

State Auditor & Inspector Cindy Byrd

January 2021

Growth in Oklahoma's Newest Cottage Industry

Medical Marijuana and Taxes

When it comes to a cottage industry, you might think of artisans working from home crafting pottery, knitting, designing dance costumes, weaving baskets, or manufacturing other handicraft items.

2020 Medical Marijuana Excise Tax Revenue



Monthly revenue figures rounded

In Oklahoma, the fastest growing cottage industry grows medical marijuana for sale in state licensed dispensaries.

For the period of January through December 2020, the Oklahoma Tax Commission collected \$54.45 million from the Medical Marijuana Excise Tax or about \$4.54 million per month.

In actuality, the monthly sale of medical marijuana increased significantly since the beginning of last year.

The period of June through November 2020 shows revenues generated by the excise tax topped \$5 million each month. The highest revenue month was July. The lowest monthly collection was February.

Since the state began regulating the business side of medical marijuana in 2018, 6,769 growers have been licensed along with 2,090 dispensaries, and 74 transportation operators.

Interestingly, Oklahoma now has the largest medical marijuana market for licensed users per capita (367,053) of the 34 states where medical or recreational marijuana has been legalized.

The state doesn't limit the number of business licenses it can issue, and municipalities can't keep medical marijuana growers or dispensaries outside city limits.

You might find a grower occupying space in the same building as your barber or a greenhouse grower in the backyard of your neighbor. At \$2,500, the license to grow is lower than most states that license the product.

Those conditions coupled with virtually no qualifying medical conditions required of medical marijuana cardholders – just a medical marijuana doctor's prescription plus the \$100 fee for the card (\$20 for Medicare and Medicaid patients or 100% disabled veterans) – and the stage is set for continued cottage industry growth.

Oklahoma City has the most medical marijuana business licenses in the state and collected \$5.6 million in sales tax revenue from medical marijuana businesses in 2020. Tulsa has the second highest number of industry-related businesses.

More information is available [here](#) on the OMMA website.

Some Justice for Hartshorne Residents

We're the fact finders, not the prosecutors

SAI's Forensic Audit Division conducts special audits upon request from the governor, attorney general, local district attorney, a governing board, or by citizen petition.

For more than a decade, fraud by public officials in Oklahoma's smaller communities has been on the rise.

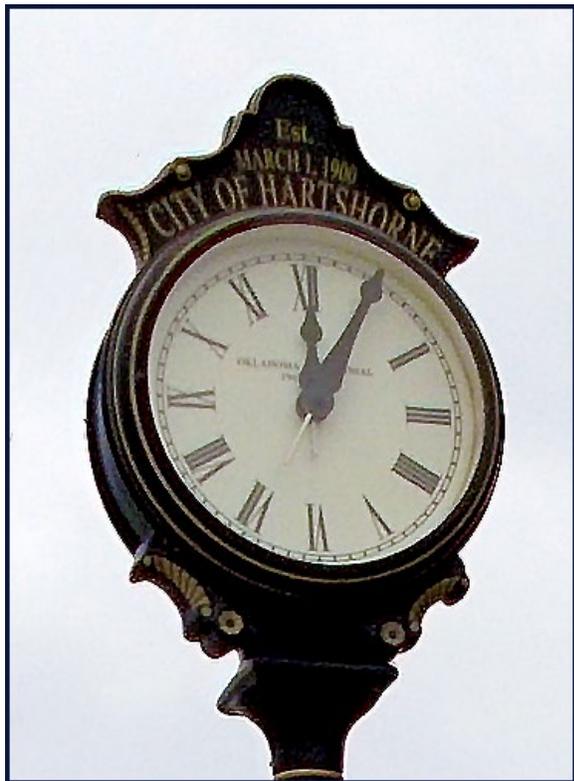
Our office regularly receives calls from municipalities and residents alike concerned about local governance, nonresponsive town employees, missing revenue, a lack of financial records, and other allegations of fraud, embezzlement, and mismanagement of public funds.

When the audit is of a municipality – utility billing and misuse of a city's credit card are usually the focus of investigators.

The City of Hartshorne in Pittsburg County is 19 miles southeast of McAlester and its 2125 residents make it the second largest city in the county.

In September 2016, residents circulated a petition for a special audit with three areas of concern:

- Possible violation of the Open Meeting Act and Open Records Act
- Irregularities of utility payments and traffic fines
- Irregularities in compensation of personnel and use of the credit card



In October 2017, the special audit report was released, and auditors found that the former mayor, former city treasurer, and former city clerk worked in concert or separately to embezzle more than \$1.8 million from the city. All three resigned or retired prior to the start of the audit.

At the time, it was the single largest embezzlement from a public entity in the history of the State Auditor's Office.

Embezzled funds included \$30,000 taken monthly from cash payments for utility billing and 354 transactions totaling more than \$80,000 charged to the city's credit card to buy event

tickets, televisions, a vacation, entertainment venues, and even to pay personal income taxes.

On October 29, 2020, three years after the audit's release, US Attorney Brian Kuester filed information in the Eastern District of Oklahoma against former

City Clerk Dawn Dunkin alleging one count of theft concerning programs receiving federal funds from 2013-2016.

Dunkin entered a guilty plea to the charge on November 16, 2020 and is facing a possible sentence of up to 10 years' imprisonment, a fine up to \$250,000, or both.

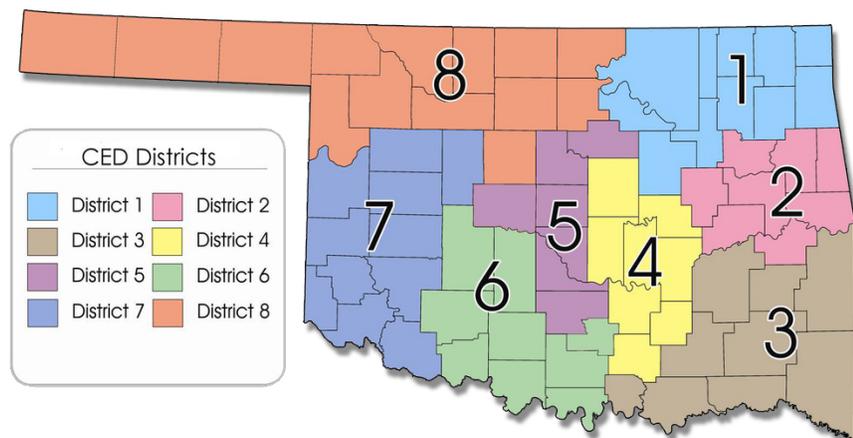
As part of the pre-sentencing investigation, residents of Hartshorne were given the opportunity to complete Victim Impact Statements. The City issued a statement saying all Hartshorne residents are potential victims. The forms were due back at city hall by January 20, 2021.

To date, the local district attorney has not filed any charges in the matter and neither the former treasurer nor the former mayor have been called to account for their alleged part in the fraud.

Audits Underway on Circuit Engineering Districts

A number of revenue streams fund county road and bridge projects in Oklahoma including motor fuel taxes, gross production taxes, federal grants, and tribal donations to create the County Improvements for Roads and Bridges (CIRB) fund.

Created in 1992, the state's 77 counties were divided to create 8 Circuit Engineering Districts (CED). CEDs are designed for counties in each district to act as a cooperative to obtain engineering services and program management services that would otherwise be unavailable to an individual county.



The Oklahoma Department of Transportation assists with numerous county road projects and all 8 boards fall under the general oversight of the Oklahoma Cooperative Circuit Engineering Districts Board.

Following the release of the CED #7 Special Investigative Audit in March 2020, along with concerns reported from other CED districts, the state legislature and governor approved a bill requiring the State Auditor to annually audit the CEDs.

SAI created a unit from within its County Audit Division and Performance Audit Division to conduct operational audits of the eight districts. The focus of these audits is to:

- examine each district's financial records
- determine if expenditures were supported by adequate documentation
- determine if each district had a process to evaluate proposed projects when using CIRB funds and complied with 69 O.S. § 507(B) for prioritizing projects submitted in the district's 5-year Construction Work Plan
- determine if a district had sufficient safeguards to reasonably ensure fixed assets and consumable inventories were accurately reported in its accounting records

The goal is to determine if the districts are operating efficiently, complying with various statutes in the receipt and expenditure of county road funds, and if each is appropriately safeguarding public assets.

Even though every CED is different, every project is different, and there is little uniformity in the way each district operates – there is a common element to each and that is providing assistance for its member counties to improve roads and bridges ensuring the safe transportation of goods, services, and residents.

As of this publication, six of the audits have been completed and two audits are ongoing. All eight audits should be published by May 1, 2021.

COVID-19 and Unemployment

The Oklahoma Employment Security Commission (OESC) is the state's unemployment office. It is fully funded by federal dollars and pays Unemployment Insurance (UI) claims to out-of-work Oklahomans.

The onset of the pandemic in mid-March 2020 put OESC at the forefront of pandemic relief as the agency responded to COVID-19 business closures and job losses.

In FY19, OESC reported \$241.5 million paid out in UI benefits. By June 30, 2020, the end of FY20, the agency had disbursed about \$2.3 billion in regular unemployment claims, an extra \$600 per week in Pandemic Emergency Unemployment Compensation benefits, and Pandemic Unemployment Assistance to gig workers, independent contractors, and other self-employed individuals.

On Tuesday, January 19, 2020, State Auditor Cindy Byrd pointed out to the House Appropriations & Budget Subcommittee on General Government the \$2.3 billion figure is ten times larger than the previous fiscal year and it only included 3 months of pandemic-related unemployment relief payments.

In addition to legitimate unemployment claims, Oklahoma and other states were also hit with likely tens of thousands in fraudulent UI claims submitted and paid. The State Auditor’s Office is reviewing financial data related to the purported fraudulent claims at OESC as part of the state’s Comprehensive Annual Financial Report and the Single Audit of federal fund expenditures.

| 2020 | Unemployment Rate |
|-------------|--------------------------|
| Jan | 3.3 |
| Feb | 3.2 |
| Mar | 2.9 |
| Apr | 14.7 |
| May | 12.6 |
| Jun | 6.4 |
| Jul | 7.1 |
| Aug | 5.7 |
| Sep | 5.4 |
| Oct | 6.2 |
| Nov | 6.1 |
| Dec | 5.3(P) |

The shutdown of businesses, initially intended to flatten the curve of the virus, forced tens of thousands of Oklahomans to seek UI benefits.

According to the US Bureau of Labor Statistics, Oklahoma ballooned from its lowest monthly jobless rate of 2.9% in March 2020 to a high of 14.7% in April – the first full month of the shutdown.

While those numbers began to seriously decline after the state fully reopened in June 2020, Oklahoma’s preliminary unemployment rate for December is still 2.4 percent higher than the year’s low.

A subsequent federal relief package approved in late December 2020 provided an additional \$300 in weekly unemployment payments to eligible recipients. A plan submitted to Congress by the new Biden administration includes a \$400 weekly bonus payment to UI claimants.

These additional funds will be part of the FY21 Single Audit of federal funds as will most of the \$1.2 billion received by the State of Oklahoma in the initial stimulus bill.

The State Auditor is responsible for determining compliance with federal guidelines by all recipient agencies receiving and expending certain federal program funds.

Auditing and the CARES Act



The initial stimulus package during the COVID-era sent \$1.2 billion to Oklahoma to aid state government pandemic response services in addition to the more than \$2 billion the Oklahoma Employment Security Commission received to pay COVID-related unemployment claims and bonus relief payments.

These stimulus relief funds are equivalent to a little less than half of the state's appropriated budget for fiscal year 2020. It also presents additional auditing requirements by our State Agency Audit Division to ensure these public funds are spent as intended.

As of June 30, 2020, the end of FY20, the governor's office had spent about \$82 million of the stimulus funds and these expenditures will be included in the audit of the state's FY20 Comprehensive Annual Financial Report (CAFR) and the federal Single Audit report on compliance.

The remaining \$1.16 billion in stimulus funds were expended between July 1, 2020 and December 31, 2020, the first half of fiscal year 2021. These expenditures will be audited as part of the FY21 CAFR and Single Audit.

Fourth Floor Rotunda Renovations Nearly Complete

The legislative session began February 1st and, as in past years, the 4th floor rotunda will be the gathering point for constituents, lobbyists, tourists, school groups, and other visitors who come to see government in action.

Renovations to the 4th floor are nearing completion.

On the South end, scaffolding still fills the Grand Staircase rising from the 2nd floor to the 4th floor as workers restore the marble steps, banisters, and attend to other details.



Although renovation also continues for the House and Senate conference rooms adjacent to the top of the staircase, the newly renovated 4th floor reception area for both legislative chambers is ready to receive guests.

Among changes longtime Capitol visitors will notice is the 4th floor dining area has been removed as all dining options are now on the building's new ground level.

In the various conference rooms and offices, the carpet, paint, and other materials let your senses know right away what is new and what of the past was restored.

Whether you're visiting the Capitol for the first time or you've long been an inhabitant of its halls and offices, the crews working on the \$245 million renovation have done an excellent job of restoring the past features of the 103-year old building while updating the space with current technology and other enhanced amenities.