



STATE OF OKLAHOMA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

For the Fiscal Year Ended June 30, 2023

Cindy Byrd, CPA
State Auditor & Inspector

**State of Oklahoma Independent Auditor's Report on Internal
Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards* for the
Fiscal Year Ended June 30, 2023**



October 31, 2024

**TO THE HONORABLE J. KEVIN STITT, GOVERNOR
AND MEMBERS OF THE LEGISLATURE OF THE
STATE OF OKLAHOMA**

This is our report on the internal control over financial reporting and on compliance and other matters for the State of Oklahoma for the fiscal year ended June 30, 2023. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 the course of the audit.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

**State of Oklahoma Independent Auditor’s Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards for the Fiscal Year Ended June 30, 2023**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**TO THE GOVERNOR AND MEMBERS
OF THE LEGISLATURE OF THE STATE OF OKLAHOMA**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oklahoma as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the State of Oklahoma's basic financial statements, and have issued our report thereon under separate cover dated September 4, 2024, which included an emphasis paragraph on the Multiple Injury Trust Fund for a net deficit related primarily to court awards that exceeded the apportionment of special tax revenue collected. Our report includes a reference to other auditors who audited:

- the financial statements of the Water Resources Board, the Employees Group Insurance Division of the Office of Management and Enterprise Services, and the Lottery Commission, which in the aggregate represent eighty percent of the assets, fifty-eight percent of the net position, and seventy-eight percent of the revenues of the proprietary funds;
- the financial statements of the Oklahoma Municipal Power Authority, Oklahoma Housing Finance Agency, Grand River Dam Authority, Oklahoma Turnpike Authority, University of Oklahoma, University of Oklahoma – Foundation, Oklahoma State University, Oklahoma State University – Foundation, Regents for Higher Education, and University of Oklahoma – Health Sciences Center, which in the aggregate represent eighty-two percent of the assets, eighty-three percent of the net position, and seventy-eight percent of the revenues for the aggregate discretely presented component units;
- the financial statements of the Commissioners of the Land Office, the Department of Wildlife Lifetime Licenses, and the Tobacco Settlement Endowment permanent funds, which in the aggregate represent one hundred percent of the assets, one hundred percent of the fund balance, and one hundred percent of the revenues of the permanent funds;
- the financial statements of the Oklahoma Teachers Retirement System, the Oklahoma Public Employees Retirement System, and the Oklahoma Firefighters Pension and Retirement System, which in the aggregate represent eighty-nine percent of the assets, eighty-eight percent of the net position, and fifty percent of the additions of the aggregate remaining fund information.
- the financial statements of the Department of Commerce which in the aggregate represent one percent of the assets, two percent of the fund balance, and zero percent of the revenues of the general fund.

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Oklahoma's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the State of Oklahoma's financial statements will not be prevented or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 23-090-021 and 23-290-026 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

State of Oklahoma's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State of Oklahoma's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The State of Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Oklahoma's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Oklahoma's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is also a public document pursuant to the Open Records Act (51 O.S. § 24A.1 et seq.) and shall be open to any person for inspection and copying.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

September 4, 2024

Schedule of Findings and Responses

Reference Number: 23-090-021

State Agency: Office of Management and Enterprise Services (OMES)

Fund Type: Governmental Activities; Governmental Funds

Other Information: Statewide Adjustments - 999 Entries

Criteria: The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 10.03 states, in part, “Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 3.09 and 3.10 states, in part, “Management develops and maintains documentation of its internal control system. Effective documentation assists in management’s design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.”

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 10.03 states, in part, “Management designs appropriate types of control activities for the entity’s internal control system. ...Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.”

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 12.05 states, in part, “Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity’s objectives or addressing related risks. If there is a significant change in an entity’s process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology...”

A basic objective of Generally Accepted Accounting Principles is to provide accurate, reliable, and timely information.

A component objective of an effective internal control system is to ensure accurate and reliable information through a proper review and approval process.

Condition and Context: A 999 entry is made by Office of Management and Enterprise Services (OMES) on a statewide level rather than on an agency-by-agency basis. Each entry affects multiple agencies and is made primarily for eliminations or reclassifications at the governmental activities or governmental funds level.

Based on review of the statewide journal entries (999) made for fiscal year 2023, we noted the following errors:

A. *Journal Entry G999019:*

- The total amount of Transfers In/Out eliminated between agencies for account code 531600 against the regulatory services Function of Government (FOG-8) was \$0 but should have been \$6,530,000.
- The total amount of Transfers In/Out eliminated for account code 531600 against the social services Function of Government (FOG-9) was \$165,724,000 but should have been \$213,724,000, a difference of \$48,000,000.
- The net result: \$54,530,000 was eliminated against the wrong Functions of Government.

B. *Journal Entries G999020 & G999031:*

- The total amount related to non-capital outlay payments between state agencies eliminated by journal

- entry *G999020* was \$939,223,000 but should have been \$1,021,042,000. The difference of \$81,819,000 incorrectly included transactions totaling \$13,771,000, and excluded transactions totaling \$95,590,000.
- The total amount of capital outlay payments between state agencies eliminated by journal entry *G999031* was \$193,956,000 but should have been \$232,841,000, a difference of \$38,885,000.
- The net result:
 - State agency eliminations for non-capital outlay payments were understated by \$81,819,000.
 - State agency eliminations for capital outlay payments were understated by \$38,885,000.

C. *Journal Entry G999020:*

- Immaterial state agencies had interagency revenue transactions totaling \$67,641,009 and were not required to submit GAAP Package R, *Interagency Payment Summary*; OMES included that total amount in the eliminations against revenue code 48XXXX. SAI reviewed the expenditure account codes for these payments and noted that the majority of the expenditures did not appear to be applicable to a 48XXXX revenue account code. OMES subsequently determined that only \$14,817,908 (22%) was applicable to revenue account code 48XXXX and the remaining \$52,823,101 (78%) should have been eliminated against other revenue account codes.
- In addition, for agencies that submitted a GAAP Package R or that OMES reviewed individually:
 - \$6,143,277 was incorrectly eliminated against revenue account 48XXXX instead of 419171.
 - \$3,378,755 was incorrectly eliminated against revenue account 48XXXX instead of 441199.
- The net result: \$62,345,133 was incorrectly eliminated against revenue accounts 48xxxx for entry *G999020*.

CI. *Journal Entry G999032:*

- The total amount eliminated by journal entry *G999032* was \$154,076,693, which included a duplicate elimination amount of \$141,218,784: the total amount eliminated should have been \$12,857,909.
- Result: the elimination entry was overstated by \$141,218,784.

We also noted that OMES did not have adequate internal controls over the 999 journal entry process to ensure transactions are recorded completely, accurately and timely and, to ensure prior year finding issues are not repeated.

Cause: Management did not develop an appropriate internal control system and management failed to clearly document internal controls and all processes applicable to eliminating journal entries in order to ensure organizational knowledge is retained and documentation is readily available for examination (internally or externally). Also, Management did not periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks.

Based on the lack of an adequate review over the statewide 999 journal entries, we noted the following:

- A. *Journal Entry G999019:* Errors were made by OMES in the journal entry preparation process and were not detected during a review process.
- B. *Journal Entry G999020 & G999031:* The following issues contributed to eliminating journal entry understatements:
 - The data file OMES used to calculate eliminating entry *G999020* was incomplete and errors were made by OMES in the journal entry preparation process, neither of which were detected during a review process.
 - The data supporting eliminating entry *G999031* was incomplete due to transactions totaling \$17,800,000 that were miscoded and transactions totaling \$21,085,000 that should have been included but were not, neither of which were detected during a review process.
- C. *Journal Entry G999020:* Errors were made by OMES in the methodology and journal entry preparation process for eliminating expenditures for immaterial state agencies that were not required to submit detailed support for GAAP Package R, *Interagency Payment Summary*, and the errors were not detected during a review process.
- D. *Journal Entry G999032:* Prior to SFY23, DHS did not enter transaction level information into Peoplesoft. Therefore, the transaction level data file used to calculate eliminating entry *G999020* did not include DHS transactions and OMES would eliminate the DHS transactions in a separate journal entry *G999032*. In SFY23, DHS transitioned to Peoplesoft and the data file used for *G999020* included DHS transactions;

therefore, the transactions were eliminated. As a result for SFY23, the DHS transactions got eliminated for both entry *G999020* and *G999032*, and the error was not detected during a review process.

Effect:

The amount of \$54,530,000 was eliminated against incorrect FOGs, which caused the financial statements to reflect misstatements in the same amount for the applicable FOGs. {ENTRY A}

The total amount eliminated for payments between state agencies (journal entries *G999020* and *G999032*) was overstated by \$59,399,784 (\$141,218,784 - \$81,819,000), which caused the corresponding accounts on the financial statements to be understated by the same amount. {ENTRIES B & D}

The total amount eliminated for payments to other state agencies for capital outlay (journal entry *G999031*) was understated by \$38,885,000, which caused the corresponding accounts on the financial statements to be overstated by the same amount. {ENTRY B}

The amount of \$62,345,133 was eliminated against incorrect revenue account codes, which caused the financial statements to reflect misstatements for the corresponding accounts in the same amount. {ENTRY C}

Recommendation:

We recommend the State of Oklahoma ensure the following for elimination journal entries:

- The methodology for preparing elimination journal entries is adequately documented and reviewed to ensure the methodology is appropriate, and revisions are made as needed to ensure prior year finding issues are not repeated.
- The eliminating journal entries are properly reviewed and approved.
- The data files used in the calculation of the eliminating journal entries are determined to be complete prior to journal entry preparation.
- State agencies are appropriately advised by OMES of any miscoding issues identified during the journal entry preparation process or during the audit process.

OMES Response:

OMES has Standard Operating Procedure #04-04: 999 Journal Entries (FRU) in place as of March 2024. OMES will review internal control procedures and the state auditor recommendations. Internal control procedures will be revised as appropriate and will include: 1) robust management review of significant phases of elimination entry process, 2) clear documentation of process and demonstration of procedural compliance within OMES workpapers, 3) annual review of procedures documented in SOP#04-04 referred to above. Any analytical tools available to SAI which can be shared with OMES that will enhance our review process would be welcomed.

Reference Number: 23-290-026

State Agency: Oklahoma Employment Security Commission

Fund Type: Enterprise Fund

Other Information: Benefit Payments

Criteria: The *Government Accountability Office (GAO) Standards for Internal Control in the Federal Government* 9.04 states, in part, “As part of risk assessment or a similar process, management analyzes and responds to identified changes and related risks in order to maintain an effective internal control system. Changes in conditions affecting the entity and its environment often require changes to the entity’s internal control system, as existing controls may not be effective for meeting objectives or addressing risks under changed conditions. Management analyzes the effect of identified changes on the internal control system and responds by revising the internal control system on a timely basis, when necessary, to maintain its effectiveness.”

The *Government Accountability Office (GAO) Standards for Internal Control in the Federal Government* 10.03 states, in part, “Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. ... Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for

and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.”

The *Government Accountability Office (GAO) Standards for Internal Control in the Federal Government* 10.06 states, “Control activities can be implemented in either an automated or a manual manner. Automated control activities are either wholly or partially automated through the entity’s information technology. ... Automated control activities tend to be more reliable because they are less susceptible to human error and are typically more efficient. If the entity relies on information technology in its operations, management designs control activities so that the information technology continues to operate properly.”

The *Government Accountability Office (GAO) Standards for Internal Control in the Federal Government* 11.13 states, in part, “Management evaluates security threats to information technology, which can be from both internal and external sources. External threats are particularly important for entities that depend on telecommunications networks and the Internet. External threats have become prevalent in today’s highly interconnected business environments, and continual effort is required to address these risks.”

A component objective of an effective internal control system is to ensure accurate and reliable information through a proper review and approval process.

Condition: Based on review of all Unemployment Insurance (UI) claims for SFY 2023, we isolated and performed analytical tests on UI benefit payments and the associated withholding payments based on *identified fraud risk factors*. When analyzing these risk factors, we noted \$1,577,292* in probable fraudulent claims related to:

- *Claimants with the same phone number (all 0’s or all 9’s)* - Payments totaling \$11,488 to 77 claimants that appear suspicious based on the claimant name, address, employer name, or similar Social Security Numbers (SSNs),
- *More than two claimants with the same phone number (numbers other than all 0’s or all 9’s)* - Payments totaling \$137,215 to 273 claimants appear suspicious based on the claimant name, address, employer name, or similar SSNs,
- *Claimants using the same address* - Payments totaling \$1,417,511 to 1,871 claimants appear suspicious based on the claimant name, employer name, or similar SSNs,
- *Social Security Number’s (SSNs) starting with 999* - Payments totaling \$11,078 to 60 claimants have 999 as the first three digits of SSNs, denoting OESC had identified these as fraud payments after they were paid.**

*Many SSNs were identified in multiple procedures; therefore, we removed the repeated payment amounts from the overpayment total. The number of claimants identified in the procedure, however, could also be included in another procedure’s count.

**No valid SSN has 999 as the first three digits.

Cause: The agency’s internal controls were insufficient to detect and/or prevent improper unemployment benefit payments before they were made: verification of a claimant’s information to establish eligibility was not in place during SFY 2023. Unallowable payments were the result of the following factors, as well as a lack of controls over the Unemployment Insurance benefit payments:

- Antiquated system that didn’t have the capacity for proper automated edits or matching of all necessary fields at the time a claim was filed
- Large number of stolen identities
- Lack of adequate staffing to handle the volume of claims paid for all Unemployment Insurance programs
- Lack of adequate training for all staff related to the various Unemployment Insurance program requirements
- Delays in the process for employers to dispute claims since the process was largely manual through the mailing of notifications

Effect: Fraud continued to occur during SFY 2023 due to the inadequate online verification process, but on a much lower percentage of the cases. We identified benefit and withholding payments totaled \$1,577,292 that appear fraudulent. Because our sample was targeted based on probable fraud criteria, we did not project these results to the entire population; it is possible that the total dollar amount of fraudulent claims paid would be significant.

Efforts by OESC to identify and investigate known and suspected claims, and recover fraudulent and overpayment claims, are ongoing. Identifying trends or anomalies in the data has allowed the agency to suspend large amounts of potentially fraudulent claims until they can be examined. In addition, OESC implemented VerifyOK in November of 2022 to further deter and prevent identity theft fraud.

Recommendation: We recommend the OESC perform the following:

- Continue to work to strengthen internal controls over the automated system to better detect and prevent unemployment insurance benefit overpayments related to fraudulent claims.
- Continue to refine the analytics process that will help identify trends or anomalies in the data to catch fraudulent claims timely and save taxpayer monies.
- Work to strengthen their eligibility verification process to help prevent fraudulent claims.
- Continue to work with the U.S. Department of Labor to recover the remaining fraudulent payments.
- Continue to work to establish overpayment resolution for unemployment benefit claims.

Agency Management Response: While the agency does not completely disagree with the Condition, Cause and Effect as documented by the auditors, the agency believes additional considerations are important in drawing conclusions about whether all payments associated with the \$1,577,292 in claims identified in this finding are conclusively fraudulent. We worked closely with the auditors to review these claims and had previously identified over 90% of the claims through the agency's own internal fraud review processes and initiated recovery of any funds paid for claims identified as fraudulent. As we have stated in previous years, conclusions drawn by the auditors around this risk reflect the worst-case scenario based on the information available.

OESC processes are ever-evolving and improving to address fraud prevention and detection, as the threat from bad actors will continue in perpetuity. Oklahoma is one of few states that utilizes identity proofing as a gatekeeper to the claim application process. Though OESC launched an improved version of VerifyOK in November 2022, it took time to refine the logic behind the application that is expected to further decrease the potential findings of fraudulent claims for future audits. The agency continues to make fraud prevention a priority and is engaging with federal partners, other state agencies and vendor partners to be vigilant in anticipating trends in fraud activity. While we believe we are expending appropriate levels of effort in this area, we also want to acknowledge that the complexity and ever-changing nature of the fraud space will continue to make this a difficult risk to mitigate entirely.

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