

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

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WATER QUALITY PROGRAM
Oklahoma Conservation Commission

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Oklahoma Conservation Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Water Quality program, a program of the Oklahoma Conservation Commission, an agency of the State of Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Water Quality program'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 of the Water Quality program, as of June 30, 2016, and the respective changes in financial position 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 Water Quality program are intended to present the financial position, and the changes in financial position, of only that portion of the governmental activities of the Oklahoma Conservation Commission that is attributable to the transactions of the Water Quality program. They do not purport to, and do not, present fairly the financial position of the Oklahoma Conservation Commission nor the State of Oklahoma as of June 30, 2016, and the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion of the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Quality program's basic financial statements. The Statement of Receipts, Expenditures, and Cash Balances, on pages 21 and 22, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, on page 18, is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The Statement of Receipts, Expenditures, and Cash Balances, and the Schedule of Expenditures of Federal Awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 Statement of Receipts, Expenditures, and Cash Balances, and the Schedule of Expenditures of Federal Awards, are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017, on our consideration of the Water Quality program'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 the Water Quality program's internal control over financial reporting and compliance.



Bruce Luttrell, CPA, PC

June 27, 2017

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**WATER QUALITY PROGRAM
Oklahoma Conservation Commission**

**STATEMENT OF NET POSITION
June 30, 2016**

	<u>Government Activities</u>
Assets	
Current assets	
Due from other governments	\$ <u>429,933</u>
Total current assets	<u>429,933</u>
Total assets	<u>429,933</u>
 Liabilities	
Current liabilities	
Cash and cash equivalents	<u>429,782</u>
Total current liabilities	<u>429,782</u>
 Net Position	
Restricted for grant programs	151
Unrestricted	<u>-</u>
Total net position	\$ <u><u>151</u></u>

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

**WATER QUALITY DIVISION
Oklahoma Conservation Commission**

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

Functions/programs	Expenses	Program Revenues	Net (Expense)/ Revenue
Governmental activities			
Water Quality program	\$ 2,738,570	\$ 2,738,793	\$ 223
Total governmental activities	\$ 2,738,570	\$ 2,738,793	223
Change in net position			223
Net position, beginning of year			(72)
Net position, end of year			\$ 151

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

FUND FINANCIAL STATEMENTS

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	<u>General Fund</u>
Assets	
Current assets	
Due from other governments	\$ 429,933
Total current assets	<u>429,933</u>
Total assets	\$ <u><u>429,933</u></u>
Liabilities and Fund Balance	
Current liabilities	
Cash and cash equivalents	\$ 429,782
Total current liabilities	<u>429,782</u>
Fund Balance:	
Restricted for grant programs	151
Unassigned	-
Total fund balance	<u>151</u>
Total liabilities and fund balance	\$ <u><u>429,933</u></u>

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

**WATER QUALITY PROGRAM
Oklahoma Conservation Commission**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016**

	<u>General Fund</u>
Revenues:	
Grants	\$ 2,738,793
Total revenues	<u>2,738,793</u>
Expenditures:	
Personnel Services	1,133,670
Subcontract	573,704
Travel	36,846
Equipment	27,654
Supplies	128,304
Other	677,360
Indirect Cost	229,922
Adjustments	(68,890)
Total expenditures paid	<u>2,738,570</u>
Net change in fund balance	223
Fund balance, beginning of year	<u>(72)</u>
Fund balance, end of year	<u>\$ 151</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Water Quality is a program within the Oklahoma Conservation Commission (OCC), an agency of the State of Oklahoma. Created in 1937, the mission of the Oklahoma Conservation Commission is to conserve, protect, and restore Oklahoma's natural resources working in collaboration with the local conservation districts and other partners on behalf of the citizens of Oklahoma. The OCC fulfills its mission by providing tools, leadership and protection, including, among others, water quality protection.

A. Reporting Entity

These financial statements represent all of the activities of the Water Quality program of the Oklahoma Conservation Commission, an agency of the State of Oklahoma. This program is funded by the Office of the Secretary of the Environment (OSE), and is administered by the Oklahoma Conservation Commission. The accompanying financial statements are intended to present only the financial position and results of operations of the Water Quality program of the Oklahoma Conservation Commission.

B. Basic Financial Statements

Water Quality 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 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 Water Quality program are reported as operating grants.

The accounts of the Water Quality program 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 Water Quality program has no proprietary funds.

Individual funds meeting minimum criteria (based on the size of the fund in relation to the Water Quality program as a whole, or its governmental or business activities) as well as other funds that the Water Quality program 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:

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental funds

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

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds. 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.

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 Water Quality program currently does not have any agency or proprietary type funds.

The Water Quality program 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 Water Quality program 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. 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.

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Equity Classifications, Government-wide Statements (continued)

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 government, 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.”

Equity Classifications, Fund Financial Statements – Governmental fund equity is classified as fund balance. In accordance with GASB 54, the Water Quality program 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.
- 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* – consist 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), the Water Quality program considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Water Quality program considers the amount to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless Water Quality has provided otherwise in its commitment or assignment actions.

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 (passed through the Oklahoma Office of the Secretary of the Environment) or other grantors and not covered by state matching or program income.

Receipts are directly deposited into the State Treasurer’s # 400 Fund account by the Office of the Secretary of the Environment. All expenditures are done through the State’s disbursement system.

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Cash

For the year ended June 30, 2016, funds were directly deposited into the State Treasurer's # 400 Fund account, and held in the State Treasurer's internal investment pool - *OK Invest*.

Investment Interest Rate Risk – the Water Quality program 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.

Investment Credit Risk – the Water Quality program 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 Water Quality program 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 Water Quality program has the following concentration of credit risk: 100 % was invested in *OK Invest*, during the year.

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.

NOTE 2. COMPENSATED ABSENCES

Oklahoma Conservation Commission personnel assigned to administer the Water Quality program

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2. COMPENSATED ABSENCES (continued)

are allowed to accrue annual and sick leave which may be carried forward if not used. Sick leave accrues at 10 hours per month, with no limit on the maximum accrual. Annual leave accrues at 16.67 hours per month for employees with more than 20 years' service, 13.33 hours per month for employees with more than 10 years and less than 20 years of continuous service, 12 hours per month for employees with more than 5 years and less than 10 years of continuous service, and at 10 hours per month for employees with less than 5 years of continuous service. Unused annual leave may be accumulated to a maximum of 480 hours. Upon the employee's termination, the accrued annual leave shall be paid at the employee's pay rate in effect at the time of termination. The liability for accumulated annual leave is presented as a liability of the Oklahoma Conservation Commission in its financial statements, since the Water Quality program is strictly a reimbursement type program (reimbursed by the grant for the salary and expenses budgeted for each grant.) Any accrued sick leave is forfeited upon the employee's termination. At June 30, 2016, the total accumulated annual leave for Conservation Commission employees assigned to the Water Quality program was approximately \$ 169,000.

NOTE 3. INDIRECT COSTS

In March, 2003, the Oklahoma Conservation Commission obtained approval from the U.S. Department of the Interior for an indirect cost rate applicable to the Water Quality program. The indirect cost rate is a predetermined, fixed allocation, based upon 20 % of direct salaries and wages and is effective for the period from July 1, 2014 through June 30, 2018.

The indirect cost allocation formula includes direct salaries and wages paid to Water Quality program administrative staff for active tasks for the current fiscal year grant. For the fiscal year ended June 30, 2016, indirect costs of \$ 229,922.35 were budgeted, and reimbursed, under the current year grants.

NOTE 4. RISK MANAGEMENT AND INSURANCE

The Water Quality program 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.

NOTE 5. PENSION PLANS

General Description

As provided by State law, the Oklahoma Conservation Commission 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.

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 pension plan may be obtained from: Public Employees Retirement, 5801 N. Broadway Extension, Suite 400, Oklahoma City, Oklahoma 73118.

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 5. PENSION PLANS (continued)

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 Conservation Commission 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, 2016, and the rates in subsequent periods are summarized as follows:

Conservation Commission	16.5 %
Conservation Commission employees	3.5 %

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.

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 %.

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 5, the State provides post-retirement health care benefits (OPEB.) The Oklahoma Public Employees Retirement System (OPERS) pays the Medicare supplement premium or \$ 105.00 per month, whichever is less, for all retirees who elect coverage at the time of retirement through the respective systems. Information specific to the Water Quality program is not available and cannot be reasonably estimated.

NOTE 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 the Water Quality program. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Water Quality program expects such amounts, if any, to be immaterial.

NOTE 8. RELATED PARTY

The Water Quality program utilizes office space and certain other overhead costs provided to it by the Oklahoma Conservation Commission.

NOTE 9: MAJOR REVENUE SOURCE

A majority of the Water Quality program's revenue is from grants from the U.S. Environmental Protection Agency (passed through the Oklahoma Secretary of the Environment). In the event these grants were discontinued or severely restricted, the activities of the Water Quality program would be curtailed accordingly.

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 10: SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 27, 2017, which is the date the financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

**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***

The Board of Directors
Oklahoma Conservation Commission

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 of the Water Quality program of the Oklahoma Conservation Commission, an agency of the State of Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Water Quality program's basic financial statements and have issued our report thereon dated June 27, 2017.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Quality program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item # 2016-1 and # 2016-2.

Oklahoma Conservation Commission's Response to Findings

The Oklahoma Conservation Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Oklahoma Conservation Commission'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 Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce G. Luttrell, CPA, PC

June 27, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Oklahoma Conservation Commission

Report on Compliance for Each Major Federal Program

We have audited the Water Quality program of the Oklahoma Conservation Commission, an agency of the State of Oklahoma's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Water Quality program's major federal programs for the year ended June 30, 2016. The Water Quality program'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Water Quality program'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Water Quality program'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 Water Quality program's compliance.

Opinion on Each Major Federal Program

In our opinion, the Water Quality program complied, in all material respects, with the 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items # 2016-1 and # 2016-2. Our opinion on each major federal program is not modified with respect to these matters.

The Oklahoma Conservation Commission's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Oklahoma Conservation Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Water Quality program 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 Water Quality program'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 the Uniform Guidance, 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 Water Quality program'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 deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The Water Quality program's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Water Quality program's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

This 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Bruce G. Luttrell, CPA, PC

June 27, 2017

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Year</u>	<u>Federal CFDA Number</u>	<u>Amount of Expenditures</u>
U.S. Environmental Protection Agency (EPA)			
Passed-through the Oklahoma Office of the Secretary of the Environment:			
Nonpoint Source Pollution Program	6-30-16	66.460	\$ 2,606,434.47
Wetlands Program	6-30-16	66.461	<u>132,135.92</u>
Total Expenditures of Federal Awards			\$ 2,738,570.39 <u>=====</u>

Note A: Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Water Quality program and is presented under the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America.

Note B: There were no amounts passed to subrecipients.

Note C: Grantor provides adequate insurance coverage against loss on assets purchased with Federal Awards.

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

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?	No
Reportable condition(s) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	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)?	# 2016-1 and # 2016-2

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Expenditures</u>
66.460	Nonpoint Source Pollution Program	\$ 2,606,434.47

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

None

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2016-1 Expenses Related to Motor Pool Vehicle

Condition: From July 1, 2015, through December 31, 2015, the Oklahoma Conservation Commission was funding, under the NPS grant, an employee's use of a motor pool vehicle to commute from his home in Weatherford to the Oklahoma Conservation Commission's office in Oklahoma City (approximately 140 miles roundtrip daily)

Criteria: The employee's commute from his home to the Oklahoma Conservation Commission's office does not directly contribute to the approved work of the NPS grant work plans

Cause: The Oklahoma Conservation Commission submitted motor pool expenses as an allowable expense under the NPS grant, and was reimbursed accordingly

Effect of Potential Effect: Since expenses associated with the employee's commute do not directly contribute to the approved work of the NPS grant work plans, the expenses are not allocable to the Federal grant

Recommendation: The Water Quality Protection Division, US EPA Region 6, has recommended that the Oklahoma Conservation Commission discontinue the funding of the employee's use of the motor pool vehicle for commuting to Oklahoma City, under the NPS grant, and to remove such charges from the current NPS grant, and any other EPS/Federal award.

Responsible Official's Response: The costs associated with the motor pool vehicle from July 1, 2015, through December 31, 2015, totaled \$ 4,034.57 (with the related match of \$ 2,689.71.) In accordance with EPA's instructions, those funds were returned to the grant in the September 2016 Request for Funds.

2016-2 Continuing Education Expenses for Certified Public Accountant

Condition: During the current year, the Oklahoma Conservation Commission paid for continuing education courses for an employee who is also a Certified Public Accountant. Chapter 50, Section K(5)(d), of the *Office of Management and Enterprise Services: Statewide Accounting Manual*, appears to expressly prohibit "any costs associated with obtaining or maintaining a CPA permit to practice...under any circumstances."

Criteria: The employee's "Request For Acquisition" stated that it was a package of courses that met his 40 hour annual requirement. That requirement is for a permit to practice public accounting, not a requirement to maintain a license. The request was originally denied by the Oklahoma Conservation Commission comptroller, and later approved by the Executive Director and the Water Quality Program Director.

Cause: The Oklahoma Conservation Commission submitted this as an allowable expense under the NPS grant, and was reimbursed accordingly.

Effect of Potential Effect: Since the expense appears to be at odds with the State's purchasing law, the expense is questionable as to its applicability under the Federal grant

Recommendation: Since the expense appears to be at odds with the State's purchasing law, it should be reviewed by EPA as to its applicability.

Responsible Official's Response: The cost of the continuing education courses was paid by the Oklahoma Conservation Commission, and submitted as an allowable expense under the NPS grant, and was reimbursed accordingly.

Questioned Costs: The cost of the continuing education courses totaled \$ 799.00.

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

STATEMENT OF RECEIPTS, EXPENDITURES AND CASH BALANCES
For the Year Ended June 30, 2016

	2011 319(h) <u>C9-996100-16</u>	2011 Special 319(h) <u>C9-00F31301</u>	2011 319(h) <u>C9-00F56701</u>	2013 319(h) <u>C9-996100-17</u>	2015 319(h) <u>C9-99610-18</u>	2011 104(b)(3) <u>CD-00F299-01</u>
CASH at July 1, 2015	(101,854.87)	(99,567.77)	(56,332.94)	(21,244.08)	(434,965.41)	(1,373.29)
319(h) Grant Revenue	311,332.63	230,112.89	236,781.24	127,044.88	2,017,732.15	
Wetlands Grant Revenue						7,514.78
Total Cash Available	209,477.76	130,545.12	180,448.30	105,800.80	1,582,766.74	6,141.49
Expenditures Paid:						
Personnel	63,209.14			108,552.94	848,259.07	5,390.74
Equipment					27,654.59	
Travel	254.00	166.00		2,332.78	32,749.21	
Supplies	20,563.06			6,227.78	101,314.17	
Subcontract	60,277.35	23,713.16		46,576.46	440,186.63	
Other	66,387.10	110,243.56	223,879.34	2,558.23	274,291.53	
Indirect Costs	(1,382.56)			71,798.67	145,512.68	751.14
Adjustments				(68,890.45)		
Total Expenditures	209,308.09	134,122.72	223,879.34	169,156.41	1,869,967.88	6,141.88
CASH at June 30, 2016	169.67	(3,577.60)	(43,431.04)	(63,355.61)	(287,201.14)	(0.39)

2013 104(b)(3) CD-00F56801	2014 104(b)(3) CD-00F574001	2015 104(b)(3) 578 CD-01F10501	2105 104(b)(3) 579 CD-01F10501	2015 104(b)(3) 580 CD-01F10501	TOTALS
(12,521.64)	(11,324.26)	-	-	-	(739,184.26)
48,993.82	48,217.38	11,023.73	-	9,218.76	2,923,003.79 124,968.47
36,472.18	36,893.12	11,023.73	-	9,218.76	2,308,788.00
35,357.27	36,754.68	14,094.95		22,051.52	1,133,670.31 27,654.59
150.00				1,344.04	36,846.03
			1,582.89	49.00	128,304.01
				1,367.30	573,703.79
4,134.65	4,418.39	1,771.89		2,917.49	677,359.76 229,922.35
					(68,890.45)
39,641.92	41,173.07	15,866.84	1,582.89	27,729.35	2,738,570.39
(3,169.74)	(4,279.95)	(4,843.11)	(1,582.89)	(18,510.59)	(429,782.39)