



OFFICE OF THE
STATE AUDITOR & INSPECTOR
FY2022
ANNUAL REPORT

Cindy Byrd, CPA
State Auditor & Inspector

Office of the
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FY 2022
Annual Report



TO THE TAXPAYERS OF OKLAHOMA

As we completed Fiscal Year 2022, work begun shortly after I became State Auditor & Inspector culminated in June 2022 with the arrest of three men charged with the largest public corruption scheme in state history.

I would be remiss if I didn't include the October 2020 investigative audit of Epic Charter Schools in this report. The audit report and subsequent investigation identifies the embezzlement, waste, and abuse of millions of dollars in taxpayer funds. As a result of our audit, several charter school oversight and cost-saving measures will be considered in the FY 2023 legislative session.

As FY2022 rolled along, our office would be called upon to audit the Oklahoma Department of Education and the Oklahoma Department of Tourism. Those audits are underway.

Of special importance to us as watchdogs is the proper expenditure of billions of dollars in ARPA funds that have flowed into state agencies, county government, municipalities, and school districts. Accountability and transparency are critical to ensuring these funds are used for legitimate purposes related to the coronavirus pandemic that began in 2020.

Because of the negative impact of inflation resulting in higher energy costs, increasing food costs, and virtually every other thing we consume on a regular basis – it is more important than ever that we remain diligent in the expenditure of public funds.

True to our mission, to independently serve the citizens of Oklahoma by promoting accountability and fiscal integrity in state and local government, our audits help Oklahoma governments safeguard public funds and serve the public efficiently and effectively.

This is the cornerstone of every audit we conduct. We literally work for you, the taxpayers, and safeguarding your hard-earned funds paid in taxes is at a critical juncture. We increasingly receive calls and emails regarding government entities – especially in smaller communities – that fail in the areas of transparency. Withholding information from residents leads to a serious lack of public trust and it's so hard to restore.

Our dedicated team of government auditing professionals help government stay on track, accountable, transparent, responsive, and resilient.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is fluid and cursive.

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.



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 2022.

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 30 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:

- 15 Certified Public Accountants
- 5 Certified Internal Auditors
- 1 Certified Information Systems Auditors
- 9 Certified Fraud Examiners

- 4 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 contribute 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 *Government Auditing Standards* created 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 or suspect 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 internal controls which, if ineffective or nonexistent, place an entity at risk of fraud, waste, or abuse and 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.

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

To demonstrate accountability of our own office, we hire 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 specific procedures on a subject matter. 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 engagement, 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, performed by a private sector accountants or firm.

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 but 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 is prepared by the Office of Management & Enterprise Services and is audited by our office.

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, Education, and the Tax Commission. 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 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 Single Audit

The team of auditors who prepare the ACFR also conduct the single audit for Oklahoma. The audit is an intensive compliance review into the expenditures of specific federally funded programs and is a key factor 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.

Findings of 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 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 released 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 a laborious process 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

STATE AGENCY AUDIT

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

In FY22, the legislature appropriated a little more than \$8.8 billion dollars to various state agencies. Of these taxpayer funds, about 47% went to public education including 36% to common education.

Up to 25 percent of the audit hours for both the ACFR and single audit focused on planning the audits. 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.

FY2021 ANNUAL COMPREHENSIVE FINANCIAL REPORT

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

For the FY21 ACFR, the office issued six findings including two findings for the Department of Health involving OSDH's failure to follow proper purchasing procedures in the expenditure of funds. Due to the lack of supporting documentation, some purchases may not have been received after payments were made.

In another finding which was repeated from FY20, the Oklahoma Employment Security Commission (OESC) faced an enormous challenge as COVID caused a shutdown of the economy, shuttered business, and put hundreds of thousands of our neighbors out of work. The surge in unemployment tested the decades-old claim filing system at OESC and allowed for fraudulent unemployment claims to continue into FY21.

In FY21, OESC established new processes, back-end technology procedures to identify and stop fraudulent claims, implemented safeguards for all ACH

transfers or fund transfers to personal bank accounts, and developed a UI Analytics and Reporting platform to improve claim processing efficiency and accuracy.

FY2021 SINGLE AUDIT

As with the ACFR, the single audit is a noteworthy review of federal spending. It's a rigorous analysis 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. Federal agencies rely on the single audit to evaluate program effectiveness.

Typically, more than 50 percent of Oklahoma's annual budget for government operation comes from federal revenue streams. The influx of CARES Act and ARPA funds significantly increased federal funding to the state.

In FY21, state agencies received more than \$13.84 billion in federal funds. That's about \$3 billion more than FY20 due to additional COVID-19 funds.

In FY22, it is estimated state agencies will be on a similar spending track as in FY21 and the 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 2023 after remaining schedules of expenditures of federal awards (SEFAs) have been submitted and we've had a chance to reconcile the numbers.

The State Agency Audit Division also issued the following financial statement audits or AUP engagements in FY22:

- Oklahoma Department of Transportation State Purchase Card AUP FY20
- Construction Industries Board FY19
- Office of the State Treasurer FY20
- Office of the State Treasurer FY21
- Oklahoma Tax Commission FY19

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.

CAD has 5 district offices located across the state to help minimize travel and remain efficient with transportation costs.

CAD issued 279 audit reports in FY22 or about 79% of all audits conducted by SAI in FY22.

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 Reports on the financial records of Oklahoma County and Tulsa County.

SAI conducts an annual financial statement 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 insufficient to cover the actual cost of its audit.

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

SINGLE AUDIT FOR COUNTIES

The office includes a 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.

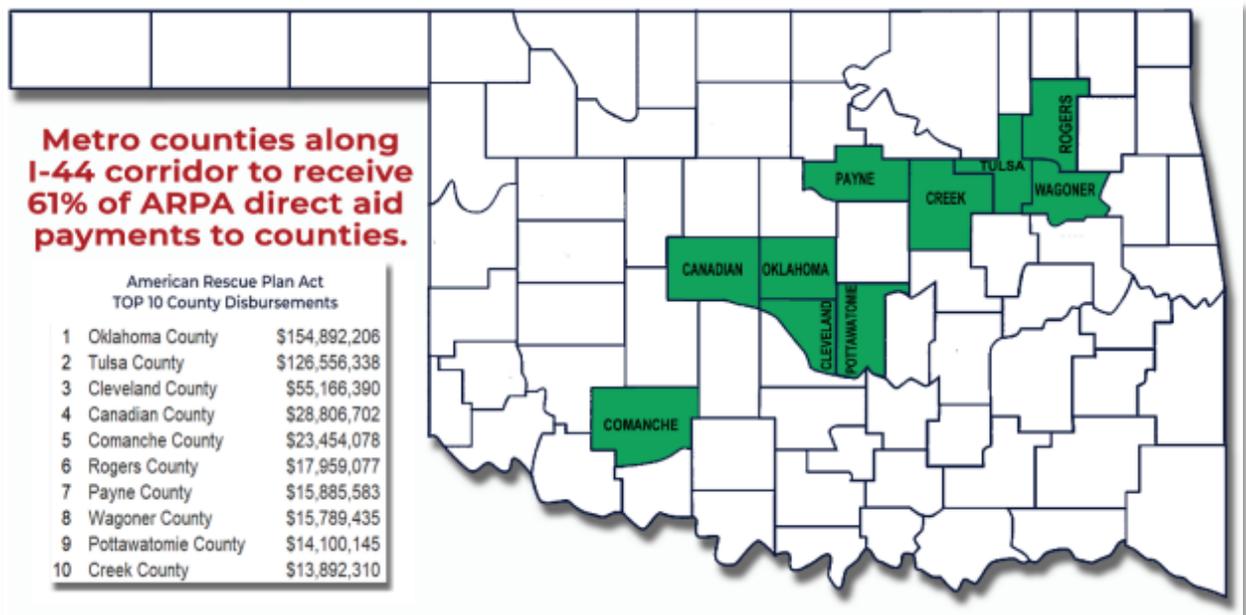
Among the findings we may identify in a county financial audit with a single audit component are inadequate internal controls and inventory issues.

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 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.

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. ARPA funds expended in FY 22 will be audited in FY 23.

COUNTY MANAGEMENT SERVICES & STATE BOARD OF EQUALIZATION (BOE) UNITS

While apart from the County Audit Division, the County Management Services 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 the one full-time employee in the BOE unit and other SAI support services, the agency updated and improved the prescribed uniform electronic estimate of needs form for county government.

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 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.

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.

Considerable planning goes into each of these audit types, to ensure any important risks are identified and the matter under review is being fully addressed by the audit.

The performance audit division completed 23 Operational, two Performance, and four Investigative Audits in FY22.

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. These audits were performed by auditors in the County Audit Division.

Operational Audits

- State Board of Behavioral Health Licensure
- Board of Pharmacy
- Department of Consumer Credit
- Court of Criminal Appeals
- State Election Board
- JD McCarty Center for Children with Developmental Disabilities
- Physician Manpower Training Commission
- Office of Disability Concerns
- Oklahoma Used Motor Vehicle and Parts Commission
- Oklahoma Historical Society
- Oklahoma Tourism and Recreation Department
- Oklahoma Arts Council
- State Fire Marshal Commission
- Indemnity Fund
- Oklahoma Indigent Defense System

- Oklahoma Space Industry Development Authority
- Circuit Engineering District #1
- Circuit Engineering District #2
- Circuit Engineering District #4

- Circuit Engineering District #5
- Circuit Engineering District #6
- Circuit Engineering District #7
- Circuit Engineering District #8

Performance Audits

- Administrative Office of the Courts – MIS Fund
- Oklahoma Corporation Commission – Petroleum Storage Tank Division

Investigative Audits

- Tupelo and Centrahoma Volunteer Fire Departments
- Oklahoma State Department of Health
- City of Shawnee
- Stillwater Public Schools - School Nutrition Services

FORENSIC AUDIT

Forensic audits look beyond the numbers of an organization and seek to determine the substance of an entity's situation. The forensic audits conducted by our office, are typically directed to identify corruption and fraud committed by public officials and employees.

Forensic audits, or as they are sometimes called, investigative audits, usually begin with a complaint or allegation concerning the management of the finances of an organization, or more likely the lack of management. Investigative audits are only conducted at the request of outside authorities including the Governor, Attorney General, District Attorney, a governing board or other oversight authority. Forensic, or investigative audits, are also conducted when an entire community becomes concerned or disgruntled with their local government. These audits are requested through the citizen petition process.

The citizen petition process is defined in statute and requires 10% of the registered voters in the community to sign a petition requesting an audit of their governmental unit. This can be a town, city, school, fire district, EMS district, or others. These assignments can be challenging because more often than not, they involve small cities or towns, and the citizens are emotionally invested in the process. During fiscal year 2022 our office was engaged in or was petitioned to begin 16 citizen petition audits.

The division published nine investigative audits in fiscal year 2022 and continued to assist law enforcement and the Oklahoma County District Attorney's Office in the completion of the EPIC Charter Schools investigation, a three-year long process.

Justice Alma Wilson Seeworth Academy

In November 2021, an investigative report on the Justice Alma Wilson Seeworth Academy (Seeworth) was released. Seeworth, a charter school, had been closed as of June 30, 2019, amid allegations of mismanagement and serious deficiencies in transparency and accountability of federal funds.

Our forensic audit revealed the former superintendent of the school had misappropriated more than \$210,000 through fraudulent payroll payments. The superintendent also misappropriated over \$41,000 from a bank account which included nearly \$21,500 spent on personal shopping excursions and \$4,500 in improper ATM withdrawals, \$2,200 of which were made at a local casino.

Of great concern in the Seeworth audit was the weak oversight of the Seeworth Board along with the Board not relinquishing the assets of Seeworth at the closing of the school, to their sponsor school district, the Oklahoma City Public School District (OKCPS). All assets became the property of OKCPS as of June 30, 2019, and all funds remaining with Seeworth on that date were to be paid to OKCPS.

The Seeworth Board improperly expended more than \$135,000 from the year-end funds, monies that ceased to belong to Seeworth after June 30, 2019.

In September 2022, the Oklahoma County District Attorney filed embezzlement charges against Seeworth's former superintendent.

Town of Tryon

Our investigative report on the Town of Tryon was released in February 2022. Three former employees of Tryon misappropriated almost \$80,000 in payroll. The improper payments consisted of excess salary, excess holiday pay, vacation pay, and overtime pay. The majority of the unauthorized payroll was received by the town's former police chief.

The police chief also misappropriated funds through fraudulent credit card charges, the use of town funds to improperly purchase firearms, diverting police department donations for personal use, and making cash ATM withdrawals with the police department debit card. A total misappropriation of almost \$16,000.

All three former Tryon officials were arrested in May 2022 for embezzlement and conspiracy.

City of Blackwell

An investigative audit of the City of Blackwell, released in July 2021, revealed that the Mayor of Blackwell transacted business between his personally owned

company and the city. These transactions, totaling more than \$129,000, were a violation of the Constitution.

The neighboring City of Tonkawa also purchased assets from the Mayor of Blackwell's personal company as part of a business liquidation auction and sold them to the City of Blackwell without first taking possession of the items. The transactions created a straw purchase by Tonkawa on behalf of Blackwell and indirectly profited the Mayor of Blackwell in the process.

Three officials, two from the City of Blackwell and one from the City of Tonkawa, were charged with conspiracy, fraud, and/or embezzlement in the case.

Stillwater Public Schools – School Nutrition Services

At the request of the Payne County District Attorney, an audit of Stillwater Public Schools – School Nutrition Services was conducted, with a report released in May 2022. The investigation confirmed that over a seven-year period, a School Nutrition administrative assistant misappropriated more than \$216,000.

A detailed report of daily cash collections broken down by various school sites was reconciled to deposit records per the bank statements, revealing that actual collections from the lunch sites were not being deposited at the bank.

To corroborate that the administrative assistant in question actually made the deposits, corresponding travel claims for the same dates and times as bank deposits were verified confirming that the employee traveled to and from the bank to make the deposit. On average, each deposit made by the administrative assistant included a misappropriation of more than \$200.

Embezzlement charges were filed against the administrative assistant in Payne County District Court in April 2022, final prosecution is pending.

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 audits of mineral royalties derived from 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.

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's 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 2022, ISD responded to 1,778 helpdesk tickets from staff.

The agency completed its second successful independent IT Security assessment and is the process of its third 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
National State Auditors Association

Marisa Edwards, CPA
Team Leader
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Cindy Byrd, CPA | State Auditor & Inspector

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