

**OFFICE OF THE SECRETARY
OF THE ENVIRONMENT
STATE OF OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE FISCAL YEAR ENDED

JUNE 30, 2013

**OFFICE OF THE SECRETARY OF THE ENVIRONMENT
STATE OF OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Governor of the State of Oklahoma
and the Secretary of the Environment of the State of Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the Secretary of the Environment of the State of Oklahoma (the "OSE"), a division of the Oklahoma Water Resources Board, an agency of the State of Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise OSE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the Secretary of the Environment, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Office of the Secretary of the Environment of the State of Oklahoma are intended to present the financial position and the changes in financial position, and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Oklahoma Water Resources Board that is attributable to the transactions of the division (i.e. OSE). They do not purport to, and do not, present fairly the financial position of the Oklahoma Water Resources Board nor the State of Oklahoma as of June 30, 2013, and the changes in their financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, on our consideration of the OSE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OSE's internal control over financial reporting and compliance.



March 14, 2014

**OFFICE OF THE SECRETARY OF THE ENVIRONMENT
STATE OF OKLAHOMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Office of the Secretary of the Environment of the State of Oklahoma ("OSE") financial performance provides an overview of the Office of the Secretary and the Federal programs administered by OSE for the fiscal year ended June 30, 2013. Please read it in conjunction with the OSE's financial statements, which begin on page 4. The Office of the Secretary of the Environment (OSE) administers these funds in accordance with Federal and State statutes.

FINANCIAL HIGHLIGHTS

- The Office of the Secretary of the Environment received revenue of \$7,864,285 during SFY 2013. Of the total revenue:
 - \$7,716,053 consisted of Federal Funds from the U.S. Environmental Protection Agency
 - \$108,732 consisted of State Appropriations
 - \$39,500 consisted of Sponsorship/Registration Fees/Refunds
- \$7,523,869 of federal funds were provided to sub-recipients to conduct activities set forth under Cooperative Agreements with the U.S. Environmental Protection Agency
- \$325,169 was expended for personnel and other activities associated with meeting the goals of the Clean Water Act and the overall conservation of Oklahoma's Environment.

ECONOMIC FACTORS – NEXT YEAR'S OUTLOOK

It is anticipated that the funding level in SFY 14 will remain level for existing programs. Estimations of possible decreases are not known at this time. State appropriations are expected to decline for SFY 14 due to across the board budget reductions at the state level. The extent of the state budget cuts is unknown at this time.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide an overview of the OSE and the Federal Clean Water Act Programs that it administers. If you have questions regarding this report or need additional information, please contact the Office of the Secretary of Energy and Environment at 100 N. Broadway, Suite 2350, Oklahoma City, OK 73102.

**OFFICE OF THE SECRETARY OF THE ENVIRONMENT
OF THE STATE OF OKLAHOMA**

Statement of Net Position

June 30, 2013

STATEMENT 1

		Total Primary Government Governmental Activities
ASSETS		
Cash and cash equivalents	\$	4,170,042
Due from other governments		1,034,705
Total assets		<u>5,204,747</u>
LIABILITIES		
Accounts payable		1,061,066
Compensated absences due within one year		13,725
Total liabilities		<u>1,074,791</u>
NET POSITION		
Restricted for program services		3,963,284
Unrestricted		166,672
Total net position	\$	<u><u>4,129,956</u></u>

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT
OF THE STATE OF OKLAHOMA
Statement of Activities
For the Year Ended June 30, 2013

STATEMENT 2

Functions/Programs	Expenses	Program Revenue Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
			Total Primary Government Governmental Activities
Primary government			
Governmental activities:			
General government	\$ 325,169	192,193	(132,976)
Environmental program services	7,523,869	7,523,860	(9)
Total primary government	\$ 7,849,038	7,716,053	(132,985)
General revenues:			
State appropriations		\$	108,732
Other income			39,500
Total general revenues			148,232
Change in net assets			15,247
Net position - beginning			4,114,709
Net position - ending		\$	4,129,956

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT
 OF THE STATE OF OKLAHOMA
 Balance Sheet
 Governmental Funds
 June 30, 2013

STATEMENT 3

	General Fund	Water Pollution Control Fund	Non-Point Source Implementation Fund	Environmental Remediation Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 131,240	-	-	3,963,284	75,518	4,170,042
Due from other governments	-	383,280	417,756	-	233,669	1,034,705
Total assets	<u>\$ 131,240</u>	<u>383,280</u>	<u>417,756</u>	<u>3,963,284</u>	<u>309,187</u>	<u>5,204,747</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 937	383,280	417,756	-	259,093	1,061,066
Total liabilities	<u>937</u>	<u>383,280</u>	<u>417,756</u>	<u>-</u>	<u>259,093</u>	<u>1,061,066</u>
Fund Balances (Deficit):						
Restricted	-	-	-	3,963,284	-	3,963,284
Assigned	-	-	-	-	50,094	50,094
Unassigned	130,303	-	-	-	-	130,303
Total fund balances	<u>130,303</u>	<u>-</u>	<u>-</u>	<u>3,963,284</u>	<u>50,094</u>	<u>4,143,681</u>
Total liabilities and fund balances	<u>\$ 131,240</u>	<u>383,280</u>	<u>417,756</u>	<u>3,963,284</u>	<u>309,187</u>	<u>5,204,747</u>

Amounts reported for governmental activities in the statement of net position are different because:

Compensated absences of governmental activities are not financial resources and therefore are not reported in the funds

Net position of governmental activities

(13,725)

\$ 4,129,956

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT
OF THE STATE OF OKLAHOMA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

STATEMENT 4

	General Fund	Water Pollution Control Fund	Non-Point Source Implementation Fund	Environmental Remediation Fund	Other Nonmajor Funds	Total Governmental Funds
REVENUES						
Federal grants	\$ -	3,285,010	3,759,888	-	671,155	7,716,053
State appropriations	108,732	-	-	-	-	108,732
Other	-	-	-	-	39,500	39,500
Total revenues	108,732	3,285,010	3,759,888	-	710,655	7,864,285
EXPENDITURES						
Current:						
Personnel costs	81,042	61,152	93,078	-	-	235,272
Program expenditures	-	3,198,777	3,653,928	-	671,164	7,523,869
Other operating	18,384	20,318	19,458	-	28,645	86,805
Total expenditures	99,426	3,280,247	3,766,464	-	699,809	7,845,946
Excess (deficiency) of revenues over expenditures	9,306	4,763	(6,576)	-	10,846	18,339
OTHER FINANCING SOURCES (USES)						
Transfers in	4,763	-	6,576	-	9	11,348
Transfers out	(6,585)	(4,763)	-	-	-	(11,348)
Total other financing sources (uses)	(1,822)	(4,763)	6,576	-	9	-
Net change in fund balances	7,484	-	-	-	10,855	18,339
Fund balances - beginning	122,819	-	-	3,963,284	39,239	4,125,342
Fund balances - ending	\$ 130,303	-	-	3,963,284	50,094	4,143,681

Net change in fund balances - total governmental funds \$ 18,339

Amounts reported for governmental activities in the statement of activities are different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds
- Accrued compensated absences

Change in net position of governmental activities

(3,092)
\$ 15,247

The notes to the financial statements are an integral part of this statement.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Office of the Secretary of the Environment of the State of Oklahoma ("OSE") is a division within the Oklahoma Water Resources Board, an agency of the State of Oklahoma. Created in 1992, the mission of the OSE is to provide for the coordination of environmental activities across the State, between other states, and with the federal government. OSE serves as the coordinating agency and the central point of contact for activities relating to the Clean Water Act. OSE also serves as the focal point for the Governor's Environmental Sub-cabinet group which is composed of the directors of agencies involved in environmental programs. Rather than set policy for the State, OSE serves to facilitate interaction between groups to see that environmental policies which have an effect on the environment and consequently the environmental health of citizens are implemented in the most efficient and expeditious manner possible.

B. BASIC FINANCIAL STATEMENTS

The OSE follows the provisions of Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* ("GASB 34"). GASB 34, among other provisions, establishes a basic financial reporting model and requires management's discussion and analysis.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide statement of net position and statement of activities present governmental and business-type activities on a full accrual basis using the "economic resources" measurement focus and display information about the reporting government as a whole. Fiduciary activities of a government are not included in these statements. The government-wide statement of activities reflects the cost of programs and functions reduced by directly associated revenues (charges for services, and operating and capital grants) to arrive at the net revenue or expense for each program and function. Net program revenue or expenses for governmental and business activities are then adjusted for general revenues to determine the change in net position for the year. The types of transactions reported as program revenues for the OSE are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONT'D)

Certain eliminations have been made as prescribed by GASB 34 in regard to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, internal service funds have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The accounts of the OSE are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, net position, revenues, expenditures, or expenses, as appropriate. All governmental funds are accounted for on a "current financial resources" measurement focus. Proprietary funds are accounted for on an "economic resources" measurement focus. The OSE has no proprietary funds.

Individual funds meeting minimum criteria (based on the size of the fund in relation to the OSE as a whole, or its governmental or business activities) as well as other funds that the OSE believes are particularly important to financial statement users are considered "major funds" and are presented separately in the fund financial statements. The general fund is always a major fund. Funds not meeting the criteria for major funds are aggregated and presented in a single column of the fund financial statements.

The various funds are grouped in the accompanying basic financial statements by type as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the OSE. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds are grant funds from federal agencies which represent the activities of various noncapital and capital programs which are disbursed by the OSE and over which the OSE exercises fiscal and administrative control. The following are the OSE's special revenue funds reported in the governmental fund statements as major funds:

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONT'D)

1. *Water Pollution Control State and Interstate Program Support* fund is used to account for the administration of programs for the prevention, reduction, and elimination of water pollution including programs for the development and implementation of groundwater protection strategies. Financing is provided by the U.S. Environmental Protection Agency.
2. *Nonpoint Source Implementation* fund is used to account for the operations of the Nonpoint Source program. Financing is provided by the U.S. Environmental Protection Agency.
3. *Environmental Remediation* fund is used to account for the proceeds from environmental litigation settlements.

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. A schedule is presented on the face of each statement presented to reconcile and explain the differences in fund balance as presented in these statements to the net position presented for governmental activities in the government-wide financial statements.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred.

Those revenues susceptible to accrual are grant revenues. Most other governmental revenues are not susceptible to accrual because generally they are not measurable until received in cash.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONT'D)

Agency and proprietary fund types utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The OSE currently does not have any agency or proprietary type funds.

The OSE follows the provisions of Governmental Accounting Standards Board's Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*" (GASB 33). GASB 33, among other provisions, clarifies the revenue recognition requirements for entities entering into nonexchange transactions. Nonexchange transactions involve the government giving or receiving value without directly receiving or giving equal value in return. Pursuant to GASB 33, the OSE records revenue on its voluntary nonexchange transactions when all applicable eligibility requirements, including expenditure-driven transactions, are met. Resources transmitted before the eligibility requirements have been met are reported as deferred revenues.

E. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents - The OSE considers all highly liquid debt instruments purchased with an original maturity of three months or less and money market funds to be cash equivalents.

Receivables and Payables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

Capital Assets - The accounting treatment over property, plant, and equipment is contingent upon whether they are reported in the government-wide or fund financial statements. The OSE's capitalization threshold is \$5,000.

Government-wide financial statements - In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost.

Depreciation of fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is charged over the estimated useful lives using the straight-line method of depreciation.

Class of asset
Equipment

Estimated useful life
3 – 7 year

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

E. ASSETS, LIABILITIES AND EQUITY (CONT'D)

Capital Assets – (Cont'd)

Fund Financial Statements – In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

All equipment owned by the OSE as of June 30, 2013 was either fully depreciated or had a historical cost of less than \$5,000.

Equity Classifications, Government-wide Statements – Equity is classified as net assets and displayed in three components:

1. *Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
2. *Restricted net assets* – Consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* – All other assets that do not meet the definition of "restricted" , "invested in capital assets, net of related debt", or "invested in purchased goodwill".

Equity Classifications, Fund Financial Statements – Governmental fund equity is classified as fund balance. In accordance with GASB 54, the OSE classifies fund balance as non-spendable, restricted, committed, assigned, and unassigned. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- A. *Non-spendable* – consists of balances that are either not in spendable form or legally or contractually required to be maintained intact. Balances most likely to be classified as non-spendable include inventory, prepaids, and interfund advances.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

E. ASSETS, LIABILITIES AND EQUITY (CONT'D)

Equity Classifications, Fund Financial Statements - (Cont'd)

- B. *Restricted* – consists of balances that have constraints placed on the net asset use that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.
- C. *Committed* – consists of assets that can only be used for specific purposes as a result of constraints imposed by formal action of the individual government's highest level of decision-making authority. Committed amounts cannot be uncommitted except by removing the constraints through the same type of formal action.
- D. *Assigned* – consists of amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Assignments of resources for a specific purpose that are not made by the government's highest level of decision-making authority are reported in this classification.
- E. *Unassigned* – consists of the residual resources that have not been restricted, committed or assigned to a specific purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available (i.e. in the case of federal or private grant revenues), OSE considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, OSE considers the amount to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless OSE has provided otherwise in its commitment or assignment actions.

OSE establishes (and modifies or rescinds) fund balance commitments by adoption and amendment of the annual budget. Assigned fund balances are established by OSE management.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

F. REVENUES AND EXPENDITURES

Federal Grants – Federal grants are recognized as operating revenue upon payment of allowable grant expenditures eligible for reimbursement from the U.S. Environmental Protection Agency or other grantors and not covered by state matching or program income.

Transfers – Represent the transfer of cash balances between funds as part of re-allocating pooled cash balances attributable to each fund. For the purposes of the statement of activities, all interfund transactions have been eliminated.

G. COMPENSATED ABSENCES

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as a part of noncurrent liabilities in the government-wide statement of net assets. Vested or accumulated vacation leave for proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

H. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Cash of \$4,170,042 at June 30, 2013 was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*.

Investment Interest Rate Risk – the OSE does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

2. CASH AND INVESTMENTS (CONT'D)

Investment Credit Risk – the OSE has no investment policy that limits its investment choices other than the limitation of state law imposed on the State Treasurer as follows:

- a. U.S. Treasury Bills, Notes and Bonds and U.S. Government Agency Securities with certain ratings and maturity limitations.
- b. Collateralized or insured certificates of deposit and other evidences of deposit issued by a bank, savings bank, savings and loan association or credit union located in the state.
- c. With certain ratings and maturity limitations, negotiable certificates of deposit, bankers acceptances and commercial paper.
- d. Obligations of state and local governments, including obligations of Oklahoma state public trusts, with certain ratings and maturity limitations.
- e. Collateralized repurchase agreements tri-party repurchase agreements.
- f. Money market mutual funds and short term bond funds regulated by the SEC and in which investments consist of obligations of the U.S. Government and its agencies and instrumentalities and repurchase agreements collateralized by obligations of the U.S. Government and its agencies and instrumentalities.

The State Treasurer has determined that current holdings in *OK Invest* should be limited to obligations of the United States government, its agencies and instrumentalities, tri-party repurchase agreements collateralized at 102% with the collateral held by a third party in the name of the Oklahoma State Treasurer and money market mutual funds which either directly or indirectly invest in U.S. Treasury and/or Agency securities and repurchase agreements related to such securities. *OK Invest* is not rated by a national rating agency. The overall weighted average maturity of *OK Invest* is less than 2 years. *OK Invest* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

Concentration of Investment Credit Risk – the OSE places no limit on the amount it may invest in any one issuer. Limits are indirectly imposed through the Fund's participation in *OK Invest*. The OSE has the following concentration of credit risk: 100% or \$4,170,042 is invested in *OK Invest*.

3. PENSION PLAN

General Description

As provided by State law, the OSE participates in the Oklahoma Public Employees' Retirement System, a component unit of the State of Oklahoma. This System covers substantially all State and county employees and extends to local entities if they elect to participate. The system is a multi-employer, cost-sharing plan.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

3. PENSION PLAN (CONT'D)

General Description (Cont'd)

The Retirement Plan, administered by the System, is a defined benefit, contributory plan that provides participants with retirement, death and disability benefits. Pension benefit provisions were established by statute, and benefit provisions are amended by the State Legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature.

A separately issued independent audit report for the plan may be obtained by writing:

Public Employees' Retirement
5801 N. Broadway Extension, Suite 400
Oklahoma City, OK 73118

Funding Policy

The contribution rates for the plan are established by the State Legislature and are not based on an actuarial calculation, which is performed to determine the adequacy of the rate.

The OSE makes contributions to the plan on behalf of its employees based on their gross salary earned (excluding overtime) for the fiscal year ended June 30. The contribution rates in effect for the year ended June 30, 2013, and the rates in subsequent periods are summarized as follows:

OSE	16.5%
OSE Employees	3.50%

In addition to the required employee participation described above, the Plan allows employees to make an irrevocable election to participate in the Plan's *Step-Up* election. The *Step-Up* election requires employees, who choose to do so, to make an additional annual contribution to the Plan equal to 2.91% of compensation. In exchange for the additional contribution, the employee's final benefit computation factor used in calculating the retirees benefit will be increased, or "stepped-up", from the standard 2% factor to 2.5%. The 2.91% factor is actuarially determined and could change in the future.

Contributions to the plan by the OSE for the years ended June 30, 2013, 2012, and 2011, were \$37,150, \$20,240, and \$21,811, respectively. These contributions represented 100% of the contributions required.

The employer contribution percentage began increasing by 1% annually on July 1, 2006, and continued each year through the fiscal year ending June 30, 2012, when it reached a final 16.5%.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

4. COMPENSATED ABSENCES

Employees earn annual vacation leave at the rate of 10 hours per month for the first 5 years of service, 12 hours per month for service of 5 to 10 years, 13.33 hours per month for service of 10 to 20 years, and 16.67 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. The governmental fund financial statements present the cost of accumulated vacation leave as a liability. The liability is valued based on current rate of pay. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay this amount when employees separate from service.

5. OPERATING LEASE

OSE is committed under an operating lease related to office equipment. Future minimum rental commitments attributable to continuing operations under this operating lease are as follows:

2014	\$ 3,206
TOTAL	<u>\$ 3,206</u>

Total rent expense incurred under operating leases attributable to continuing operations was approximately \$3,498 for the year ended June 30, 2013.

6. RISK MANAGEMENT

The OSE participates in the Risk Management Division of the Department of Central Services of the State of Oklahoma for its property insurance. Comprehensive general liability and personal injury liability are also covered by the fund.

7. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability to OSE. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although OSE expects such amounts, if any, to be immaterial.

8. RELATED PARTY

The OSE utilizes office space and certain other overhead costs provided to it by the Oklahoma Water Resources Board.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

9. MAJOR REVENUE SOURCES

A majority of the OSE's revenue is from grants from the U.S. Environmental Protection Agency. In the event these grants were discontinued or severely restricted, the activities of the OSE would be curtailed accordingly.

10. ADOPTION OF NEW ACCOUNTING STANDARD

During the current period, the OSE implemented the provisions of Governmental Accounting Standards Board (GASB) Statement Number 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

The adoption of Statement 63 had the effect of changing the previous “statement of net assets” to a “statement of net position”.

11. COMBINATION OF AGENCIES

Subsequent to year end, the OSE was informed of the governor’s intent to combine the Office of the Secretary of the Environment and the Secretary of Energy of the State of Oklahoma into one central agency – *Office of the Secretary of Energy and Environment*. The overall effect on this combination on future reporting is currently being evaluated.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT
OF THE STATE OF OKLAHOMA
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

EXHIBIT 1

	General Fund Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
State appropriations	\$ 108,732	108,732	108,732	-
Other	-	-	-	-
Total revenues	<u>108,732</u>	<u>108,732</u>	<u>108,732</u>	<u>-</u>
EXPENDITURES				
Current:				
Personnel and operating costs	231,107	231,107	103,026	128,081
Total expenditures	<u>231,107</u>	<u>231,107</u>	<u>103,026</u>	<u>128,081</u>
Excess (deficiency) of revenues over expenditures	<u>(122,375)</u>	<u>(122,375)</u>	<u>5,706</u>	<u>128,081</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>(1,822)</u>	<u>(1,822)</u>	<u>(1,822)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,822)</u>	<u>(1,822)</u>	<u>(1,822)</u>	<u>-</u>
Net change	(124,197)	(124,197)	3,884	128,081
Fund balances-beginning	124,197	124,197	124,197	-
Fund balances-ending	<u>\$ -</u>	<u>-</u>	<u>128,081</u>	<u>128,081</u>

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended June 30, 2013

The Budgetary Comparison Schedule – Budget to Actual (Non-GAAP Budgetary Basis) presents a comparison of the original and final legally adopted budget with actual data on a budgetary basis.

The Office of the Secretary of the Environment's budget is prepared on the cash basis utilizing encumbrance accounting. Encumbrances represent executed but unperformed purchase orders. In the accompanying financial statements, encumbrances are recorded as expenditures for budgetary purposes if expected to be presented for payment by November 15 following the end of the fiscal year and as reservations of fund balance for GAAP purposes. Since the budgetary basis differs from generally accepted accounting principles, budget and actual amounts presented in the Budgetary Comparison Schedule – Budget to Actual – General Fund are presented on the budgetary basis.

A reconciliation of revenues in excess of (less than) expenditures and other financing sources (uses) on a budgetary basis at June 30, 2013 to revenues in excess of (less than) expenditures and other financing sources (uses) presented in conformity with generally accounting principles is set forth as follows:

Budgetary basis fund balance, June 30, 2012,	\$	124,197
Excess of total sources over uses per		
Budgetary Basis		3,884
Budgetary basis fund balance, June 30, 2013		<u>128,081</u>
Entity and perspective differences:		
Encumbrances		3,159
Basis differences:		
Less: Accrued expenditures		<u>(937)</u>
GAAP basis fund balance (deficit), June 30, 2013	\$	<u><u>130,303</u></u>

Special Revenue Funds prepare and use budgetary data but generally have contract periods which differ from the OSE's fiscal year. Accordingly, the budgetary comparison for these funds is not included as part of the budgetary comparison schedule.

**OFFICE OF THE SECRETARY OF
THE ENVIRONMENT
STATE OF OKLAHOMA**

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

JUNE 30, 2013

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

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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 of the State of Oklahoma
and the Secretary of the Environment 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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the Secretary of the Environment of the State of Oklahoma (the "OSE"), a division of the Oklahoma Water Resources Board, an agency of the State of Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the OSE's basic financial statements, and have issued our report thereon dated March 14, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See Findings 13-01 and 13-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the OSE'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*.

Office of the Secretary of the Environment's Response to Findings

OSE's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. OSE'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 OSEs internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arlidge & Associates, P.C.

March 14, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR
A-133**

To the Governor of the State of Oklahoma
and the Secretary of the Environment of the State of Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Office of the Secretary of the Environment (the "OSE"), a division of the Oklahoma Water Resources Board, an agency of the State of Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the OSE's major federal programs for the year ended June 30, 2013. The OSE's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the OSE's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the OSE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the OSE's compliance.

Opinion on Each Major Federal Program

In our opinion, the OSE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the OSE is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the OSE's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the OSE's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the OSE as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the OSE's basic financial statements. We issued our report thereon dated March 14, 2014, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Arledge & Associates, P.C.

March 14, 2014

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

FUNDING SOURCE	GRANT/ CONTRACT NAME	FEDERAL CFDA NUMBER	CURRENT YEAR GRANT EXPENDITURES
Office of Water, U.S. Environmental Protection Agency:			
	Water Pollution Control State, Interstate, and Tribal Program Support	66.419	\$ 3,280,247
	Water Quality Management Planning	66.454	177,433
	Urban Waters Small Grants	66.440	12,068
	Nonpoint Source Implementation Grants	66.460	3,766,464
	Regional Wetland Program Development Grants	66.461	<u>481,663</u>
	Total Office of Water, Environmental Protection Agency		<u>7,717,875</u>
	Total Expenditures of Federal Awards		\$ <u>7,717,875</u>
Reconciliation to the Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds (Statement 4):			
	Total Expenditures of Federal Awards (from above)		\$ 7,717,875
	Include General Fund expenditures reflected in the <i>Statement of Revenues, Expenditures and Changes in Fund Balances</i>		99,426
	Include Non-Federal Special Revenue expenditures reflected in the <i>Statement of Revenues, Expenditures and Changes in Fund Balances</i>		<u>28,645</u>
	Total expenditures per <i>Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds (Statement 4)</i>		\$ <u>7,845,946</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the Office of the Secretary of the Environment award programs presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency (ies) identified

not considered to be material weaknesses?

X yes _____ none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified

not considered to be material weakness(es)?

_____ yes X none reported

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)?

_____ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

66.419

Water Pollution Control State, Interstate,
and Tribal Program Support

66.460

Nonpoint Source Implementation Grants

66.461

Regional Wetland Program Development

Dollar threshold used to distinguish
between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X yes _____ no

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)

Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

See Finding 13-01 and Finding 13-02.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)

Year Ended June 30, 2013

Finding 13-01- Monthly Financial Reporting

Criteria:

In order to ensure accurate financial reporting, financial information should be prepared and reconciled on a monthly basis.

Statement of Condition:

During our audit, we noted that the Voucher Summary report was not prepared and reconciled on a monthly basis during the fiscal year. The Voucher Summary report is prepared by the OSE in order to track the OSE's overall monthly cash receipts and disbursement activity, including by grant detail.

Cause and Effect:

Changes in personnel and job responsibilities did not allow for monthly preparation and reconciliation of the Voucher Summary. Preparation of the Voucher Summary on a monthly basis helps to ensure that errors in coding cash receipts and disbursements are detected and corrected on timely basis.

Recommendations:

We recommend that the Voucher Summary report be prepared and reconciled on a monthly basis.

Management's response:

As recommended, every effort will be made to prepare and reconcile the Voucher Summary report on a monthly basis.

OFFICE OF THE SECRETARY OF THE ENVIRONMENT OF THE STATE OF OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)

Year Ended June 30, 2013

Finding 13-02- Payroll Allocation Worksheets

Criteria:

In order to ensure accurate financial reporting, Excel worksheets used to assemble payroll related expenditures for monthly reporting should be reviewed for errors in formulas. Data sources used to prepare the worksheets should be reviewed for accuracy.

Statement of Condition:

During our audit testwork over payroll, we reviewed a sample of three of the twelve monthly Salary Distribution worksheets. The Salary Distribution worksheets are used by the OSE to assemble monthly payroll and operating expenses for reimbursement from the applicable federal grant. We noted that three of the Salary Distribution worksheets selected for testing, contained errors in the amounts being used for the employer portion of FICA/Medicare taxes.

Additionally, we noted that two of the three Salary Distribution worksheets contained an error in the amount of the OPERS contribution that was required to be funded by the OSE.

The resulting effect of the errors is that the OSE is understating the amount that could be claimed for reimbursement from the granting agency. The dollar amounts of the errors noted were: \$305, \$305, and \$293 from the three months tested.

Cause and Effect:

Changes in personnel and job responsibilities did not allow for preparation and review/reconciliation of the Salary Distribution worksheet on a monthly basis. Failure to prepare and reconcile the Salary Distribution worksheet on a monthly basis reduces the likelihood of detecting and correcting errors on a timely basis.

Recommendations:

We recommend that the Salary Distribution worksheet be prepared and reviewed on a monthly basis and the resulting claims for reimbursement from the granting agency should be submitted on a monthly basis.

Management's response:

As recommended, every effort will be made to prepare and review the Salary Distribution worksheet and submit resulting claims on a monthly basis.