

OPERATIONAL AUDIT

OKLAHOMA COMMISSION ON CHILDREN AND YOUTH

For the period January 1, 2015 through December 31, 2017



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



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

**Audit Report of the
Commission on Children and Youth**

**For the Period
January 1, 2015 through December 31, 2017**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

August 13, 2018

TO GOVERNOR MARY FALLIN AND THE OKLAHOMA COMMISSION ON CHILDREN AND YOUTH

This is the audit report of the Oklahoma Commission on Children and Youth for the period January 1, 2015 through December 31, 2017. 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,

A handwritten signature in blue ink that reads "Gary A. Jones".

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

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Background

The mission of the Oklahoma Commission on Children and Youth is to improve services to children by: facilitating joint planning and coordination among public and private agencies; independent monitoring of the children and youth service system for compliance with established responsibilities; and entering into agreements to test models and demonstration programs for effective services.

Operations are governed by 10 O.S. § 600 through 601.13 and Title 135 of the Oklahoma Administrative Code. Oversight is provided by 19 commissioners:

Commission members as of June 30, 2018 are:

Jay Scott Brown	Chair
Mike Warren	Commissioner
Joy Hofmeister.....	Commissioner
Dr. Sid D. Brown.....	Commissioner
Sheryl Marseilles.....	Commissioner
Jason T. Charles.....	Commissioner
Tom Bates.....	Interim Commissioner
Ken Couchman.....	Commissioner
Wanda Felty.....	Commissioner
Becky Pasternik-Ikard	Commissioner
VACANT.....	Commissioner
Ed Lake.....	Commissioner
Noel Tyler	Commissioner
Todd E. Pauley	Commissioner
Tera Snelson.....	Commissioner
Terri White.....	Commissioner
Angela Marsee.....	Commissioner
Steven Buck.....	Commissioner
Lori McGinnis-Madland	Commissioner

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The following table summarizes the Agency's sources and uses of funds for fiscal years 2016 and 2017 (July 1, 2015 through June 30, 2017).

Sources and Uses of Funds for FY 2016 through FY 2017

	2016	2017
Sources:		
Appropriations	\$ 1,834,762	\$ 1,781,721
Grants, Refunds, Reimbursements	\$ 1,288,436	\$ 1,311,246
Payroll Deducts	\$ (166)	\$ -
Total Sources	\$ 3,123,032	\$ 3,092,967
 Uses:		
Personnel Services	\$ 1,812,981	\$ 1,758,733
Professional Services	\$ 303,136	\$ 207,062
Travel	\$ 23,283	\$ 17,663
Administrative Expenses	\$ 159,120	\$ 178,533
Property, Furniture, Equipment	\$ 18,953	\$ 909
Assistance, Payments to Local Govn'ts	\$ 235,656	\$ 526,833
Transfers and Other Disbursements	\$ 107	\$ -
Total Uses	\$ 2,553,236	\$ 2,689,733

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

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Scope and Methodology

Our audit was conducted in response to Governor Fallin's request in accordance with 74 O.S. § 212.C and 213.2.B.

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 January 1, 2015 through December 31, 2017.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Commission on Children and Youth operations. Further details regarding our methodology are included under each conclusion.

We utilized sampling of transactions to achieve our objectives. 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.

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OBJECTIVE Determine whether the Agency's internal controls provide reasonable assurance that expenditures (both miscellaneous and payroll) and inventory were accurately reported in the accounting records.

Conclusion The Agency's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records. However, the agency's internal controls *do not* provide reasonable assurance that miscellaneous expenditures and inventory were accurately reported in the accounting records.

Financial operations complied with the following statutes:

- 74 O.S § 3601.2A – Salaries of Executive Officers;
- 10 O.S. § 601.2.B - Board member travel reimbursement and;
- 10 O.S. 1116.2.G – Board operating supplies and postage reimbursement;
- 10A O.S. § 1-9-1-103a – CAMTA Fund expenditures and uses.

**Objective
Methodology**

To accomplish our objective, we performed the following:

- Documented significant internal controls related to miscellaneous expenditures, see results in related finding.
- Reviewed the Commission's administrative expenditures to ensure they were reasonable given the statutory responsibility and authority of the agency, which included
 - Reviewing all administrative expenditures for the Commission based on OMES administrative account codes;
 - Performing analytical procedures to:
 - Identify top expenditure categories based on the amount expended;
 - Identify top vendors based on the amount expended;
 - Selecting and reviewing a random sample of 20 expenditure claims (0.5%) from a population of 4,045.
- Documented significant internal controls related to payroll expenditures, which included:
 - Selecting and testing a random sample of 12 payroll claims (25%) from a population of 48 to ensure they were properly approved and reflected in the payroll;
 - Pulling and testing a sample of 12 payroll changes (44%) from a population of 27 that had a financial impact, to ensure they were properly documented and approved.

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- Documented significant internal controls and process factors related to inventory; see results in related finding.
- Determined Compliance with 74 O.S. §3601.2A - Salaries of Chief Executive Officers, which included:
 - Reviewing all data on the *HR All Actions* report and comparing it to approved salary ranges established by the Office of Management and Enterprise Services.
- Determined compliance with 10 O.S. § 1116.2.G - Operating Supplies and Postage Reimbursements, which included:
 - Documenting the agency's processes and controls related to the reimbursement of commission members for operating supplies and postage.
 - Identify all commission members listed in miscellaneous expenditure records and review the account codes under which they were paid to ensure they are for necessary operating supplies and postage reimbursement purposes only.
- Determined compliance with 10 O.S. § 601.2.B - Board Travel Reimbursement, which included:
 - Documenting the agency's processes and controls related to their reimbursement of commission members for travel;
 - Reviewing the 6-Digit Detailed Expenditure report from the Statewide Accounting System
 - Identify travel payments to commission members and ensure the amounts and frequency of payments appear reasonable given the home locations of the commission members and frequency of meetings/events.
 - Identify all commission member's listed miscellaneous expenditure records and review the account codes under which they were paid to ensure they are for travel reimbursement purposes only.

FINDINGS AND RECOMMENDATIONS

The agency does not have proper segregation of duties over miscellaneous expenditures.

The United States Government Accountability Office's Standards for Internal Control in the Federal Government¹ (GAO *Standards*) state in part, "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."

Based upon information obtained from current Commission staff who were present during part of the audit period, it appears there may have been segregation of duties issues with the previous Certified Procurement Officer (CPO) having the conflicting duties of initiating, approving, and recording expenditures. In addition, she received goods ordered. This creates the risk that the CPO could make unauthorized purchases and misappropriate assets without being detected. Due to the departure of key personnel and lack of corroborating evidence, we are unable to confirm any significant processes and controls in place for the audit period.

Recommendation

We recommend that the agency work to segregate key duties and responsibilities related to the expenditure process. We recognize that this may be difficult in an agency of this size; however, a mitigating control would be a properly detailed and documented review of expenditure transactions. For this to be effective, someone independent of the expenditures process, such as a board member or the executive director, should perform a line-item detailed review of all expenditures and document this review. This could be accomplished by reviewing, signing, and dating the PeopleSoft 6-digit detailed expenditure report.

Views of Responsible Officials

The Oklahoma Commission on Children and Youth (OCCY) is in agreement with the State Auditor's finding. Effective immediately the following segregation of duties for agency expenditures is in place:

- *Authorize transactions: Executive Director*
The Director will authorize, in writing or by electronic notification, Purchase Orders, Invoices and P-card Purchases
- *Process and record transactions: OCCY Administrative Programs Officer/OMES ABS.*

¹ 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.

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The OCCY Administrative Programs Officer (APO) will handle agency documentation for transactions and submit the transactions to OMES Agency Business Services (ABS) division for processing.

- *Review transactions: Assistant Director*
Following the completion of transactions, the APO will provide all transaction vouchers to the Assistant Director for review.
- *Handle any related assets: Administrative Programs Officer*
The APO will receive any assets, ensure they are properly inventoried if necessary, and distribute to the appropriate agency staff or location.

In May 2018, OCCY entered into a contract with the Office of Management and Enterprise Services (OMES) Agency Business Service Division to provide budget and reconciliation services. Since that time OCCY and OMES staff have met monthly to review budget, expenditures and reconciliation records. The OCCY Executive Director, Assistant Director and Administrative Programs Officer attend these meetings. Included in these records is the PeopleSoft 6-digit detailed expenditure report. Beginning in August 2018, OCCY will implement a process in which OCCY and OMES staff sign-in for each monthly meeting and the Executive Director will review the PeopleSoft 6-digit expenditure report for the prior month. The report will be signed and dated. The OCCY Administrative Programs Officer will permanently maintain the monthly sign-in sheets and the signed report.

The agency does not have proper segregation of duties over inventory.

The GAO *Standards* state in part, “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 *Standards* also state that “Management must establish physical control to secure and safeguard vulnerable assets. . . Management periodically counts and compares such assets to control records.” Furthermore, *Standards* state that management should design “an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity’s assets.”

Based upon information obtained from current Commission staff who were present during part of our audit period, it appears there may have been segregation of duties issues with the previous CPO having the

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conflicting duties of initiating purchases, purchasing items, receiving the invoices, recording purchases/expenditures in PeopleSoft, tagging inventory, and maintaining and modifying inventory records. The associated risk is that she could have made an unauthorized purchase, with herself as the requestor, forged the approval, and misappropriated the asset without being detected.

Also, we noted that the State Plan Grant coordinator had the conflicting duties of performing inventory counts along with maintaining and modifying inventory records. The associated risk is that she could misappropriate assets without detection.

In addition, while the agency does maintain an inventory listing that is required for state reporting, due to the control deficiencies noted above, we do not have reasonable assurance that inventory reports submitted to OMES as required by 74 O.S. §110.1-2 and Oklahoma Administrative Rule 260:110-3-1 are accurate or complete.

Recommendation

We recommend that the agency work to segregate key duties and responsibilities related to the inventory process to ensure that no one individual can initiate purchases, authorize transactions, and modify inventory records. We also recommend that management ensure that a comprehensive annual physical inventory count is performed and documented by someone independent from purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets. The ability to edit electronic inventory records should be limited to as few employees as possible, based upon their inventory-related duties.

Views of Responsible Officials

The Oklahoma Commission on Children and Youth (OCCY) is in agreement with the State Auditor's finding. Effective immediately the following segregation of duties for inventory is in place:

- *Initiate purchases: Administrative Programs Officer*
The APO will receive purchase requests from agency staff and submit the requests to the Director.
- *Authorize transactions: Director*
The Director will authorize, in writing or by electronic notification, purchase orders, invoices and p-card purchases.
- *Modify inventory records: Administrative Programs Officer*
The APO will ensure all applicable new assets are tagged and recorded in the inventory listing record.

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- *Annual inventory count: Executive Assistant*
Prior to June 30th of each year the Executive Assistant will complete an agency inventory count.
- *Annual review of inventory record: Assistant Director*
Following the completion of the annual inventory count the Assistant Director will review the count and the updated inventory listing to verify completion and accuracy.
- *Surplus items: Community Development Planner*
The Community Development Planner will be responsible for processing and documenting the surplus of all applicable assets.

OCCY will complete a thorough review of all inventory items and ensure the inventory listing is accurate and complete by September 14, 2018, and June 30th of each year thereafter. Access to the electronic inventory records will be limited to only the Administrative Programs Officer and Assistant Director.



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV