



STATE OF OKLAHOMA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

For the Fiscal Year Ended June 30, 2021

Cindy Byrd, CPA
State Auditor & Inspector

**State of Oklahoma 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* for the
Fiscal Year Ended June 30, 2021**



Cindy Byrd, CPA | State Auditor & Inspector

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

March 23, 2022

**TO THE HONORABLE J. KEVIN STITT, GOVERNOR
AND MEMBERS OF THE LEGISLATURE OF THE
STATE OF OKLAHOMA**

This is our report on the internal control over financial reporting and on compliance and other matters for the State of Oklahoma for the fiscal year ended June 30, 2021. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of the audit.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**State of Oklahoma 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 for the Fiscal Year Ended June 30, 2021**

Table of Contents	Page
--------------------------	-------------

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Schedule of Findings and Responses.....	3

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*

**TO THE GOVERNOR AND MEMBERS
OF THE LEGISLATURE OF THE STATE OF 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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oklahoma as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the State of Oklahoma's basic financial statements, and have issued our report thereon under separate cover dated January 25, 2022, which included an emphasis paragraph on the Multiple Injury Trust Fund for a net deficit related primarily to court awards that exceeded the apportionment of special tax revenue collected. Our report includes a reference to other auditors who audited:

- the financial statements of the Water Resources Board, the Employees Group Insurance Division of the Office of Management and Enterprise Services, and the Lottery Commission, which represent eighty-one percent of the assets, sixty-seven percent of the net position, and thirty-two percent of the revenues of the proprietary funds;
- the financial statements of the Oklahoma Municipal Power Authority, Oklahoma Housing Finance Agency, Grand River Dam Authority, Oklahoma Turnpike Authority, University of Oklahoma, University of Oklahoma – Foundation, Oklahoma State University, Oklahoma State University – Foundation, the Regents for Higher Education, and University of Oklahoma – Health Sciences Center, which in the aggregate represent eighty-two percent of the assets, eighty-six percent of the net position, and seventy-seven percent of the revenues for the aggregate discretely presented component units;
- the financial statements of the Commissioners of the Land Office, the Department of Wildlife Lifetime Licenses, and the Tobacco Settlement Endowment permanent funds, which in the aggregate represent one hundred percent of the assets, one hundred percent of the fund balance, and one hundred percent of the revenues of the permanent funds;
- the financial statements of the Oklahoma Teachers Retirement System, the Oklahoma Public Employees Retirement System, and the Oklahoma Firefighters Pension and Retirement System, which in the aggregate represent eighty-eight percent of the assets, eighty-eight percent of the net position, and seventy-three percent of the additions of the aggregate remaining fund information;
- the financial statements of the Department of Commerce which in the aggregate represent one percent of the assets, one percent of the fund balance, and one percent of the revenues of the general fund.

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Oklahoma'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 of the State of Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Oklahoma's internal control.



Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 21-290-013, 21-340-027, and 21-340-041 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 21-807-010, 21-340-006, and 21-340-024 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Oklahoma'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses (21-340-027 and 21-340-041).

State of Oklahoma's Response to Findings

The State of Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The State of Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Audit Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is also a public document pursuant to the Open Records Act (51 O.S. § 24A.1 et seq.) and shall be open to any person for inspection and copying.



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

January 25, 2022

Schedule of Findings and Responses

Reference Number: 21-290-013

State Agency: Oklahoma Employment Security Commission (OESC)

Fund Type: Government-Wide – Business Type Activities; Enterprise Fund

Other Information: Unemployment Insurance Benefit Expenditures

Criteria: The *Government Accountability Office (GAO) Standards for Internal Control in the Federal Government* 9.04 states, in part, “As part of risk assessment or a similar process, management analyzes and responds to identified changes and related risks in order to maintain an effective internal control system. Changes in conditions affecting the entity and its environment often require changes to the entity’s internal control system, as existing controls may not be effective for meeting objectives or addressing risks under changed conditions. Management analyzes the effect of identified changes on the internal control system and responds by revising the internal control system on a timely basis, when necessary, to maintain its effectiveness.”

The *Government Accountability Office (GAO) Standards for Internal Control in the Federal Government* 10.03 states, in part, “Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. ... Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.”

The *Government Accountability Office (GAO) Standards for Internal Control in the Federal Government* 10.06 states, “Control activities can be implemented in either an automated or a manual manner. Automated control activities are either wholly or partially automated through the entity’s information technology. ... Automated control activities tend to be more reliable because they are less susceptible to human error and are typically more efficient. If the entity relies on information technology in its operations, management designs control activities so that the information technology continues to operate properly.”

The *Government Accountability Office (GAO) Standards for Internal Control in the Federal Government* 11.13 states, in part, “Management evaluates security threats to information technology, which can be from both internal and external sources. External threats are particularly important for entities that depend on telecommunications networks and the Internet. External threats have become prevalent in today’s highly interconnected business environments, and continual effort is required to address these risks.”

Oklahoma Statute 40 § 2-206 states, “The unemployed individual must have been unemployed for a waiting period of one (1) week. No week shall be counted as a week of unemployment for the purposes of this section:

- (1) Unless it occurs within the benefit year which includes the week with respect to which he claims payment of benefits;
- (2) If benefits have been paid with respect thereto;
- (3) Unless the individual was eligible for benefits with respect thereto.”

A component objective of an effective internal control system is to ensure accurate and reliable information through a proper review and approval process.

Condition: The OESC paid out roughly \$3 billion in Unemployment Insurance claims for state fiscal year 2021, and the agency’s internal controls were insufficient to prevent overpayments related to fraud or administrative error related to unemployment benefit payments. The agency’s internal controls failed largely because 1) There was a massive amount of claims for which OESC could not physically verify the identification of the claimant because of social distancing restrictions until November 2020; 2) the agency had an antiquated system that lacked proper automated edits to adequately prevent, deter, and detect overpayments related to fraud or administrative error for unemployment claims; and 3) the one-week waiting period before claimants could be paid was waived until October 2020. Without the controls noted above, verification of a claimant’s information to establish eligibility was not always performed, or could not be performed as needed, to detect overpayments related to fraud or administrative error for unemployment benefit claims.

In addition, when testing our sample of 122 Unemployment Insurance individual claim payments totaling \$44,830 (identified by check number per payment data), we noted fraudulent payments totaling \$884 paid to 2 claimants and administrative overpayments totaling \$1,709 paid to 5 claimants (5.7% error rate). Administrative overpayments result from a variety of circumstances, but many of the overpayments during this timeframe resulted from the complexity and continual revision of requirements for eligibility and the volume associated with the federal benefit programs. Collection efforts for administrative overpayments are limited to recovery from future benefits. In isolating these 7 claimants from our entire population per the applicant identifier (SSN per data), we identified 129 payments totaling \$49,400 in fraudulent benefit expenditures, and 196 payments totaling \$50,308 in administrative overpayments. Lastly, there were 94 payments totaling \$3,561 in administrative overpayments for state and federal income tax withholdings on those 5 claimants in state fiscal year 2021.

Cause: The lack of controls over the Unemployment Insurance benefit payments that led to the increase in fraud and overpayments was a result of the following factors:

- Antiquated system that didn't allow for proper edits or matching of all necessary fields at the time a claim was filed
- Large number of stolen identities
- No longer being able to physically verify the identification of the claimant for the first part of the fiscal year
- Massive number of claims
- Short amount of time to implement federal requirements with little guidance
- Emergency declaration by the Governor waiving the one week waiting period which allowed benefits to begin paying immediately (declaration canceled October 25, 2020)
- Lack of adequate staffing to handle the volume of claims paid for all Unemployment Insurance programs
- Lack of adequate training for all staff related to the various Unemployment Insurance program requirements
- Delays in the process for employers to dispute claims since the process was largely manual through the mailing of notifications

Effect: Based on the control weaknesses noted above for the Unemployment Insurance program during the COVID-19 pandemic, verification of a claimant's information to establish eligibility was not always performed prior to payment. The result was a significant increase in fraud and overpayment cases or claims, which contributed to the depletion of the Unemployment Insurance Trust Fund.

In addition, with roughly \$3 billion in Unemployment Insurance claims paid out in state fiscal year 2021, we expect the dollar amount and number of fraudulent and overpayment claims to be extensive. Efforts by OESC to identify and investigate known and suspected claims, and recover fraudulent and overpayment claims, are ongoing. However, we do feel that OESC has made big improvements in identifying trends or anomalies in the data that has allowed the agency to suspend large amounts of potentially fraudulent or overpayment claims until they can be worked. Because OESC is performing an exhaustive review of paid claims to determine which are fraudulent or overpayments, we will not project our known results to the population.

Recommendation: We recommend the OESC perform the following:

- Continue to work to strengthen internal controls over the automated system to better detect and prevent unemployment insurance benefit overpayments related to fraudulent or administrative errors.
- Continue to refine the analytics process that will help better identify trends or anomalies in the data to catch fraudulent claims timelier and save taxpayer monies.
- Work to strengthen their eligibility verification process to help prevent fraudulent claims.
- Continue to work with the U.S. Department of Labor to recover the remaining fraudulent payments.
- Continue to work to establish overpayment resolution for unemployment benefit claims.

Agency Management Response: The agency agrees with the recommendations put forth in the findings. The formal overpayments have been established for \$10,907 and the remaining overpayments and tax recoveries totaling \$42,962 will be completed with expediency for the 5 administrative overpayment claims. Multiple attempts have been made to recover the \$49,400 paid out for the 2 fraudulent claims, and the agency will continue to pursue recovery, however no funds have been recovered at this time.

Agency administration has continued to make fraud prevention a priority and has addressed the concerns and findings in this audit. The safeguards listed below are in place to mitigate fraudulent activity.

Actions taken by the agency in response to unprecedented fraud during the COVID-19 pandemic include:

- Currently implementing a business process technology transformation, BT40, which is transforming and updating the agency's aging technology. Fraud risk scoring has already been implemented as part of the transformation, including automated stops on claims. Future capabilities will include digital or email notices to employers, automate manual processes and provide greater visibility to the agency on potentially fraudulent activity.
- Implemented safeguards for all ACH transfers or funds transfers to personal bank accounts
- Reinstated one week waiting period for all claims
- Implemented required training for all staff who are assisting claimants
- Implemented PUA on new GovServices platform
 - Additional security checks for weekly claims
 - Additional controls to reduce the number of fraudulent claims
 - Implemented DOL requirements
 - Implemented Wage Benefit Amount functionality to improve accuracy on the amount to pay a claimant
- Implemented UI Analytics & Reporting platform to improve claim processing efficiency and accuracy
 - Various mechanisms were developed and implemented to identify fraudulent claims and ensure accuracy and efficiency with processing claims
 - Daily technical programs
 - Crossmatching algorithms
- Implemented mitigation processes and procedures to reduce and prevent fraudulent claims through all channels (mail, email)
- Implemented Operational Reporting and Support
- Implemented Fraud Form to provide the ability for a citizen or employer to report a fraud claim
- Implemented application and infrastructure changes to increase security controls
 - Captcha implemented on main claim website
 - Logging application implemented to provide IP address monitoring
- Conduent implemented account flagging to identify fraudulent activity
- Implemented Digital Citizen Identify Verification application (VerifyOK)
- Held multiple in person claims fairs requiring in person identity verification
- Applied manual internal process controls to improve speed and accuracy of claims processing
- Increased staffing and improved processes to increase capacity for mail and fax processing as part of the claims intake processes
- Performed Fraud Assessment which became input into the Digital Transformation roadmap

Reference Number: 21-807-010

State Agency: Oklahoma Health Care Authority (OHCA)

Fund Type: General Fund

Other Information: Accounts Payable & Federal Receivable (GAAP Pkg. Q - Medicaid Payable and Receivable)

Criteria: The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 10.03 states, in part, "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

A basic objective of Generally Accepted Accounting Principles is to provide accurate and reliable information.

A component objective of an effective internal control system is to ensure accurate and reliable information through a proper review and approval process.

Condition: Based upon testwork performed on GAAP Package Q-1 – Medicaid Payable and Receivable, we noted Medicaid Accounts Payable was recorded at \$568,619,223 and Medicaid Federal Receivable was recorded at \$356,252,023. However, based on errors noted in the calculations for both accounts, the Medicaid Accounts Payable amount should have been \$647,403,008 and the Medicaid Federal Receivable amount should have been \$418,973,704.

Cause: We noted that amounts were incorrectly transferred from the “Service Date Reimbursement Analysis” Report (MAR-2300-M reports) to the “Encumbered Funds by Date of Service” excel spreadsheet. The variances occurred when amounts were manually entered incorrectly onto the Encumbered Funds by Date of Service spreadsheet, and the automated check figure reconciliation was not set up correctly to detect the variances.

In addition, it does not appear the Encumbered Funds by Date of Service spreadsheet amounts were being reviewed to ensure they were being recorded correctly.

Effect: The errors on the Encumbered Funds by Date of Service spreadsheet resulted in Medicaid Accounts Payable being understated by \$78,783,785 and Medicaid Federal Receivable being understated by \$62,721,681.

Recommendation: We recommend OHCA continue to work to strengthen their review and reconciliation controls related to the accuracy of data reported for Medicaid Accounts Payable and Medicaid Federal Receivable.

Agency Management Response: OHCA concurs with this finding. The error was due to a worksheet cell error. This error was corrected on October 29th, 2021 and future review will include more detailed review of supporting documents.

Reference Number: 21-340-006 (Repeat Finding #20-340-004)

State Agency: Oklahoma State Department of Health (OSDH)

Fund Type: General Fund

Other Information: Data Completeness

Criteria: GAO Standards for Internal Control in the Federal Government (Green Book), Principle 13 - Use Quality Information states in part:

13.04 Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements.

13.06 Management processes relevant data from reliable sources into quality information within the entity’s information system. An information system is the people, processes, data, and technology that management organizes to obtain, communicate, or dispose of information.

Condition: The OSDH uses FISCAL, their internal accounting system, to complete Generally Accepted Accounting Procedures (GAAP) Packages that are the accruals on the State of Oklahoma’s Annual Comprehensive Financial Reports (ACFR). As we conducted procedures to ensure that the expenditures per the agency’s internal accounting system (FISCAL) and the Statewide Accounting System agreed, we noted the expenditures recorded in FISCAL were \$85,450,098 less than the expenditures in the Statewide Accounting System.

Cause: FISCAL requires a budget for each item within a fund before expenditures can be recorded. Although total budget may be available in the fund, if it is not available for the line item related to the expense, the system will not allow the expense to be recorded.

Effect: Material misstatements may not be prevented or detected in a timely manner during the financial reporting process. Further, the OSDH’s GAAP Packages were submitted late because the agency had to get FISCAL’s expenditures up-to-date before the GAAP Packages could be prepared.

Recommendation: The OSDH was in the process of transitioning to replace the detailed level accounting in FISCAL with PeopleSoft/CORE, the Statewide Accounting System (SAS). The transition was completed on September 27, 2021, which was after our audit period. We recommend the OSDH continue using the Statewide Accounting System as their primary system for accounting and reporting.

Agency Management Response: OSDH concurs with your recommendation and we will continue to use the SAS going forward.

Reference Number: 21-340-024

State Agency: Oklahoma State Department of Health (OSDH)

Fund Type: General Fund

Other Information: 340 and Miscellaneous Expenditures

Criteria: The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 10.03 states, in part, “Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. ... Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.”

A basic objective of Generally Accepted Accounting Principles is to provide accurate, reliable, and timely information.

Condition: While performing testwork on monthly expenditure reconciliations between the Fiscal system and the Statewide Accounting System, we were unable to review 2 of the 4 (50%) reconciliations in our sample (March 2021 and June 2021) because they had not been completed as of December 3, 2021. In addition, we noted that the April 2021 and May 2021 reconciliations were also not completed prior to the end of testwork for the ACFR.

Cause: The OSDH does not have adequate internal controls operating effectively to ensure that agency reconciliations are completed in a timely manner.

Effect: Failure to complete agency reconciliations could result in financial statements that are overstated/understated.

Recommendation: We recommend that OSDH develop policies and procedures to ensure reconciliations are completed in a timely manner.

Agency Management Response: The agency is fully on PeopleSoft as the capabilities of fiscal are not adequate for proper controls. We are working to create internal controls that will ensure timely and accurate reporting in the new system. These reconciliations will no longer be needed in the new system, but OSDH is working to get current with all recons through the end of the time fiscal was used for reporting.

Reference Number: 21-340-027

State Agency: Oklahoma State Department of Health (OSDH)

Fund Type: General Fund

Other Information: Miscellaneous Expenditures

Criteria: The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 10.03 states, in part, “Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. ... Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.”

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 10.03 states, in part, “Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

A basic objective of Generally Accepted Accounting Principles is to provide accurate, reliable, and timely information.

A component objective of an effective internal control system is to ensure accurate and reliable information through a proper review and approval process.

Oklahoma Statewide Accounting Manual, Chapter 1 states, in part, “Between revisions, any updates to statewide accounting policy are announced in the Central Accounting and Reporting (CAR) newsletter that is emailed to agency finance officers and staff on a monthly basis.... Policies announced in the newsletter subsequent to a release of the Statewide Accounting Manual, supersede any conflicting policy in the manual.”

According to the Special Edition – COVID-19 CAR Newsletter (dated March 16, 2020)

Voucher Submissions (Including Travel Claims)

- Complete the voucher in PeopleSoft.
- Within PeopleSoft, send the batch slip to a PDF file and email it to OMESTPvouchers@omes.ok.gov. This notifies OMES that a voucher is ready for processing.
- Transaction Processing will accept batch slips without an approving officer’s signature, but the approving officer must either email the batch slip or email a separate approval.
- The claimant’s signature on a travel claim may be replaced with an email from the traveler certifying that the information on the claim is accurate.
- Documentation supporting the voucher should be scanned and included in the email if the agency has the ability to do so remotely. Agencies who currently scan documentation should continue to use Kofax Capture if possible.
- If the agency cannot scan and include the supporting documentation, use the comment field within the voucher to explain the documentation and keep the documentation on file.
- When documentation is not included, OMES will process the claim, if possible. The claim will be audited for supporting documentation when circumstances allow.

According to the CAR Newsletter (dated November 20, 2020)

Voucher documentation and scanning

On Nov. 15, OMES will resume the requirement to attach documentation to support vouchers and travel and expense claims prior to payment. Central Accounting & Reporting is responsible for certifying that payments are appropriate and in accordance with statutes. This requires that documentation be sent with vouchers to substantiate claims. In March, when state employees began working from home, CAR initiated temporary procedures to accommodate a fast move to telework. The temporary procedures allowed agencies to submit vouchers without scanning and attaching the supporting documentation. Agencies were to retain the documentation to be made available upon request. This documentation is now required to be submitted as agencies should have put procedures in place to scan documentation for vouchers that were paid without supporting documents.

The United States Center for Disease Control and Prevention has identified the potential public health threat by the novel coronavirus (COVID-19), as “high” both globally and in the United States. While impact in Oklahoma as of March 6, 2020, had been minimal to date, it was important for Oklahoma to be ready for this threat. Oklahoma Amended Executive Order 2020-07 was issued on March 17, 2020, by J. Kevin Stitt, Governor of the State of Oklahoma, pursuant to the power of Section 2 of Article VI of the Oklahoma Constitution to declare and direct in part, “State agencies, in responding to this emergency, may make necessary emergency acquisitions to fulfill the purposes of this declaration. If using a P-Card to make such acquisitions, agencies may purchase the necessary acquisitions without regard to the current P-Card policy limitation of \$5,000.00 purchase limit. Agencies may make the necessary emergency acquisitions without the requirement to follow bidding requirement/limitations on such emergency acquisitions, without the need to purchase from State Use Vendors, or to purchase from mandatory Statewide contracts. Such necessary emergency purchases shall be capped at \$250,000.00 per transaction. All such purchases must be readily identifiable as such, as following the conclusions of this threat, all such necessary emergency acquisitions will be audited to determine if they were made for emergency purposes.” Subsequent Executive Orders and Amendments (2020-07, 2020-13, 2020-20 and 2021-07) included this language and were effective until March 4, 2021.

O.S. 74 §74-85.44B. Payment for goods or services pursuant to contract states in part, “Payment for products or services pursuant to a contract executed by a state agency, whether or not such state agency is subject to the Oklahoma Central Purchasing Act, Section 85.1 et seq. of this title, shall be made only after products have been provided or services rendered....”

Condition: While reviewing OSDH’s miscellaneous expenditures, we noted 4 instances (8 claims) in which an invoice was paid twice. The duplicate payments equal an \$820 overpayment for OSDH miscellaneous expenditures. The claim voucher nor invoice support could be located within the Statewide Accounting System. In addition, we were unable to get a response from OSDH regarding the payments.

For our sample of 279 miscellaneous claims paid during state fiscal year (SFY) 2021, July 1, 2020, to June 30, 2021, we noted the following issues:

- For 3 of 279 or 1.08% of claims tested, the requisition/contract renewal was not approved by an appropriate authority, other than the requester, and/or was not approved prior to funds being made available for expenditures and prior to the expenditure occurrence.
- For 44 of 279 or 15.77% of claims tested, the PO/Purchasing Agreement is for COVID-19 related emergency items and was made within the 30-day period covered under the Governors Emergency Order effective 4/2/2020 through 3/4/2021. However, the amount of the transaction exceeds the \$250,000 limit stated in the Emergency Order and, OSDH did not properly retain appropriate supporting documentation to verify (one or more of) the following:
 - The purchasing process was adequately segregated.
 - The purchase was approved by an appropriate authority/authority.
 - The purchase was a necessary emergency acquisition.
 - The method of purchase was necessary due to the emergency declaration.
 - The vendor was adequately vetted prior to entering into a contract/purchase agreement.
- For 4 of 279 or 1.43% of claims tested, the PO/Purchasing Agreement was approved in the period covered under the Governors Emergency Order filed 4/2/2020; however, the payment is a prepayment for the contract/purchase agreement amount and the services had not occurred and/or the products had not been delivered prior to payment. In addition, it does not appear that the COVID-19 emergency necessitated prepayment of the contract.
- For 47 of 279 or 16.85% of claims tested, the Purchase Order (PO) buyer and approver are the same person.
- For 1 of 279 or 0.36% of claims tested, the PO was approved after the payment date.
- For 33 of 279 or 11.83 % of claims tested totaling \$35,704,161 the product claims were not supported by a packing slip/receiving document signed by program area personnel. For 8 of the 33 claims totaling \$7,498,590, we also noted the goods did not appear to be listed on the PPE tracking database which may have resulted in an overpayment to the vendor.
- For 31 of 279 or 11.11% of claims tested, the supporting documentation does not agree to the amount invoiced and/or paid for the COVID-19 testing or service-related claim. We also noted that 22 of these claims totaling \$638,274 may have resulted in an overpayment to the vendor.
- For 7 of 279 or 2.51% of claims tested, the claim was not supported with an invoice approved by the applicable program area or, the invoice did not agree to the amount paid.
- For 75 of 279 or 26.88% of claims tested, the claim is dated after the OSDH extension of COVID-19 temporary emergency procedures related to submission of claims was terminated by OMES on January 1, 2021; however, OSDH did not appropriately complete Form 15A and/or scan all applicable supporting documentation for the claim (packing slip/receiving documents, invoice, support for the invoice, etc.) into the Statewide Accounting System prior to paying the claim.
- For 23 of 279 or 8.24% of claims tested, the claim is dated between March 1, 2020 and December 30, 2020; however, appropriate procedures were not followed per the COVID-19 revised claim approval procedures. OSDH did not appropriately complete Form 15A and/or scan all applicable supporting documentation for the claim (packing slip/receiving documents, invoice, support for the invoice, etc.) into the SAS timely and /or, the supporting documentation was incomplete.
- For 35 of 279 or 12.54% of claims tested, OSDH did not provide the contract or purchasing agreement and/or the approved Purchase Order and we were unable to determine if the appropriate purchasing requirements were followed and/or we were unable to determine if the claim agreed with the contract or purchasing

agreement (i.e. price, quantity, hourly rates, make and model, etc.) indicating that the claim was properly reviewed and approved.

- For 37 of 279 or 13.26% of claims tested, the details of the claim (account, amount, date, fiscal year, vendor, etc.) were not properly posted to the Statewide Accounting System.

Cause: Due to the public health threat of COVID-19, normal purchasing procedures were relaxed in an effort to make emergency purchases and OSDH does not have adequate internal control policies and procedures designed, implemented, and effectively operating to ensure:

- payments are not duplicated
- Payments are made only after products have been provided or services rendered
- Documentation to support proper review and approval of purchases is maintained
- Proper segregation of activities is maintained
- Purchasing documents, packing slips, claim approval emails, and other supporting documentation for claims paid is maintained

OSDH implemented a PPE Tracking Database to track PPE purchases. However, they did not consistently record the appropriate information in the database, and did not include invoice and purchase numbers, which made it very difficult to determine which items had actually been delivered.

OSDH also did not adequately reconcile payments made to vendors with the items/services actually received.

Effect: Payments may have been made to vendors for products or services that were not received.

Inadequate internal control policies and procedures over the purchasing process and record retention could result in a failure to adequately vet vendors prior to contacting for goods /services, overpayments to vendors, increased risk of misappropriation of assets or fraudulent activity, and an inability to comply with audit requirements.

Recommendation: We recommend the OSDH:

- develop policies and procedures to identify and prevent duplicate payments
- respond to audit requests promptly and consistently to facilitate the audit process.
- evaluate their documentation preparation and retention process and make the appropriate adjustments to ensure that future documents are properly prepared and retained
- ensure purchasing procedures are adequately segregated even under an emergency order
- comply with the governing policies and procedures for state financial transactions.

Agency Management Response: OSDH will create internal controls that are designed specifically for public health emergencies. We will review existing procedures and make adjustments to ensure proper preparation, approval, and retention of all purchasing, receiving, and payment documentation. Any changes made will be communicated with all staff members.

Reference Number: 21-340-041 (Repeat 20-340-016)

State Agency: Oklahoma State Department of Health (OSDH)

Fund Type: General Fund

Other Information: Miscellaneous Expenditures

Criteria: The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 10.03 states, in part, “Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government 10.03 states, in part, “Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. ... Management divides or segregates key duties and responsibilities among different people to reduce the risk of

error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.”

A basic objective of Generally Accepted Accounting Principles is to provide accurate, reliable, and timely information.

A component objective of an effective internal control system is to ensure accurate and reliable information through a proper review and approval process.

62 O.S. § 34.11 states in part, “The Division of Central Accounting and Reporting shall be responsible for accounting and auditing duties and the auditing and settlement of purchase orders, contracts, claims, payrolls, and other obligations. . . . At the request of a state agency, assist in establishing standards, policies and procedures that ensure a strong and effective system of internal controls and regular monitoring of them; . . .”

According to OMES website, “OMES’ Division of Central Accounting and Reporting, directed by the state comptroller, is responsible for establishing the policies and procedures for state financial transactions and for executing those transactions in accordance with various state statutes, federal regulations and governmental accounting and reporting standards.”

Governor’s Executive Order 2020-07 issued March 15, 2020, states in part... “State agencies, in responding to this emergency, may make necessary emergency acquisitions to fulfill the purposes of this declaration without regard to limitations or bidding requirements on such acquisitions to include the use of the state purchase card. Such necessary emergency purchases shall be capped at \$250,000.00 per transaction. All such purchases must be readily identifiable as such, as following the conclusion of this threat, all such necessary emergency acquisitions will be audited to determine if they were made for emergency purposes....”

62 O.S. §34.57(E)(1) Agency clearing accounts – Deposits – Transfers – Exemptions states in part...“no money shall ever be disbursed from the agency clearing account for any other purpose, except in refund of erroneous or excessive collections and credits.”

The Statewide Accounting Manual section 8.33 Disbursements from Clearing Accounts states in part, “No money shall ever be disbursed from any Agency Clearing Account class funding, except for refund of erroneous or excessive collections, credits and payment of sales tax to the Oklahoma Tax Commission (OTC), and manual disbursement of EFT returns. . . . Agencies should have internal controls in place that prevent any warrants from clearing accounts other than the approved disbursements discussed in this section.”

Though transfers and disbursements from the agency’s clearing accounts are restricted per 62 O.S. 34.57(E)(1), the Governor’s Executive Order 2020-07 states in part: “the State Emergency Operations Plan has been activated, and resources of all State departments and agencies available to meet this emergency are hereby committed to the reasonable extent necessary to prepare for and respond to COVID-19 and to protect the health and safety of the public. These efforts shall be coordinated by the Director of the Department of Emergency Management with comparable functions of the federal government and political subdivision of the State.”

O.S. 74 §74-85.44B. Payment for goods or services pursuant to contract states in part, “Payment for products or services pursuant to a contract executed by a state agency, whether or not such state agency is subject to the Oklahoma Central Purchasing Act, Section 85.1 et seq. of this title, shall be made only after products have been provided or services rendered....”

The Statewide Accounting Manual section 13.8 Record Retention states, ...“All agencies are required to retain a copy of accounting records, including GAAP conversion packages and financial reporting packages for three years after completion of the audit of the State of Oklahoma.”

Condition: We identified 16 electronic wire transfers totaling \$18,166,450 made from OSDH’s clearing account during SFY 2021, of which 15 wire transfers totaling \$11,152,460 were for COVID-19 related supplies or services and one (1) wire transfer totaling \$7,013,990 was for a non-COVID-19 related purchase of an office building.

During a review of each electronic wire transaction and the corresponding documentation, we noted the following internal control issues:

- 9 of 16 or 56.25% of wire payments were for COVID-19 related supplies; however, the purchase price exceeded the \$250,000 limit from Executive Order 2020-07 issued by Kevin Stitt, Oklahoma Governor.
- For one of 16 or 6.25% of transactions tested, the transaction was not for COVID-19 related supplies and may not constitute an emergency purchase and, the purchase price exceeded the \$250,000 limit from the Executive Order 2020-07 issued by Kevin Stitt, Oklahoma Governor.
- The purchasing documentation (requisition, purchase order, contract (if applicable), invoice, receiving slips, etc) did not support the purchase for 13 of 16 or 81.25% of transactions tested. Specifically:
 - The packing slips/receiving documentation was missing for 10 of 16 or 62.50% of transactions totaling \$8,728,867. For 2 of the 10 claims, we also noted the goods did not appear to be listed on OSDH's PPE tracking database.
 - The invoice for COVID-19 testing was not supported by documentation indicating that all invoiced tests had been reconciled to the detailed support of individual tests performed for 3 of 16 or 18.75% of transactions tested.
- The purchasing documentation was not properly reviewed and approved for 14 of 16 or 87.50% of transactions tested.
- The correct account was not recorded for 1 of 16 or 6.25% of transactions tested.

Cause: Due to the public health threat of COVID-19, normal purchasing procedures were relaxed in an effort to make emergency purchases; however, OSDH did not have a comprehensive emergency procurement policy or procedure in place prior to the COVID-19 emergency, greatly increasing the state's risk for fraud, waste, and loss of funds. The OSDH did not have adequately designed and implemented controls to ensure:

- Purchasing procedures were adequately segregated.
- Purchasing documentation was properly reviewed and approved.
- Purchasing documents, packing slips, claim approval emails, and other supporting documentation for claims paid was properly maintained and retained.
- Payments made to vendors were adequately reconciled with the items/services actually received.
- Emergency purchase amounts did not exceed the \$250,000 cap per transaction
- As the Governor's executive orders provided, normal purchasing procedures were relaxed in an effort to purchase PPE supplies as quickly as possible. Due to the supply and demand of PPE, the normal purchasing procedure of issuing payment by warrant was not acceptable for some vendors. Instead, they required electronic wire deposits or pre-payment for supplies at the time the order was placed, or that supplies be paid for by electronic wire transfer once they were shipped from the warehouse, or in some instances when the supplies were received by OSDH.

In addition, the invoice number and purchase order number were not documented on the PPE Tracking Database making it very difficult to determine what items had actually been delivered. OSDH did not have adequate inventory controls in place that would provide reasonable assurance that goods received are accurately recorded in the system.

Effect: Payments may have been made to vendors for products or services that were not received. In addition, because the PPE tracking was incomplete and unreliable, there was no accountability for the disposition of the items/services purchased after they were received.

Transaction amounts exceeded the allowable amount per the Executive Order.

Inadequate policies and procedures over the purchasing process and record retention could result in a failure to adequately vet vendors prior to contracting for goods /services, possible overpayments to vendors, increased risk of misappropriation of assets or fraudulent activity and, an inability to comply with audit requirements.

Recommendation: We recommend OSDH evaluate their documentation preparation and retention process and make the appropriate adjustments to ensure that future documents are properly prepared, approved and retained, and comply with the governing policies and procedures for state financial transactions.

We also recommend that OSDH have emergency procurement policies and procedures as part of their overall Continuity of Operations Plan which ensures:

- Purchasing procedures are adequately segregated at the agency level.
- Items purchased are appropriately accounted for when received.
- The disposition of inventory is appropriately tracked and monitored.
- Contracted services are appropriately performed prior to payment and,
- Contracts are appropriately monitored.

Agency Management Response: OSDH concurs with the recommendations. OSDH will review procedures to ensure appropriate processes are in place for preparation, approval, and retention of all purchasing, receiving, and payment documentation. OSDH will work with asset management to ensure that the proper procedures are documented and relayed to staff.

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