizes that each of the five components of internal control must be effectively designed, implemented, and operating. For an internal control system to be effective, the components must operate together in an integrated manner. They further stress that documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system.

Additional details are available in the GAO Standards for Internal Control or "Green Book," accessible online at <https://www.gao.gov/products/GAO-14-704G>.



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | [www.sai.ok.gov](http://www.sai.ok.gov)