
ANNUAL REPORT
OKLAHOMA OFFICE OF THE AUDITOR AND INSPECTOR



2003

Jeff A. McMahan
State Auditor and Inspector



OKLAHOMA
STATE AUDITOR
AND INSPECTOR

ANNUAL REPORT
FOR THE FISCAL YEAR ENDING JUNE 30, 2003

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. MCMAHAN
State Auditor and Inspector

November 1, 2003

The Honorable Brad Henry
Governor of the State of Oklahoma
Room 212, State Capitol
Oklahoma City, Oklahoma 73105

Dear Governor Henry:

It is my privilege to submit, herewith, a report concerning the duties, activities and accomplishments of the Office of the State Auditor and Inspector for the fiscal year ending June 30, 2003, in accordance with *74 O.S. § 216*. The information summarized herein reflects the productivity of the members of the staff, details of which are contained in the audit report on file in this office and on our website at www.sai.state.ok.us.

I would like to take this opportunity to commend the officials and employees of state, county and local agencies for the splendid work performed each and every day of the year. Auditing of any governmental entity is critical by nature. However, these criticisms should not destroy the effect of the many positive attributes of government. The majority of government employees are sincere and dedicated. These employees are constantly striving for efficiency and excellence in government. It is our job to audit the work performed by these employees; however, it is also our job to assist them in attaining the efficiency and excellence to which they aspire.

The information submitted herein offers a brief introduction and overview of the Office of State Auditor and Inspector, a summary of the responsibilities and general accomplishments of each division within the Office, a detailed listing by division of each report on file, and a narrative of the Constitutional authority of the Office of State Auditor and Inspector.

We take great pride in presenting the accomplishments represented throughout this report. It is our goal to continue to provide the necessary audit coverage, taking into consideration the rising costs, limited appropriations and increasing volume of work.

Please accept this report on behalf of myself and the members of the staff.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jeff A. McMahan".

Jeff A. McMahan
State Auditor and Inspector

STATE AUDITOR AND INSPECTOR

ANNUAL REPORT

FOR THE FISCAL YEAR ENDING JUNE 30, 2003

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✧ ✧ ✧ Introduction ✧ ✧ ✧

Oklahoma State Auditor and Inspector, Jeff A. McMahan, was elected by the citizens of Oklahoma in accordance with *Article VI, Section 1 of the Constitution of the State of Oklahoma*. Jeff McMahan was elected in November 2002 and took the oath of office January 13, 2003.

Through the audit function, the Office of State Auditor and Inspector performs independent, objective and comprehensive evaluations of the practices and operations of state, county and local governments. This information provides government officials and citizens of Oklahoma insight into the operations of agencies, boards, commissions and governmental offices dealing with public funds.

Public funds are handled through various agencies of state, county and local government. The State Auditor and Inspector's Office conducts audits of these state entities in an effort to improve government and enhance public accountability.

Audit functions are conducted in accordance with Generally Accepted Auditing Standards (GAAS) as promulgated by the American Institute of Certified Public Accountants (AICPA) and in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Reports are issued at the conclusion of the audit and are available as public documents. During the annual period ending June 30, 2003, the office issued a total of four hundred seventeen (417) reports.

It is the responsibility of each governmental entity to carry out legislative programs and to properly use public monies. The responsibility of the State Auditor and Inspector's Office is to audit the income and expenditures of public funds and to report those findings to the Governor, Legislature, the governmental entity and to the public. Resolving issues noted in the audit reports are the responsibility of the governing board, the Attorney General or the District Attorney.

Another important function of the Office of State Auditor and Inspector is to monitor new legislation impacting the office. At the end of each legislative session, these bills are reviewed and as a result, modifications to office operations and audit programs are implemented as needed. These modifications may include changes in the scope or coverage of particular audits, special reporting or in office procedures.

The Office provides support and training for elected county officials concerning purchasing, standard accounting procedures, new legislation affecting those procedures and sound management practices.

The major divisions within the Office are:

- Administration Division
- County Audit Division
- Management Services Division
- Minerals Management Audit Division
- Investigative Audit Division
- State Agency Audit Division

Each of these divisions will be discussed in detail in this report under independent headings.

✦ ✦ ✦ *Objectives* ✦ ✦ ✦

The objectives of the State Auditor and Inspector's Office are to provide comprehensive audits of the collections, receipts, obligations, expenditures and use of public funds; to identify deficiencies in financial and compliance practices and their causes; to offer constructive recommendations to assure full compliance with both the intent and the requirements of state and federal statutes; and to prescribe forms and accounting procedures for county government.

The need to maintain fiscal accountability for public funds is of primary importance. A well designed and functioning accounting system is the key to maintaining an adequate level of accountability. The audit function, as performed by our auditing staff, provides comments on internal control, which enhances the prevention and detection of accounting system breakdowns, thereby preventing the loss of government assets. The State Auditor and Inspector promotes the development of accounting at a level that will ensure adequate accountability of public funds through our monitoring presence and by recommending corrective action. Additionally, our audit reports often cite recommendations for improving the economy, efficiency and quality of services delivered by the various entities we audit.

*...fiscal accountability
for public funds is of
primary importance.*

The audit coverage, by providing a continual flow of fiscal and compliance information, can aid in significant improvements in state and local government operations. Audit programs and reports are updated and reviewed continuously to keep our office responsive to the needs of the citizens and in compliance with the intent of the Legislature. All staff audit teams are trained and knowledgeable concerning standard auditing procedures for the government entities to which they are assigned. The audit teams attend several continuing education programs and in-house training seminars each year.

Our office is responsive to the needs of citizens.

Organization and Responsibilities
(Summary by Division and Department)



<i>JEFF A. MCMAHAN</i> <i>STATE AUDITOR AND INSPECTOR</i>
<i>Administration</i>
<i>Abstractor Licensing and Registration</i>
<i>Accounting</i>
<i>Auditor Registration</i>
<i>State Board of Equalization</i>
<i>Continuing Professional Education</i>
<i>Information Services</i>
<i>Horse Racing</i>
<i>State Pension Commission</i>
<i>Public Trusts</i>
<i>Quality Control</i>

The State Auditor and Inspector, Jeff A. McMahan, is the chief executive officer of the Office. The Administration Division consists of the State Auditor and Inspector, the Chief of Staff, the Deputy State Auditor and Division Directors. Each Director is responsible for the planning and administration of their division within the organizations. The Administration Division is the “umbrella” under which all other divisions function. Directors also assist in the supervision of many internal functions of the Office and coordinate matters concerning budgeting, personnel, office policy, consistency in audit coverage and general administration of the office.

Many of these functions are segregated into specialized departments within the Administration Division. These departments are instrumental in fulfilling the Constitutional and legislative duties of the Office of State Auditor and Inspector. The individual departments are summarized as follows: Abstractor Licensing and Registration, Accounting, Auditor Registration, State Board of Equalization, Continuing Professional Education, Information Services, Horse Racing, State Pension Commission, Public Trusts and Quality Control.

✦ *Abstractor Licensing and Registration* ✦

In response to the request of abstractors across the State, the Oklahoma Legislature in 1984 passed a law transferring regulation of the industry from the offices of the county clerks of each county to the Oklahoma State Auditor and Inspector.

The SA&I is responsible
for regulating the
Abstract industry.

The State Auditor and Inspector has established an Abstract Department to administer the Oklahoma Abstractor’s Law (74 O.S. § 227.10 et seq.) to regulate the industry and issue certificates of authority, abstractor’s licenses and permits to build abstract plants.

The Abstract Department is staffed by an Abstractor Registrar and Secretary. At the end of the 2003 annual period, one hundred thirty (130) certificates of authority and seven hundred fifty-seven (757) abstractor licenses were issued.

The Department has promulgated rules and regulations at Title 80 of the Oklahoma Administrative code to which all abstract companies must conform throughout the State. Copies of these documents were distributed to all abstract companies in Oklahoma and made available on the State Auditor and Inspector’s website.

All persons who compile abstracts in the State must be licensed and submit to the supervision of a holder of certificate of authority.

The Abstractor Registrar regularly attends abstract industry meetings, participates in the presentation of programs and keeps the industry informed of developments and changes as the need arises.

✦ *Accounting* ✦

The Accounting Department is responsible for daily internal operations. Financial responsibilities include purchasing, budgeting, billing and claims processing. All personnel and employee benefit information is maintained by this Department, as well as an information system containing audit tracking and time accounting data.

The Accounting Department maintains all personnel and benefits information.

The Print Shop Section provides the printing, binding, distribution and file maintenance of all reports published by the State Auditor and Inspector's Office. This Section is also responsible for archiving reports and distributing supplies and equipment.

✦ *Auditor Registration* ✦

Oklahoma Statutes (74 O.S. § 212A) requires all governmental entities, as defined by the Governmental Accounting Standards Board, to have an audit of their financial statements in accordance with Government Auditing Standards.

Oklahoma law cited above also requires all auditors of governmental entities to register with the Oklahoma Accountancy Board. Governmental auditors must satisfy both the Oklahoma Accountancy Board and the State Auditor and Inspector's Office that the auditor has met the criteria defined by the Government Auditing Standards prior to entering into audit contracts.

Copies of all audit reports of governmental entities must be filed with the State Auditor and Inspector. Any Public Accountant or Certified Public Accountant filing a report with the State Auditor and Inspector must pay a filing fee of forty dollars (\$40.00) to ensure that all audits of governmental entities are in accordance with Government Auditing Standards. This legislation pertains to

2,081 audits of governmental entities were reviewed by the SA&I in FY 2003.

all audits conducted by external auditors for any state agency, board, commission, school district, city, town, public trust or other governmental entity. All audits filed with the State Auditor and Inspector are reviewed to ensure compliance with Government Auditing Standards and the Oklahoma Statutes. Approximately two thousand eighty-one (2,081) audits of governmental entities were reviewed by the State Auditor and Inspector's Office for the annual period ending June 30, 2003.

Reports must in a form consistent with the AICPA Audit and Accounting Guide Audits of State and Local Governmental Units. State agencies or other pass-through grantors of federal financial assistance may not require additional reporting from a grantee, in addition to the required federal reports, without permission from the State Auditor and Inspector. As of the date of this report, no additional reports have been approved.

✧ *State Board of Equalization* ✧

The Oklahoma State Board of Equalization is a constitutionally authorized board comprised of seven (7) ex-officio board members. The members include the Governor, Lieutenant Governor, State Treasurer, State Auditor and Inspector, Attorney General, Superintendent of Public Instruction, and Commissioner of the Department of Agriculture. The Governor serves as Chairperson and the State Auditor and Inspector serves as Secretary to the State Board of Equalization.

The Board provides an estimate of revenue that will be available for appropriation by the Legislature.

The principal duty of the State Board of Equalization is to adjust and equalize the valuation of real and personal property of the seventy-seven (77) counties and assess all railroad, airline and public service corporation properties. The Board also provides an estimate of revenue that will be available for appropriation by the Legislature.

During this annual period, the Board met five (5) times and certified assessed valuations of two hundred seventy-seven (277) railroads, airlines and public service corporations.

The Board also received approximately fifteen hundred (1,500) annual budgets that included counties, cities, towns, school districts and other taxing jurisdictions within the State of Oklahoma. Budgets are reviewed to verify that all valuations and levies reflected agree with those certified by the local official.

✧ *Continuing Professional Education* ✧

The State Auditor and Inspector's Office is dedicated to maintaining an educated and informed audit staff. Staff auditors are required to complete a minimum of twenty (20) hours of continuing professional education (CPE) annually to remain current with any changes to auditing professional standards.

Staff assigned to audit federal programs is required to complete eighty (80) hours continuing professional education in a two-year period. This ensures that the Office meets Government Auditing Standards issued by the Comptroller General of the United States. Of those eighty (80) hours, twenty-four (24) must be in subjects directly related to the government environment and to governmental auditing.

The scheduled CPE seminars for the year have been selected to keep the audit staff well versed with current developments and to sharpen their existing skills allowing for staff development at all levels. Instructors of the Continuing Professional Education program include a combination of the State Auditor and Inspector's staff and other nationally recognized experts in their fields.

In addition to the participation of the State Auditor and Inspector's staff, the excellent CPE Program has also attracted many financial officers and internal audit department employees from other state agencies. More than four hundred (400) participants from approximately sixty (60) state agencies and educational institutions attended classes during the year.

**Continuing Education Seminars
Period Ending June 30, 2003**

<u>Date</u>	<u>Seminar</u>	<u>Hours</u>
July/August	Effective Writing for Auditors <i>By Shane Brown Quality Assurance Division Office of the State Auditor and Inspector</i>	8

**Continuing Education Seminars
Period Ending June 30, 2003**

<u>Date</u>	<u>Seminar</u>	<u>Hours</u>
August/September	ACL Training for County Audits <i>By Jana Wallace, Supervisor County Audits and Information Systems Division Office of the State Auditor and Inspector</i>	16
September 16	Case Preparation, Courtroom Testimony, and State Purchasing Laws <i>By Tommy Graham, Inspector in Charge Eastern Region OSBI Tom Jaworsky, Director of Purchasing Department of Central Services</i>	8
September 30	Analytical Review <i>By Pamela Lindsey State Agency Audit Division Office of the Oklahoma State Auditor and Inspector</i>	8
December 16	Auditing and Accounting Updates <i>By Frank Crawford, President Crawford and Associates</i>	8
April 21	State Auditor and Inspector Performance Management Process <i>By Tamara Lawson, Certified Trainer</i>	8
April 22	Progressive Discipline <i>By Scott Lange, Instructor Merit Protection Commission</i>	8
May 1 and 2	Personal Development Issues for Auditing <i>By Steve Robichaux, MBA Louisiana State University</i>	16
May 22	Internal Controls Over Information Systems <i>By Ann Cole, Director, ISD Lynn Dowds, Manager, ISD Clayton Hoskinson, ISD Tim Roberts, ISD Office of the Oklahoma State Auditor and Inspector</i>	8

The inclusion of a larger spectrum of officials from so many different agencies has significantly enhanced accountability throughout State government by educating internal auditors and agency financial officers on developments and increasing awareness of the importance of strong internal controls and proper policies and procedures.

The Continuing Professional Education Coordinator for the State Auditor and Inspector's Office performs various duties to ensure that a quality training program is provided. Those duties include recruitment of instructors, scheduling, development of course instructional material, printing of course workbooks and logistical concerns. Extensive record keeping for all participants is also necessary to ensure the requirements of the General Accounting Office (GAO) and the Oklahoma Accountancy Board are met.

The CPE Program of the State Auditor and Inspector's Office has grown to be recognized throughout the State for its excellence.

✧ *Information Services Division* ✧

The Information Services Division's responsibilities encompass the following three service areas: Administrative Services, Research and Development Services, and Information Systems Auditing Services. Each service area serves both state and local governments with Information Technology resources and services.

The Administrative Services area provides technical support for all software applications and computer hardware used within the agency. This service area provides services to County Assessors and County Treasurers as part of the Ad Valorem Assessment Administration and Property Tax Collections program. During FY-2003, technical support provided network and software support for fifty-nine County Assessors and thirty-five County Treasurers. Staff in this area also provides software development services and training to these county offices.

The Research and Development Services area researches, recommends, and when necessary, develops solutions concerning technology issues. This area provides services to the internal division of the State Auditor's Office as well as providing training to other agencies and county governments. During FY-2003, classes were taught to the County Officers for writing Disaster Recovery Plans.

The Information Systems Auditing Services (ISAS) provide the managers of the State of Oklahoma's data resources with useful information, so they can successfully manage the risk associated with implementing and using technology. During fiscal year 2003, ISAS provided the following services to the State of Oklahoma and Oklahoma County Governments:

- Conducted various on-site visits to Oklahoma County offices to review information system general controls and to analysis data obtained from their local systems.
- Performed general information system control reviews as part of the State Agencies Division's financial audits on the Oklahoma Health Department, Oklahoma Tax Commission, Oklahoma Department of Education, Oklahoma Department of Transportation, Oklahoma Health Care Authority and Department of Human Services.
- Issued information system review reports on Oklahoma Department of Securities and Oklahoma County's MIS Division.
- Assistance was also provided to assess the internal control risk for the statewide CAFR audit and the State of Oklahoma Single Audit.
- Provided Computer Forensic services to the Special Investigative Division concerning cases that involved the recovery of information stored on computers.
- Continued with our role in consulting services for the statewide implementation of the PeopleSoft computer software.

✦ *Horse Racing* ✦

As authorized by *3A O.S. § 204*, the State Auditor and Inspector's Office has entered into a contract with the Horse Racing Commission to audit and inspect, at regular intervals, all horse race meets held in the State of Oklahoma. Pursuant to *3A O.S. § 205.6a*, the State Auditor and Inspector's Office audits and inspects off-track

wagering facilities in the State of Oklahoma. In addition, the State Auditor and Inspector's Office audits and inspects out-of-state simulcast races received by Oklahoma horse racing facilities and off-track wagering sites pursuant to *3A O.S. § 205.7*. During the last year, staff members audited race meets and continued training in the auditing of pari-mutual pools and related commissions. Audit staff continues to update and improve their pools. Computerized tracking of certain records related to the audit of horse race meets is in progress.

✦ *State Pension Commission* ✦

The State Auditor and Inspector, or his designee, serves as a member of the Oklahoma State Pension Commission in accordance with *74 O.S. § 941*. This office also provides administrative support to the Commission. The Oklahoma State Pension Commission is comprised of seven members, including the State Auditor and Inspector or his designee, the Director of the Department of Central Services, the State Treasurer (or their designees); one member of the Senate appointed by the President Pro Tempore of the Senate, one member of the House of Representatives appointed by the Speaker of the House of Representatives, and two members appointed by the Governor.

The principal duty of the Commission is to review and publish comparative quarterly and annual performance reports analyzing the investment performance of Oklahoma's seven pension systems, specifically for firefighters, police, justices and judges, law enforcement personnel, teachers, public employees and wildlife department personnel.

The Commission is also directed by statute to hire one or more pension fund management consultants to assist the Commission in accomplishing its objectives. The consultant is considered a fiduciary of the state retirement systems.

During this annual period, the Commission met four (4) times and presented eight (8) reports.

✦ *Public Trusts* ✦

The Public Trust Department monitors a total of 1,186 public trusts and continues to actively pursue any noncompliance with filing

requirements. Our office has made significant strides toward informing trusts of their responsibility to initiate audits. Due to this effort, 1,086 trusts were in compliance and 100 trust were noncompliant during the fiscal year ending June 30, 2003.

As of June 30, 2003, there were ninety-seven (97) hospital trusts. As required by *19 O.S. § 794*, all county-owned hospitals must file an annual audit with this office; subsequently Oklahoma has sixteen (16) county owned hospitals, with one (1) being noncompliant. As required by *60 O.S. § 180.1* and *180.2*, all public trusts are required to file annual audits with this office. Seventy-seven (77) of Oklahoma's eighty-one (81) hospital trust authorities were in compliance with these statutes as of June 30, 2003.

As required by *74 O.S. § 212A*, all governmental entities receiving public funds shall file with this office a financial statement audit in accordance with Generally Accepted Auditing Standards and Generally Accepted Government Auditing Standards, as of the end of each fiscal year. During this period, there were a total of 1,145 general audits; 1,053 were in compliance and 92 were noncompliant. The general audits are listed as follows:

Colleges	27	Schools	593
Conservation Districts	92	Miscellaneous	139
Rural Water Districts	294		

There are a total of 587 cities in Oklahoma, 538 were in compliance and 49 were noncompliant as of June 30, 2003.

✦ *Quality Control* ✦

Quality Control ensures audit policies and procedures are adopted and followed for the organization.

The Quality Control Department is responsible for coordinating the internal quality control review program. This includes ensuring that audit policies and procedures are adopted and followed for the organization. Quality Control is also responsible for ensuring that all audit reports meet statutory and technical criteria.

The Quality Control Department coordinates the preparation for the external quality control review or peer review that is held once every three (3) years to meet the requirements of Government Auditing Standards.

Additionally, the Department is responsible for researching technical and professional literature, updating the Office technical library, as well as updating the staff on new developments in the government accounting and auditing sector.

✦ *County Audit Division* ✦

The County Audit Division is responsible for conducting financial and compliance audits in all seventy-seven (77) counties across the State, as well as forty-five (45) Emergency Medical Service Districts. County Division auditors also conduct cash counts and reconcile the accounts maintained by each county treasurer. When there is a transition of elected officials, auditors perform specific procedures covering the internal controls and compliance requirements of the Office. Varying audit procedures are performed and reports published for each of the twenty-seven (27) district attorneys.

These audits are conducted on-site; therefore, three separate branch office in Ada, Tulsa and Weatherford are maintained to minimize travel costs. Each branch office is staffed with an audit manager, three audit supervisors and approximately ten auditors.

Each year new standards, laws and forms are introduced which affect the accounting systems and the internal control of county offices. As a result, this Division's director, audit managers and supervisors revise and update audit programs and report formats annually. During the year we began utilizing auditing software to examine, test and analyze stored computer data files.

The County Audit Division assists the Management Services Division with training seminars and workshops held for county officers. Consulting services are also provided to the county officers regarding maintenance of proper accounting records and execution of proper accounting procedures. These services provided to county officers have been extremely beneficial to the audit staff, the officials and the taxpayers of Oklahoma. The result is more efficiently managed offices creating a more reliable audit trail and increased accountability to the taxpayers.

Consulting services provided to county officers have been extremely beneficial to the audit staff, officials, and the taxpayers of Oklahoma.

A list of reports issued during this period appears in the "Detailed List of Audit Coverage" at the back of this report.

✦ *Management Services Division* ✦

The Management Services Division of the State Auditor and Inspector's Office provides technical assistance to all county officials, and other political subdivision, as mandated by the Constitution of the State of Oklahoma and the Oklahoma State statutes.

Management Services consists of personnel technically trained to answer questions.

Auditing of any governmental entity is critical by nature, and as such, should provide the personnel qualified to answer any questions arising from those criticisms. The Management Services Division consists of personnel technically trained to answer those questions.

The State Auditor and Inspector's Office is directed by State statute to prescribe the forms used by county officials in maintaining the books and records of the county. The Division made revisions to seventy-six (76) existing forms for use by county officials. This responsibility belongs to the staff members of the Management Services Division.

Another function of the Division is to continuously update and revise the Statute Reference Manual, an ongoing project which requires constant attention to new laws enacted by the State Legislature as well as the modification or amending of current laws of the State of Oklahoma. In addition to the manual mentioned above, the Division tracked eighty-two (82) bills in the House and Senate, which pertain to county government. A digest of House and Senate Bills, passed during the legislative session, is forwarded to all county officials.

During this annual period, the Management Services Division issued twelve (12) bulletins to county officers advising them of changes in accounting procedures, current forms to be used and notification of statewide meetings.

The State Auditor and Inspector's Office routinely tracks Attorneys' General Opinions which may affect county government.

During the annual period ended June 30, 2003, the Management Services Division personnel prepared materials and gave presentations at numerous meetings as noted on the following page.

County Officer Schools and Meetings

County Assessors Annual Meeting August 2002	S. A. & I. Reporting Requirements for County Treasurers Stillwater January 2003
County Officers and Deputies Association of Oklahoma Fall Meeting September 2002	Sheriffs' Training Workshop March 2003
Northeast District County Officers and Deputies Fall Meeting October 2002	Southwest District County Officers and Deputies March 2003
Northwest District County Officers and Deputies Fall Meeting October 2002	Northwest District County Officers and Deputies Cherokee March 2003
Association of County Commissioners of Oklahoma November 2002 January 2003 April 2003	County Clerks' Association Annual School April 2003
Purchasing Workshop Oklahoma City November 2002	Court Clerks' Association Annual School April 2003
County Officers and Deputies Association of Oklahoma Winter Conference February 2003	County Treasurers' Association Annual School May 2003
County Excise Board Training Oklahoma City May 2003	Southeast District County Officers and Deputies Spring Meeting May 2003

✦ *Minerals Management Audit Division* ✦

There were no Minerals Management audits issued for Fiscal Year 2003 due to a federal mandate. In November 2002, a Federal Judge issued an order to disconnect all U. S. Department of the Interior computer systems related to Indian Trust data. The Minerals Management Service of the U. S. Department of the Interior is connected to the Oklahoma State Auditor and Inspector's computer through a web-based program. Therefore, all Minerals Management audits for Fiscal Year ended June 30, 2003 have been extended into Fiscal Year 2004.

✦ *Investigative Audits Division* ✦

The Office of State Auditor and Inspector is charged with the responsibility of conducting limited examinations, reviews and investigative audits of government entities upon a request of a petition of citizens, a request of the Governor, the Speaker of the State House of Representatives, the President Pro Tempore of the State Senate, a District Attorney, and any Board of County Commissioners, or any public entity's governing board, in accordance with *74 O.S. § 212* and *74 O.S. § 227.8*, respectively.

The Investigative Audit Division is also responsible for assisting the Attorney General's Office in their investigations as directed by *74 O.S. § 18f*. At the request of the Attorney General's Office, the audit staff will conduct limited examinations, reviews and investigative audits. These investigations could include public and private entities involved in the possibility of misuse of public funds.

This Investigative Audit Division is also involved in attempting to resolve requests for an audit by mediation with all parties concerned, without additional cost to the entity.

The Investigative Audit Division is responsible for assisting the Attorney General's Office in their investigations.

✧ *State Agency Audit Division* ✧

The State Agency Audit Division (SAAD) conducts financial and federal compliance audits, performance audits and reviews of state agencies, boards and commissions. SAAD also receives several requests from legislators, agency heads and concerned citizens. These engagements are conducted as special projects and reported thereon by audit or letter. During the year, special projects completed or in progress were:

- Grand River Dam Authority – Special Audit
- Oklahoma Department of Tourism and Recreation – Special Investigative Audit
- Oklahoma Tax Commission – Motor Vehicle Division – Prorate Section Special
- Oklahoma Corporation Commission – Indemnity Fund – Special Audit contracted to MSI Barnes

The Division has two primary audits, the State of Oklahoma Single Audit and the audit of the CAFR for the State of Oklahoma. The financial operations of all State agencies are included within the scope of the Comprehensive Annual Financial Report (CAFR) for the State of Oklahoma. The CAFR, which is prepared by the Office of State Finance, is audited annually by the Division. The State of Oklahoma has received the Certificate of Achievement for excellence in financial reporting from the Governmental Finance Officers' Association every year since 1996.

The federal funds expended by all State agencies (excluding colleges/universities, proprietary component units and civil emergency management) are included within the scope of the State of Oklahoma Single Audit Report. The *Single Audit Report* prepared by the State Auditor and Inspector's Office has successfully met the requirements of the Single Audit Act and the Office of Management and Budget, Circular A-133. During Fiscal Year 2002, the State expended approximately \$3.7 billion in Federal assistance, excluding colleges/universities, and proprietary component units.

The State Agency Audit Division has successfully met all Federal audit requirements to ensure the continued flow of Federal funds to the State.

In addition to the primary office at Shepherd Mall, the Division maintains branch offices at the Oklahoma Tax Commission, the Oklahoma Department of Transportation, the Oklahoma State and Education Employees' Group Insurance Board, and the Oklahoma Department of Human Services. These audits require on-site, year-round staffing due to agency size or state statute.

The Division is responsible for compliance-type audits of state institutions of the Oklahoma State System of Higher Education when requested in accordance with *74 O.S. § 213 (D)* and for special audits and investigations upon request of the Governor or Attorney General of the State of Oklahoma.

A complete listing of report issued appears in the "Detailed List of Audit Coverage" at the back of this report.

The Office participates in a national organization to facilitate peer review. Peer reviews are conducted every three years to ensure audit agencies meet audit industry standards. The State Auditor and Inspector's office successfully passed its peer review for 2002. The SAAD staff has assisted in peer reviews for the state of:

* Virginia

The State Auditor and Inspector contracts with outside firms for various audits including the state's pension audits. Because the State Auditor and Inspector serves on some of these same boards and commissions, the office does not perform audits where independence is jeopardized. Other audits were contracted to outside firms for this annual period.

<i>Agency</i>	<i>Audit Period Covered</i>	<i>Audit Firm</i>
Okla. Public Employees Retirement System	Year ended June 30, 2002	KPMG
Okla. Public Employees Deferred Compensation Plan	Year ended June 30, 2002	KPMG
Uniform Retirement for Justices and Judges	Year ended June 30, 2002	KPMG
Okla. State Employee Group Insurance Plan	Year ended June 30, 2002	KPMG

<i>Agency</i>	<i>Audit Period Covered</i>	<i>Audit Firm</i>
Teachers Retirement System of Oklahoma	Year ended June 30, 2002	KPMG
Okla. Firefighters Pension & Retirement System	Year ended June 30, 2002	Finley & Cook
State Insurance Department	Year ended June 30, 2002	KPMG
State Securities Commission	Year ended June 30, 2002	Murrell, Hall & McIntosh
Law Enforcement Retirement System	Year ended June 30, 2002	Finley & Cook
Okla. Industrial Finance Authority	Year ended June 30, 2002	Arledge & Associates
Okla. Public Employees Retirement System – Deferred Savings Plan	Year ended June 30, 2002	KPMG
Corporation Commission – Indemnity Fund	Year ended June 30, 2002	Grant Thornton
Corporation Commission – Indemnity Fund	Year ended June 30, 2002	MSI Barnes
Commission of the Land Office	Year ended June 30, 2002	Knoll & Co., P.C.

✦ *Performance Audits* ✦

Title 74 O.S. Supp. 2001 § 213.2 authorizes the State Auditor and Inspector to conduct performance audits on all public offices, institutions and other governmental entities and to instruct the proper officers thereof in the performance of their duties and to prescribe and enforce cost-effective methods of operations. The State Auditor and Inspector conducts performance audits authorized in this legislation upon receiving a written request to do so by the Governor, the chief executive officer of a governmental entity or pursuant to a concurrent resolution of the Legislature.

Performance audits have different objectives than annual financial audits of governmental entities required by Oklahoma Statutes and the Federal Government. Financial audits determine whether the financial statements of an audited entity are presented fairly and whether the entity has complied with laws and regulations for those transactions that may have a material effect on the financial statements.

Economy and efficiency audits determine whether the entity is using its resources economically and efficiently.

A performance audit includes economy and efficiency audits and program audits. Economy and efficiency audits determine whether the entity is using its resources economically and efficiently and the causes of inefficiencies or uneconomical practices. A program audit includes determining the extent to which the desired results or benefits established by the Legislature, or other authorizing body, are being achieved, and the effectiveness of organizations, programs, activities or functions.

Performance audits in progress or planned for June 30, 2003 are:

* Department of Rehabilitation

Detailed Lists of Audit Coverage



County Government – Financial Audits

Adair County	05/03	Coal County Court Clerk	12/02
Adair County	01/03	Comanche County	01/03
Alfalfa County Court Clerk	05/03	Comanche County Court Clerk	01/03
Beckham County	04/03	Cotton County Court Clerk	06/03
Beckham County Court Clerk	04/03	Craig County	01/03
Blaine County	02/03	Custer County	12/02
Blaine County Court Clerk	02/03	Custer County Court Clerk	11/02
Bryan County	10/02	Delaware County	10/02
Caddo County	01/03	Delaware County Court Clerk	08/02
Caddo County Court Clerk	12/02	Dewey County	08/02
Canadian County	04/03	Ellis County	06/03
Canadian County	08/02	Ellis County Court Clerk	05/03
Canadian County Court Clerk	03/03	Garfield County	06/03
Carter County	05/03	Garfield County Court Clerk	03/03
Carter County Court Clerk	03/04	Garvin County	05/03
Cherokee County	01/03	Garvin County Court Clerk	04/03
Choctaw County Court Clerk	05/03	Grady County	03/03
Cleveland County	05/03	Grady County Court Clerk	12/02
Cleveland County	01/03	Harmon County	06/03
Cleveland County Court Clerk	12/02	Harmon County Court Clerk	06/03
Coal County	01/03	Hughes County	06/03

Hughes County	10/02	Logan County Court Clerk	04/03
Hughes County Court Clerk	04/03	Love County	03/03
Jackson County	04/03	Love County Court Clerk	01/03
Jackson County	07/02	McClain County	02/03
Jackson County Court Clerk	02/03	McClain County Court Clerk	05/03
Jefferson County Court Clerk	05/03	McCurtain County	11/02
Kay County	12/02	McCurtain County Court Clerk	06/03
Kingfisher County	04/03	McIntosh County	03/03
Kingfisher County	08/02	McIntosh County Court Clerk	12/02
Kingfisher County Court Clerk	04/03	Major County	06/03
Kiowa County	06/03	Major County Court Clerk	05/03
Kiowa County Court Clerk	05/03	Murray County	04/03
Latimer County	06/03	Murray County Court Clerk	04/03
Latimer County Court Clerk	05/03	Muskogee County Court Clerk	10/02
Leflore County	05/03	Nobel County Court Clerk	06/03
Leflore County	12/02	Nowata County Court Clerk	06/03
Leflore County Court Clerk	12/02	Okfuskee County	07/02
Lincoln County	07/02	Oklahoma County	02/03
Lincoln County Court Clerk	06/03	Oklahoma County CAFR	03/03
Lincoln County Court Clerk	03/03	Oklahoma County Court Clerk	12/02
Logan County	05/03	Okmulgee County	10/02

Audit Reports Listing

Osage County	06/03	Seminole County	12/02
Ottawa County	06/03	Seminole County Court Clerk	04/03
Ottawa County Court Clerk	06/03	Sequoyah County	10/02
Pawnee County	06/03	Stephens County	06/03
Pawnee County Court Clerk	06/03	Stephens County	01/03
Payne County	01/03	Stephens County Court Clerk	05/03
Pittsburg County	06/03	Texas County	09/02
Pittsburg County Court Clerk	02/03	Texas County Court Clerk	08/02
Pontotoc County	06/03	Tillman County	02/03
Pontotoc County	10/02	Tillman County Court Clerk	02/03
Pontotoc County Court Clerk	10/03	Tulsa County	05/03
Pottawatomie County	04/03	Wagoner County	05/03
Pottawatomie County	09/02	Washington County	12/02
Pottawatomie County Court Clerk	02/03	Washington County Court Clerk	06/03
Pushmataha County	06/03	Washita County Court Clerk	05/02
Pushmataha County Court Clerk	01/03	Woods County	01/03
Roger Mills County	03/03	Woods County Court Clerk	01/03
Roger Mills County Court Clerk	02/03	Woodward County	07/02
Rogers County Court Clerk	06/03	Woodward County Court Clerk	06/03
Rogers County Court Clerk	10/02	City-County Health Department	03/02
Seminole County	06/03		

County Treasurer Reviews

Alfalfa County Treasurer	01/03	Grant County Treasurer	08/02
Atoka County Treasurer	12/02	Greer County Treasurer	08/02
Beaver County Treasurer	06/03	Harmon County Treasurer	02/03
Beckham County Treasurer	10/02	Harper County Treasurer	06/03
Blaine County Treasurer	07/02	Hughes County Treasurer	11/02
Blaine County Treasurer	04/03	Jackson County Treasurer	08/02
Bryan County Treasurer	11/02	Jefferson County Treasurer	02/03
Caddo County Treasurer	03/03	Johnston County Treasurer	12/02
Canadian County Treasurer	04/03	Kingfisher County Treasurer	03/03
Carter County Treasurer	11/02	Kingfisher County Treasurer	07/02
Choctaw County Treasurer	12/02	Kiowa County Treasurer	02/03
Cleveland County Treasurer	12/02	Latimer County Treasurer	12/02
Coal County Treasurer	11//02	Leflore County Treasurer	02/03
Comanche County Treasurer	10/02	Love County Treasurer	12/02
Cotton County Treasurer	03/03	McClain County Treasurer	11/02
Custer County Treasurer	08/02	McCurtain County Treasurer	01/03
Dewey County Treasurer	10/02	McIntosh County Treasurer	11/02
Ellis County Treasurer	08/02	Major County Treasurer	10/02
Garfield County Treasurer	03/03	Marshall County Treasurer	03/01
Garvin County Treasurer	11/02	Murray County Treasurer	11/02
Grady County Treasurer	12/02	Oklahoma County Treasurer	05/03

Audit Reports Listing

Pittsburg County Treasurer	01/03	Texas County Treasurer	08/02
Pontotoc County Treasurer	11/02	Tillman County Treasurer	03/03
Pottawatomie County Treasurer	01/03	Washita County Treasurer	08/02
Pushmataha County Treasurer	05/03	Woods County Treasurer	04/03
Roger Mills County Treasurer	10/02	Woodward County Treasurer	07/02
Seminole County Treasurer	11/02	Woodward County Treasurer	06/03
Stephens County Treasurer	02/03		

County Officer Turnovers

Adair County Commissioner	02/03	District Attorney James Thornley	03/03
Atoka County Commissioner	02/03	District Attorney Richard Dugger	02//03
Beaver County Commissioner	02/03	District Attorney Thomas H. May	03/03
Bryan County Clerk	04/03	Ellis County Commissioner	05/03
Bryan County Commissioner	07/02	Garfield County Commissioner	02/03
Caddo County Commissioner	02/03	Garvin County Sheriff	12/03
Canadian County Assessor	02/03	Grady County Sheriff	04/03
Canadian County Clerk	01/03	Grant County Commissioner	02/03
Canadian County Commissioner	02/03	Harper County Commissioner	01/03
Canadian County Court Clerk	02/03	Haskell County Commissioner	12/02
Cherokee County Commissioner	01/03	Jackson County Commissioner	01/03
Cimarron County Assessor	02/03	Kay County Assessor	02/03
Cimarron County Clerk	07/02	Kay County Commissioner	02/03
Cimarron County Commissioner	02/03	Kiowa County Assessor	02/03
Coal County Commissioner	10/02	Kiowa County Commissioner	10/02
Comanche County Commissioner	01/03	Latimer County Commissioner	02/03
Craig County Commissioner	02/03	Logan County Commissioner	03/03
Craig County Court Clerk	10/02	Love County Commissioner	02/03
Dewey County Assessor	01/03	Major County Court Clerk	06/03
District Attorney Dianne Barker	04/03	McClain County Commissioner	01/03
District Attorney Don Wood	02/03	McCurtain County Commissioner	02/03

Audit Reports Listing

McCurtain County Commissioner	03/03	Roger Mills County Commissioner	01/03
McIntosh County Commissioner	01/03	Rogers County Clerk	03/03
Muskogee County Assessor	02/03	Rogers County Commissioner	03/03
Muskogee County Court Clerk	01/03	Rogers County Commissioner	02/03
Noble County Commissioner	02/03	Stephens County Commissioner	02/03
Oklahoma County Commissioner	02/03	Stephens County Court Clerk	04/03
Oklahoma County Commissioner	03/03	Tillman County Clerk	02/03
Okmulgee County Commissioner	02/03	Tulsa County Assessor	02/03
Osage County Commissioner	02/03	Tulsa County Commissioner	12/02
Pawnee County Commissioner	02/03	Wagoner County Commissioner	02/03
Pontotoc County Commissioner	01/03	Wagoner County Commissioner	07/02
Pushmataha County Commissioner	02/03	Woodward County Commissioner	02/03

Emergency Medical Districts

Binger-Oney EMS	04/03	Logan County EMS	04/03
Binger-Oney EMS	10/02	Love County EMS	02/03
Bryan County EMS	06/03	Marshall County EMS	06/03
Buffalo EMS	04/03	Marshall County EMS	10/02
Choctaw County EMS	08/02	McClain/Grady EMS	02/03
Coal County EMS	06/03	McCurtain County EMS	10/02
Coal County EMS	04/03	Miami School District #23 EMS	04/03
Creek County Emergency Ambulance	03/03	Murray County EMS	05/03
Creek County EMS	12/02	Murray County EMS	10/02
Crescent Ambulance District	03/03	Noble EMS	06/03
Ellis County EMS	04/03	Noble EMS	01/03
Glenpool Area EMS	04/03	Pauls Valley EMS	06/03
Grady County EMS	02/03	Pauls Valley EMS	09/02
Greer County EMS	03/03	Pushmataha County EMS	04/03
Grove EMS	03/03	Roger Mills County EMS	03/03
Haskell County EMS	04/03	Rural Southern Oklahoma EMS	04/03
Hughes County EMS	10/02	Southwest Oklahoma Ambulance	04/03
Jackson County EMS	03/03	Tillman County EMS	04/03
Latimer County EMS	03/03	Weleetka-Graham EMS	04/03
Laverne County EMS	01/03	Woodward County EMS	04/03
Leedey Ambulance Service	02/03	Wynnewood EMS	05/03
Leflore EMS	11/02		

Horse Racing Division

Blue Ribbon Downs Race Meeting	02/03	Remington Park Thoroughbred Race	02/03
Fair Meadows at Tulsa Simulcast	02/03	Statistical Report of Operations	03/03
Remington Park Mixed Breed Race	07/02	Tulsa County Fair	07/02
		Tulsa County Fair	06/03
Remington Park Simulcast Days	03/03	Tulsa State Fair	08/02

Special Audits, Reviews and Reports

Alcoholic Beverage Enforcement	10/02	Lane Volunteer Fire Department	09/02
Altus Public Schools	08/02	Office of Handicapped Concerns	05/03
Architects and Landscape Architects	07/02	Oklahoma Board of Nursing	08/02
Berryhill Fire Protection District	03/02	Oklahoma County Special Overview	03/03
Board of Medicolegal Investigations	07/02	Oklahoma Department of Securities	03/030
Board of Pharmacy	12/02	Oklahoma Securities Commission	12/02
Career and Technology Education	01/03	Oklahoma Supreme Court – Special	07/02
Central Public Schools	08/02	Optometry Board of Examiners	07/02
City of Ardmore	12/02	Pardon and Parole Board	09/02
City of Kaw City	09/02	Psychologists State Board	07/02
City of Pawhuska	07/02	Real Estate Commission	12/02
Consumer Credit Commission	02/03	School of Science and Mathematics	04/03
Corporation Commission Indemnity	05/03	Sequoyah County Clerk Special	12/02
Department of Corrections	04/03	Sequoyah County Court Clerk Special	07/02
Department of Labor	07/02	Sequoyah County Rural Water District	11/02
Engineers and Land Surveyors	10/02	Space Industry Development Auth.	12/02
Foresters State Board	07/02	Speech Language Pathology Board	12/02
Grand River Dam Authority Special	04/03	Tax Commission Prorate Section	06/03
Indian Affairs Commission	09/02	Tourism and Recreation Department	05/03
Jefferson County Economic Dev.	06/03	Town of Dewar	10/02
Kiamichi Technology Center	02/03	Town of Gore	05/03

Audit Reports Listing

Town of Hallett	01/03	Used Motor Vehicle & Parts Comm.	02/03
Town of Moffett	06/03	Veterinary Medical Examiners	07/02
Town of Ramona	07/02	Washington County Building Auth.	11/02
Town of Sportsmen Acres	03/03	Weatherford Schools	07/02
Town of Wister	09/02	Westville Utility Authority	12/02
Tulsa County Sheriff's Sales	03/03		

State Agencies, Boards and Commissions

Accountancy Board	04/03	Oklahoma Tax Commission	06/03
Boll Weevil Eradication Organization	12/02	Quartz Mountain Arts & Conference	12/02
Energy Resources Board	05/03	State of Oklahoma Single Audit	04/03
Horse Racing Commission	11/02	State Treasurer	01/03
Law Enforcement Education	09/02	State Treasurer	08/02
Oklahoma Science and Technology	04/03		

District Attorney Audits

District Attorney Diane Barker-Harrold	03/02	District Attorney Jim Bob Miller	01/03
District Attorney Gene Christian	02/03	District Attorney William Peters	03/03
District Attorney Kay Christiansen	02/03	District Attorney Virginia Sanders	02/03
District Attorney Frederick S. Esser	12/02	District Attorney Mitch Sperry	01/03
District Attorney Gene Haynes	03/03	District Attorney James Thornley	02/03
District Attorney Tim Kuykendall	02/03	District Attorney Rob Wallace	02/03
District Attorney C. Wesley Lane	07/02		

Constitutional Provisions

The Constitution of the State of Oklahoma provides for the office of the State Auditor and Inspector within the executive department to the government of the State of Oklahoma. (*Article VI, Section 1.A*)

To be eligible to be elected State Auditor and Inspector, a person must be a citizen of the United States, 31 years of age, have been an elector of this state for 10 years (*Article VI, Section 3*), and have at least three years experience as an expert accountant. (*Article VI, Section 19*)

The term of office is four years, which runs concurrently with the other state elected officials. The State Auditor and Inspector may succeed himself. (*Article V, Section 4*)

The State Auditor and Inspector has the duty to examine the books, accounts and cash on-hand or in the bank of the State Treasurer and county treasurers at least twice each year without notice to such treasurers and to publish this report; to prescribe a uniform system of bookkeeping for all treasurers; and perform such other duties as may be prescribed by law. (*Article VI, Section 19*)

The State Auditor and Inspector has the constitutional duty to conduct an annual audit of the operations of each Emergency Medical Services District, (*Article X, Section 9C.(i)*) and each county solid waste management operation. (*Article X, Section 9D.L.*)

The State Auditor and Inspector serves as a member of the Commissioners of the Land Office (*Article VI, Section 32*), and as a member of the State Board of Equalization. (*Article X, Section 21*)