

Office of the
State Auditor & Inspector

FY2021

Annual Report

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

Fiscal Year 2021 is probably unlike any other our state and nation have experienced in terms of the vast amounts of taxpayer money being disbursed to every level of government. Federal funds have been provided to support businesses and pay workers sidelined by the pandemic. There's money to bolster educational needs, to expand access to broadband in rural areas, and to address other lifestyle changes in the wake of COVID-19. A majority of these funds will be spent in FY22 through FY25.

As Oklahoma's independent auditor of public funds, I have the ambitious challenge to make sure the billions of dollars flowing into Oklahoma are properly spent and protected from fraud, waste, or abuse.

The societal disruptions resulting from the pandemic and the money made available to help the suddenly unemployed sustain shelter, pay utilities, and buy food overwhelmed unemployment offices across the country. In Oklahoma, an antiquated online filing system and too few employees to handle the sudden onslaught of claims created the opportunity for almost 100,000 fraudulent claims to be filed for unemployment insurance benefits.

We audited a sample of claims filed in the first four months of the pandemic with the Oklahoma Employment Security Commission. Of the 137 claims reviewed, we identified 27 claimants who filed 204 fraudulent claims. The error rate of 19.7% applied to the \$2.2 billion the agency paid out in that time frame puts the potential loss to taxpayers at more than \$400 million.

The investigative audit requested by Governor Kevin Stitt of EPIC Charter Schools, its founders, and their Education Management Organization may prove to be the largest single fraud scheme in state history. The pandemic shuttered or reduced attendance at traditional public schools. In response, many parents chose a virtual option in the 2020-2021 school year and EPIC's enrollments soared making it the largest school district in the state.

Education money follows the student. EPIC and its founders received an unprecedented level of funding as enrollment between its virtual and blended school options reached nearly 60,000 students. We'll go more in-depth later in this report on the EPIC Schools investigative audit and how its founders were able to shield more than \$200 million in taxpayer dollars from public scrutiny, thwart accountability, and cloud transparency.

We work directly for you, the taxpayers of our state, to safeguard the money collected in property, fuel, sales, income, and other taxes to fund the delivery of government services. When public entities don't have the necessary policies and practices in place to protect these public funds or deliver services efficiently and effectively, we deliver assistance and recommendations as to how to best defend against fraud and embezzlement.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is written in a cursive, flowing style.

Cindy Byrd, CPA
Oklahoma State Auditor & Inspector



Leadership Team



Cindy Byrd, CPA, is Oklahoma's 13th State Auditor & Inspector and the first woman elected to this statewide-elected office. Byrd served as Deputy State Auditor & Inspector for Local Government Services from January 2013 before assuming state office 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. Byrd is a staunch advocate for transparency and accountability for taxpayers and regularly works with the legislature to improve auditing requirements for public entities.



LISA HODGES, CFE, CGFM, is Chief Financial Officer and Deputy State Auditor for State Agency Auditing, Specialized Audits, Quality Assurance 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 as a 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.



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.



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 20 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 Director, Melissa has directed performance audits conducted at the Dept. of Corrections, the Dept. of Wildlife Conservation, the School of Science & Mathematics, the Corporation Commission, and the Dept. of Tourism plus numerous operational audits of state agencies.



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 ACFR and the Single Audit of federal fund expenditure by numerous state agencies.

Leadership Team



MARK HUDSON, CPA, CGMA, is Director of the Specialized Audit Division. He has more than 30 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.



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. Cindy play a pivotal role in ensuring our audit reports comply with government auditing standards.



Mick Dodson, JD, Director of Compliance, earned a bachelor's degree in political science and journalism/broadcasting from Oklahoma State University in May 2005. He achieved his juris doctorate degree at the University of Tulsa in 2009 and joined the Oklahoma Bar Association that same year. Prior to joining SAI in 2011 as an investigative auditor, Mick served on City Council in his hometown and worked for the Tulsa County District Attorney's Office while in law school. He graduated from the FBI Academy in 2011 and has been certified by the Oklahoma State Department of Education as an Open Meetings/Open Records Legal Instructor since 2016.



Marla Latham, CGFM, Audit Manager, County Audit Division, joined SAI in May 1984 after graduating from East Central University with a Bachelor of Science degree in Accounting. She holds the professional Certified Government Financial Manager title awarded by the Association of Government Auditors. In 1988, Marla took a position with the Tarrant County Clerk's office, in Ft. Worth, Texas and returned to Oklahoma and SAI in 2003. In all, Marla has more than 22 years of service for the state on behalf of taxpayers and conducts audits in central and north-central Oklahoma counties from the Oklahoma City Regional District office.



James Dickerson, Audit Manager, County Audit Division, has been with the agency 38 years having begun his career in 1983. He served 15 years with the Investigative Audit Division and 23 years in the County Audit Division including the last decade as an Audit Manager. A native of rural Johnston County, James has visited the south central and eastern counties of Oklahoma many times while working out of the Ada Regional District office. His tenure, institutional knowledge, and government auditing experience has been of significant benefit to both Oklahoma taxpayers, county government, and the agency.

Leadership Team



Ricky Branch, MBA, Audit Manager, County Audit Division, earned his Bachelor of Science degree in Accounting from Cameron University in Lawton and a Master of Business Administration from Oklahoma City University. He joined the agency in 1990 and has been an integral part of the County Audit Division during his 31-year tenure with SAI. Ricky serves as Audit Manager at the Duncan Regional District office and oversees audits in 23 counties in the southwest quadrant of Oklahoma.



Sherri Wooldridge, Audit Manager, District Attorney/EMS Audit Division, is a 38-year government auditing expert. She earned a Bachelor of Science degree in Accounting from East Central University in Ada and began her tenure with SAI two months before graduating college. She previously served as Audit Manager of the Weatherford Regional District office. For the past five-plus years, Sherri's focus has been overseeing the audits of the state's 27 District Attorney offices and 64 EMS districts.



Kerri Carter, Audit Manager, County Audit Division, is a 1990 graduate of the University of Central Oklahoma with a Bachelor of Arts degree in Education. She joined the County Audit Division staff in 1994 and has 27-years of government auditing experience. Kerri hails from Green Country and oversees audits in nine northeast Oklahoma counties from the Tulsa Regional District office. Kerri manages Tulsa County's Annual Comprehensive Financial Audit and she and her team regularly conduct federal Single audits for counties in her district.



Jessie Morris, Audit Manager, County Audit Division, graduated from Southwestern Oklahoma State University in 2005 attaining a Bachelor of Business Administration degree in Accounting. Prior to joining SAI in 2009, Jessie audited various banks and a publicly traded trucking company. Since joining SAI, Jessie quickly earned the role of audit manager and directs audits in 17 northwest and north-central Oklahoma counties from the Weatherford Regional District office.



Darla Ellis, CIA, CFE, Audit Manager, County Audit Division, started as an entry level auditor in 2001 while still in college. She would earn her Bachelor of Science degree in Accounting from East Central University in Ada in 2002. A Certified Internal Auditor and a Certified Fraud Examiner, Darla is on the frontline of safeguarding public assets. She was recently tasked with overseeing statutorily mandated audits of Circuit Engineering Districts and manages a team conducting county audits in six southeast Oklahoma counties.

Leadership Team



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.



Nancy Grantham, State Board of Equalization/Estimate of Needs/Annual Budgets Executive Specialist, joined the agency in 1986 and was recently recognized for 35 years of service to Oklahoma taxpayers. Nancy is the administrative assistant to the Board of Equalization and works with its subcommittee on ad valorem compliance by counties. She works directly with the Oklahoma County Assessors Association and other county officials. Nancy was part of the team responsible for creating the online electronic Estimate of Needs for county government and school districts. She also oversees the receipt and review of more than 1200 public budgets.



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 separate from other executive branch agencies whose directors are largely appointed by the Governor.

Cindy Byrd, CPA, is the state's 13th State Auditor & Inspector and in the third year of her first term having taken office in January 2019. This document is a report on Fiscal Year 2021.

SAI consists of six key divisions conducting different types of government 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 is 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 1500 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:

- 18 Certified Public Accountants
- 5 Certified Internal Auditors
- 1 Certified Information Systems Auditors
- 7 Certified Fraud Examiners
- 3 Certified Government Financial Managers
- 3 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 role 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 by obtaining 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 public entity's auditor is required to upload the completed annual financial statement audit report through the agency's online portal for publication 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 statements 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 required by law that is conducted of public entities. As the name suggests, it is a review of an entity's financial statements. Its intent is to give an opinion as to whether those financial statements fairly present an accurate picture of the financial condition of the entity.

The benefit of this type of audit is that it provides assurance that management has presented a "true and fair" view of an entity's financial performance and position. It adds credibility to the reported financial position and performance of the entity.

A financial statement audit is not specifically designed to find fraud, embezzlement, or misuse of funds. However, if we do identify fraud, embezzlement, or misuse of funds during our audit, we report it to management and/or the appropriate officials.

To aid taxpayers and government officials, our agency thoroughly reviews those internal controls which place an entity at risk of fraud, waste, or abuse to provide targeted recommendations of actions management can take to improve them.

In the end, we see our role as helping government officials do things right by putting in place certain practices and procedures to safeguard public funds, reduce the risk of fraud, and improve transparency and accountability.

When too much information has the capacity to overwhelm, our intent is to extrapolate – from the enormity of the data – the bottom line necessary to effect knowledgeable and rational change. The methodology of an audit may be very complex, the recommended solutions need not be.

Our audits are a tool to both promote and create a better, more responsive government while improving the delivery of government services.

Under the category of practice what you preach, our office hires an outside accounting firm every year to conduct an independent financial statement audit of its financial records. This report is available at www.sai.ok.gov.

Performance Audits

A performance audit may contain a financial component, although its design is to evaluate the economy, efficiency, and effectiveness of government programs and functions with the goal of implementing improvements. It takes considerable planning and risk assessment. Once concerns are identified, the audit report offers recommendations to help the entity strengthen and enhance its programs, processes, and function.

In many ways, our objective analysis and recommendations initiate positive change in government operations,



procedures, and delivery of government services.

Our office conducts this type of audit on request from the Governor, the chief executive officer of a governmental entity, or through a joint resolution of the legislature.

Several state agencies routinely request performance audit services to review various programs, processes, and procedures. Agencies regularly requesting these audit services include the Oklahoma Corporation Commission, the Oklahoma Department of Transportation, the Oklahoma Department of Corrections, and the Oklahoma Board of Nursing.

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, with this type of inspection, the procedures performed are agreed upon with entity management or dictated by state law.

Municipalities with a population under 2,500 and annual income of \$25,000 or more may choose 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 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.

Statewide ACFR (Annual Comprehensive 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 ACFR 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 financial transactions of public funds by state government and reported findings are most often due to the lack of internal controls of failure to follow established policies and procedures designed to safeguard public funds.

The financial statements are prepared by the Office of Management & Enterprise Services and are audited by our office.

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

The Statewide Federal Single Audit

The team of auditors who prepare the ACFR 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 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 31st of each year although the pandemic necessarily extended this deadline for FY20 and FY21.

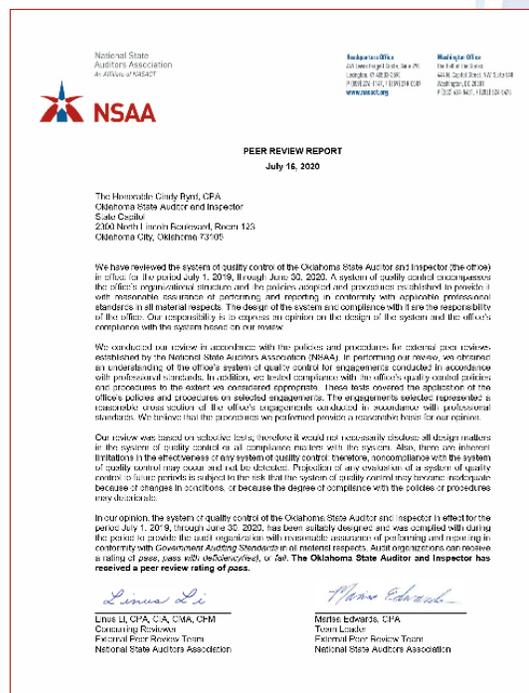
Workpapers

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 has received a 'pass' rating every peer review since 2008. You can read the letter later in this report.



A team of 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 analyze in 30 minutes or less what once could require 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, our forward-thinking ensured agency personnel were equipped with laptops which enabled an efficient shift to telework when offices were closed amidst 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, and enables a more efficient work product for county taxpayers.



AGENCY DIVISIONS

The State Auditor's Office conducted 374 audits in FY2021 which included every type of audit listed previously.

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.

STATE AGENCY AUDIT

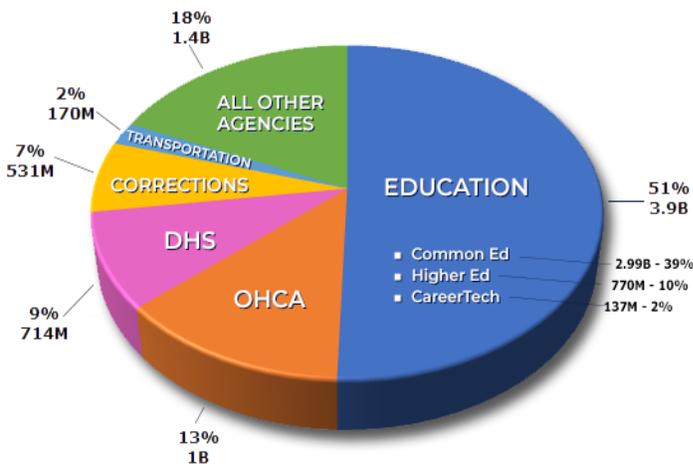
Funding state government very much relies on the independence and quality of the reports conducted by this group of auditors.

FY2020 ANNUAL COMPREHENSIVE FINANCIAL REPORT

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

For the FY20 CAFR (now ACFR), the office issued five findings including the Department of Health's expenditure of \$36.9 million through 62 wire transfers from its Clearing Account beginning in March 2020 at the beginning of the pandemic.

FY21 STATE APPROPRIATIONS



In FY21, the legislature appropriated a little more than \$7.7 billion dollars to various state agencies. Of these taxpayer funds, about 51% went to public education including 39%, or just under \$3 billion, to common education.

Understandably, Oklahoma – like every other state – was scrambling to secure PPE and other items to protect health care workers, first responders, and the public at large to diminish the spread of COVID-19.

Up to 25 percent of the audit hours for both the annual state ACFR and the federal Single Audit focused on planning the audits. The amount of fieldwork that goes into both financial statement audits is extensive.

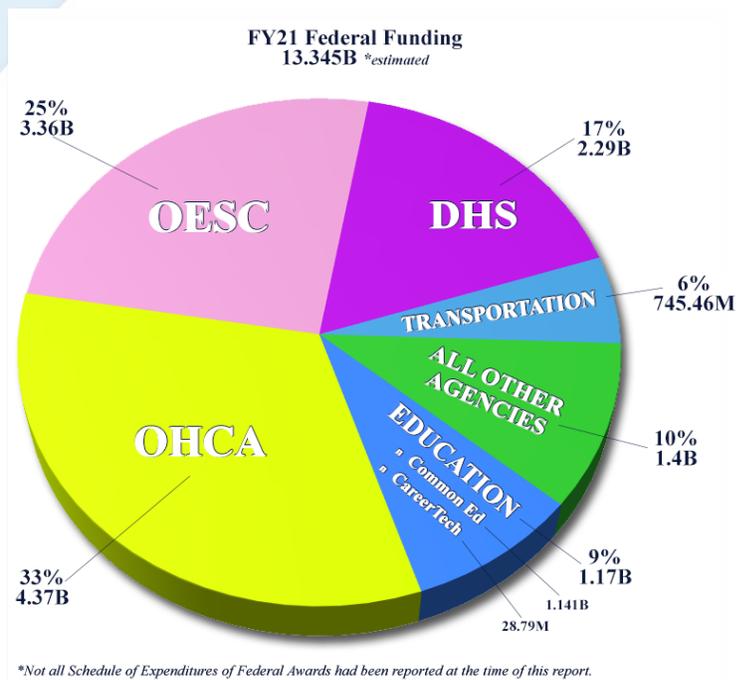
Primarily at issue in these findings was that 18 of the transfers totaling almost \$18.876 million were not entered into the statewide account system during the same fiscal year. Additionally, 28 wire payments totaling \$20.4 million did not have documentation showing the goods were received by the state.



Among other things, these federal dollars help fund free school nutrition programs, make health care costs for retirees and the elderly manageable, and keep supplemental programs in place to assist single parents with children, the disabled, and the disadvantaged. Federal agencies rely on the single audit to evaluate program effectiveness.

accountability of 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 2022 after remaining schedules of expenditures of federal awards (SEFAs) have been submitted and we've had a chance to reconcile its numbers.



The FY20 Single Audit identified a total of \$41.5 million in what is called "questioned costs" at eight state agencies. This figure includes almost \$7.4 million in state matching funds.

The questioned costs included more than \$6 million in CARES Act funding and more than \$35 million at DHS including Daycare, Adoption Assistance, Social Services Block Grant, and TANF matching funds.

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

In all, we had 67 findings in the FY20 Single Audit. Of these, 46 percent were repeat findings. When agencies don't correct the problems identified in a federal program, it may cause the federal program to be audited again in the next fiscal year's audit of federal funds which only increases the audit costs for these agencies.

In FY20, state agencies received more than \$10.13 billion in federal funds. That's about \$3 billion more than FY19 due to additional COVID-19 funds.

By contrast, in FY21, it is estimated state agencies received more than \$13.345 billion in federal funds (again, \$3 billion more than the previous fiscal year) and the

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.

Health Department’s \$20.4 million in PPE for which documentation was not available showing the agency received the goods. Also questioned was \$6.15 million in CARES Forward expenditures for which no

State Agencies with Audit Findings	Number of Findings (Number of Repeats)	Federal Questioned Costs
CARES Forward	3(0)	\$6,164,332
Dept. of Education	19 (11)	\$114,462
Office of Emergency Management	4 (2)	\$86,241
Employment Security Commission	7 (1)	\$102,775
Oklahoma Health Care Authority	4 (2)	\$2,756*
Dept. of Health	2(0)	\$0
Dept. of Human Services	24 (11)	\$27,674,908 (federal); \$7,391,874 (state MOE/match)
Human Services/Health Care Authority (dual finding)	2 (2)	\$0
Dept. of Rehabilitation Services	2 (2)	\$0
Total	67 (31)	\$34,145,474 (federal); \$7,391,874 (state MOE/match)

**Due to scope limitation, unable to identify all questioned costs*

Most of the findings in the FY20 Single Audit involved a lack of internal controls or failure to follow the internal controls in place. The FY20 Single Audit included findings on the State of Oklahoma CARES Forward Team, the Oklahoma State Department of Education (OSDE), Office of Emergency Management, Oklahoma Employment Security Commission (OESC), Oklahoma Health Care Authority, Oklahoma State Department of Health (OSDH), Oklahoma Department of Human Services (OKDHS), and the Oklahoma Department of Rehabilitation Services.

As with the State of Oklahoma FY20 ACFR audit, the FY20 Single Audit included the findings for the State

documentation could be provided to show OSDH received the goods purchased prior to Coronavirus Relief Funds being reimbursed to the agency for the cost of the supplies.

As also reported in the FY20 statewide ACFR, the FY20 Single Audit included the finding for OESC that potentially 19.7 percent paid on Unemployment Insurance benefits in the last quarter of the fiscal year were fraudulent claims. The agency also understated its Accounts Payables on its Single Audit SEFA by \$184.5 million.

The report also included 19 findings at the State Department of



Education of which 11 were repeat findings.

Among the 24 findings at OKDHS, the FY20 Single Audit questioned \$8.5 million expended in the Temporary Assistance for Needy Family (TANF) program. OKDHS was unable to provide records to ensure the families receiving these services were income eligible for the TANF program. Similarly, in another finding, the audit pointed out that OKDHS policies and procedures that require a social worker to verify income may have allowed ineligible recipients to receive benefits.

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

- Oklahoma Department of Transportation State Purchase Card AUP FY19
- Office of the State Treasurer FY19
- Oklahoma Tax Commission FY18

To help minimize travel and remain efficient with transportation costs, the auditors are usually assigned an audit area within a couple of hours drive whenever possible.

In FY21, State Auditor Byrd established the CED/Southeast audit unit within the Ada regional district office. The unit's creation was in response to legislation requiring the State Auditor to annually audit Oklahoma's eight Circuit Engineering Districts (CEDs).

Oklahoma's 77 counties work in a cooperative effort with the CEDs to obtain civil engineering services and program management services for road projects.

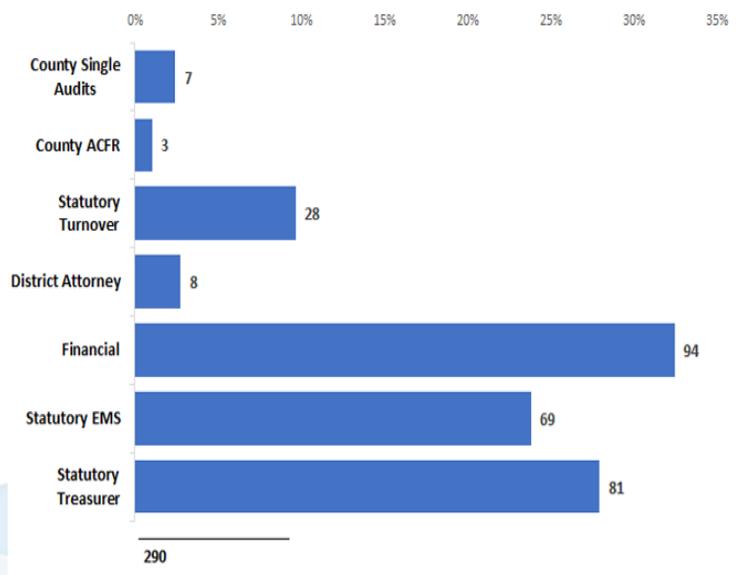
Lawmakers want to know if CEDs are operating efficiently, complying with various statutes in the receipt and expenditure of county road funds, and if each is properly safeguarding public assets.

COUNTY AUDIT

The County Audit Division (CAD) 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.

County Audit Division - FY21 Audits by Type



CAD produced 290 audit reports in FY21 or about 78% of all audits conducted in FY21.

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 Financial Report on the financial records of Oklahoma County and Tulsa County.

SAI conducts an annual audit of each of the other 75 county governments 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.

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 as required by state law.

These audits provide county residents valuable information as to how their tax dollars are being spent.

SINGLE AUDIT FOR COUNTIES

The office includes a federal Single Audit within a county's financial statement audit when the requirement for a Single Audit is triggered (after a county's federal expenditures meet or exceed the \$750,000 annual fiscal year threshold).

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. The feedback provided in our Single Audit reports assist the counties with compliance required by these federal resources.

Among the findings we may identify in a county financial audit with a single audit component are inadequate internal controls and inventory issues.

AMERICAN RESCUE PLAN ACT FUNDING FOR COUNTIES

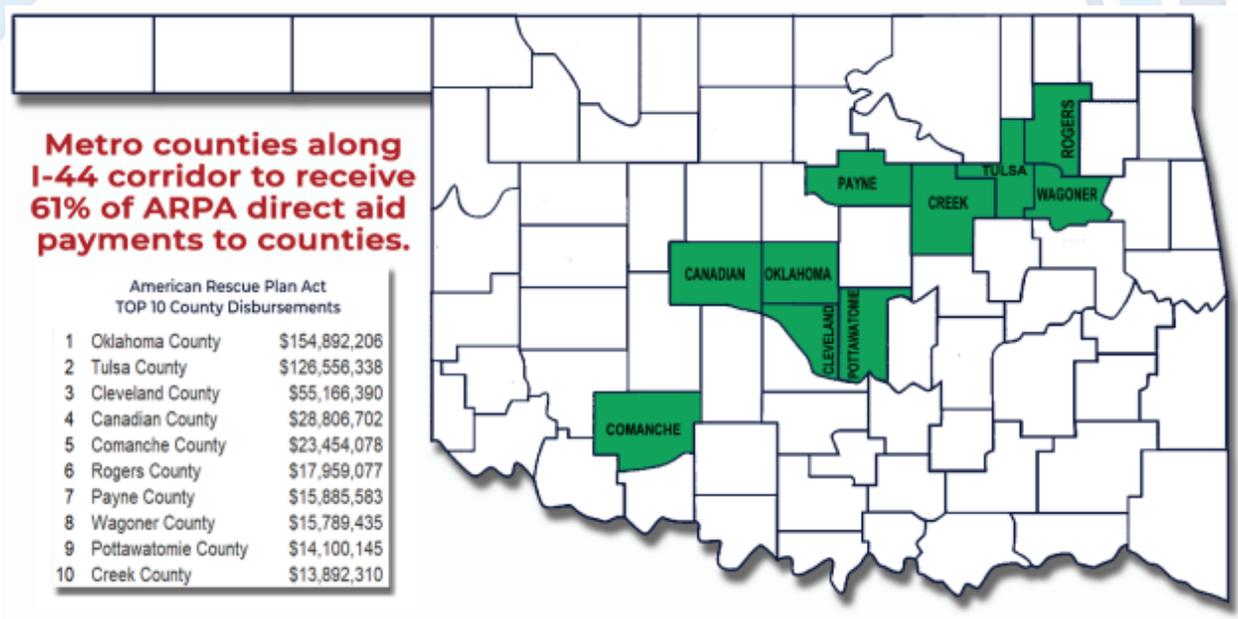
The \$65.1 billion in direct aid to counties included in the American Rescue Plan Act (ARPA) means Oklahoma's 77 counties



will share in the \$767,430,155 sent to the state.

The funding comes with restrictions for its use and SAI has been working with the Association of County Commissioners of Oklahoma and directly with county officials on the reporting requirements and project eligibility limitations.

The funds became available in May 2021 and must be used on eligible projects, or the funds encumbered for future projects by December 31, 2024. SAI has already conducted training for its county auditors in preparation for the potential of single audits of the program's funds in numerous counties around the state.



The Top 10 county recipients in the state will share about 61% of all funds coming to Oklahoma. Most of the funding roughly follows the major metropolitan corridor stretching along I-44 from Lawton to Claremore.

Oklahoma County leads the list with \$154.89 million followed by Tulsa County at \$126.56 million. The amount of aid drops significantly from Cleveland County at \$55.17 million to Creek County at \$13.89 million.

COUNTY MANAGEMENT SERVICES UNIT

While apart from the County Audit Division, this unit is the primary point of contact for providing assistance to county officials through consultation services.

The unit works in tandem with the OSU County Training Program (OSU-CTP) to develop and present training classes for county officials and employees. Staffed by one



full-time employee, the unit offers technical assistance regarding budgetary and accounting matters and prescribes forms and procedures for use by county government.

Due to the ongoing work of this unit and other SAI support services, the agency updated and improved the prescribed uniform electronic estimate of needs form for county government in 2021.

Prior to 2020, Oklahoma counties had 77 different charts of accounts specific to each county. This hurdle was overcome with the creation of a uniform chart of accounts to provide reporting uniformity across the state.

All counties except the ACFR counties of Oklahoma and Tulsa are now utilizing the same chart of accounts and have implemented 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.

Meanwhile, as noted previously, more than \$767 million in ARPA funds is flowing directly to Oklahoma counties. The County Management Services unit

manager is a key contributor to providing guidance and

consultative services to county officials regarding State and Local Fiscal Recovery Funds.

PERFORMANCE AUDIT

When you want to know if you're getting the best bang for your buck, you seek a performance audit. These auditors may 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.

Operational audits are routinely performed in compliance with statutory auditing requirements of state agencies. These entities are on a rotation and subject to audit every two years.

OFFICE OF MANAGEMENT & ENTERPRISE SERVICES – INFORMATION SERVICES DIVISION

In March 2019, the Office of Management & Enterprise Services



(OMES) requested \$23 million in supplemental funding for its Information Services Division (ISD) due to a budget shortfall for the division.



OKLAHOMA
Office of Management
& Enterprise Services

Although shifting funds within OMES and reducing staffing levels in ISD enabled the agency to whittle the request down to \$16 million, it was unable to fully address its funding crisis.

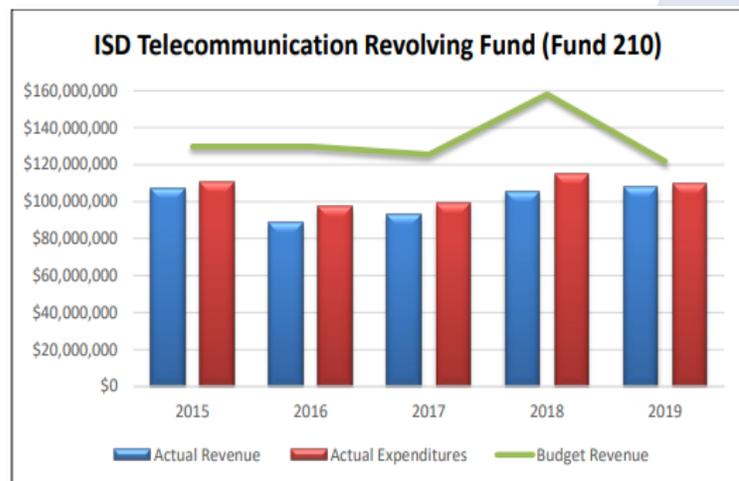
Governor Stitt requested a performance audit of OMES-ISD to review budgeting and cash flows associated with the division.

Perhaps central to a long-standing struggle to cover its costs and to effectively serve state agencies is the mandated IT consolidation which began in 2011. Over the last decade, most agencies in the executive branch have been required to pay OMES-ISD for technical support, technology, software, servers, hardware, and more.

At the heart of the audit's findings is the inability of the division to effectively budget, bill, and collect in a timely and accurate manner which resulted in unpredictable cash flow, late payments to key IT vendors, and numerous complaints among its state agency clientele. The 2019 ISD Budget included \$16

million in anticipated rate increases that did not occur leading to the agency's supplemental budget request. OMES-ISD's operating fund expenditures exceeded revenues every year and its submitted budget totals did not reflect historical performance. Actual revenue never reached budgeted revenue projections and it doesn't appear the budget maker based the budgetary forecast on realistic historical data – such as the previous year's revenue collection.

Even if the division had realized a \$16 million increase in revenue in FY19, it's budget summary still showed an almost \$1 million deficit because it's \$154.4 million in expenses exceeded its projected \$153.4 million in receipts.



The inaccuracies mean legislators and taxpayers alike were not provided an accurate presentation of the division's revenue and expenditures since its inception.

OMES-ISD didn't keep its service contracts up-to-date and invoices to state agencies contained complex



billing corrections including \$13 million in credits and adjustments in the nineteen-month period of July 2017 to February 2019.

Agencies often corrected their own invoices, expressed frustration and dissatisfaction at the process, and ultimately faced making late payments due to the inaccuracy of OMES-ISD issued invoices.

SAI provided five areas for future study and consideration to OMES-ISD to:

- improve its internal control policies and procedures
- adopt best practices to implement and prepare contract agreements with clients
- conduct detailed expenditure reviews
- establish procedures for timely invoice distribution and tracking
- maintain appropriate staffing levels to ensure invoice accuracy, bill collection, and reliable financial reporting

The performance audit division completed 24 Operational Audits and one Performance Audit in FY21.

Operational Audits

- Abstractors Board
- Board of Chiropractic Examiners
- Board of Examiners in Optometry
- Board of Examiners of Psychologists

- Board of Examiners for Speech Pathology and Audiology
- Board of Licensed Architects
- Board of Licensed Social Worker
- Board of Osteopathic Examiners
- Board of Veterinary Medical Examiners
- Boll Weevil Eradication
- Conservation Commission
- Council on Judicial Complaints
- Council on Law Enforcement Education & Training
- Liquefied Petroleum Gas Board
- Merit Protection Commission
- Pardon and Parole Board
- Office of the State Medical Examiner
- Oklahoma Board of Nursing
- Oklahoma Department of Environmental Quality
- Oklahoma Department of Mines
- Oklahoma Energy Resources Board FY19
- Oklahoma Office of Juvenile Affairs
- Ok State Board of Examiners for Long-Term Care Administrators
- Oklahoma State Department of Agriculture

Performance Audits

- OMES-ISD



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.

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.

The division published one investigative audit in FY21. EPIC Charter Schools – Part One, requested by Governor Stitt in July 2019 was exhaustive. The 94-page report took 15 months to complete, resulted in the issuance of more than 50 subpoenas for records, and utilized three of the division's five investigative auditors.

SAI filed a lawsuit in Oklahoma County District Court to gain access to records for more than \$79 million in public funds deposited into a private bank account called the Student Learning Fund. To date, all financial records and documents sought for the Student Learning Fund have not been fully provided as ordered by the Court.

EPIC Charter Schools Investigative Audit – Part One

At the heart of this audit report was identifying an intentionally complex structure by which the owners of EPIC Youth Services (EYS), an Education Management Organization (EMO), founded a charter school to funnel education funds into their private, for-profit company bank accounts.



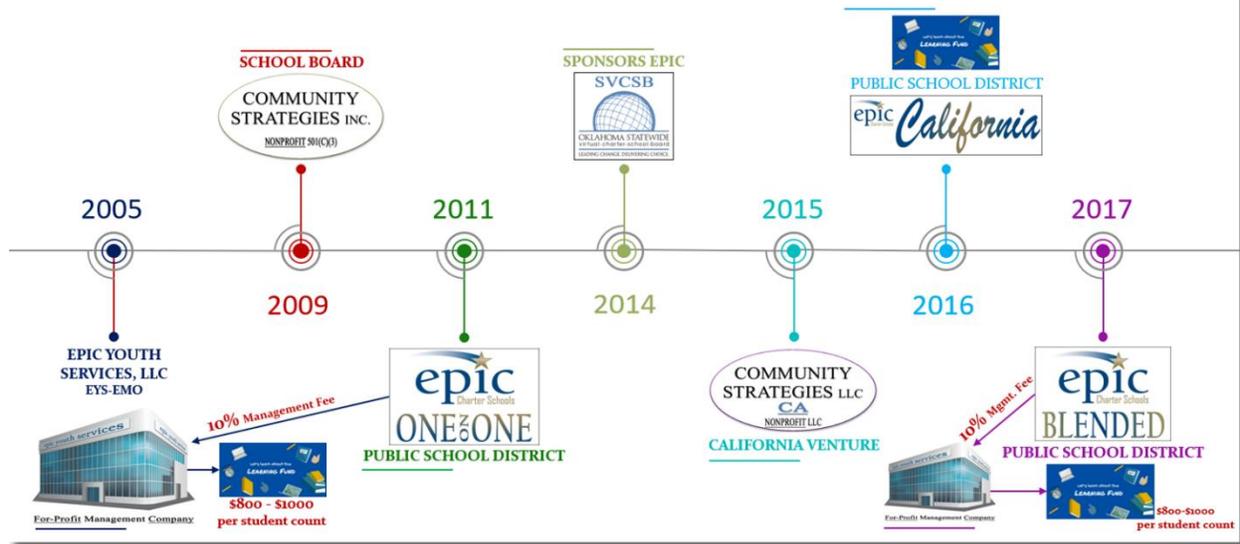
The audit brought to light the single largest amount of abuse of taxpayer funds in the history of Oklahoma.

It is notable that this audit report was not about the charter school education model, charter schools in general, or school choice. The purpose of the report was to determine if EPIC Charter Schools, governed by one non-profit board hand-picked by EYS, properly expended public funds to educate children online through EPIC One-On-One virtual charter school and at EPIC Blended which offered a combination of in-person and online learning.

public schools that operate independently of a local government school district and are fully funded with taxpayer dollars.

In 2009, the owners of EYS created a private non-profit entity named Community Strategies, Inc. that would become the governing board for EPIC Charter Schools. Harris and Chaney placed friends and acquaintances on the board. This is important because, despite statutory designation for oversight, management, and control of the affairs of the school, the board repeatedly abdicated its fiduciary responsibilities to EYS.

EPIC – A Timeline of Events



The timeline shows what occurred prior to and during the audit period of FY15 to FY20.

Ben Harris and David Chaney created EPIC Youth Services, a private for-profit EMO in 2005. An EMO contracts with a charter school and charges a management fee for its services. Charter schools are

In its bylaws, the board stated it "may delegate authority to the Superintendent or Head of School" so long as the affairs of the school remain under board jurisdiction. The audit report noted fiduciary responsibility, the proper management of public funds for the schools, is a statutory responsibility



that cannot be delegated or reassigned.

With the EMO and governing board in place, in 2010 Harris and Chaney founded EPIC One-On-One Charter School, a virtual charter school, under the Oklahoma Charter Schools Act. The school was initially under the sponsorship of Graham Public Schools.

Chaney was installed as the school's Superintendent and the hand-picked board approved an agreement with EYS for management services. Despite layers of laws and oversight agencies, control of the school and millions of dollars in education funding was given to EYS while Community Strategies, the governing board, was little more than a rubber stamp and often uninformed of actions taken by the school's founders and EYS until after the fact.

Epic Youth Services Management Fees			
FY	One-on-One	Blended	Totals
2015	\$2,183,465.43	-	\$2,183,465.43
2016	\$3,003,975.26	-	\$3,003,975.26
2017	\$4,257,516.97	-	\$4,257,516.97
2018	\$4,387,612.59	\$2,321,820.92	\$6,709,433.51
2019	\$7,925,653.24	\$4,331,095.63	\$12,256,748.87
2020	\$11,028,287.46	\$6,489,413.86	\$17,517,701.32
Totals	\$32,786,510.95	\$13,142,330.41	\$45,928,841.36

EYS removed 10 percent of all education dollars allocated to EPIC Schools for its management fee. During the audit period, EYS collected \$49.5 million. The state limits a school's administrative

costs to five percent of all expenditures.

Additionally, EYS took \$79.3 million in public funds for its Student Learning Fund which disbursed between \$800 and \$1000 each year for students to use on laptops, curriculum, and extra-curricular activities. These funds were placed in a private bank account, away from public scrutiny and auditors. The audit of these records comprises Part Two of the EPIC Charter Schools audit and is underway as of the publication of this report.

Although Chaney was in place as EPIC's superintendent through FY19, EYS used school personnel to handle the administrative functions of the school district. Despite millions going to EYS for management fees of EPIC additional education dollars were used to pay school employees to conduct those

services. Taxpayers were effectively being charged twice for the same purpose.

The audit reviewed EPIC's reported administrative costs to the Oklahoma Cost Accounting System (OCAS) at the State

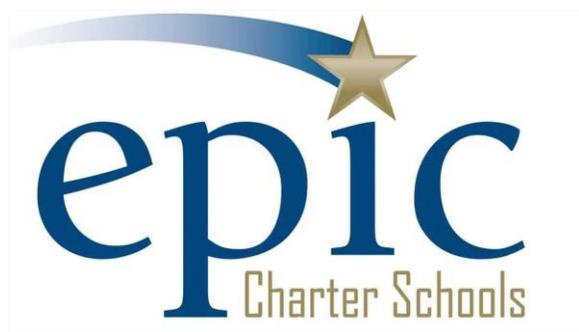
Department of Education and determined millions of dollars had been underreported during the audit period. Today, EPIC is in the process of returning \$20 million to the State Treasurer's Office.



In 2014, sponsorship and oversight of EPIC changed from Graham to the Statewide Virtual Charter School Board (SVCSB). This board conducted an annual review of EPIC, attended its board meetings, and prepared an external school performance review. Despite this layer of oversight, SVCSB was not truly effective in ensuring compliance by EPIC with various state reporting requirements.

Community Strategies, Inc. was notified by EYS at its November 2015 board meeting that EPIC was replicating itself as a charter school in California. The board was told the two schools would share administrative costs to save money.

Community Strategies approved Community Strategies-CA, LLC (CS-CA) as a subsidiary of the board and entered into an agreement – basically with itself – to use its Oklahoma school personnel to provide administrative services for



EPIC-California. The California school, which began operation in 2016, was required to reimburse EPIC One-on-One for these services.

Even though CS-CA was billed \$139,902.47 for administrative

services provided to EPIC California between FY17-FY19, payments for these services was two years in arrears. EPIC One-On-One was finally reimbursed in April 2020 after SAI had issued a subpoena seeking evidence of payment.

In apparent violation of the Oklahoma Constitution which prohibits pledging the credit of the State to any individual, company, or corporation and with no evidence of Board approval, EPIC One-On-One's financial resources totaling \$500,000 in capital were pledged to fund the spin-off school for one year.

Another \$203,000 was transferred directly from the Student Learning Fund – tax dollars intended to educate Oklahoma students – into an EPIC-California bank account. SAI found no evidence the funds were ever returned to the Student Learning Fund.

A second spin-off school district called EPIC Blended was established in 2017 under the Oklahoma Charter Schools Act and the sponsorship of Rose State College.

Although EPIC One-On-One and EPIC Blended are two separate school districts, they were governed by the same board, shared the same administrative services, comingled funds, and would collectively be known as EPIC Charter Schools.

The onset of COVID-19 in March 2020 essentially closed traditional school districts for the rest of that



school year. When schools began to reopen in September 2020, EPIC, with its virtual learning platform, was swamped with new enrollments as many parents sought to isolate their children from the pandemic. By October of 2020, EPIC Charter Schools' enrollment was nearing 60,000 students making it the state's largest public school district.

Education funding follows the student. The resulting influx of tax dollars to EPIC enabled EYS to collect another \$22 million in management fees and \$66 million for its Student Learning Fund.

During this same school year, the complex structure created by Harris and Chaney to syphon \$68 million in school funds as business income and \$145 million under the auspices of extracurricular education and technology would begin to unravel.

The investigative audit report requested by Governor Stitt was published on October 1, 2020. In the months that followed, EYS, its attorneys, and EPIC school personnel sought to disparage the messenger and minimize the report's numerous findings.

Evidence was provided to legislators and the state's Multi-County Grand Jury (MCGJ). SAI responded to more than 20 Open Records Requests resulting in more than 540 work hours to provide 1,893 files and 7.935 GB of data.

The SVCSB opened its own review of its agreement with EPIC and was in the processing of severing its

sponsorship when the hand-picked EPIC board resigned. EPIC's new school board severed ties with EYS effective June 30, 2021 and joined SAI in a demand for Student Learning Fund records. The funds were to be transferred from an EYS bank account to a school bank account on July 1, 2021.

Although the MCGJ's work was interrupted when former Oklahoma Attorney General Mike Hunter abruptly resigned on June 1, 2021, the MCGJ did issue a 25-page interim report in May 2021 urging the state legislature to take action to demand more transparency and accountability to prevent future abuse of tax dollars as had occurred at EPIC Charter Schools.

The report stated: "The public has not been served by the incestuous relationship between the for-profit vender, EYS and the governing board Community Strategies."

The MCGJ took issue with Community Strategy's failure to consider any other EMO except EYS calling the relationship a "system ripe for fraud" which permitted EYS to generate substantial "personal profit on the backs of Oklahoma students."

The MCGJ was also critical of the lack of oversight from the Oklahoma State Department of Education, the SVCSB, Rose State College, and Community Strategies.

The underreporting of its administrative costs by EPIC, and the lack of oversight and slow



enforcement by the OSDE led Governor Stitt to request an investigative audit of OSDE to identify all revenue streams and of OCAS and the financial reporting requirement compliance by OSDE and other school districts in the state.

The fallout resulting from SAI's investigative audit of EPIC Charter Schools is ongoing. It may be some time before several legal issues, compliance, oversight challenges, accountability, and transparency are fully resolved or restored.

It does appear EPIC's mission is now student focused, and its board is providing stronger oversight in school expenditures and operations designed to enhance its learning platform.

SPECIALIZED AUDIT

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 because 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.

The Employees Group Insurance Division (EGID) conducts audits of eligibility data to ensure patients and insurance coordinators comply with established Administration Rules for health, dental, and life insurance coverage as provided by the Oklahoma Statutes under the Oklahoma State and Education Employees Group Insurance Act.

INFORMATION SERVICES



The independence required by Government Auditing Standards demands that auditors must remain independent in both mind and appearance from the entities we audit. While many state agencies Information Technology (IT) and Information Services Division (ISD) services were consolidated under OMES Information Services, SAI has retained its IT staff and auditors to preserve its independence and to meet Government Auditing Standards.

SAI ISD performs an outstanding service in keeping our networks, equipment, and auditors up and running. ISD supports the electronic auditing software and other technologies that are powerful tools in providing taxpayers with transparency and accountability. ISD also plays a critical role in reducing both downtime and audit time – all of which improve efficiencies. For FY 2021, ISD responded to 1,868 helpdesk tickets from staff, which is an increase of 696 helpdesk tickets over FY20.

At the start of the pandemic lockdown, SAI was able to transition seamlessly to teleworking as staff were already using laptop computers whether in the field or at a desk.

As the state reopened, the agency implemented a blended onsite and telework policy for staff which minimized the number of personnel in the office on any given weekday. The blended work location schedule has worked well for the agency without a loss in productivity or efficiency.

The agency recently completed its second successful independent IT Security assessment according to the National Institute of Standards and Technology (NIST) cyber security framework. 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 implemented correctly.





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
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