

**OKLAHOMA STATE AUDITOR
AND INSPECTOR**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2014**

Oklahoma State Auditor and Inspector

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma State Auditor and Inspector, a component unit of the State of Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Oklahoma State Auditor and Inspector's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma State Auditor and Inspector as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2015, on our consideration of the Oklahoma State Auditor and Inspector's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Oklahoma State Auditor and Inspector's internal control over financial reporting and compliance.

HBC CPAs & Advisors

Yukon, Oklahoma
February 4, 2015

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, 2014. 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, 2014 the following financial results are considered noteworthy by management.

- SAI’s operating revenue increased \$355,317 or 5.70%, over the prior year. The increase in revenue is due to greater efficiencies in completing audits.
- SAI’s operating expenses increased \$216,404, or 2.02%, over the prior year. Increased operating expenses are for securing and retaining qualified personnel along with upgrading telephone and information technology equipment.
- Since SAI’s operating revenue increased by \$355,317 and operating expenditures increased by \$216,404, the results are an increase in the total net position of \$8,752 or 0.72%, from the prior year.

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 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 Position” includes all of SAI’s assets and liabilities as of the fiscal year presented. All of the current year revenues and expenses are accounted for in the “Statement of Revenues, Expenses and Changes in Net Position” 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 Position” and the “Statement of Revenues, Expenses and Changes in Net Position” 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.

Analysis of Financial Accounts

The following table provides SAI's Net Position information as of the end of fiscal years 2013 and 2012:

	2014	2013	% Change
Assets			
Current Assets:			
Cash	\$783,735	\$935,691	-16.24%
Cash-Restricted	51,194	77,619	-34.04%
Due From Federal Government Accounts Receivable, Net of Allowance	66,865	62,036	7.78%
	983,809	954,064	3.12%
Total Current Assets	<u>\$1,885,603</u>	<u>\$2,029,410</u>	<u>-7.09%</u>
Noncurrent Assets:			
Notes Receivable	\$56,656	\$68,802	-17.65%
Capital Assets, Net of Accumulated Depreciated	25,748	4,358	490.82%
Total Noncurrent Assets	<u>\$82,404</u>	<u>\$73,160</u>	<u>12.64%</u>
Total Assets	<u>\$1,968,007</u>	<u>\$2,102,570</u>	<u>-6.40%</u>
Liabilities			
Current Liabilities:			
Accounts Payable	\$195,020	\$332,605	-41.37%
Accrued Wages Payable	14,155	22,020	-35.72%
Compensated Absences-Payable within one year	449,808	452,439	-0.58%
Total Current Liabilities	<u>\$658,983</u>	<u>\$807,064</u>	<u>-18.35%</u>
Noncurrent Liabilities			
Compensated absences-payable after one year	\$84,432	\$79,666	5.98%
Total noncurrent liabilities	<u>\$84,432</u>	<u>\$79,666</u>	<u>5.98%</u>
Total liabilities	<u>\$743,415</u>	<u>\$886,730</u>	<u>-16.17%</u>
Net Position			
Restricted for OSU	\$51,194	\$77,619	-34.04%
Invested in Capital Assets	25,748	4,358	490.82%
Unrestricted	1,147,650	1,133,863	1.22%
Total Net Position	<u>\$1,224,592</u>	<u>\$1,215,840</u>	<u>0.72%</u>

(UNAUDITED)

	2014	2013	% Change
Operating Revenues:			
Filing Fees	\$162,915	\$161,407	0.93%
Audit fees	6,388,512	5,969,357	7.02%
Other fees	37,984	103,330	-63.24%
Total Operating Revenues	<u>\$6,589,411</u>	<u>\$6,234,094</u>	<u>5.70%</u>
Operating Expenses:			
Personal Services	\$9,800,642	\$9,659,750	1.46%
Travel	208,450	223,462	-6.72%
Administrative	833,141	758,655	9.82%
Equipment	128,995	115,006	12.16%
Depreciation	4,686	2,637	77.70%
Total Operation Expenses	<u>\$10,975,914</u>	<u>\$10,759,510</u>	<u>2.02%</u>
Operating income (loss)	(4,386,503)	(4,525,416)	3.07%
Non-operating revenues (expenses):			
Appropriations	\$4,706,971	\$4,706,986	0.00%
Pass-through OSU expenses	(311,716)	(358,721)	-13.10%
Total Non-operating revenue(expenses)	<u>\$4,395,255</u>	<u>\$4,348,265</u>	<u>1.08%</u>
Change in net position	\$8,752	(\$177,151)	104.94%
Total net position-beginning	1,215,840	1,392,991	-12.72%
Total net position-ending	<u>\$1,224,592</u>	<u>\$1,215,840</u>	<u>0.72%</u>

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.

OKLAHOMA STATE AUDITOR AND INSPECTOR
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

Current assets:

Cash	\$ 783,735
Cash-Restricted	51,194
Due from federal government	66,865
Accounts receivable, net of allowance of \$740,699	983,809
Total current assets	1,885,603

Noncurrent assets:

Notes Receivable	56,656
Capital Assets, net of accumulated depreciation of \$13,513	25,748
Total noncurrent assets	82,404
Total assets	\$ 1,968,007

LIABILITIES

Current liabilities:

Accounts payable	\$ 195,020
Accrued wages payable	14,155
Compensated absences-payable within one year	449,808
Total current liabilities	658,983

Noncurrent liabilities:

Compensated absences-payable after one year	84,432
Total noncurrent liabilities	84,432
Total liabilities	743,415

NET POSITION

Restricted for OSU	51,194
Invested in capital assets	25,748
Unrestricted	1,147,650
Total net position	\$ 1,224,592

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 POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Operating revenues:	
Filing Fees	\$ 162,915
Audit Fees	6,388,512
Other Fees	37,984
Total operating revenues	6,589,411
 Operating expenses:	
Personal Services	9,800,642
Travel	208,450
Administrative	833,141
Equipment	128,995
Depreciation	4,686
Total operating expenses	10,975,914
Operating income (loss)	(4,386,503)
 Nonoperating revenues (expenses):	
Appropriations	4,706,971
Pass-through OSU expenses	(311,716)
Total nonoperating revenue (expenses)	4,395,255
Change in net position	8,752
Total net position - beginning	1,215,840
Total net position - ending	\$ 1,224,592

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Receipt of filing fees	\$ 162,915
Receipt of audit fees	6,351,209
Receipt of other fees	52,859
Payments for personal services	(9,797,967)
Payments for travel	(205,242)
Payments for administrative	(941,155)
Payments for equipment	(169,830)
Net cash provided (used) by operating activities	(4,547,211)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipt of appropriations	4,706,971
Pass-through payments to OSU	(338,141)
Net cash provided (used) by noncapital financing activities	4,368,830

Net increase in cash (178,381)

Cash July 1, 2013 (including \$77,619 reported in restricted cash)	1,013,310
Cash June 30, 2014 (including \$51,194 reported in restricted cash)	\$ 834,929

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

Operating income	(4,386,503)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in due from federal government	(4,829)
(Increase) decrease in accounts receivable	(29,745)
(Increase) decrease in notes receivable	12,146
(Increase) decrease in capital assets	(21,389)
Increase (decrease) in accounts payable	(111,159)
Increase (decrease) in accrued wages payable	(7,866)
Increase (decrease) in compensated absences payable in one year	(2,631)
Increase (decrease) in compensated absences payable after one year	4,765
Total adjustments	(160,708)
Net cash provided by operating activities	\$ (4,547,211)

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, 2014**

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 both offices 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 is 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, 2014**

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 position. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position. 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.

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.

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 2014 and the Office collected \$4,550 from county governments for a total of \$311,716. These funds are legally restricted; therefore, the balance remaining at June 30, 2014 has been shown as restricted cash and restricted net position on the *Statement of Net Position*.

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 2014.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

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 \$740,669 for fiscal year 2014. 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.

Notes Receivable

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

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

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.

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.

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.

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

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).

Income Taxes

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

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, 2014 was as follows:

	<u>Equipment</u>	Accumulated <u>Depreciation</u>	<u>Capital Assets - Net</u>
Beginning Balance	\$13,185	(\$8,827)	\$4,358
Increases	26,076	(4,686)	21,390
Decreases	-	-	-
Ending Balance	\$39,261	(\$13,513)	\$25,748

Note 3. Operating Leases

The Office leases certain office space, equipment and vehicles which meet the criteria for operating leases. Total costs of such leases were approximately \$602,605 for fiscal year 2014. The future minimum lease payments for these leases are as follows:

2015	\$14,915
2016	13,148
2017	-
2018	-
2019	-
Total	\$28,063

**OFFICE OF THE OKLAHOMA STATE AUDITOR AND INSPECTOR
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

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 2014, 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, 2014, the Office’s contributions to the plan, which were equal to the required contributions, were \$1,031,859; contributions for the preceding fiscal year were \$1,020,328.

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 Position, 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, 2014, accrued compensated absences liabilities changed as follows:

<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amount Due</u> <u>Within One Year</u>
\$543,124	\$449,840	\$458,724	\$534,240	\$449,808



INDEPENDENT AUDITOR'S 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
Oklahoma State Auditor and Inspector
Oklahoma City, Oklahoma

We have audited, in accordance with the 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, the financial statements of the Oklahoma State Auditor and Inspector a component unit of the State of Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which comprise the Oklahoma State Auditor and Inspector's basic financial statements, and have issued our report thereon dated February 4, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Oklahoma State Auditor and Inspector's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness the Oklahoma State Auditor and Inspector's internal control. Accordingly, we do not express an opinion on the effectiveness of Oklahoma State Auditor and Inspector's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oklahoma State Auditor and Inspector's financial statements are free from 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 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HBC CPAs & Advisors

Yukon, Oklahoma
February 4, 2015