



FINANCIAL STATEMENTS

JUNE 30, 2012

Includes Independent Auditor's

Report Issued By



Office of the Oklahoma State Auditor and Inspector

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June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

State of Oklahoma
Office of the Oklahoma State Auditor and Inspector
Oklahoma City, Oklahoma

We have audited the accompanying financial statements of the Office of the Oklahoma State Auditor and Inspector ("the Office"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Office, as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

HBC CPAs & Advisors

Yukon, Oklahoma
April 9, 2013

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MANAGEMENT’S DISCUSSION AND ANALYSIS SUMMARY

The management of the Oklahoma State Auditor and Inspector (SAI) is pleased to provide the accompanying financial statements to the citizens of the State of Oklahoma and other report users to demonstrate its accountability and communicate SAI’s financial condition and activities for the fiscal year ended June 30, 2012. Management of SAI is responsible for the fair presentation of these financial statements, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of contracts.

Financial Highlights

For the year ended June 30, 2012 the following financial results are considered noteworthy by management.

- SAI’s total net assets increased \$411,742, or 41.96%, from the prior year.
- SAI’s operating revenue increased \$1,326,359, or 28.04%, over the prior year, while operating expenses increased \$311,855, or 3.21%. The increase in revenue is due to a significant rise in the number of audit reports completed. Increased operating expenses correlate directly to the costs necessary to complete audit reports. SAI audits all 77 Oklahoma counties, and most state agencies, boards and commissions. Travel expense is regularly incurred to conduct the audit field work and reports for the various types of audits SAI conducts.
- SAI’s accounts receivable increased \$419,070, or 61.62% over the prior year. This is directly related to the increase in the number of audits conducted.
- SAI received state appropriated funding in the amount of \$4,706,986 which reflects a \$445,686 (8.65%) decrease from the FY2011 appropriation.

USING THIS REPORT

The financial statements are presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board (GASB) Statement No. 34.

SAI’s Reporting Entity

The financial statements include all activities for which the SAI is fiscally responsible. These activities, defined as SAI’s reporting entity, are operated within a single government agency. SAI’s financial statements are reported as a part of the financial presentation of the State of Oklahoma.

Overview of SAI’s Reporting Entity Presentation

The financial statements consist of three parts as follows:

Financial Statements: The fund financial statements report information, on the accrual basis of accounting and economic resources measurement focus, about SAI as a whole using accounting methods similar to those used by private-sector companies. The “Statement of Net Assets” includes all of SAI’s assets and liabilities as of the fiscal year presented. All of the current year revenues and expenses are

(Unaudited)

accounted for in the “Statement of Revenues, Expenses and Changes in Net Assets” regardless of when cash is received or paid.

Notes to the Financial Statements: The notes to the financial statements are an integral part of these financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: The Management Discussion and Analysis represents financial information required to be presented by GASB. Such information provides users of this report with additional data that supplements the financial statements and notes (collectively referred to as “the basic financial statements”).

AN ECONOMIC-BASED FINANCIAL ANALYSIS OF SAI

Management’s Discussion and Analysis on the Economic Basis Financial Condition:

SAI uses resources to accomplish its mission of assisting other governmental entities to safeguard public assets.

A review of the “Statement of Net Assets” and the “Statement of Revenues, Expenses and Changes in Net Assets” reports allow a comprehensive assessment of SAI’s financial health. However, in order to assess its overall financial condition, the reader should consider other non-financial factors such as SAI’s resource base and the status of pending projects.

(Unaudited)

Analysis of Financial Accounts

The following table provides SAI's Net Assets information as of the end of fiscal years 2012 and 2011:

	2012	2011	% Change
Assets			
Current Assets:			
Cash	\$853,461	\$835,091	2.20%
Cash-Restricted	34,592	27,507	25.76%
Due From Federal Government	66,702	55,955	19.21%
Accounts Receivable, Net of Allowance	1,099,071	680,001	61.62%
Total Current Assets	2,053,826	1,598,554	28.48%
Noncurrent Assets:			
Notes Receivable	\$30,993	\$42,012	-26.23%
Capital Assets, Net of Accumulated Depreciated	6,995	9,632	-27.38%
Total Noncurrent Assets	37,988	51,644	-26.44%
Total Assets	2,091,814	1,650,198	26.76%
Liabilities			
Current Liabilities:			
Accounts Payable	175,851	172,158	2.15%
Accrued Wages Payable	10,522	15,522	-32.21%
Compensated Absences-Payable within one year	449,105	422,973	6.18%
Total Current Liabilities	635,478	610,653	4.07%
Noncurrent Liabilities			
Compensated absences-payable after one year	63,345	58,296	8.66%
Total noncurrent liabilities	63,345	58,296	8.66%
Total liabilities	698,823	668,949	4.47%
Net Assets			
Restricted for OSU	34,592	27,507	25.76%
Invested in Capital Assets	6,995	9,632	-27.38%
Unrestricted	1,351,405	944,110	43.14%
Total Net Assets	\$1,392,991	\$981,249	41.96%

(Unaudited)

	2012	2011	% Change
Operating Revenues:			
Filing Fees	\$156,900	\$161,090	-2.60%
Audit fees	5,817,245	4,489,851	29.56%
Other fees	82,955	79,800	3.95%
Total Operating Revenues	6,057,100	4,730,741	28.04%
Operating Expenses:			
Personal Services	9,134,595	8,860,910	3.09%
Travel	182,211	94,248	93.33%
Administrative	637,177	578,713	10.10%
Equipment	59,157	168,174	-64.82%
Depreciation	2,637	\$1,877	40.49%
Total Operation Expenses	10,015,777	9,703,922	3.21%
Operating income (loss)	(3,958,677)	(4,973,181)	-20.40%
Non-operating revenues (expenses):			
Appropriations	4,706,986	5,152,672	-8.65%
ARRA Awards	0	300,000	-100.00%
Pass-through OSU expenses	(336,566)	(330,086)	1.96%
Total Non-operating revenue(expenses)	4,370,420	5,122,586	-14.68%
Change in net assets	411,743	149,405	175.59%
Total net assets-beginning	981,249	831,844	17.96%
Total net assets-ending	\$1,392,992	\$981,249	41.96%

CONTACTING SAI

This report is designed to provide citizens, taxpayers, registrants, and creditors with a general overview of the SAI's finances and to demonstrate accountability for the resources it receives. If you have questions about this report or need additional financial information, contact SAI by mail at 2300 North Lincoln Boulevard, Room 100, State Capitol Building, Oklahoma City, OK 73105, by telephone at (405) 521-3495, or by e-mail at dthomas@sai.ok.gov.

(Unaudited)

OKLAHOMA STATE AUDITOR AND INSPECTOR
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Current assets:

Cash	\$853,461
Cash-Restricted	34,592
Due from federal government	66,702
Accounts receivable, net of allowance of \$953,953	<u>1,099,071</u>
Total current assets	<u>\$2,053,826</u>

Noncurrent assets:

Notes Receivable	\$30,993
Capital Assets, net of accumulated depreciation of \$3,553	<u>6,995</u>
Total noncurrent assets	<u>37,988</u>
Total assets	<u>\$2,091,814</u>

LIABILITIES

Current liabilities:

Accounts payable	\$175,851
Accrued wages payable	10,522
Compensated absences-payable within one year	<u>449,105</u>
Total current liabilities	<u>635,478</u>

Noncurrent liabilities:

Compensated absences-payable after one year	<u>63,345</u>
Total noncurrent liabilities	<u>63,345</u>
Total liabilities	<u>698,823</u>

NET ASSETS

Restricted for OSU	34,592
Invested in capital assets	6,995
Unrestricted	<u>1,351,404</u>
Total net assets	<u>\$1,392,991</u>

The notes to the financial statements are an integral part of this statement.

OKLAHOMA STATE AUDITOR AND INSPECTOR
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

Operating revenues:	
Filing Fees	\$ 156,900
Audit Fees	5,817,245
Other Fees	<u>82,955</u>
Total operating revenues	<u>6,057,100</u>
Operating expenses:	
Personal Services	9,134,595
Travel	182,211
Administrative	637,177
Equipment	59,158
Depreciation	<u>2,637</u>
Total operating expenses	<u>10,015,778</u>
Operating income (loss)	(3,958,678)
Nonoperating revenues (expenses):	
Appropriations	4,706,986
Pass-through OSU expenses	<u>(336,566)</u>
Total nonoperating revenue (expenses)	<u>4,370,420</u>
Change in net assets	411,742
Total net assets - beginning	<u>981,249</u>
Total net assets - ending	<u>\$ 1,392,991</u>

The notes to the financial statements are an integral part of this statement.

OKLAHOMA STATE AUDITOR AND INSPECTOR
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipt of filing fees	\$ 156,900
Receipt of audit fees	5,388,631
Receipt of other fees	92,770
Payments for personal services	(9,108,021)
Payments for travel	(173,640)
Payments for administrative	(616,067)
Payments for equipment	(92,623)
Net cash provided (used) by operating activities	(4,352,050)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipt of appropriations	4,706,986
Pass-through payments to OSU	(329,481)
Net cash provided (used) by noncapital financing activities	4,377,505

Net increase in cash 25,455

Cash July 1, 2011 (including \$27,507 reported in restricted cash)	862,598
Cash June 30, 2012 (including \$34,592 reported in restricted cash)	\$888,053

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating income	(3,958,678)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in due from federal government	(10,747)
(Increase) decrease in accounts receivable	(419,071)
(Increase) decrease in notes receivable	11,019
(Increase) decrease in capital assets	2,637
Increase (decrease) in accounts payable	(3,392)
Increase (decrease) in accrued wages payable	(4,999)
Increase (decrease) in compensated absences payable in one year	26,132
Increase (decrease) in compensated absences payable after one year	5,049
Total adjustments	(393,372)
Net cash provided by operating activities	\$ (4,352,050)

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

The basic financial statements of the Oklahoma State Auditor and Inspector (the Office) have been prepared in conformity with the accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office's accounting policies are described below.

Notes to the Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Constitution of the State of Oklahoma provides under Article VI, Section 19 for a State Auditor and Inspector. Prior to 1979, the State maintained a separate Office of the State Auditor and the Office of the State Examiner and Inspector. However, effective January 8, 1979, a constitutional amendment merged the Office of the State Auditor and the Office of the State Examiner and Inspector, creating the Office of the Oklahoma State Auditor and Inspector (the Office).

The Office is a part of the primary government (State of Oklahoma), and its financial data are included in the State's Comprehensive Annual Financial Report. The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State of Oklahoma that is attributable to the Office.

The Office has the following primary duties as specified in the Constitution and Statutes of Oklahoma, as well as other duties not listed here:

- Examine the State Treasurer's and all county treasurers' books and records;
- Examine the books and records of state agencies, boards, and commissions;
- Maintain copies of audit reports of public trusts;
- Maintain a repository for audits and budgets filed by counties, school districts, and towns;
- Provide fiscal support for the Pension Commission;
- Provide fiscal support for the Board of Equalization.

The Office is funded by the Legislature of the State of Oklahoma (the Legislature) through appropriations to perform certain of its constitutional and statutory functions and by various fees charged, such as those for auditing and filing audit reports.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

B. Basis of Presentation and Accounting

The Office accounts for its activities within a proprietary fund type. The Office's activities meet the definition of an enterprise fund because it is the intent of the Agency to recover, primarily through user charges, the cost of providing goods or services to the general public.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized by the proprietary fund. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

As required by the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Office has elected to apply all applicable GASB pronouncements and does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities, and Equity

Cash

All cash balances are held by the Oklahoma Office of the State Treasurer. The Office's cash is pooled with the cash of all other state agencies; this pool of cash is deposited in banks or invested by the State Treasurer in accordance with Oklahoma Statutes. The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution.

The Office, for the purposes of reporting cash flows, consider cash equivalents to include all highly liquid investments with an original maturity of three months or less.

Capital Assets

Capital assets are capitalized in the statement of net assets. Capital assets are reported at actual cost and net of accumulated depreciation. Capital assets are defined as assets with initial costs of \$5,000 or more and an expected useful life of five years or more. Depreciation is computed on the straight-line method over the estimated useful lives:

Computer equipment	5 years
Furniture and equipment	10 years

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

A half year's depreciation is taken in the year an asset is placed in service. When assets are disposed of, depreciation is removed from the respective accounts and the resulting gain or loss, if any, is recorded.

Compensated Absences

Employees earn annual leave at the average rate of 10 hours per month for up to 5 years service, an average of 12 hours per month for 5 to 10 years, an average of 13.33 hours per month for 10 to 20 years, and an average of 16.67 hours per month for over 20 years of service. Employees with up to 5 years service may accumulate to a maximum of 240 hours and employees with over five years service may accumulate to a maximum of 480 hours.

Accounts Payable

Accounts payable include all unpaid charges for services or goods incurred on or before June 30. These payables represent amounts incurred in the ordinary course of business and are primarily owed to vendors.

Wages Payable

Wages Payable consists of all wages earned prior to June 30th that were not paid by June 30th.

Income Taxes

The Office, as an integral part of the State, is exempt from federal and state income taxes.

Cash and Net Assets – Restricted

Each year, the Legislature appropriates funds to the Office to be paid to Oklahoma State University (OSU) for the County Training Program, administered by the Commission on County Government Personnel Education and Training, mandated by 19 O.S., §130.1 et seq. The Office has no administrative duties related to this program. The Legislature appropriated \$307,166 for this program in fiscal year 2012 and the Office collected \$29,400 from county governments for a total of \$336,566. These funds are legally restricted; therefore, the balance remaining at June 30, 2012 has been shown as restricted cash and restricted net assets on the *Statement of Net Assets*.

Accounts Receivable

Accounts receivable consist of amounts due from state agencies, counties, school districts, cities, ambulance services, and various quasi-governmental entities in the State for audit services rendered by the Office. The amount presented is net of the allowance for doubtful accounts of \$953,953 for fiscal year 2012. The allowance for doubtful accounts consists of accounts outstanding for more than 120 days.

The policy of the Office is to bill for the audit services rendered while the audit is in progress. Bills are submitted approximately once per month during the progression of the audit, with a final billing at completion.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

Notes Receivable

Notes receivable consist of collectible accounts receivable that are not expected to be fully collected within one year.

Due from Federal Government

The Office is under contract with the Federal Department of the Interior to perform audits and related investigations of federal oil and gas leases located in Oklahoma in accordance with section 205 of the Federal Oil and Gas Royalty Act. The amounts presented are reimbursements receivable for work performed during May and June of fiscal year 2012.

Personal Services

Personal Services consists of all payroll and related costs (including regular and part-time salaries, longevity payments, retirement, and group insurance premiums), as well as payments for professional services (such as auditing fees, data processing services, and various other general services).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Capital Assets - Net</u>
Beginning Balance	\$13,185	(\$3,533)	\$9,632
Increases	-	(2,637)	(2,637)
Decreases	-	-	-
Ending Balance	<u>\$13,185</u>	<u>(\$6,190)</u>	<u>\$6,995</u>

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

Note 3. Operating Leases

The Office leases certain office space and equipment which meet the criteria for operating leases. Total costs of such leases were approximately \$454,990 for fiscal year 2012. The future minimum lease payments for these leases are as follows:

2013	\$26,774
2014	10,230
2015	-
2016	-
2017	-
Total	<u>\$37,004</u>

After fiscal year 2012 ended, the Office entered into two lease agreement for a Duncan location. The first lease is an \$8,400 annual lease for office space with four yearly renewal options. The second lease is a \$2,817 annual lease for a copier/printer that is a three year lease. These leases combined result in future minimum lease payments of \$16,851.

Note 4. Risk Management

As part of the State of Oklahoma primary government, the Office’s risk of losses to which they are exposed is managed through the State’s risk management activities. The Office is subject to risks of loss from tort claims, property loss, health claims, and workers’ compensation claims. In general, the State is self- insured for health care claims, workers’ compensation claims, tort claims, and property losses. These services are provided by the certain departments of the State’s General Fund and two state component units. The Office is at no financial risk of loss from these types of risks.

Note 5. Pension Plan Participation

The Office contributes to the Oklahoma Public Employees Retirement System (OPERS) plan. The OPERS is a statewide cost-sharing multiemployer defined benefit retirement plan. A separately issued annual report for OPERS may be obtained from the Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, 73118-7484. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The pension benefit provisions are established and amended by the State Legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature.

Plan members and agencies are required to contribute at rates established by State law. For fiscal year 2012, plan member’s contribution rate was 3.5% for all salary levels. The agency’s contribution for the entire fiscal year was 16.5%, computed based on all salaries. For the fiscal year ended June 30, 2012, the Office’s contributions to the plan, which were equal to the required contributions, were \$958,743; contributions for the preceding fiscal year were \$880,217.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

Note 6. Other Post-Employment Benefits

In addition to the pension benefits described above, the State provides post-retirement health care benefits to retirees. OPERS pays \$105 per month for all retirees who elect coverage at the time of retirement. There is no OPEB obligation information available specific to the Office.

Note 7. Long-Term Obligations

Long-term debt is comprised of accrued compensated absences. Vested accrued leave, up to a total of 480 hours, is payable upon termination, resignation, retirement, or death. In the Statement of Net Assets, this accrued leave is reported as a liability. The Amount Due Within One Year varies from year to year based on personnel turnover and the amount reported is an estimate. For the year ended June 30, 2012, accrued compensated absences liabilities changed as follows:

<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amount Due</u> <u>Within One Year</u>
\$496,011	\$429,036	\$412,597	\$512,450	\$449,105



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

State of Oklahoma
Office of the Oklahoma State Auditor and Inspector
Oklahoma City, Oklahoma

We have audited the financial statements of the Office of the Oklahoma State Auditor and Inspector ("the Office"), a component unit of the State of Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Office's basic financial statements and have issued our report thereon dated April 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Office, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

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accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HBC CPAs & Advisors

Yukon, Oklahoma
April 9, 2013

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