

# FY2020 Annual Report

## Office of the State Auditor & Inspector

Submitted to Oklahoma Governor Kevin Stitt, Speaker of the House Charles McCall, Senate President Pro Tempore Greg Treat and the people of Oklahoma by State Auditor & Inspector Cindy Byrd, CPA.



## TO THE TAXPAYERS OF OKLAHOMA

“Trust but verify” is a term popularized by former President Ronald Reagan and it is equally applicable to the role of the State Auditor & Inspector. At its core, this office is charged with independently assisting public officials and entities to safeguard public assets. Our mission is to promote transparency and accountability in the expenditure of public funds. We recognize the confidence placed in the ability of this office to both carry out its mission and uphold the integrity of its core values. We enter each audit engagement with professional skepticism and a zeal to confirm good stewardship of public funds.

The FY2020 Annual Report provides perspective as to the office’s audit responsibilities, its audit reporting activities, and areas in which those designated with preserving the public trust were presented with recommendations to improve the internal controls necessary to properly receive and expend public funds.

In nearly every audit, we assess risk. The policies and procedures both in place and practiced by an entity largely determines the level to which safeguards are effective. The size of an entity is most commonly commensurate with its ability to actively assert internal controls, though not always. Smaller entities with limited personnel and resources are typically at greatest risk of fraud and embezzlement. Experience shows that a breakdown can occur in even the most restrictive control environment and we regularly work to assist our clients to recognize risks and implement procedures to prevent theft of public funds and property.

The insertion of COVID-19 into our daily lives presented certain challenges in the final quarter of FY2020. Entities under audit and auditors themselves left behind shuttered offices as telework replaced onsite workplaces. Access to financial records, other documents, and individuals were somewhat restricted depending on the level of preparedness by some offices. Still, audit work continued as we adapted to remote worksites and conducted meetings, conferences, and training online to remain connected and current in this ever-changing audit environment.

Among the audits released in FY2020 was the Medicaid Eligibility Performance Audit requested by Governor Kevin Stitt in the previous year. The size and scope of this audit was likely unparalleled by any other state considering its appropriated federal and state revenues and the services provided to one-fourth of our state’s population. The report identified issues with the Oklahoma Health Care Authority not verifying income eligibility for recipients who received a projected \$845 million in claims paid.

We are passionate about the work we do on behalf of our Oklahoma taxpayers. We welcome the opportunity to make the complex world of public finance understandable and maintain public trust in the transparency and accountability of government at every level.

Sincerely,



Cindy Byrd, CPA  
Oklahoma State Auditor & Inspector



**Cindy Byrd, CPA**, is Oklahoma’s 13<sup>th</sup> State Auditor & Inspector, the first woman elected to this statewide-elected office, and she is the only candidate to top the 800,000-vote milestone in an election for state office in Oklahoma History.

Byrd served as Deputy State Auditor & Inspector for Local Government Services from January 2013 before assuming her new role on January 14, 2019. She also previously served as Director of the County Audit Division where she is credited with designing and implementing an effective plan to eliminate a five-year backlog of audits.



# LEADERSHIP TEAM



**LISA HODGES, CFE, CGFM**, is Chief Financial Officer and Deputy State Auditor for State Agency Auditing, Specialized Audits, and Information Services. Lisa has been with SAI since 1981. Lisa became a Certified Fraud Examiner in 1993 and qualified in 1996 as a Certified Government Financial Manager. She has served on as National State Auditor's Association (NSAA) Peer Review Team member since 1998. Lisa earned her Bachelor of Science degree in Accounting from Oklahoma State University in 1981.



**SHELLEY FLEMING, CPA**, is Director of the State Agency Audit Division (SAAD). She graduated from Oklahoma State University in 1996 with a Bachelor of Science in Accounting and obtained her Certified Public Accountant distinction in 2001. Shelley joined the State Auditor's Office in 2003. Shelley's public service includes prior agency experience as an Audit Supervisor and Audit Manager. She has been associated with multiple audits over the years including extensive work on the CAFR and the Single Audit of federal fund expenditure by numerous state agencies.



**MELISSA CAPPS** is Director of the Performance Audit Division (PAD). She graduated in 1998 from the University of Central Oklahoma with a Bachelor of Business Administration Finance degree. Melissa has 19 years of service with the State Auditor's Office including experience in the State Agency Audit Division conducting audits at DHS and the Health Care Authority. During her tenure as PAD Audit Manager, Melissa has directed performance audits conducted at the Dept. of Corrections, the Dept. of Veterans Affairs, the Dept. of Environmental Quality, the Corporation Commission, and the Dept. of Tourism plus numerous operational audits of state agencies.



**BRENDA HOLT, CPA**, is Director for the Forensic Audit Division. Brenda earned a Bachelor of Science in Accounting from East Central University in 1984 and has been a Certified Public Accountant since 1987. During her tenure with SAI, Brenda has conducted county audits, college and university audits, state agency audits, and special audits of municipalities, school districts and other government entities. She works closely with prosecutors, governing boards, and the public in identifying fraud and waste of public funds by gathering the facts necessary to support successful prosecution of wrongdoers.



# LEADERSHIP TEAM

**CINDY WHEELER, CPA** is Director of Quality Assurance. She began her tenure with the State Auditor's Office in 2004 serving previously as an Audit Manager before taking over the reins of QA in 2011. Cindy is a Certified Public Accountant and a 1990 graduate of the University of Central Oklahoma in Edmond. She holds a Bachelor of Science in Accounting from UCO and earned a Master of Business Administration from Oklahoma Christian University in 2002.



**SHEILA ADKINS, CISA, CPM, CIA** is Information Services Division Director. Sheila has been part of the Executive Team since 2000 and has more than 21 years of audit experience. A graduate of Northeastern Oklahoma State University, she earned a Bachelor of Science in Business Administration and Accounting in 1984 and a Master of Arts in Leadership with an emphasis in Public Administration in 2011. Sheila is a Certified Information Systems Auditor, Certified Public Manager, and Certified Internal Auditor. Sheila is retiring in December 2020 and will be missed.



**MARK HUDSON, CPA, CGMA**, is Director of the Specialized Audit Division. He has more than 28 years of governmental auditing experience including oil and gas, horse racing, and gaming. Mark graduated from East Central University with a Bachelor of Science in Accounting. A Certified Public Accountant, Mark is a member of both the Oklahoma Society of CPAs and the American Institute of CPAs.



**CHERYL WILSON, CFS** is Manager of the County Management Services Unit. Cheryl began her tenure with the State Auditor's office in 1994, previously serving as a county auditor and as an information systems auditor. Cheryl earned a Bachelor of Science in Accounting degree from East Central University, Ada, in 1996, and is a Certified Fraud Specialist. She works closely with county officials and with the Oklahoma State University - County Training Program in both assisting with application of various statutes and auditing standards as well as training on these topics.



**TREY DAVIS** is Director of Administration/CPE/Public Information. Trey joined the Leadership Team in 2008 with a strong background in communications and public administration. A former radio news reporter, Trey was State Capitol Bureau Chief for the Oklahoma News Network and KTOK during two terms of the legislature. His public service began in 1997 at the Oklahoma Department of Labor where he served more than nine years as Director of Communications, Deputy Commissioner, and five years as Chief of Staff.



## THE AGENCY

The Office of the State Auditor & Inspector (SAI, the office) was created by the Oklahoma Constitution. The State legislature has expanded the agency's role and responsibilities over the years.

The intent was to create an independent state officer who would review how tax dollars were spent. For more than 11 decades, taxpayers have come to know the agency as its watchdog.

The State Auditor is a statewide elected official. The agency is part of the executive branch of State government which has the Governor at its top. Despite its appearance as being part of the Governor's oversight, SAI remains apart from other executive branch agencies whose directors are largely appointed by the Governor.

Cindy Byrd, CPA, is the state's 13<sup>th</sup> State Auditor & Inspector and in the second year of her first term having taken office in January 2019. This document is a report on Fiscal Year 2020.

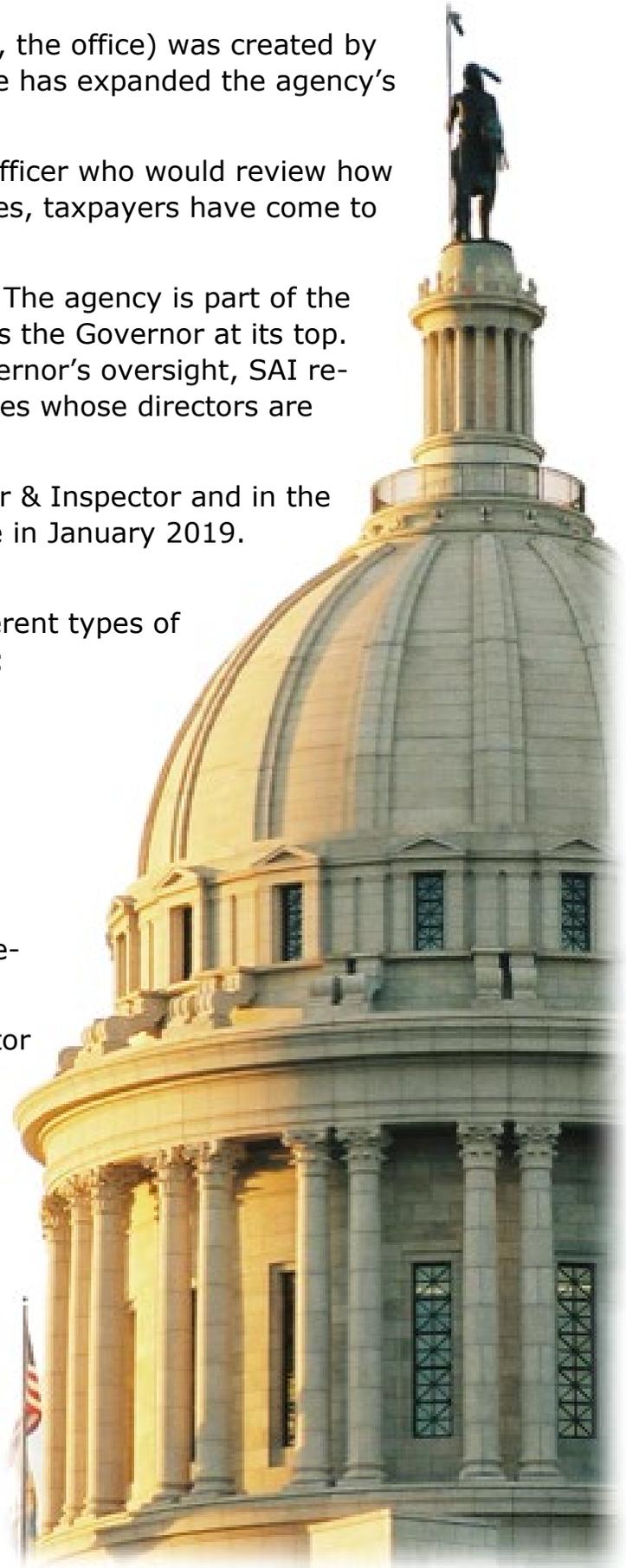
SAI consists of six key divisions conducting different types of audits of public entities. These divisions are the:

- State Agency Audit Division
- County Audit Division
- Performance Audit Division
- Forensic Audit Division
- Specialized Audit Division
- Information Services Division

The roles and function of these groups will be detailed later in this report.

In many ways, SAI is organized like private sector accounting firms that also conduct government audits. The office is limited to billing public entities only the amount required to cover actual audit costs. The office derives about 34 percent of its funding from appropriated dollars. The rest of its budget comes from public entities paying the actual cost of an audit which is considerably less than the hourly rate of our private sector counterparts.

The office has 113 employees involved in the audit process with almost 2000 years of combined auditing experience. Over the last decade, only staff with audit-related degrees or expertise in certain fields have been added to our ranks. Our staff includes:



- 17 Certified Public Accountants
- 5 Certified Internal Auditors
- 2 Certified Information Systems Auditors
- 7 Certified Fraud Examiners
- 3 Certified Government Financial Managers
- 4 IT Specialists
- 4 Certified Government Auditing Professionals

## SAI MISSION

*"To independently serve taxpayers and public officials by conducting audits that provide meaningful, reliable results and promote efficiency, stewardship, and transparency in government"* is the agency's mission statement.

With that in the forefront, SAI has focused on a dual-purpose during Cindy's tenure as State Auditor. In addition to its primary role of protecting taxpayers by monitoring how public entities both receive and spend public funds; SAI has established itself as the go-to agency in assisting the Governor and state lawmakers obtain information critical to the responsibilities of each.

This matters because SAI is the only agency in the state that consistently examines how tax dollars are spent, the effectiveness of various programs, and how efficiently government services are delivered at both the state and county level. This data and its application significantly contributes to meeting the Governor's goal of making Oklahoma a Top 10 state.

Municipalities, school districts, public trusts, and public authorities are audited by private sector accountants or firms and not the State Auditor's Office. Each entity is required to file its annual financial statement audit report with our office which is available on our website.

## THE SPECTRUM OF AUDITS

There are many kinds of audits. They range from those that primarily look at an entity's financial reports to the type that takes a deep dive into an entity's financial records, programs, procedures, personnel, and other matters.

When many people hear that an entity has been audited, they generally think it's experienced a thorough going over. Most audits, however, are not the "turn over every rock" kind of examination to identify fraud, embezzlement, or other wrongdoing. Each type of audit serves its own unique purpose.

In our office, we conduct most audits under specific government auditing standards written by the federal Government Accountability Office.

### Financial Statement Audit

This is the most common type of audit conducted of public entities required by law. As the name suggests, it is a review of an entity's financial statements. Its intent is to give an opinion as to whether its financial records fairly present an accurate picture of the financial condition of the entity.

Basically, it seeks to answer questions about whether the entity has the money it reports to have, if the money is where it says it is, and did it spend money on what it said it did. Its design is intentionally limited which usually makes it the most affordable of any audit type.





## Operational Audits

A type of performance audit, an operational audit looks at an entity's operations as well as financial documents and internal controls. It seeks to determine whether certain safeguards are in place to ensure good stewardship of public funds.

Operational audits are performed on both state and county entities and have a different focus than a financial statement audit. These reports provide good information for public officials to use in complying with both statutory requirements and financial reporting obligations.

An operational audit may address many issues ranging from financial controls to a program or agency's compliance with specific laws and regulations such as whether revenue was deposited in the correct fund as directed or expenditures from a certain fund were allowable.

## Agreed-Upon-Procedures

The least invasive and usually the most cost-effective review is the agreed-upon-procedures engagement or AUP. An AUP is limited in scope to a specific procedure or subject. The auditor doesn't offer an opinion as a result of the review. While it is conducted in accordance with government auditing standards, the bar may be set lower with this type of inspection.

Municipalities with a population under 2,500 and annual income of \$25,000 or more may hire a private sector accounting firm to have an AUP as opposed to a financial statement audit.



## Special Audits

A special (investigative or forensic) audit meets the definition of a "turn over every rock" kind of inspection. These reports often aid prosecutors pursuing facts in the prosecution of criminal allegations of fraud or embezzlement.

Special audits are not required to follow the auditing standards that guide SAI's other audit work and they are limited to defined objectives.

A special audit typically includes review of an entity's internal financial records, bank records, and other documents. An investigative auditor conducts numerous interviews and, often, follow up interviews during the fact-gathering process. This type of audit is regularly requested when fraud, embezzlement or misuse of public funds is suspected.

Of note is the increase in alleged public corruption identified in many smaller Oklahoma towns. We'll detail these concerns later in this report.

Special audits must be requested by the Governor, the Attorney General, a local district attorney, a governing board, or by citizen petition. SAI does not have the constitutional or statutory authority to initiate a special audit without a formal request.



## **CAFR (Comprehensive Annual Financial Report)**

This financial statement audit, conducted in accordance with *Government Auditing Standards* by our State Agency Audit Division, is critical to reviewing the expenditure of state and federal funds.

The CAFR audit takes about six months and 30 auditors to complete. Some of the audit work takes place all year long at larger agencies like the Departments of Human Services, Transportation, the Tax Commission, and Education. The audit reviews the expenditure of public funds by state government and reports findings of any errors significant enough to be singled out in the audit report.

The financial statements are prepared by the Office of Management & Enterprise Services which, in turn, are audited by our office.

The CAFR contains a wealth of information about the State of Oklahoma, its government entities, and its people. The audit report is due by December 31<sup>st</sup> each year.

## **The Federal Single Audit**

The team of auditors who prepare the CAFR also conduct the federal Single Audit for Oklahoma. The audit is an intensive compliance review into the expenditures of specific federally funded programs. It is a key factor in any consideration and determination whether Oklahoma will continue to receive federal funds for those programs.

Breaking it down, the Single Audit is basically a review of public stewardship in the state's expenditure of federal funds.

Many state and county entities depend on the flow of federal dollars to either fully fund a budget or fund various programs that deliver government services that benefit Oklahoma residents from newborns to the elderly. In many instances, the state is required to match a certain percentage of federal funds received.

Discrepancies in the expenditure of federal funds or costs that are questioned by SAI are included in the final report. The report and its findings are then thoroughly reviewed at the federal level to ensure the agency complied with the Single Audit reporting requirements. The findings are further reviewed to see if the federal agency accepts the corrective action plan of the agency for a finding(s) or whether additional action is necessary.

The Single Audit is required to be completed by March 31<sup>st</sup> of each year.

## **Workpapers**

Noted previously, workpapers are the effective equivalent of evidence – the result of fact-finding that is part of every type of audit. These financial records, interview notes, and other records are maintained electronically and are subject to the Open Records Act upon publication of an audit report.

Among our auditing responsibilities is to accurately determine fact from fiction. If a finding can't be fully supported by our workpapers, then it isn't included in the final audit report.



## Peer Review

Every three years, the State Auditor's Office undergoes a peer review conducted through its affiliation with the National Association of State Auditors, Comptrollers and Treasurers and its subunit, the National State Auditors Association.

A state audit shop either passes, passes with deficiencies, or fails. SAI passed its review conducted in 2020. You can read the letter later in this report.



A team of five auditors, our peers from other state audit shops around the country, spend a week reviewing audits we published over a 12-month period.

The group carefully reviews our audit reports for content, clarity, and the correct application of audit reporting standards.

The peer review team, as part of its review, examines our workpapers which should fully support any finding in an audit report. They want to know if we are following our policies and procedures which should incorporate auditing standards. They also look at our training records to ensure our staff meets the minimum training requirements set by *Government Auditing Standards*.

Our next peer review is scheduled for July 2023.



## TODAY'S AUDITS

Change is just as constant in the audit world as everywhere else in our professional and personal lives. Technological advances and software have evolved to support auditors in doing an even better job regardless of the type of audit being conducted.

Our office, too, has advanced to ensure its staff has the tools needed to work effectively and efficiently in today's audit world.

For the most part, desktop adding machines, pencils and paper have been replaced with laptop computers, monitors, and electronic spreadsheets. Audit software can more accurately compute in 30 minutes or less what once required 36 hours or more by hand.

Data Analytics assist an auditor to identify discrepancies in balance sheets, receipt and deposit records, and other financial documents to show anomalies that could mean the existence of fraud and misuse of funds.

Fortunately, we were forward-thinking and had fully supplied our staff with laptops which enabled an efficient shift to telework when offices were closed amid the onset of the COVID-19 pandemic.

## Data Dumps

As part of the audit work performed on counties, our Information Services Division regularly receives data dumps from a county's accounting software provider. This data is sifted using our auditing software and then organized in a way that is useful to our staff conducting county audits.

This may seem like a simple thing and, with today's technology, it arguably is. It's important to note here because it reduces audit time, which reduces audit costs, which means a more efficient work product for county taxpayers.

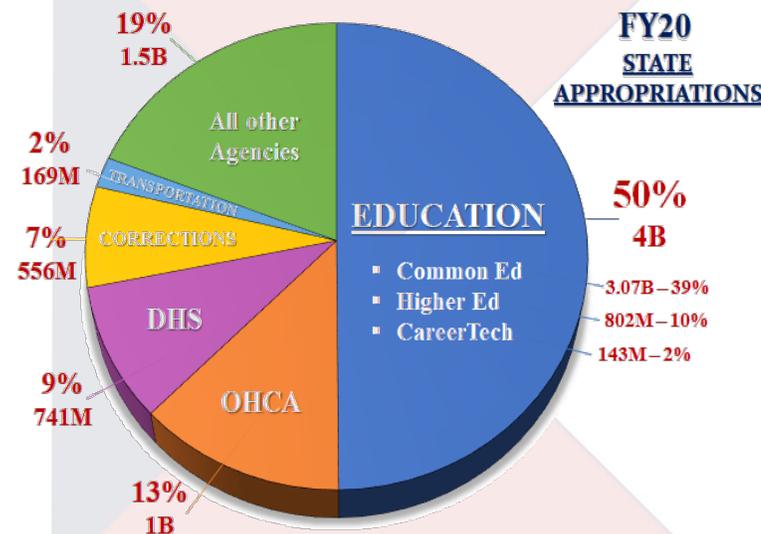
## AGENCY DIVISIONS

The State Auditor's Office conducted 261 audits in FY2020 which included every type of audit listed previously.

## STATE AGENCY AUDIT

Funding state government very much relies on the independence and quality of the reports conducted by this group of auditors.

In FY20, the legislature appropriated more than \$7.9 billion dollars to various state agencies. Of these taxpayer funds, a little more than 50% went to public education, including common education which accounts for 39% of all state spending.



Up to 25 percent of the audit hours for both the State CAFR and the federal Single Audit focused on planning alone.

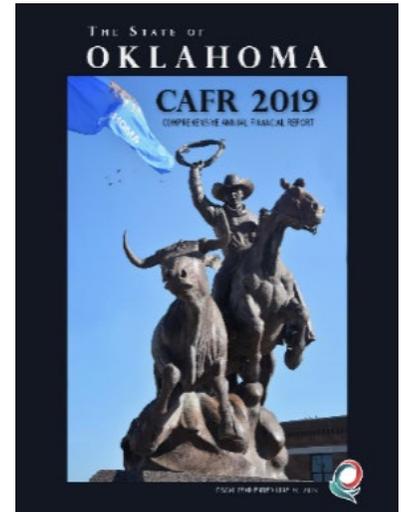
The amount of fieldwork that goes into both financial statement audits is extensive.

The management team within the State Agency Audit Division has been effectively working together for many years. The tenure of this group assures competence in the audit process, appropriate application of auditing standards, and impartial judgment on the proper expenditure of public funds.

## FY2019 COMPREHENSIVE ANNUAL FINANCIAL REPORT

We referenced this audit previously and expressed our position as to its significance.

For the FY19 CAFR, the office issued four findings as to how revenue was reported



by the Oklahoma Tax Commission (OTC) and to which fund. The Office of Management and Enterprise Services subsequently included the inaccurate information in its preliminary financial reports.

Primarily at issue in these findings was interpretation by OTC of government accounting standards as to the accountability and reporting of these funds.

For example, \$307.3 million in cash was reported in the agency fund rather than the state general fund. Another \$147.7 million in local government sales,

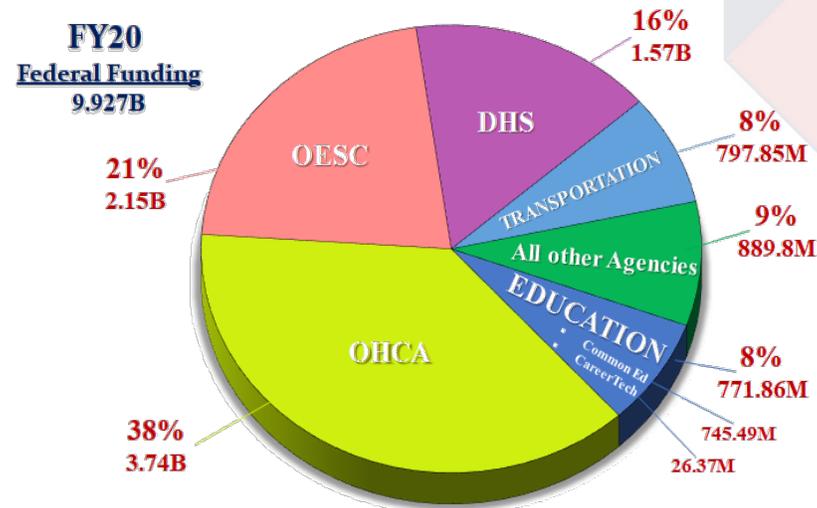


use, and lodging revenue reported in the agency fund should have been reported in the state’s general fund.

In another finding, \$137.6 million in gross production and motor vehicle taxes generated in June 2019 and collected during July and August 2019 was not included as taxes receivable for fiscal year 2019 resulting in these revenues being underreported.

### **FY2019 SINGLE AUDIT**

As with the state CAFR, the federal Single Audit is also a noteworthy review of federal spending. It’s one of those unseen but necessary things that occurs behind the limelight to ensure, among other things, free school nutrition programs are funded, health care costs for retirees and the elderly are manageable, and supplemental programs remain in place to assist single parents with children, the disabled, and the disadvantaged.



More than 50 percent of Oklahoma’s annual budget for government operation comes from federal revenue streams.

In FY20, it is estimated state agencies received more than \$9.9 billion in federal

funds and the accountability for the expenditure of these funds is provided by the annual Single Audit of the State of Oklahoma.

We’ll have a clearer picture of federal funds in early 2021 after OMES has submitted its schedule of expenditures of federal awards (SEFA) and we’ve had a chance to reconcile its numbers.

One of the most common areas identified in audit reports is a lack of internal controls. These are a system of checks and balances developed through policies and procedures that are implemented to ensure the proper receipt and expenditure of public funds. Without them, misspending – or worse – like fraud or embezzlement can easily occur.

Most of the findings in the FY19 Single Audit involved a lack of internal controls or failure to follow the internal controls in place. The FY19 Single Audit included findings on the Oklahoma Tax Commission (also found in the state’s CAFR), the Oklahoma Department of Education, the Oklahoma Health Care Authority, the Oklahoma State Department of Health, the Oklahoma Department of Human Services, and the Oklahoma Department of Rehabilitation Services.

In the FY19 Single Audit, the Oklahoma Department of Emergency Management (OEM) received at least two repeat findings from the FY18 report.

The agency handles millions of dollars in disaster relief funds for the state. One of the requirements of the agency is to monitor subrecipients of federal funds to



ensure compliance with federal laws, regulations, and contract requirements.

OEM is a pass-through agency for some federal funds, meaning this funding flows from the US Department of Homeland Security through OEM to subgrantees awarded certain contracts. While these were not expenditures we questioned, the finding identified \$7.6 million in funds advanced through these contracts and the agency did not properly evaluate the subrecipient's compliance with applicable federal requirements.

A second finding involved underreporting of cash disbursements for open disasters that spanned more than one fiscal year. Known as cumulative disbursements, OEM is required to file quarterly reports to the Federal Emergency Management Agency (FEMA)

The same finding in FY18 meant we couldn't rely on OEM's financial report for that year, so we began with the disbursement amounts we calculated for FY18 and added costs from FY19. The report identified understated cash disbursements of \$92.8 million and \$93.4 million respectively on the two forms OEM uses to file its quarterly report with FEMA.

The FY19 Single Audit report also included a repeat finding on the Oklahoma Employment Security Commission (OESC). The agency is required to assess penalties on payments of fraudulent unemployment insurance claims.

Federal law requires a 15% penalty assessment of the amount of an inaccurate payment deposited into the state's unemployment fund.

State law requires a 25% penalty with funds split between the state's

Unemployment Trust Fund and OESC's revolving fund.

The finding identified the agency failed to assess and collect \$646,212.50 in overpayment fines.

The State Agency Audit Division also conducted the following financial statement audits or AUP engagements in FY20:

- Oklahoma Department of Transportation State Purchase Card
- Construction Industries Board
- Office of the State Treasurer
- Oklahoma Center for the Advancement of Science
- Oklahoma Accountancy Board



Oklahoma received \$1.26 billion in CARES Act funding resulting from the COVID-19 pandemic that shuttered businesses and public agencies during the last quarter of FY20. Some expenditures of these funds will likely be included in the FY20 Single Audit. The federal funding for the pandemic had a spending expiration of December 30, 2020, so it's possible a significant portion of these expenditures will be included in the FY21 Single Audit.

## COUNTY AUDIT

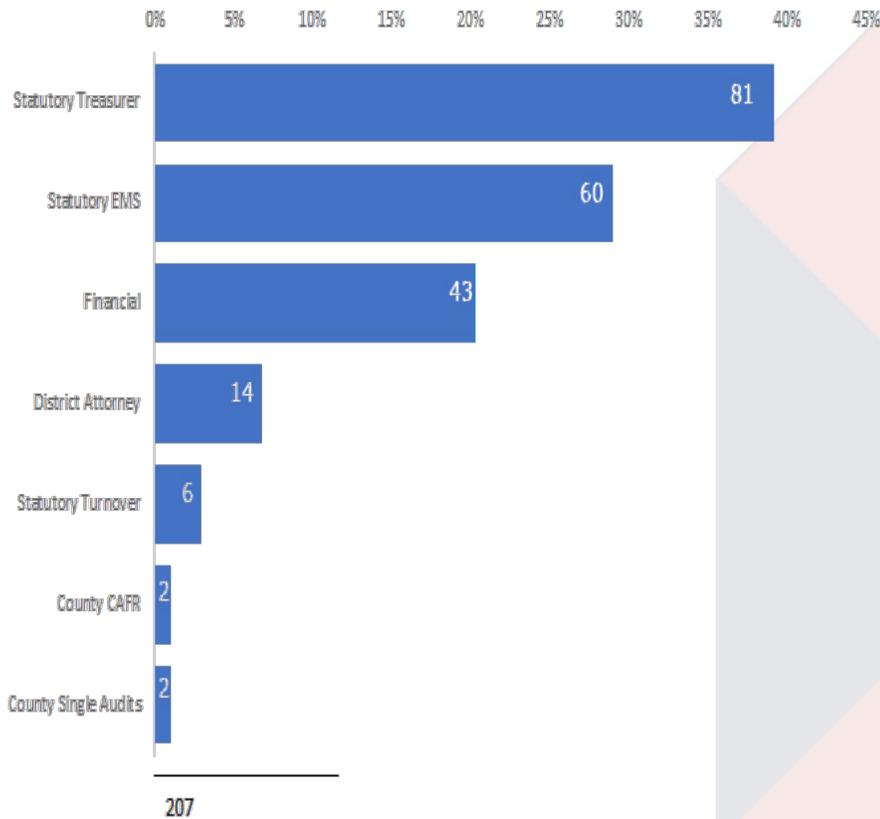
This division is made up of about 50 audit personnel living across the state and operating out of five regional district offices.



The geographical location of these auditors matters because they're busy conducting audits in the state's 77 counties.

In all, this Division produced 207 audit reports or about 79% of all audits conducted in FY20.

### County Audit Division - FY20 Audits by Type



These audit reports included treasurer reviews, financial statement audits of counties, compliance audits of emergency medical service districts, district attorney offices, and turnover audits of any outgoing county official. This division also audits the annual Comprehensive Annual Financial Report on the financial records of Oklahoma County and Tulsa County.

To help minimize travel and transportation costs, the auditors are usually assigned an audit area within a couple of hours drive whenever possible. In many instances, these auditors will initially work on-site at the county courthouse and stay at a local hotel until field work is completed.

SAI conducts an annual audit of each county government in two-year increments. These audits include the operations of the three county commissioner districts, and the county clerk, assessor, treasurer, court clerk and sheriff's offices.

In FY20, State Auditor Byrd created the District Attorney/EMS Audits Unit and assigned four auditors to focus solely on these statutorily mandated audits

The cost of these audits is paid through a one-tenth of one mill property tax assessment to county property owners. For about one-third of counties, the funding for its annual audit is not enough to cover the actual cost of its audit.

SAI supplements these counties' audit costs with funding from other revenue sources to ensure audits are conducted both as required by state law and so county residents can know how their tax dollars are being spent.



## ***SINGLE AUDIT FOR COUNTIES***

Although not required to do so, the office includes a federal Single Audit within a county's financial statement audit. The requirement for a Single Audit is triggered when a county's federal expenditures meet or exceed the \$750,000 annual fiscal year threshold. The cost is less than if a county were to hire an outside auditor and, because we're already auditing a county, it's more economical to provide this service.

As with the flow of federal funds to the state, a Single Audit is critical for the payment of federal dollars to a county that qualifies for disaster relief, law enforcement grants, and other federal funds available at the county government level. Our Single Audit reports assist the county to comply with the strings attached to these federal resources.

Among the findings we may identify as a result of a county audit are inadequate internal controls, inventory issues, and noncompliance over the inmate trust fund checking account and the sheriff commissary fund.

## **COUNTY MANAGEMENT SERVICES UNIT**

While apart from the County Audit Division, this unit remains an integral part of the assistance the office provides county officials through consultation services.

The unit works in tandem with the OSU County Training Program (OSU-CTP) to develop training classes for county officials and employees. Staffed by one full-time employee, the unit offers technical, budgetary and accounting assistance.

Of note is, due to the work of this unit and other SAI support services, the agency has implemented a uniform electronic estimate of needs form for county government.

Years in the making, imagine 77 different charts of accounts specific to each county. This hurdle has been overcome. All counties except the CAFR counties of Oklahoma and Tulsa are now utilizing the same chart of accounts and have begun implementing this electronic form. Cleveland County is moving to utilize the same financial computer system as Oklahoma County.

Much credit goes to county software providers, county officials, private sector accountants, and OSU-CTP for making this effort for improved transparency at the county level a reality.



# PERFORMANCE AUDIT

When you want to know if you're getting the best bang for your buck, you seek a performance audit. These auditors look at an entity's various programs, policies, procedures, communication, delivery of services, and other concerns.

A performance audit may be targeted to conduct a thorough review of a specific program or more general to review processes for receipting and expending funds.

Considerable, even extensive planning goes into a performance audit to ensure the matter under review is being fully addressed by the audit.

In FY20, this division published three performance audits and nine operational audits.

Operational audits are routinely performed in compliance with statutory auditing requirements of state agencies. These entities are on a rotation and not subject to audit annually.

## ***OHCA MEDICAID ELIGIBILITY***

As noted previously, performance audits must be requested. And, at the request of

Governor Kevin Stitt, this division undertook one of the largest audits of its kind in the country to conduct an audit of Medicaid eligibility administered by the Oklahoma Health Care Authority (OHCA).

Medicaid impacts the lives of one in four Oklahomans with a budget of \$5.5 billion, of which the state's share was \$1.7 billion in FY19.

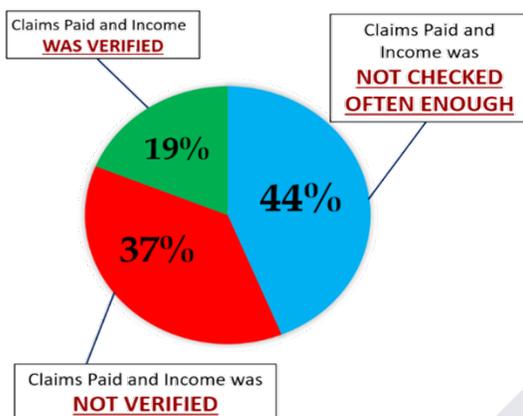
The audit found a projected \$845 million in claims were paid when eligibility of the recipient was not verified on 37% of Medicaid (MAP) and 28% of Children's Health Insurance Program (CHIP) recipients.

As State Auditor Cindy Byrd expressed, "When income is not verified – you have no idea if someone is really eligible."

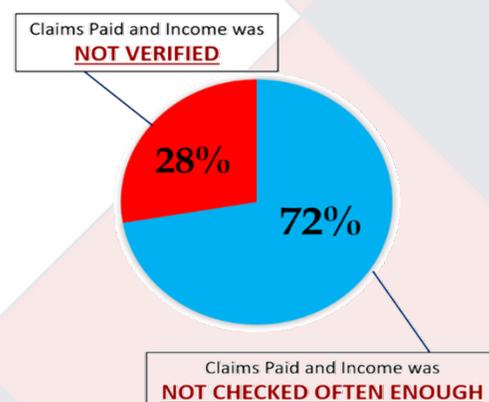
OHCA also did not verify income frequently enough for a projected \$29.7 million in claims paid on behalf of ineligible CHIP recipients.

The agency was very cooperative throughout the 15-month audit and had begun implementing recommendations contained in the final report prior to its publication in June 2020.

### MAGI - MAP



### MAGI - CHIP



## **OKLAHOMA SCHOOL OF SCIENCE and MATHEMATICS**

Among the FY20 Performance Audit Division reports published, an operational audit of the Oklahoma School of Science and Mathematics (OSSM) identified concerns regarding the former Vice President of Administrative Services (VP) and the negative work environment attributed to him by multiple OSSM personnel and support staff.

This matters because the message and attitude of management, known as “the tone at the top,” flows down through an entire organization making it difficult to achieve stated objectives and increasing risk. OSSM assigned duties to the VP as head of finance with the school’s controller as his only employee.

He also had oversight of the dean of students and handled OSSM’s human resources and served as its grievance manager.



It was difficult for employees to complain about the very person credited with creating a negative work environment when he was the person designated to receive complaints.

During the audit, we reviewed payroll increases which require signed approval by the school president, VP, and controller. Documents showed several employees, including the VP and controller, received a 10% raise during the audit period.

Upon further review, we discovered the school president did not sign the paperwork authorizing the raise for the finance staff and, instead of a 10% raise, each received a 25% salary bump.

The audit report contained several findings about the school’s lack of internal controls to protect public funds.

School management and its board have implemented some personnel changes and were in the process of developing new policies and procedures to improve the work environment on its campus.

	Monthly Salary prior to 07/01/17	Monthly Salary as of 07/02/18	Change	% Change
Controller	\$ 5,000	\$ 6,250	\$ 1,250	25%
VP of Admin Svcs	\$ 6,648	\$ 8,292	\$ 1,643	25%

*Source: Statewide Accounting System, HR Actions data*



## FORENSIC AUDIT

Of all the audits conducted by our office, the reports published by this division usually draw the most attention because this is where you typically go to identify corruption committed by public officials and employees.

We spend a significant amount of time training personnel in each division to recognize the warning signs of potential fraud. Every auditor begins each assignment with professional skepticism. It doesn't mean we're a bunch of cynics. Rather, it means we're objective, non-assuming, and start each audit with a blank slate. These characteristics are critical to our independence.

An auditor cannot become personally involved in an investigation. He or she doesn't take sides. It's intentionally about fact finding and going only where the investigation leads. To that end, we do avoid rabbit trails that are unverifiable and unnecessarily costly for the auditee.

This is especially true in the Forensic Audit Division because these audits are often emotional for some, if not all, of the parties involved.

The division published nine investigative audits in FY20 including five requested by district attorneys, two requested by a governing board, and two requested through the citizen petition process.

Special Audit Reports published in FY19 were

- Town of Dougherty
- Towns of Kremlin & Hunter
- Newcastle Public School District
- City of Sallisaw
- Western Heights Public School

- NW Solid Waste Disposal Authority
- Circuit Engineering District #7
- Ottawa County Sheriff

An ongoing concern of this office is the governance of many small towns in Oklahoma. We regularly receive complaints regarding utility billing issues, violations of the Open Records Act, the Open Meeting Act, improper use of a city credit card or bank account, improper use of city equipment, and a wide array of ways in which public officials purportedly disregard residents' concerns.

While different factors contribute to the complaints we receive, it is not unusual for these concerns to be born out in an audit report.

### **TOWNS OF KREMLIN & HUNTER**

A citizen petition request for a special audit of the Town of Kremlin in Garfield County was unusual in that Donna Rainey, the town clerk/treasurer, not only misappropriated funds and received unsupported payments for mileage reimbursement, she also served as clerk/treasurer for the Town of Hunter.

This dual role raised concerns that funds from the two towns were being comingled.

For 15 years, the Town of Kremlin permitted Rainey to operate town business from her home where she also accepted utility payments for residents from the Town of Hunter.

Her monthly salary from Hunter was \$1,500. Payroll records show Rainey issued another \$5,100 above her regular pay in January 2019 alone.



In all, the clerk/treasurer for Hunter misappropriated 74 payroll checks totaling \$29,783.15 and submitted 83 unsupported mileage reimbursement claims for another \$7,457.33 during the period of the audit report.

Example of Misappropriated Payroll January 2019					
Check Number	Source of Pay	Date Paid <sup>2</sup>	Amount of Check	Regular Payroll	Excess Pay
6211	General Fund	01/07/2019	\$850	\$750	\$100
6226	General Fund	01/28/2019	\$1,250	N/A	\$1,250
6216	General Fund	01/29/2018	\$1,250	N/A	\$1,250
4029	HPWA <sup>3</sup>	01/07/2019	\$750	\$750	\$0
4032	HPWA	01/29/2019	\$1,250	N/A	\$1,250
4043	HPWA	01/31/2019	\$1,250	N/A	\$1,250
<b>Totals</b>			<b>\$6,600</b>	<b>\$1,500</b>	<b>\$5,100</b>

The investigation also revealed that funds between the two towns were comingled.

Rainey was charged in Garfield County with one count of embezzlement of public funds.

This audit points to the critical need for governing boards to be hypervigilant in the expenditure of public funds. Too often, every step of a financial transaction is handled by a single employee which leaves the public entity exposed and vulnerable to the risk of fraud, waste, or abuse.

**CIRCUIT ENGINEERING DISTRICT #7**

The district attorneys for the 11 counties that comprise Circuit Engineering District #7 (CED7) – Beckham, Blaine, Custer, Dewey, Greer, Harmon, Jackson, Kiowa, Roger Mills, Tillman, and Washita counties – requested a special audit.

The purpose of the audit was to examine the joint venture between CED7 and its CED #7 County Energy District Authority (Authority) to produce a purported proprietary asphalt emulsion formula known as 7 Oil.

The audit contained numerous findings, including that neither CED7 nor the Authority had the statutory ability to manufacture and market road emulsion.

State law only permits public agencies to contract with each other for a governmental purpose for which any of the agencies is authorized to perform. Since neither could do it separately, the contract didn't permit them to do it together.

Among its findings, the report noted that CED7 and the Authority did not comply with the 50/50 repayment agreement of a \$2.35 million loan obtained to build the asphalt emulsion plant. CED7 paid approximately 67% of the loan with 33% repaid by the Authority. The report also identified other areas in which CED7 and the Authority did not comply with several joint venture-related issues.

We also discovered that member counties incorporated the specific 7 Oil emulsion product into term bid listings blocking all other vendors from either bidding or complying with bid limitations because they couldn't offer the precise product. Basically, the project sought bids for a product that had only one source. It's called a sole-source exception in public competitive bidding requirements because you can't get it anywhere else.

Interestingly, the report shows member counties actually paid more than bids to other counties in the state to utilize the 7 Oil asphalt emulsion product. This was contrary to the stated reason of saving counties money by buying the formula and building a production facility to make the exclusive emulsion.

As it turned out, the State Department of Transportation determined 7 Oil emulsion



was not a “proprietary or exclusive formula” and did not qualify as a sole-source product so other vendors should not have been disqualified from the bidding process.

Another finding in the report is that, over a 3-year period, almost \$17,000 in payments were made to family members of CED7’s executive director.

The audit report was recognized by the state legislature as an area in which further audits would be beneficial in

safeguarding public funds. As a result, SAI will be auditing all eight of the state’s circuit engineering districts.

As of the release of this report, there are 25 audits of municipalities (including related authorities or departments) either underway or pending. Of these, most include allegations of wrongdoing or misappropriation of funds. Eight audits are requests from district attorneys, 10 are board requests, and seven are citizen petition requests.

## **SPECIALIZED AUDIT DIVISION**

This group of auditors primarily conducts audits under contract with other public entities.

The Oklahoma Horse Racing Commission contracts with our office to monitor all wagering activities at the state’s three racetracks and the off-track wagering facilities it licenses.

The commission also contracts with us to monitor all gaming activities occurring at two of the state’s racetracks it licenses. These auditors monitor and track all gaming revenue to ensure an accurate accounting of proceeds designated for state education funds at the Oklahoma Tax Commission.

The US Department of the Interior (DOI), through its Office of Natural Resources Revenue (ONRR), contracts with our office to conduct mineral royalty audits on federal lands in Oklahoma. As a result of the cooperative agreement, the state receives 50 percent of all federal royalty dollars paid to DOI as well as 50 percent of all royalty dollars collected as a result of an audit.

State funds are not expended on this agreement as the office is completely reimbursed for the audit services it provides.

A recent review by ONRR looked at agency costs, its performance/workplan progress, IT security requirements, and equipment. In all instances, the review found SAI had appropriately adhered to its agreement requirements.



## INFORMATION SERVICES

The independence required by federal government auditing standards strictly demands the office to be segregated from certain state services.

While many state agency IT and ISD services were consolidated under OMES Information Services, SAI has successfully made the case to retain its IT-related staff and auditors to preserve its independence and safeguard the data stored in its servers.

The use of advanced auditing software and other technology offers powerful tools in providing taxpayers with transparency and accountability.

Our ISD group performs an outstanding service in keeping our networks, equipment, and auditors up and running. They play a critical role in reducing both downtime and audit time – all of which improve efficiencies and we're all about that.

ISD responded to 1,172 helpdesk tickets from staff in FY20.

The agency recently completed an assessment by the National Institute of Standards and Technology (NIST) with flying colors. NIST has established a set of standards for security controls of an entity's information systems.

Compliance is critical to ensuring the agency's IT infrastructure is protected and its policies and procedures are appropriately designed to meet NIST standards.

Data dumps were praised previously in this report and the significance of this capability – beyond county audits – deserves repeating. The work of our IT auditors really gets to the heart of information which has often eluded lawmakers and taxpayers for years.

The task of taking a deep dive into the data was previously very cost prohibitive.

Testing 100 percent of transactions was not feasible as it was very time consuming, which increased overall audit costs.

Today, audit software does much of the heavy lifting once done by hand and adding machine. It sorts, collates, sifts, and otherwise organizes data for auditors and gives us the capability to test 100 percent of certain transactions.

The public, public officials, and public employees are on the cusp of having more information on the expenditure of public funds than they ever imagined and all of it, right at their fingertips. We continue to make Oklahoma accountable through standardization in our ever-evolving digital world.





## PEER REVIEW REPORT

July 16, 2020

The Honorable Cindy Byrd, CPA  
Oklahoma State Auditor and Inspector  
State Capitol  
2300 North Lincoln Boulevard, Room 123  
Oklahoma City, Oklahoma 73105

We have reviewed the system of quality control of the Oklahoma State Auditor and Inspector (the office) in effect for the period July 1, 2019, through June 30, 2020. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with professional standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with professional standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all design matters in the system of quality control or all compliance matters with the system. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the Oklahoma State Auditor and Inspector in effect for the period July 1, 2019, through June 30, 2020, has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. **The Oklahoma State Auditor and Inspector has received a peer review rating of *pass*.**

Linus Li, CPA, CIA, CMA, CFM  
Concurring Reviewer  
External Peer Review Team  
National State Auditors Association

Marisa Edwards, CPA  
Team Leader  
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National State Auditors Association

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STATE AUDITOR & INSPECTOR



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

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