



# 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, 2020

**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, 2020**



Cindy Byrd, CPA | State Auditor & Inspector

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March 30, 2021

**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, 2020. 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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**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, 2020, 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 29, 2020, 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 and the Lottery Commission which represent fifty-nine percent of the assets, forty-five percent of the net position and thirty-eight 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-five percent of the net position and seventy-one 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 ninety percent of the additions of the aggregate remaining fund information;
- the financial statements of the Department of Commerce and the Department of Wildlife, which in the aggregate represent one percent of the assets, two 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 20-340-016, 20-290-009, 20-290-032 and 20-290-033 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 deficiency described in the accompanying schedule of findings and responses as item 20-340-004 to be a significant deficiency.

#### ***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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### ***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 29, 2021

## Schedule of Findings and Responses

**Reference Number:** 20-340-016

**State Agency:** Oklahoma State Department of Health

**Fund Type:** Government-Wide – Governmental Activities; General Fund

**Other Information:** Clearing Account 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.”

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. . . . (7) 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.”

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 Executive Order 2020-06 was issued on March 12, 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 threat, may make necessary purchases to fully prepare for a potential outbreak within the State”.

**Condition:** We identified 62 electronic wire transfers totaling \$36,973,924 made from OSDH’s clearing account beginning in March 2020. In an effort to secure personal protective equipment (PPE), some vendors required electronic wire deposits for supplies at the time the order was placed, or that supplies be paid by electronic wire transfer once shipped and/or received.

During a review of each electronic wire transaction and the corresponding supporting documentation, we noted 18 SFY 2020 wire transfers totaling \$18,875,846 were not posted to the statewide accounting system during SFY 2020.

- Eight wire payments totaling \$11,222,372 were entered into the statewide accounting system after SFY 2020.
- Ten wire payments totaling \$7,653,474 were not entered into the statewide accounting as of September 30, 2020.

In addition to the unposted transactions, we noted the following internal control issues.

- 28 wire payments totaling \$20,431,981 were not supported by documentation to indicate receipt of goods.
- One vendor mistakenly received a duplicate payment of \$32,232 for the same invoice. As of 12/11/2020 the funds have not been returned to OSDH.

**Cause:** Due to the public health threat of COVID-19, normal purchasing procedures were relaxed in an effort to make emergency purchases. The Secretary of Health authorized OSDH to make advanced payments to vendors for securing PPE. However, making advanced payments did not negate the agency’s responsibility for recording the expenditure into the statewide accounting system. It appears, given the unusual circumstance of using clearing account funds and

the rush to make, and in some cases, pre-pay necessary purchases, OSDH did not record the expenditure into the statewide accounting system.

**Effect:** Some PPE may not have been received after payments were made to some vendors totaling \$20,431,981. In addition, because wire transfer payments were made from the agency's clearing account, not all payments were recorded in the statewide accounting system, therefore creating an understatement in expenditures of \$18,875,846. An entry has been recorded by the Office of Management and Enterprise Services to correct the misstatement.

**Recommendation:** We recommend the agency review all wire transfer payments made and ensure all PPE supplies have been received or with assistance from the Attorney General, seek reimbursement from the vendor. The agency should also ensure that all electronic wire transfers made from the clearing account are recorded into the statewide accounting system at the time the wire transaction is made. Vendors should also provide all supporting documentation prior to OSDH authorizing the wire transfer.

**Agency Management Response:** The Oklahoma State Department of Health became one of the primary responders to the COVID-19 pandemic which impacted many areas of the agency, including the Financial Services department. Responding timely and appropriately in the early days of the pandemic required businesses to adjust processes. The Oklahoma State Department of Health does not typically utilize wire transfer payments so concur mistakes were made. To ensure this does not occur in the future should the need arise to utilize wire transfer payments, procedures have been documented. The Oklahoma State Department of Health also agrees it is not good business practice to pay (a deposit or in full) in advance of receiving goods and in normal circumstances this would not have occurred. During the pandemic, we temporarily followed common practice to pay a deposit to secure an order for personal protective equipment that was in high demand and essential to obtain to protect frontline workers. This practice is no longer used. The Oklahoma State Department of Health is currently working with the Oklahoma Attorney General to either receive the purchased items or obtain a refund.

**Reference Number:** 20-340-004

**State Agency:** Oklahoma State Department of Health

**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 Oklahoma State Department of Health uses FISCAL, their internal accounting system, to complete Generally Accepted Accounting Procedures (GAAP) Packages that are the accruals on the State of Oklahoma's Comprehensive Annual Financial Reports. 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 \$54,091,099 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 Oklahoma State Department of Health'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 Oklahoma State Department of Health is in the process of transitioning to eventually replace the detailed level accounting in FISCAL with PeopleSoft/CORE, the Statewide Accounting System. We recommend the Oklahoma State Department of Health continue work on the transition.

**Agency Management Response:** The Oklahoma State Department of Health became one of the primary responders to the COVID-19 pandemic which impacted many areas of the agency, including the Financial Services department. For expediency of making payment to vendors to secure much needed supplies to respond to the pandemic, a decision was made to maintain entries in the PeopleSoft system and not the FISCAL system. The effort of the response did not subside enough to allow time to enter the entries into the FISCAL system before the state fiscal year end. The process of simultaneous dual entry has since been reinstated. Further, The Oklahoma State Department of Health continues to implement the Statewide Accounting System, PeopleSoft.

**Reference Number:** 20-290-009

**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 \$2.2 billion in Unemployment Insurance claims for state fiscal year 2020 (approximately ten times more than state fiscal year 2019), and the agency’s internal controls were insufficient to prevent fraudulent unemployment benefit payments. The agency’s internal controls failed at the start of the COVID-19 pandemic largely because 1) there was an massive influx of online claims for which OESC could not physically verify the identification of the claimant because of social distancing restrictions; 2) the agency had an antiquated

system that lacked proper automated edits to help prevent, deter, and detect fraudulent claims; and 3) the one-week waiting period before claimants could be paid was waived. 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 fraudulent claims.

In addition, during our testing of 137 Unemployment Insurance individual claim payments (identified by check number per payment data) totaling \$66,609; we noted 27 claimant exceptions (or 19.7 %) due to fraud totaling \$12,930. In isolating those 27 claimants from our entire population per the applicant identifier, we identified a total of \$102,775 corresponding to 204 fraudulent claims paid to those claimants in state fiscal year 2020.

**Cause:** The lack of controls over the Unemployment Insurance benefit payments, at the insurgence of the COVID-19 pandemic, that led to the increase in fraud 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
- Dramatic increase in the 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
- Lack of adequate staffing to handle massive surge in claims
- Lack of adequate training for new staff hired to help with the massive surge in claims
- Delays in the process for employers to dispute claims since the process was largely manual through the mailing of notifications
- Lack of proper safeguards in place once funds were loaded onto the debit cards, including the lack of a restriction to prevent transfer of funds to personal bank accounts

**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 cases or claims, which helped deplete the Unemployment Insurance Trust Fund.

In addition, based on review of OESC commission minutes on July 7, 2020, the agency reported that almost 90,000 fictitious claims had been worked, and \$10,000,000 had been recaptured as of June 2020.

Lastly, with roughly \$2.2 billion in Unemployment Insurance claims paid out in state fiscal year 2020, we expect the dollar amount and number of fraudulent claims to be extensive. Efforts by OESC to identify and investigate known and suspected claims, and recover fraudulent claims, are ongoing. Because OESC is performing an exhaustive review of paid claims to determine which are fraudulent, we will not project our known fraud results to the population.

**Recommendation:** We recommend the OESC continue to work to improve internal controls over the automated system to better detect and prevent payment on fraudulent claims. Next, we recommend OESC continue to work to develop more analytics that will identify trends or anomalies in the data to catch fraudulent claims more timely and save taxpayer monies. We recommend the OESC work to automate the process whereby the separating employer is notified of a claim being filed via an electronic platform. In addition, we recommend the OESC implement identity verification questions as part of their eligibility determination process to help prevent fraudulent claims. Lastly, we recommend the OESC continue to work with the U.S. Department of Labor to recover the remaining fraudulent payments.

**Agency Management Response:** The agency agrees with the recommendations put forth in the findings. The agency has recovered all or a portion of the funds paid out for 18 of the 27 claimants totaling \$43,823 and has requested funds to be refunded for the one additional claim and has not yet received these funds.

A change in leadership at the agency occurred within the last 30 days of the audit time period. The new administration at the agency has made fraud prevention a priority and has addressed the concerns and findings in this audit and put

safeguards (listed below) in place to mitigate future fraudulent activity. Within the first two weeks of the leadership change at the agency, fraud prevention measures were taken to limit ACH transfers. At the same time, deposits to two banks and one financial services vendor were prohibited indefinitely due to the volume of funds that were being trafficked through these three financial entities.

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

- Kicked off and currently implementing an 18-month business process technology transformation, BT40, which will transform and update the agency’s aging technology. This transformation will add fraud risk scoring with automated stops on claims, provide 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 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

**Auditor Response:** Based on working with current OESC management since the early stages of the COVID-19 pandemic, we feel the agency has taken the weaknesses in internal control over the Unemployment Insurance program very seriously by being very proactive in their corrective action plans moving forward. We feel these corrective action measures should help reduce the amount of fraud and/or errors related to Unemployment Insurance claims in the future.

**Reference Number:** 20-290-032

**State Agency:** Oklahoma Employment Security Commission (OESC)

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

**Other Information:** Accounts Payable

**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 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 10.10 states, “Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. “Transactions” tends to be associated with financial processes (e.g., payables transactions), while “activities” is more generally applied to operational or compliance processes. For the purposes of this standard, “transactions” covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.”

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

*GASB 34 Paragraph 92* states, in part, “Proprietary fund statements of net assets and revenues, expenses, and changes in fund net assets should be presented using the economic resources measurement focus and the accrual basis of accounting.”

**Condition:** Based on reviewing the 2020 GAAP Package Form I-1 – *Accounts Payable and Encumbrance Summary*, the Oklahoma Employment Security Commission (OESC) reported zero payables for the Enterprise Fund. The current process for calculating Accounts Payable for the Enterprise Fund did not include Unemployment Insurance benefit payments to claimants that created an economic event or service date prior to the financial or fiscal year end, yet were not paid until after year-end. After requesting the Unemployment Insurance benefit payment data for July through November of 2020, we determined the Accounts Payable amount should have been \$240,995,661 based on a full-accrual basis of accounting.

**Cause:** The person responsible for preparing the GAAP Package was unaware of the proper method they should use to calculate payables for the Enterprise Fund, and the GAAP Package was not properly reviewed to ensure the accounting complied with GASB 34.

**Effect:** The OESC GAAP Package Form I-1 – *Accounts Payable and Encumbrance Summary* was understated by \$240,995,661. In addition, the *Proprietary Funds Statement of Net Position and Government-Wide - Business Type Activities Statement of Net Position* were understated by \$240,995,661. The entry has been recorded by the Office of Management and Enterprise Services to correct the misstatement.

Lastly, the OESC was not in compliance with accrual accounting under GASB 34 for Accounts Payable.

**Recommendation:** We recommend the OESC develop and implement controls to ensure all full-accrual Unemployment Insurance benefit payments get recorded on the GAAP Package Form I-1 – *Accounts Payable and Encumbrance Summary*.

**Agency Management Response:** OESC concurs with the audit finding and agrees with the recommendation. We would like to acknowledge the liability for benefit payments increased significantly as a result of the coronavirus pandemic. The agency was still dedicating significant effort of all staff to manage the continued demand for unemployment and other federal benefits through the time period in which the need for these controls could have been recognized. The agency will establish a process for calculating Accounts Payable for the Enterprise Fund to ensure full-accrual Unemployment Insurance benefit payments are accounted for. The agency will work with our IT division to obtain data files on Unemployment Insurance benefit payments on a monthly basis. These files will allow the agency to identify monthly trends in benefit payments for prior months. We will utilize these trends as the basis for our best estimate of what the fiscal year end benefits payable for the Enterprise Fund will be. The calculation of the full-accrual Unemployment Insurance benefits payable will be subject to supervisory review by the Comptroller, the Chief Financial Officer and the Chief of Operations. The calculated amount will be recorded on the GAAP Package Form I-1 – *Accounts Payable and Encumbrance Summary*.

**Reference Number:** 20-290-033

**State Agency:** Oklahoma Employment Security Commission (OESC)

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

**Other Information:** Schedule of Expenditures of Federal Awards

**Criteria:** 2 CFR § 200.62, “Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards: (a) Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports.”

2 CFR § 200.510 (b), “Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended....”

2 CFR § 200.502 (a), “Determining Federal awards expended. The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs....”

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 on review of the GAAP Package Z-1 *Schedule of Expenditures of Federal Awards (SEFA)* for the Unemployment Insurance Program (CFDA #17.225), which utilizes the modified-accrual basis of accounting, we noted that the OESC did not include Unemployment Insurance benefit payments as part of Accounts Payable when claimants created an economic event or service date prior to the fiscal year end, yet were not paid until after year-end. After requesting the Unemployment Insurance benefit payment data for July and August of 2020, we determined the total SEFA federal expenditures should have been \$2,321,760,631. The original SEFA amount without the Unemployment Insurance benefit payables was \$2,137,230,707.

**Cause:** The person responsible for preparing the GAAP Package Z-1 was unaware of the proper method they should use to calculate Accounts Payable, and the GAAP Package Z-1 was not properly reviewed to ensure all payables were recorded under a modified accrual basis of accounting.

**Effect:** The SEFA federal expenditures for the Unemployment Insurance Program (CFDA #17.225) was understated by \$184,529,924.

**Recommendation:** We recommend the OESC develop and implement controls to ensure all modified-accrual Unemployment Insurance benefit payments get recorded on the GAAP Package Form Z-1.

**Agency Management Response:** OESC concurs with the audit finding and agrees with the recommendation. We would like to acknowledge the liability for benefit payments increased significantly as a result of the coronavirus pandemic. The agency was still dedicating significant effort of all staff to manage the continued demand for unemployment and other federal benefits through the time period in which the need for these controls could have been recognized. The agency will establish a process for calculating Accounts Payable for the Unemployment Insurance Program (CFDA #17.225) to ensure that SEFA federal expenditures are reported on the modified accrual basis of accounting. The agency will work with our IT division to obtain data files on Unemployment Insurance benefit payments on a monthly basis. These files will allow the agency to identify monthly trends in benefit payments for prior months. We will utilize these trends as the basis for our best estimate of what the fiscal year end benefits payable for the SEFA federal expenditures will be. The calculation of the modified-accrual Unemployment Insurance benefits payable will be subject to supervisory review by the Comptroller, the Chief Financial Officer and the Chief of Operations. The calculated amount will be recorded on the GAAP Package Form Z-1.

O·K·L·A·H·O·M·A  
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**Cindy Byrd, CPA | State Auditor & Inspector**

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