



OFFICE OF THE
STATE AUDITOR & INSPECTOR
FY2023
ANNUAL REPORT

Cindy Byrd, CPA
State Auditor & Inspector

Office of the
State Auditor & Inspector
FY 2023
Annual Report



TO THE TAXPAYERS OF OKLAHOMA

As we closed Fiscal Year 2023, our mission remains the same, to “hold government accountable.” We have held true to this mission and have accomplished some remarkable things this past year.

In 2023, we released our federally-mandated audit of the State of Oklahoma Single Audit Report for fiscal year 2021. The audit covered \$14 billion dollars of expenditures, which were audited according to a federal formula provided by the Federal Government. These federal funds come with very strict requirements, some of which the State of Oklahoma did not comply with, for 21 of the 31 major programs audited. We noted findings of noncompliance and lack of oversight, and \$29 million in federal questioned costs, most of which related to COVID pandemic funds.

In years past, our 2020 investigative audit of Epic Charter Schools, uncovered millions of embezzled funds. The investigative audit of Epic Charter Schools revealed the largest abuse of taxpayer funds in the history of the state, and was awarded an NSAA Excellence in Accountability Award in April, 2022. In 2022, the 3 co-founders, were charged in Oklahoma County District Court with a litany of alleged financial crimes, including racketeering. During 2023, this audit continues to make headlines, as Attorney General Gentner Drummond assumes control of the case against Epic's former leadership. Further, there could be a federal case. A number of agencies have been involved with the investigation, including the Internal Revenue Service. It has been noted that the IRS notified Epic's board a year ago that it had launched its own investigation.

Our office continues to be tasked with numerous municipality and school audits. We are in the final stages of a governor requested audit of Tulsa Public Schools as education remains a hot topic across the State. Over 20 municipal audits are in progress or pending, evidence that our small communities across the state are struggling financially.

As inflation continues to have a negative impact on our lives ranging from higher energy costs, increasing food expense, and other daily expenditures, it is so important, now more than ever, that we are diligent in the expenditure of public funds.

We continue to stand for transparency and accountability, to be the watchdog of taxpayer funds. Our audits help Oklahoma governments safeguard public funds and serve the public efficiently and effectively.

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



Leadership Team



CINDY BYRD, CPA, is from Coalgate, Oklahoma. Cindy has 26 years of government auditing experience. Byrd was appointed the Director of County Audit Division in 2011 and eliminated a five-year backlog of county audits. In 2013, Cindy was appointed Deputy State Auditor and served in that capacity until 2019 when she was elected as Oklahoma's 13th State Auditor and the first woman to hold the office. By the end of her first term, Cindy published more than 1400 audits some of which garnered statewide and national attention. Byrd was re-elected in 2022 and continues to advocate for responsible government. Cindy received the Dr. Tom Coburn Transparency in Government Award for mirroring his enduring legacy of championing government accountability and transparency.

State Auditor Byrd serves as:

- Vice-Chair, Oklahoma State Pension Commission
- Member, State Board of Equalization
- Chair, State Board of Equalization Sub-Committee
- Commissioner, State School Land Commission
- Auditor At-Large for the State Financial Officers
- Foundation and a fellow of Club for Growth Fellowship



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 the State Auditor & Inspector's Office (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.

Leadership Team



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 22-year 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, Director of the Performance Audit Division (PAD), graduated in 1998 from the University of Central Oklahoma with a Bachelor of Business Administration finance degree. Melissa has 23 years of service with SAI 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 Department of Corrections, the Department of Wildlife Conservation, the School of Science & Mathematics, the Corporation Commission, and the Department of Tourism plus numerous operational audits of state agencies.



BILLY SWINDELL, Director of the State Agency Audit Division (SAAD), graduated in 1994 with a Bachelor of Science in Accounting from the University of Central Oklahoma. Billy has 29 years of experience in the auditing industry, with 27 of those years at SAI. Billy joined SAI as an auditor and was promoted to Supervisor in 2005. Shortly thereafter, in 2007, he was promoted to Manager and later advanced to Deputy Director in 2015. Most recently, Billy earned the role of Director. Throughout his career, Billy has audited about every major program at the State of Oklahoma ACFR and single audit levels (State of Oklahoma, OMES, OHCA, OSDH, OSDE, DHS, DOC, DPS, DMHSAS, OST, OESC, and ODOT). Over the last 10 plus years Billy has overseen the State of Oklahoma's Annual Comprehensive Financial Report (ACFR). As Director, Billy manages a staff of roughly 30 individuals who are responsible for auditing the ACFR, along with the single audit of federal expenditures for numerous agencies.

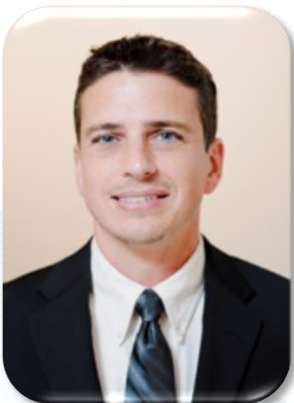
Leadership Team



MARK HUDSON, CPA, CGMA, is Director of the Specialized Audit Division. He has more than 33 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. As a Certified Public Accountant, Mark is a member of both the Oklahoma Society of CPAs and the American Institute of CPAs.



CINDY WHEELER, CPA, Director of Quality Assurance, began her tenure with the State Auditor's Office in 2004 and was promoted to Audit Supervisor in 2006, and to Audit Manager in 2008. In 2012 Cindy assumed responsibility over the Quality Assurance Division. Cindy is a Certified Public Accountant, graduated from the University of Central Oklahoma in Edmond with a Bachelor of Science in Accounting, and earned a Master of Business Administration from Oklahoma Christian University in 2002. Cindy plays a pivotal role in ensuring our audits and audit reports comply with government auditing standards. She has served as a National State Auditor's Association (NSAA) Peer Review Team member since 2013 and is the liaison with NSAA for SAI's peer reviews.



MICK DODSON, JD, Director of Compliance, joined the SAI in 2011 and is the senior investigator. He is a graduate of the FBI Academy and a former special agent, and he is certified as a meetings/records legal instructor. He has a juris doctorate degree with a public-policy certification and awards in administrative law and professional responsibility, and he is a member of the Bar Association. He served on the city council of his hometown and interned in the district attorney's office of a populous county. He has a bachelor's degree in political science and journalism with a public-relations emphasis.

Leadership Team



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 an Accounting Manager position with the Tarrant County Clerk's Office, in Fort Worth, Texas and returned to Oklahoma and SAI in 2003. In all, Marla has more than 24 years of service for the state on behalf of taxpayers. Marla serves as the audit manager at the Oklahoma City Regional District office and oversees 9 counties in central and north-central Oklahoma.

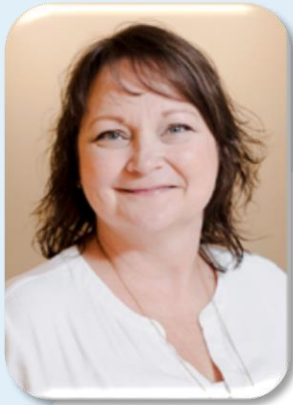


RICKY BRANCH, MBA, Audit Manager, County Audit Division, earned his Bachelor of Science degree in Accounting from Cameron University in Lawton and a Master of Business Administration from Oklahoma City University. He joined the agency in 1990 and has been an integral part of the County Audit Division during his 33-year tenure with SAI. Ricky serves as the Audit Manager at the Duncan Regional District office and oversees audits in 23 counties in the southwest quadrant of Oklahoma.

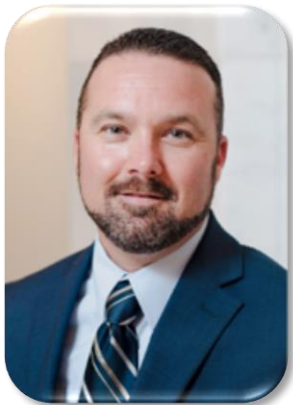


JOHN BROWNELL, Audit Manager, County Audit Division, earned his Bachelor of Business Management from St. Gregory's University in Shawnee. John joined the County Audit Division in 2006 as an auditor. In 2011, John was promoted to Audit Supervisor. During his tenure, he has conducted a variety of audits including investigative, performance, and financial statement audits. During his time as an Audit Supervisor, John was an integral part of planning and conducting Oklahoma County's Annual Comprehensive Financial Report and its federal single audit of federal expenditures. In May of 2022, John earned the role of Audit Manager of the Ada Regional Office District and directs audits in 13 Oklahoma counties in East-Central Oklahoma.

Leadership Team



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 29 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.

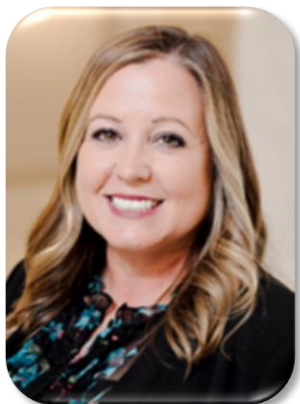


DARLA ELLIS, CIA, CFE, Audit Manager, Circuit Engineering District/County Audit Division, started as an entry level auditor in 2001 while still in college. She would earn her Bachelor of Science degree in Accounting from East Central University in Ada in 2002. A Certified Internal Auditor and a Certified Fraud Examiner, Darla is on the frontline of safeguarding public assets. She oversees statutorily mandated audits of the Circuit Engineering Districts across Oklahoma. Additionally, she directs audits in the southeast region of Oklahoma covering 6 counties.

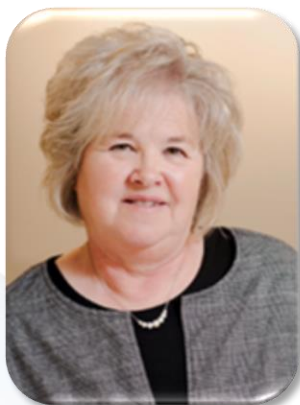
Leadership Team



MELISSA LAFFOON, Audit Manager, District Attorney/EMS Audit Division, began her career with the State Auditor's office in 2007 in the County Audit Division. She earned her Bachelor of Science Business Administration degree in Accounting from Northeastern State University in 2008. During her tenure with the agency, she has conducted several types of audits including, County financial statement, investigative, Emergency Management Service, District Attorney, and federal single audits. She was promoted to County Audit Supervisor in 2011, where she was responsible for the audit of seven Oklahoma Counties, and most recently promoted to Audit Manager over the District Attorney/EMS Division in September 2023. Her focus will be primarily on overseeing the audit of the state's 27 District Attorney offices and 64 Emergency Medical Service (EMS) Districts.



CHERYL WILSON, CFS, is the Manager of the County Management Service Division. Cheryl began her tenure with SAI in 1994, previously serving as a county auditor and as an information systems auditor. Cheryl earned her Bachelor of Science degree in Accounting from East Central University, Ada, in 1996 and is a Certified Fraud Specialist (CFS). 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 37 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, the 13th State Auditor & Inspector, is in the first year of her second four-year term, having first taken office in January 2019. This document is a report on Fiscal Year 2023.

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 function and roles of these groups are 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 the budget is funded by billing public entities for the actual cost of their audits, at rates that are considerably less than the hourly rates of our private sector counterparts.

Including the State Auditor, the office has 99 audit professionals involved in the audit process with over 1400 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 audit professionals include:

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

SAI MISSION

Our mission is to “hold government accountable.”

With that in the forefront, SAI has focused on a dual-purpose role during Cindy’s tenure as State Auditor. In addition to our 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 has 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 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. We provide targeted recommendations for actions management can take to improve the internal controls within their agencies.

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

To demonstrate accountability of our own office, we hire an outside accounting firm every year to conduct an independent financial statement audit of SAI's 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, 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, and the auditor does not 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 \$50,000 or more may choose to have an AUP as opposed to a financial statement audit, performed by a private sector accountant 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. A forensic 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 will 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 21 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 or 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 audit the ACFR also conduct the single audit for Oklahoma. The audit is an intensive compliance review of the expenditures of specific federally funded programs and is a key factor in the consideration and determination of whether Oklahoma will continue to receive federal funds for those programs.

Breaking it down, the single audit is basically a review of the state's stewardship in its 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 internal control deficiencies and discrepancies in the expenditure of federal funds or costs that are questioned by SAI are included in the final report. The issued report and its findings are thoroughly reviewed at the federal level to ensure the agency complied with the single audit reporting requirements. Findings are further reviewed to determine whether the federal agency accepts the corrective action plan of the agency or if additional action is necessary.

The single audit is required to be completed by March 31st of each year.

Workpapers

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

Among our auditing responsibilities is to accurately determine fact from fiction. Findings included in our reports are fully supported by our workpapers.

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 determine whether we are following our policies and procedures, which incorporate auditing standards, and review our training records to ensure our staff meet the minimum training requirements set by *Government Auditing Standards*.

Our next peer review is scheduled for July 2026.

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 in identifying discrepancies in balance sheets, receipt and deposit records, and other financial documents to highlight anomalies that could mean the existence of fraud and misuse of funds.

Our agency personnel are all equipped with laptops which enables an efficient shift to telework when offices are closed or whenever else it is necessary.

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 is 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 FY23, the legislature appropriated \$10.68 billion dollars to various state agencies.

The amount of fieldwork that goes into both 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.

FY2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

We referenced this audit previously and expressed our position as to its significance. Our opinion was that the financial statements were fairly stated.

We did issue two reportable findings: one related to Unemployment Insurance (UI) claims at Oklahoma Employment Security Commission (OESC), and the other related to material misstatement in Accounts Payable for Oklahoma Health Care Authority.

The OESC finding was a repeat of both FY20 and FY21, where OESC faced an enormous challenge as COVID caused a shutdown of the economy and put hundreds of thousands of our neighbors out of work. The surge in unemployment exploited the weaknesses of the decades-old claim filing system at OESC, allowing fraudulent unemployment claims that continued into FY22.

In FY21, OESC established new processes and 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. These new safeguards helped to greatly reduce the amount of fraudulent UI claims in FY 22.

FY2021 SINGLE AUDIT

As with the ACFR, the single audit is a noteworthy review of federal spending. It is 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 compliance and 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 each of FYs 2021 and 2022, state agencies received approximately \$14 billion in federal funds. That is about \$4 billion more than FY20 due to funding to address COVID-19.

In FY23, it is estimated state agencies were on a similar spending track as in FY22 and the accountability of the expenditure of these funds will be provided by the annual single audit of the State of Oklahoma.

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 are busy conducting audits in the state's 77 counties.

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

CAD issued 180 audit reports in FY23 or about 74% of all audits conducted by SAI in FY23.

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 the audit.

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

SINGLE AUDIT FOR COUNTIES

A single audit is included 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 typically identify in a county financial audit with a single audit component are related to inadequate internal controls and subrecipient monitoring.

In FY 2020, only 12% of county audits included a single audit. For FY 2021, that increased to 67%, and we expect that percentage to be even higher in FYs 2022 - 2024.

Alternative Compliance Examination (ACE) engagements will be performed for many of the counties that received Coronavirus State and Local Fiscal Recovery Funds as an alternative to a single audit as allowed by the 2022 OMB Compliance Supplement. However, even as these engagements require reduced audit procedures, many of these counties require a single audit infrequently, or may have never required one, and this will represent a significant challenge to the counties as well as the audit teams.

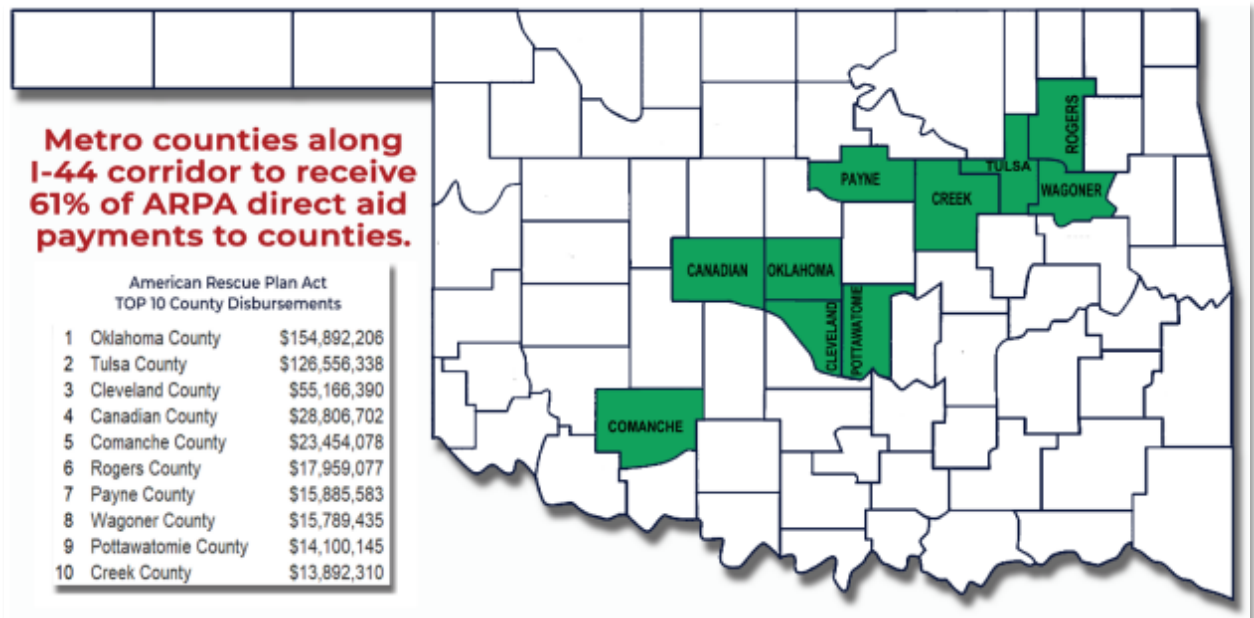
It is important to note the amount, based on millage, that counties budget for and are required to pay for their audits typically does not cover the cost of just the financial statement audit and will surely not cover the cost of the additional single audits that will be required in the next few years.

AMERICAN RESCUE PLAN ACT FUNDING FOR COUNTIES

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

CIRCUIT ENGINEERING DISTRICTS

In FY21, State Auditor Byrd established the CED/Southeast Audit Division within the Ada Regional District office. The division’s creation was in response to legislation requiring the State Auditor to annually audit Oklahoma’s eight Circuit Engineering Districts (CEDs).

Of the 77 counties in Oklahoma, 76 counties choose to participate 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.

During the FY23 the CED/Southeast Audit Division developed and presented a uniform chart of accounts and standard operating procedures manual to promulgate uniform financial reporting among the CEDs and published 10 CED audits.

COUNTY MANAGEMENT SERVICES & STATE BOARD OF EQUALIZATION DIVISIONS

County Management Services provides assistance to county officials through consultation and training services.

The division works closely 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 and one part time contractor, the division offers technical assistance regarding budgetary and accounting matters and prescribes accounting forms and procedures for use by county government.

The Board of Equalization Division along with input from OSU County Training Program and experienced budget makers, updated and improved the prescribed uniform electronic estimate of needs form for county government. Much credit goes to county software providers, county officials, private sector accountants, and OSU-CTP for making this effort a reality.

Meanwhile, as noted previously, more than \$767 million in ARPA funds is flowing directly to Oklahoma counties. The County Management Services Division Manager is a key contributor to providing guidance to county officials regarding the appropriate use of state and local fiscal recovery funds.

PERFORMANCE AUDIT

Performance 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 20 operational, and one performance audit in FY23.

Operational Audits

- Department of Libraries
- Board of Medical Licensure and Supervision
- Board of Alcohol and Drug Counselors
- Board of Examiners of Perfusionists
- Board of Podiatric Medical Examiners
- Department of Corrections
- Ethics Commission
- Commission on Children and Youth
- Banking Department
- Department of Career and Technology Education
- Water Resources Board
- Board of Licensure for Professional Engineers and Land Surveyors
- Council on Judicial Complaints
- Corporation Commission – Petroleum Storage Tank Fund
- Administrative Office of the Courts (Supreme and District Courts)
- Motor Vehicle Commission
- Oklahoma Energy Resources Board
- Real Estate Commission
- Oklahoma School of Science and Mathematics
- Aeronautics Commission

Performance Audits

- Statewide Virtual Charter School Board

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 other public entity. 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.

The division published five forensic audits in fiscal year 2023 and continued to assist law enforcement and the Attorney General's Office in numerous prosecutions. The prosecution of the EPIC Charter Schools investigation, a four-year long process, is set for preliminary hearing in October 2023, and includes multiple charges of embezzlement and racketeering against the two owners of the school's former educational management organization and their chief financial officer.

Criminal cases also continue in the courts against the former superintendent of the Justice Alma Wilson Seeworth Academy and former officials of the Town of Boynton. The forensic audit of Seeworth Academy revealed fraudulent transactions totaling more than \$250,000 and the total fraud reflected in the audit of the Town of Boynton exceeded \$150,000.

An investigative report on the Town of Tryon, released in February 2022, saw a conclusion in August 2023 with two former employees of Tryon pleading guilty to felony embezzlement and conspiracy, with restitution of \$60,000 being recovered for the town.

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 U.S. 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. The state receives 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 divisions (ISD) were consolidated under OMES Information Services Division, 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 in working order. 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 fiscal year 2023, ISD resolved 1,453 helpdesk tickets from staff.

The agency completed its third successful independent IT Security assessment and is in the process of its fourth assessment conducted in accordance with 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 21, 2023

The Honorable Cindy Byrd, CPA
State of Oklahoma Office of the State Auditor & Inspector
2300 N. Lincoln Blvd, Room 123
Oklahoma City, OK 73105

We have reviewed the system of quality control of Oklahoma Office of the State Auditor & Inspector (the office) in effect for the period July 1, 2022 through June 30, 2023 and for the 2021 State of Oklahoma ACFR audit released on January 26, 2022. 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 Office of the State Auditor & Inspector in effect for the period July 1, 2022 through June 30, 2023 and for the 2021 State of Oklahoma ACFR 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 Office of the State Auditor & Inspector has received a peer review rating of pass.**

L. Scott Owens, CIA, CGAP, MPA
Concurring Reviewer
External Peer Review Team
National State Auditors Association

Thomas Troutman, CPA, CIA, CGFM
Team Leader
External Peer Review Team
National State Auditors Association

O·K·L·A·H·O·M·A
S·A·I
STATE AUDITOR & INSPECTOR



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov