

**OFFICE  
OF JUVENILE  
AFFAIRS**

**FOR THE PERIOD  
JULY 1, 2006 THROUGH  
DECEMBER 31, 2008**

**OPERATIONAL AUDIT**



Oklahoma State Auditor  
& Inspector

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

**For the Period  
July 1, 2006 through December 31, 2008**

# STATE AUDITOR AND INSPECTOR

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June 15, 2009

## **TO THE BOARD OF JUVENILE AFFAIRS**

Following is the audit report of the Oklahoma Office of Juvenile Affairs for the period July 1, 2006 through December 31, 2008. 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,

A handwritten signature in blue ink that reads "Steve Burrage".

STEVE BURRAGE, CPA  
STATE AUDITOR & INSPECTOR

## Mission Statement

The Office of Juvenile Affairs (OJA) is a state agency entrusted by the people of Oklahoma to provide professional prevention, education, and treatment services as well as secure facilities for juveniles in order to promote public safety and reduce juvenile delinquency.

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# OKLAHOMA OFFICE OF JUVENILE AFFAIRS

## OPERATIONAL AUDIT SUMMARY

**STEVE BURRAGE, CPA**

OKLAHOMA OFFICE  
OF THE  
STATE AUDITOR & INSPECTOR

### Why the audit was performed

The audit was conducted in response to 74 O.S. § 212.

*Objective 1 - Determine if the Office of Juvenile Affairs' (OJA) internal controls provide reasonable assurance that expenditures and inventory were accurately reported in the accounting records (July 1, 2006 through December 31, 2008).*

- Internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records - Page 3;
- Internal controls do not provide reasonable assurance that inventory was accurately reported in the accounting records - Page 3;
  - ❖ Inadequate segregation of duties related to inventory - Page 3;
  - ❖ No process for ensuring items purchased with Purchase-Cards are included in inventory records - Page 4;

*Additional procedures related to inventory show inaccurate inventory records and missing inventory items (July 1, 2006 through December 31, 2008) - Page 5;*

- Approved surplus forms could not be located for nine of 60 surplus items tested;
- Three of sixty items selected from inventory records could not be located;
- 12 inventory items listed on inventory records were either surplus, returned to the manufacturer, or transferred to another state agency;
- One item was not properly marked as state property;
- Three items' serial numbers were inaccurately reported in inventory records;
- Multiple items on inventory listing contained incomplete data (i.e. no serial number, no acquisition date).

*Objective 2 - Determine compliance with the Office of State Finance's (OSF) Information System Security Policy, Procedures, and Guidelines regarding information confidentiality (July 1, 2006 through December 31, 2008).*

- OJA has complied with OSF's *Information System Security Policy, Procedures, and Guidelines* regarding information confidentiality - Page 7.

*Objective 3 - Determine if the Contract Monitoring Unit's (CMU) monitoring process ensures the Youth Service Agencies (YSA) are receiving reimbursement for expenditures in accordance with the Community Based Youth Services (CBYS) contract (July 1, 2006 through June 30, 2008).*

- The CMU's monitoring process appears to ensure the YSAs are receiving reimbursement for expenditures in accordance with the CBYS contracts - Page 9.
- Comparisons with best practices and other Oklahoma state agencies' procedures indicate additional procedures could be implemented by the OJA and the CMU to continue to improve the monitoring process. These procedures were:
  - ❖ Establishing written policies and procedures for the monitoring process - Page 10;
  - ❖ Implementation of site visit checklist - Page 11;
  - ❖ Improved desk review documentation - Page 12;
  - ❖ Implementation of a risk-based approach for monitoring procedures - Page 13;
  - ❖ Assigning a contract monitor - Page 13.

**Agency  
Background**

OJA was created in 1995 by the Juvenile Reform Act (the Act). The Act gave OJA the responsibility and authority to manage the state's juvenile affairs.

The governing body for OJA is a seven member board (the Board) appointed by the governor with the advice and consent of the senate. One member is appointed from each congressional district and the other two members from the state at large. Each member serves a term of six years, and is limited to serving two terms. The Board sets broad policy for OJA and is the rulemaking body. They are also responsible for:

- reviewing and approving the budget;
- assisting the agency in planning activities related to the priorities and policies of the agency;
- providing a public forum for receiving comments and disseminating information to the public;
- establishing contracting procedures for the agency; and
- guidelines for rates of payment for services provided by contract.

Table 1 summarizes OJA's sources and uses of funds for fiscal years 2007 and 2008.

**Table 1-Sources and Uses of Funds for FY 2007 and FY 2008**

Sources:	2007	2008
State Appropriations	\$108,637,796	\$112,110,812
Federal Grants-In-Aid	1,301,614	771,514
Federal Reimbursements	1,851,707	1,077,209
Federal Funds from Other State Agencies	9,028,444	7,873,910
Commissary and Concession Income	88,238	116,490
Institutional Care	217,948	235,387
Court Awarded Judgments	256,051	258,024
Other	<u>272,392</u>	<u>218,479</u>
Total Sources	<u>\$121,654,190</u>	<u>\$122,661,825</u>
Uses:		
Personnel Services	\$49,861,118	\$51,068,726
Professional Services	1,751,593	1,649,227
Miscellaneous Administrative	1,805,415	1,667,227
Rent	1,273,482	1,310,932
Maintenance & Repair	1,478,754	1,381,952
Specialized Supplies & Materials	1,466,899	1,559,026
Office Furniture and Equipment	1,093,899	889,718
Buildings-Purchase, Construction, Renovations	164,240	925,378
Social Services - Assistance Payments	34,926,141	38,458,740
Payments - Local Government, Non-Profits	17,146,678	15,780,673
Assistance Payments to Agencies	5,748,943	5,623,000
Other	<u>1,559,614</u>	<u>1,344,961</u>
Total Uses	<u>\$118,276,776</u>	<u>\$121,659,560</u>

*Source: Oklahoma PeopleSoft Accounting System (unaudited, for informational purposes only)*

**Authority,  
Scope, and  
Sample  
Methodology**

This 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 state officers whose duty it is to collect, disburse or manage funds of the state. The audit period covered was July 1, 2006 through December 31, 2008. For objective 3, the audit period covered was July 1, 2006 through June 30, 2008.

Our samples were selected in such a way that whenever possible, they 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 - Determine if OJA's internal controls provide reasonable assurance that expenditures and inventory were accurately reported in the accounting records (July 1, 2006 through December 31, 2008).**

**Conclusion**

OJA's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records. However, OJA's internal controls do not provide reasonable assurance that inventory was accurately reported in the accounting records.

**Methodology**

To accomplish our objective, we performed the following:

- Documented internal controls related to the expenditure and inventory processes through interviewing OJA personnel, observation of processes, and reviewing OJA policies and procedures;
- Tested controls which included:
  - Reviewing a random sample of 25 expenditure claims to ensure they were properly and independently authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the invoice was approved by a designated official, the correct account codes were used, and the expenditure was reasonable given OJA's mission;
  - Determining if the employee responsible for receiving warrants from OSF was independent of the posting and approval process;
  - Determining if the person who can post the claims in the PeopleSoft accounting system cannot create purchase/authority orders.

**Observation**

**Inadequate Segregation of Duties Related to Inventory**

To protect against possible loss or misuse of assets, the internal control system should provide reasonable assurance assets are adequately safeguarded by segregating duties of employees.

The district secretaries have the ability to:

- receive inventory items;
- maintain inventory records; and
- perform the physical inventory count.

All inventory control agents with access to the Fixed Asset Tracking System (FATS) have the ability to change an inventory item's status to "surplus." There is no independent monitoring of these changes by comparing the FATS to surplus forms.

The inventory control officer performs the inventory count at the state office and has record-keeping responsibility without any independent review of adjustments.

OJA's established policies and procedures do not appear to be adequately designed to ensure duties are properly segregated.

OJA's lack of segregation of duties could allow for inaccurate inventory records, and the agency's assets would not have appropriate safeguards.

**Recommendation**

We recommend:

- OJA management limit the district secretaries' inventory responsibilities to scanning items and read-only access to the FATS. When new items are received, the inventory control officer should be notified so she can add the item(s) to the FATS and provide the asset tags (barcodes) to the district secretaries;
- the inventory control officer be the only person with the ability to change an item's status to "surplus." In addition, an asset's status should not be changed until the inventory control officer receives the approved DCS form 001 and the asset has been physically removed from the Agency's location;
- a person other than the inventory control officer perform an occasional review of items listed as "surplus" to ensure approval sheets have been completed; and
- the results of the physical inventory count performed by the inventory control officer be independently reviewed and any adjustments to the FATS be performed by someone other than the inventory control officer.

**Views of Responsible Officials**

OJA agrees with recommendation bullets 2, 3 and 4 relating to segregation of duties and increased, independent reviews. Policy changes will be adopted to address these recommendations.

Recommendation bullet 1 has been reviewed but is not considered practical for implementation. District secretaries will continue to have the ability to add inventory to the system but they will no longer be able to change an item's status to "surplus". Additional review measures will be implemented through Financial Services and the inventory control officer to ensure new items are accurately added to the FATS system.

**Observation**

**No Process for Ensuring Purchase-Card (P-Card) Purchases are Included in Inventory Records**

To safeguard against possible loss or misuse of assets, the internal control system should provide for accurate and reliable inventory records.



OJA does not have a formal process unique to items purchased with a P-card to ensure they are included in the inventory records. As a result, inventory records may not be complete.

**Recommendation**

We recommend management establish and implement policies and procedures to ensure inventory items purchased with a P-card are included in the inventory records.

**Views of Responsible Officials**

All purchases must comply with both the Oklahoma Central Purchasing Act and OJA's internal purchasing/P-card procedures that include inventory control processes. In addition, Finance Division will coordinate with the inventory control officer to ensure that items acquired using the p/card and exceeding \$500.00 in cost are added to OJA's inventory control system.

**Additional Procedures Performed**

**Methodology**

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

- Agreed 60 items listed as "surplus" per OJA's inventory records to an approved DCS-001 Surplus Transfer Form;
- Agreed 60 high-appeal assets (computers, portable computer equipment, vehicles) from the June 30, 2008 inventory listing to the floor to ensure the items existed, were identified as property of the State, and the inventory tag numbers and serial numbers agreed to the listing.

**Observation**

**Inaccurate Inventory Records/Missing Inventory Items**

To safeguard against possible loss or misuse of assets, the internal control system should provide reasonable assurance records are accurate and reliable.

Oklahoma Administrative Code (OAC) 580: 70-5-1 states in part, "An agency shall affix a unique identifier as an inventory tag to all tangible<sup>1</sup> assets..."

OAC 580: 70-3-1(c) states, "**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;
- (9) any other information which may be requested by the Department to ensure the integrity of state inventory records."

The following were noted:

<sup>1</sup> The state purchasing director has set the tangible asset threshold at \$500.

- Of the 60 “surplus” items selected, we were unable to locate an approved DCS surplus form for 9 of the items. It should be noted, an approved surplus form was provided for 6 of these items; however, the approved surplus forms did not include a tag number. According to personnel at L.E. Rader, the tag numbers were not included because the previous inventory control officer told him not to list the information on the form. As a result, we were unable to determine these were the same items;
- Regarding the 60 high appeal items selected to test from the list-to-floor, the following was noted:
  - Three items (one IPAQ Pocket PC, one computer, and one video camera) could not be located, nor was an approved surplus form provided. The IPAQ Pocket PC was listed as being assigned to the assistant finance administrator who did have this type of equipment in his possession; however, neither the tag number nor serial number agreed with the inventory listing;
  - 12 items could not be located. However, management provided us with documentation the items were surplus, transferred, or returned to the manufacturer. The status of these items does not appear to be correct in FATS;
  - One item (Sony hand-held DVD camera) was located; however, the asset was not marked property of the State of Oklahoma, nor was a tag located on the item. OJA personnel indicated a tag had not been placed on the item because it was too small to tag;
  - Three items were located; however, the items’ serial numbers did not agree with the inventory listing. The serial numbers on the items located differed by one character from the inventory listing. It appears the serial number was entered into the inventory system incorrectly.
- Multiple items on the inventory listing contained incomplete data (i.e. no serial number, no acquisition date).

Some of the surplus errors relating to computer equipment could be due to the fact that the Information Technology division is responsible for erasing any information on hard-drives prior to the items being surplus. As a result, once the item is removed from the location (county/district office, institution), the facility/division/unit inventory control agent is relying on the Information Technology division to update the inventory records. OJA’s inventory policy states the inventory control officer is responsible for ensuring the inventory records are updated.

OJA’s inventory policy does require the inventory control agents at each facility/district/unit perform an annual internal audit using an inventory list provided to them by the inventory control officer. The agent is responsible for completing any adjustments (new equipment not listed, equipment transferred or sold, key stroke errors, etc.) to the inventory listing and system. Based on the errors noted above, it appears the adjustments are not being made after the inventory counts are performed.

**Recommendation**

We recommend:

- management review the exceptions discussed above and perform necessary procedures to correct these errors. For example, clerical errors should be corrected in FATS. For the items believed to have been surplus many years ago, but the documentation is no longer available, documentation should be

created and approved. Once approved, the status of these items should be changed to “surplus”;

- management discuss the inventory policy with applicable employees to ensure they understand the policy as well as their responsibilities, and they are aware of the importance of maintaining accurate records;
- OJA’s inventory policies be reviewed by management to determine which employees should be responsible for updating inventory records for changes. When reviewing the policy, management should also consider the recommendations made under objective 1 relating to segregation of duties in this assignment;
- someone other than the person responsible for making the adjustments after the annual inventory count review the inventory records (FATS) to ensure changes have been made. Depending on the number of changes, it may not be reasonable for all changes to be verified. In those cases, a sample of items should be reviewed at a minimum;
- management ensure all items purchased by OJA are properly marked as such, whether this be by an asset tag number or by other means as required by the OAC;
- the inventory control officer review the inventory listing for incomplete data (i.e. no serial number, no acquisition date) and perform necessary procedures to obtain this information and complete the listing as required by the OAC.

**Views of Responsible Officials**

The Office of Juvenile Affairs (OJA) began a system-wide revision of its inventory control processes in June 2006. Procedures were developed and formally put in policy effective October 2008. All 60 of the items reviewed during this audit predate OJA’s implementation of the revised inventory control processes and the 2008 policy. OJA will comply with the above recommendations and as annual field audits are conducted, records will be updated in accordance with the new policy and procedures.

**Objective 2 - Determine compliance with the Office of State Finance’s *Information System Security Policy, Procedures, and Guidelines* regarding information confidentiality (July 1, 2006 through December 31, 2008).**

**Conclusion** OJA has complied with OSF’s *Information System Security Policy, Procedures, and Guidelines* regarding information confidentiality.

**Methodology** To accomplish our objective, we performed the following:

- Reviewed OJA’s policies and determined they discussed the following items:
  - Passwords are to be kept confidential;
  - Outline quality passwords characteristics (i.e. passwords should consist of a minimum of 8 characters, not based on anything someone else could easily guess, etc.);
  - Temporary passwords should be changed at first log-on;
  - Passwords are not to be shared; and
  - Passwords should be required to be changed at regular intervals.
- Reviewed a sample of 25 employees with access to the Juvenile On-Line Tracking System (JOLTS) to ensure an Employee Request for Access to Computer Systems form was completed and signed by the employee and his/her

supervisor, access was granted to only those systems specifically requested, and a user ID and password were documented on each form;

- Tested password creation for the JOLTS by ensuring the temporary password had to be changed at first log-on, creating passwords that were not eight characters, did not contain a number, and contained consecutive characters, to ensure the system would not accept these passwords;
- Logged-on to the system six times with an incorrect password to ensure our username was disabled at the seventh attempt;
- Discussed password use with employees to verify they were aware that passwords should be kept confidential, they were required to change their password, and could not re-use passwords as required by policy.

**Objective 3 - Determine if the Contract Monitoring Unit's monitoring process ensures the Youth Service Agencies are receiving reimbursement for expenditures in accordance with the Community Based Youth Services contract (July 1, 2006 through June 30, 2008).**

**Objective  
Background**

Each year the Oklahoma state legislature makes an appropriation to the Youth Services Agencies (YSA) through OJA. This appropriation is used as the funding source for the Community Based Youth Services (CBYS) contracts.

Currently, OJA has 42 CBYS contracts with 41 independent Youth Service Agencies and the Oklahoma Association of Youth Services (OAYS) to provide the following programs/services:

*Outreach Services:* While the public funding source is OJA, the individual programs are locally governed by individual agency boards and the decisions for type and variety of services are determined by that local board. The services provided include: school counseling, outpatient therapy, prevention groups, community awareness/linkages, and home based services. In some cases, they provide the exact same types of services as the Community at Risk Services program.

*Shelter Services:* Offers short-term crisis oriented residential placement for youth under the age of 18. Depending on length of stay and need, each shelter will provide habilitative services which include: basic living skills, counseling, crisis stabilization, clothing, connections with the educational system, to some extent independent living training and recreation services.

*First-Time Offender Program:* Offers enrollment, screening, and twelve hours of group services to youth and families whose youth have committed misdemeanor and low felony offenses. Sessions cover topics such as the juvenile justice system, socialization, communication, anger management, conflict resolution, cultural resolution, cultural sensitivity, value awareness, and controlling one's behavior.

*Community at Risk Services (CARS):* Services provided to juveniles under court probation, deferred prosecution agreements or in OJA custody with the emphasis on high risk and medium risk juveniles. The services provided include: mentoring, tutoring, counseling, diagnostic and evaluation services and supervision of youth in independent living.

OJA paid the Youth Service Agencies the following:

SFY	Dollars Expended	% OJA total Expenditures
2007	\$20,466,119	17.30%
2008	\$21,242,892	17.46%

In response to findings and recommendations made in a special audit report issued by the State Auditor and Inspector's Office on April 15, 2005<sup>2</sup>, OJA created the Contract Monitoring Unit (CMU or Unit) in January 2006. OJA also established guidelines for determining allowable costs for cost based reimbursement contracts<sup>3</sup> as a result of the previous audit report. Currently, the Unit consists of one manager and three program field representatives. In addition to monitoring the 42 CBYS contracts, the CMU is also responsible for monthly financial claim reviews for: five gang contracts, 17 Juvenile Accountability Block grants, 25 State Advisory Group Formula grants, two Title V grants, and eight Community Intervention Centers (CIC). The Unit also conducts annual audits of the three state run institutions and periodic financial viability analysis reviews of the YSAs at the direction of the executive director.

For the CBYS contracts, the CMU primarily uses expenditure document review as a tool for monitoring the contracts to ensure funds are spent in accordance with contract requirements and adequately supported. They perform these reviews at the YSA's location (site visit reviews) or from OJA's Oklahoma City office (desk reviews). Beginning in June 2008, they started electronically analyzing data as a way to better identify payments for duplicate services in rate-based claims<sup>4</sup>.

**Conclusion**

The CMU's process appears to ensure the YSAs are receiving reimbursement for expenditures in accordance with their CBYS contracts.

From reviewing best practices and other Oklahoma state agencies' procedures, there are some additional procedures OJA and CMU could implement to continue to improve their process. These items are discussed on the following pages.

**Methodology**

To accomplish our objective, we performed the following:

- Reviewed the CBYS contract to determine the requirements related to how the funds could be expended, as well as documentation required to be submitted to OJA to receive payment;
- Interviewed the three program field representatives in the Unit to determine what procedures were performed during site visits to the YSAs;
- Reviewed site visit documentation for 12 randomly selected YSAs performed during the period of July 1, 2006 through June 30, 2008 to determine a site visit form was completed and any questioned costs were recouped by OJA;

<sup>2</sup> A copy of the audit report can be obtained at [www.sai.ok.gov](http://www.sai.ok.gov)

<sup>3</sup> Cost based reimbursement contracts occur when OJA pays the YSA for its operating costs based on established cost principles (see further discussion of cost principles on page 10 of the report). This method is used to reimburse the YSA's for services they provide to the community as required in the contract.

<sup>4</sup> Rate-based contracts occur when OJA pays the YSA for services based on an established rate for each unit (quarter-hour, half-hour or hour) of service provided to eligible youths.

- Reviewed the June and July 2007 claims submitted by the 12 randomly selected YSAs to ensure they were reviewed and any questioned costs were recouped by OJA;
- Reviewed contract monitoring policies and procedures at the Oklahoma Department of Human Services (DHS), Oklahoma State Department of Health (OSDH), and the Oklahoma Department of Corrections (DOC) to obtain a general understanding of what was contained in other agency's policies;
- Reviewed various other state agency audit reports and publications to obtain an understanding of best practices. The review included, but was not limited to, the following publications:
  - *Best Practices in Government: Components of an Effective Contract Monitoring System*, Georgia State Auditor - Department of Audits and Accounts;
  - *Best Practices Contracting for Services*, National State Auditors Association;
  - *Texas Contract Monitoring Guide*, Texas Comptroller of Public Accounts.

**Observation**

**No Written Policies and Procedures**

Written policies and procedures help to ensure employees are aware of management's expectations, as well as ensure the functions performed by employees are consistent and high quality. Although our discussions with personnel indicate the program field representatives are performing similar duties, the Unit does not have written policies outlining what procedures should be performed.

In addition, OJA has multiple divisions involved in the monitoring process. For example, the CMU is responsible for the fiscal monitoring aspect (are the costs allowable under the contract and OJA's Cost Principles<sup>5</sup>), and the CBYS division is responsible for the performance monitoring aspect (were the services paid for provided). However, a written policy defining the roles of these two divisions and how they contribute to the monitoring process has not been established.

**Recommendation**

We recommend OJA establish written agency-wide contract monitoring policies and procedures to ensure procedures performed by staff are consistent, but also high quality. They should also allow for staff to be knowledgeable about what management expects of them.

These procedures should include at a minimum<sup>6</sup>:

- Roles and responsibilities of OJA personnel - define who is responsible for monitoring activities and who has the authority to take particular actions;
- Contract correspondence - guidance on documenting interaction with the vendor;

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<sup>5</sup> OJA's Cost Principles establish the principles and standards for determining costs that are eligible for reimbursement pursuant to a cost based reimbursement contract. They provide a uniform approach for determining costs and promote effective program delivery, efficiency, and better relationships between the OJA and its contractors.

<sup>6</sup> Georgia State Auditor (July 2003), *Best Practices in Government: Components of an Effective Contract Monitoring System*. p.12

- Reports detailing contract monitoring efforts - types of reports and the information that should be included;
- Conflicts of interest - define a conflict of interest and steps that should be taken to avoid them;
- Monitoring of contract performance - guidance on assessing risk of poor performance and the methods that should be used to monitor performance;
- Contract completion activities - assuring that all state property is returned including security items, there are not outstanding claims, and that vendor has met all the deliverables of the contract;
- Dispute resolution - guidance on how disputes between OJA and the vendor will be resolved, including what offices or officials should be involved and what documentation should be used; and
- Professional development of contract personnel.

**Views of Responsible Officials**

The Office of Juvenile Affairs will consider the State Auditor and Inspector's recommendation and review current policy and procedures relating to the audit report's identified procedures above.

**Observation**

**Site Review Checklist**

On-site monitoring visits are most effective when based on specific methodology or a checklist of review tasks.<sup>7</sup>

At OJA's management request we reviewed similarly situated state agencies for best practices in monitoring methods. Of the other Oklahoma state agency's monitoring policies and procedures reviewed, OSDH's have listed standardized forms that are to be used for monitoring; DOC's procedures also outline specific procedures to be performed while at the location.

CMU uses a "Contract-Monitoring Site Review" form to document the procedures performed during the site visit and the results of the visit. The visit's purpose is to review the financial documentation maintained at the YSA to support the charges reported on the claim. The form<sup>8</sup> contains several sections, some of which are:

- *Findings* - summarized findings noted as a result of the site visit;
- *Number of findings and finding amount* - indicates both the number of findings and total amount of questioned costs;
- *Disposition* - documents how the findings will be resolved (recoupment of costs, referred to another OJA division, etc.); and
- *Narrative* - area where the program field representative is to document the procedures performed during the site visit.

The level of description regarding the procedures performed appears to vary depending on the program field representative and the contract type (cost based versus rate based reimbursement).

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<sup>7</sup> Georgia State Auditor (July 2003). *Best Practices in Government: Components of an Effective Contract Monitoring System*, p. 21.

<sup>8</sup> The "Contract-Monitoring Site Review" form changed throughout the audit period. As a result, the names of the sections may not be the same throughout the period. The sections listed are from the most recent form used.

For reviews performed on cost based reimbursement claims we noted a variety of information included in the narrative section. Generally, the narrative section included a generic statement that the program field representative obtained and reviewed documentation to support the claims submitted. Additional information noted through our review included documentation of discussions held with YSA personnel, a summary of exceptions or findings, whether costs would be recouped from the YSA on a future claim, and a conclusion.

The different levels of documentation made it difficult to determine all procedures performed at each site visit.

Because each YSA has different accounting systems and can use different cost allocation methods, the form has been created to allow for flexibility in the procedures to be performed; however, some procedures are always performed.

**Recommendation**

We recommend the Unit establish a checklist which documents standard procedures to be performed during each site visit. The form should be designed to also allow for additional procedures to be created as deemed necessary for the YSA based on results of other site visits, review of audit reports, and other sources.

**Views of Responsible Officials**

The Contract Monitoring Unit (CMU) will develop a Site Review Checklist to identify standard procedures and tasks to be performed during a site contractor financial review.

**Observation**

**Desk Review - Documentation**

For the June and July claims, a site visit is not actually performed, instead CMU requires copies of all supporting invoices be mailed to the Unit. The expenditure reviews are performed in-house (from OJA's Oklahoma City office). Of the 12 YSAs we reviewed, the documentation of the review consisted of:

- sticky notes with "OK" indicated on them;
- claim forms signed by the reviewer; and
- corrections on the claim form with a "Voucher/Adjustment" form attached.

Without documentation, it is difficult to determine what procedures were performed, and if the reviews are being performed consistently among program field representatives. In addition, because the documentation for rate based claims is client files, CMU does not receive any documentation to support the amount claimed. The only review performed is a visual scan for obvious duplication of services.

**Recommendation**

We recommend the Unit create a checklist or other form to document the procedures performed on the June and July claims. In addition, because the rate based claims procedures are limited, the Unit may consider contacting the CBYS division to ensure they are reviewing these months, or include this information in the next CMU site visit.

**Views of Responsible Officials**

The CMU will create and develop a form to document the records reviewed and the process and procedures performed in the review of cost reimbursement June and July claims.



## Items for Further Consideration

While performing this audit, we noted some items which do not fall specifically under our objectives but should be brought to management's attention to assist them in continuing to improve their monitoring process.

### Observation

#### Risk-Based Approach

Currently it is the Unit's process to perform a quarterly site visit at each YSA. Because of the large number of YSAs, other review responsibilities, and limited staff, a quarterly site visit does not always occur. Of the 12 YSA files we reviewed, none had a visit performed every quarter. Three of the YSAs received visits in seven of the quarters, four received visits in six of the quarters, and five received visits in five of the quarters.

A risk-based approach to monitoring can be helpful in allocating limited resources.

Specific items to be considered in any monitoring process should be tailored to the contract to be reviewed. Some items that may be considered in the risk assessment include, but are not limited to:

- type of contract (cost based or rate based reimbursement);
- size of the contract (dollar amount);
- complexity of the contract;
- newness of contract and/or contractor;
- procedures performed by other units within OJA;
- prior site visit results;
- factors from claim review;
- audit findings (federal compliance or financial audits);
- adequacy and stability of the contractor's management and program personnel;  
and
- fluctuation/unusual changes in expenditure trends.

At OJA's management request we reviewed similarly situated state agencies for best practices in monitoring methods. Of the other Oklahoma state agencies' monitoring procedures we reviewed, OSDH's policies did contain a risk assessment tool.

### Recommendation

We recommend OJA management consider incorporating risk assessments in developing its agency-wide monitoring policy and within each division that participates in the monitoring process.

### Views of Responsible Officials

The Office of Juvenile Affairs will consider the recommendation to incorporate risk assessment or a risk assessment tool in the agency's monitoring processes.

#### Assigning a Contract Monitor

Both the OSDH and DHS assign a "contract monitor" to oversee the monitoring responsibilities of a contract. OJA has divided the monitoring responsibilities among two divisions: CMU is responsible for fiscal monitoring, and CBYS division is responsible for performance monitoring.

Because the CBYS division was not included in our objective, we did not obtain an understanding of that division's procedures. However, after reviewing the CMU site visit forms, it appears there may be some duplication of effort between the two divisions. During one visit, the CMU program field representative did not review documentation for the rate-based claim because the CBYS division was going to be conducting a site visit the same week for the same time period.

**Recommendation**

We recommend OJA management evaluate the procedures being performed by each division to ensure duplication of work is not occurring, and to ensure monitoring steps are not inadvertently omitted based on assumptions that another division will be performing that step. They may also consider assigning a contract monitor to oversee the monitoring process.

**Views of Responsible  
Officials**

The Office of Juvenile Affairs will review the monitoring procedures performed by each division and evaluate the need for a Contract Monitor.



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