



# 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, 2022

**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, 2022**



October 17, 2023

**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, 2022. 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

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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, 2022**

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**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, 2022, 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 August 30, 2023, 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 in the aggregate represent eighty-one percent of the assets, sixty-one percent of the net position, and seventy-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, Regents for Higher Education, and University of Oklahoma – Health Sciences Center, which in the aggregate represent eighty-two percent of the assets, eighty-four percent of the net position, and sixty-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-seven percent of the assets, eighty-eight percent of the net position, and a negative four hundred thirty-eight percent of the additions of the aggregate remaining fund information. This negative percentage is due to a decrease in the fair value of investments for these pension funds.
- 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 zero 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.

***Report on 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) as a basis for designing 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 identified 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 State of Oklahoma's financial statements will not be prevented or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 22-290-035 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and responses as item 22-807-008 to be a significant deficiency.

#### ***Report on 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 financial statements. 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*.

#### ***State of Oklahoma's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the State of Oklahoma's response to the findings identified in our audit and 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 the response.

#### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Oklahoma'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 State of Oklahoma'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

August 30, 2023

## Schedule of Findings and Responses

**Reference Number:** 22-290-035

**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.”

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

**Condition:** When testing a sample of 62 Unemployment Insurance claim payments totaling \$21,413 (identified by check number per payment data), we noted 2 unallowable payments due to unresolved fraud stops totaling \$629 were paid to 2 claimants, which is a 3.23% error rate of claims tested and a 2.94% error rate of dollars tested. We isolated these 2 claimants from all state fiscal year 2022 payments per the applicant identifier (SSN per payment data) and identified 68 benefit payments totaling \$15,979 on those 2 claimants.

**Cause:** The agency’s internal controls were insufficient to detect and/or prevent unallowable unemployment benefit payments. The lack of controls over the Unemployment Insurance benefit payments that led to the increase in unallowable payments was a result of the following factors:

- Antiquated system that didn’t have the capacity for proper automated edits or matching of all necessary fields at the time a claim was filed.
- Large number of stolen identities.
- 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:** Unallowable benefit payments were made, which contributed to the depletion of the Unemployment Insurance Trust Fund.

With a dollar error rate of 2.94% and benefit payments data total of \$275,005,155, we project the amount of unallowable benefit expenditures were \$8,085,152 in state fiscal year 2022. Efforts by OESC to identify and investigate known and suspected claims, and recover fraudulent and overpayment claims, are ongoing. However, OESC has made improvements in identifying trends or anomalies in the data that has allowed the agency to suspend large amounts of potentially fraudulent claims until they can be examined. In addition, OESC implemented VerifyOK in November of 2022 to further deter and prevent identity theft fraud.

**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 timely 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:**

While the agency does not completely disagree with the Condition, Cause and Effect as documented by the auditors, the agency believes additional considerations are important in drawing conclusions about whether all payments associated with the 2 claims identified as unallowable payments should be considered unallowable benefit expenditures. We agree that both claims have unresolved fraud stops associated with them, but there was also no record of subsequent contact with appropriate parties for either claim that would be necessary to draw an absolute conclusion that any or all of the previous payments were unallowable. The lack of evidence that either claimant attempted to clear the fraud stop and allow further payments could be the result of the claimant finding work. The conclusion drawn by the auditors is the worst-case scenario based on the information available. As mentioned by the auditors, the agency implemented an enhanced version of VerifyOK in November 2022, which would have likely prevented either of the 2 claims from being filed if they involved identity theft. This version of VerifyOK enables a much higher degree of accuracy to ensure identity of claimants thus minimizing the possibility of fraud. This new tool uses similar technology to that used in airports around the globe by security personnel.

The agency continues to make fraud prevention a priority and is engaging with federal partners, other state agencies and vendor partners to be vigilant in anticipating trends in fraud activity. While we believe we are expending appropriate levels of effort in this area, we also want to acknowledge that the complexity and ever-changing nature of the fraud space will continue to make this a difficult risk to mitigate entirely.

**Auditor Response:** The claims identified as errors were based on the information available to the auditor at the time of testing. In addition, based on *Audit Sampling* section AU-C 530.13, the auditor should project the results of audit sampling to the population.

**Reference Number:** 22-807-008

**State Agency:** Oklahoma Health Care Authority (OHCA)

**Fund Type:** General Fund

**Other Information:** Accounts Payable & Federal Receivable (GAAP Pkg. Q - Medicaid Payable and Receivable & GAAP Pkg. Z – Schedule of Expenditures of Federal Awards)

**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 - Medicaid Payable and Receivable, we noted Medicaid Accounts Payable was recorded at \$866,894,715 and Medicaid Federal Receivable was recorded at \$584,001,412. However, based on errors in the calculations for both accounts, the Medicaid Accounts Payable amount should have been \$781,270,299 and the Medicaid Federal Receivable amount should have been \$514,300,444.

**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.

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 overstated by \$85,624,416 and Medicaid Federal Receivable being overstated by \$69,700,968 for GAAP Package Q.

In addition, the overstatements carried through to GAAP Package Z for ALN # 93.778 Medical Assistance Program & ALN # 93.767 Children’s Health Insurance Program Current Year Federal Accounts Payable and Accounts Receivable.

**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:** A request has been made for Gainwell to produce the Service Date Reimbursement Analysis Report (MAR-2300-M) as an excel report to transfer the encumbered data to the Encumbered Funds excel more accurately. Gainwell’s anticipated completion is January 2024. In the interim, another review of the manual entry into the Encumbered Funds by Date of Service will be completed before entering the data into the GAAP Package Q.

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](http://www.sai.ok.gov)