



FY2019  
Annual Report

Office of the  
State Auditor & Inspector

Submitted to Oklahoma Governor Kevin Stitt, Speaker of the House Charles McCall, Senate President Pro Tempore Greg Treat and the people of Oklahoma by State Auditor & Inspector Cindy Byrd, CPA.



The Honorable Kevin Stitt  
Governor, State of Oklahoma  
2300 N. Lincoln Blvd., Room 124  
Oklahoma City, OK 73105

Dear Governor Stitt:

The opportunity to serve as the lead agency in safeguarding public assets and promoting transparency and accountability in the expenditure of public funds is the cornerstone of our mission. We sincerely acknowledge the confidence you have placed in this office, its professional staff, and the independence we exhibit in the objective review of records, policies, procedures, and programs in the delivery of government services.

The following report details the activities of the Office of the State Auditor & Inspector during FY2019. The report explains the roles of our various divisions in conducting specific types of audits to assist other public officials and agencies serve as good stewards of the public trust.

FY2019 was a year of transition ushering in new administrations among office holders at every level of government. These new leaders unveiled various goals and strategies to improve government operations along with strengthening and diversifying our state's economy. A healthier economy means more revenue for the state. Reliance on data and other critical information assists in the budgeting process. It has been an honor to have been of assistance to you and legislative leaders in securing financial and programmatic material to aid in your endeavors.

Our audit findings consistently show a need for improved *internal controls* at almost every level of government, perhaps most significantly in smaller communities and school districts. Tight budgets and fewer revenue sources translate into limited personnel to both handle financial transactions and monitor them. A lack of oversight is most regularly cited as the failed preventative measure when fraud, embezzlement, waste, and abuse occur.

Performance Audits remain a critical tool to identify areas of risk, review program efficiencies, and demonstrate improved transparency and accountability from legislators to taxpayers. In providing management information about areas of exposure and offering recommendations to implement safeguards to diminish risk, an audit is a source for good government and an effective tool in making Oklahoma a Top 10 state.

Our office published 346 audit reports of public entities in FY2019 including 269 County Audit Division reports, 22 Performance Audit Division reports, eight Special Investigation Division reports, the statewide Comprehensive Annual Financial Report and Single Audit. At your request, we also initiated a Performance Audit of the Oklahoma Health Care Authority Medicaid Program which is in progress.

We pursue the facts, without bias or personal agenda, to be a data-driven resource. We encourage you and legislative leaders to call upon our expertise to serve as a critical asset of financial analysis and review.

Sincerely,



Cindy Byrd, CPA  
State Auditor & Inspector





# LEADERSHIP TEAM



**Cindy Byrd, CPA**, is Oklahoma's 13th State Auditor & Inspector, the first woman elected to this statewide-elected office, and she is the only candidate to top the 800,000-vote milestone in an election for state office in Oklahoma History.

Byrd served as Deputy State Auditor & Inspector for Local Government Services from January 2013 before assuming her new role on January 14, 2019. She also previously served as Director of the County Audit Division where she is credited with designing and implementing an effective plan to eliminate a five-year backlog of audits.



**LISA HODGES, CFE, CGFM**, is Chief Financial Officer and Deputy State Auditor. Lisa has been with SAI since 1981. Lisa became a Certified Fraud Examiner in 1993 and qualified in 1996 as a Certified Government Financial Manager. She has served on National State Auditor's Association (NSAA) Peer Review Team since 1998. Lisa earned her Bachelor of Science degree in Accounting from Oklahoma State University in 1981.



**MELISSA CAPPS** is Director of the Performance Audit Division (PAD). She graduated in 1998 from the University of Central Oklahoma with a Bachelor of Business Administration Finance degree. Melissa has 19 years of service with the State Auditor's Office including experience in the State Agency Audit Division conducting audits at DHS and the Health Care Authority. Melissa has directed performance audits including the Dept. of Health, Dept. of Corrections, Corporation Commission and the Dept. of Tourism, plus numerous other performance and operational audits of state agencies.



**SHELLEY FLEMING, CPA**, is Director of the State Agency Audit Division (SAAD). She graduated from Oklahoma State University in 1996 with a Bachelor of Science in Accounting and obtained her Certified Public Accountant distinction in 2001. Shelley joined the State Auditor's Office in 2003. Shelley's public service includes prior agency experience as an Audit Supervisor and Audit Manager. She has been associated with multiple audits over the years including extensive work on the CAFR and the Single Audit of federal funds expended by numerous state agencies.



**BRENDA HOLT, CPA**, is Director of the Special Investigation Division. Brenda graduated from East Central University with a Bachelor of Science in Accounting in 1984, and has been a Certified Public Accountant since 1987. During her tenure with SAI, Brenda has conducted county audits, college and university audits, state agency audits, and special audits of municipalities, school districts and other government entities. She works closely with prosecutors, governing boards, and the public in identifying fraud and waste of public funds by gathering the facts necessary to support successful prosecution of wrongdoers.

# LEADERSHIP TEAM



**SHEILA ADKINS, CISA, CPM, CIA** is Information Services Division Director. Sheila has been part of the Executive Team since 2000 and has more than 20 years of audit experience. A graduate of Northeastern Oklahoma State University, she earned a Bachelor of Science in Business Administration and Accounting in 1984 and a Master of Arts in Leadership with an emphasis in Public Administration in 2011. Sheila is a Certified Information Systems Auditor, Certified Public Manager, and Certified Internal Auditor.



**MARK HUDSON, CPA, CGMA**, is Director of the Specialized Audit Division. He has more than 28 years of governmental auditing experience including oil and gas, horse racing, and gaming. Mark graduated from East Central University with a Bachelor of Science in Accounting. A Certified Public Accountant, Mark is a member of both the Oklahoma Society of CPAs and the American Institute of CPAs.



**CINDY WHEELER, CPA**, is Director of Quality Assurance. She began her tenure with the State Auditor's Office in 2004 serving previously as an Audit Manager before taking over the reins of QA in 2011. Cindy is a Certified Public Accountant and a 1990 graduate of the University of Central Oklahoma in Edmond. She holds a Bachelor of Science in Accounting from UCO and earned a Master of Business Administration from Oklahoma Christian University in 2002.



**CHERYL WILSON, CFS** is Manager of the County Management Services Unit. Cheryl began her tenure with the State Auditor's office in 1994, previously serving as a county auditor and as an information systems auditor. Cheryl earned a Bachelor of Science in Accounting degree from East Central University, Ada, in 1996, and is a Certified Fraud Specialist. She works closely with county officials and with the Oklahoma State University - County Training Program in both assisting with application of various statutes and auditing standards as well as training on these topics.



**TREY DAVIS** is Director of Administration/CPE/Public Information. Trey joined SAI in 2008 with a strong background in communications and public administration. A former radio news reporter, Trey was State Capitol Bureau Chief for the Oklahoma News Network and KTOK News Radio during two terms of the legislature. His public service began in 1997 at the Oklahoma Department of Labor where he served more than nine years as Director of Communications, Deputy Commissioner, and five years as Chief of Staff.

## THE AGENCY

The Office of the State Auditor & Inspector was created by the Oklahoma Constitution. The state legislature has expanded the agency's role and responsibilities over the years.

The design was to create an independent state officer who would review how tax dollars were spent. Over the past 11 decades, residents have come to know the agency as their watchdog.

The State Auditor is a statewide elected official. The agency is part of the Executive Branch of state government which has the Governor at its top. Despite its appearance as being part of the governor's oversight, the Office remains independent from other Executive Branch agencies whose directors are largely appointed by the governor.

Cindy Byrd, CPA, is the state's 13<sup>th</sup> State Auditor & Inspector. She is in the first year of her first term having taken office in January 2019. This document is a report on Fiscal Year 2019 which covers the last six months of the previous administration and the first six months under Cindy's leadership.

The Office consists of six key divisions conducting different types of audits of public entities. These divisions are the:

- State Agency Audit Division
- County Audit Division
- Performance Audit Division
- Special Investigation Audit Division
- Specialized Audit Division
- Information Services Division

The roles and function of these groups will be detailed later in this report.

In many ways, the Office is organized like private sector accounting firms that also conduct audits. The Office is limited to only recovering its actual costs. At one time almost fully funded, today the Office derives about 30 percent of its funding from appropriated dollars. The rest of its budget comes from public entities paying

the actual cost of an audit which is considerably less than the hourly rate of our private sector counterparts.

The Office has 105 employees involved in the audit process with a combined 1180 years of auditing experience. Over the last decade, most staff were degreed in the area of accounting or business management. Our staff includes:

- 13 Certified Public Accountants
- 4 Certified Internal Auditors
- 2 Certified Information Systems Auditors
- 7 Certified Fraud Examiners
- 3 Certified Gov't Financial Managers
- 5 IT Specialists
- 3 Certified Gov't Auditing Professionals

## ITS MISSION

*"To independently serve taxpayers and public officials by conducting audits that provide meaningful, reliable results and promote efficiency, stewardship, and transparency in government"* serves as the agency mission statement.

With that in the forefront, the agency has focused on a dual purpose since Cindy took her Oath of Office. In addition to its primary role of protecting tax payers by monitoring how public entities both receive and spend public funds; the agency has established itself as the go-to agency in assisting the governor and members of the state legislature obtain information critical to the responsibilities of each.

This matters because the State Auditor's Office is the only agency in Oklahoma consistently examining how tax dollars are spent, the effectiveness of various programs, and how efficiently government services are delivered at both the state and county level. This data and its application will significantly contribute to making Oklahoma a Top 10 state.

In Oklahoma, municipalities, school districts, public trusts and public authorities are audited by private sector accountants and not the State Auditor's Office. Each

entity is required to have its audit report filed with our office.

## **THE SPECTRUM OF AUDITS**

There are many kinds of audits. They range from those that primarily look at an entity's financial reports to the kind that takes a deep dive into an entity's financial records, programs, procedures, personnel, and other matters.

When many people hear that an entity has been audited, they generally think it's experienced a thorough going over. Most audits, however, are not the "turn over every rock" kind of examination to find fraud, embezzlement, or other wrongdoing. Each type of audit, by design, serves a unique purpose.

In our Office, we conduct most audits under specific government auditing standards written by the federal Government Accountability Office.

In the end, we see our role, with every audit type, as helping government officials do things right by putting in place certain practices and procedures to safeguard public funds, reduce the risk of fraud, and improve transparency and accountability.

When too much information has the capacity to overwhelm, our intent is to extrapolate – from the enormity of the data – the bottom line necessary to affect knowledgeable, rational change. The methodology of an audit may be very complex, the recommended solutions need not be.

Our audits are a tool to both promote and create a better, more responsive government while improving the delivery of government services.

### **Financial Statement Audit**

This is the most common type of audit conducted of public entities that is required by law. As the name suggests, it is an assessment of an entity's financial statements. Its intent is to give an opinion

as to whether its financial records fairly present an accurate picture of the financial condition of the entity.

Basically, it seeks to answer questions about whether the entity has the money it reports to have, if the money is where it says it is, and did it spend money on what it said it did.

A typical financial statement audit may miss the existence of fraud, embezzlement, or misuse of funds because, while it evaluates an entity's internal controls (its system of checks and balances) it isn't designed to find fraud. The more complex the audit the higher its cost. So, while it is an audit of financial activity, it is not an intrusive review of financial activity.

To aid taxpayers and government officials, our Office looks at existing internal controls. The absence of these safeguards place an entity at risk of fraud, waste or abuse.

Under the category of practice what you preach, our Office hires an outside accounting firm every year to conduct an independent Financial Statement Audit of its financial records. This report is available on our website at [www.sai.ok.gov](http://www.sai.ok.gov).

### **Performance Audits**

A performance audit is designed to provide an objective analysis of an entity, its programs, processes, and function. It takes considerable planning and risk assessment. The audit report may offer recommendations to help limit an entity's exposure, make programmatic changes, implement more efficient practices, and improve communication when relevant.

In many ways, this type of audit can help to initiate positive change in government operations and procedures.

Our Office conducts this type of audit on request from the governor, agency head, or joint resolution of the Speaker of the House and President Pro-Tempore of the state Senate.



Several state agencies regularly request Performance Audit services to review various programs, processes, and procedures. Agencies requesting these audit services include the Oklahoma Corporation Commission, the Oklahoma Department of Transportation, the Oklahoma Department of Corrections, and the Oklahoma Board of Nursing.

### **Operational Audits**

A type of Performance Audit, an Operational Audit as performed by our office focuses primarily on internal controls and compliance with applicable laws. It seeks to determine whether certain safeguards are in place to ensure good stewardship of public funds.

Operational audits are performed on both state and county entities and have a different focus than a financial statement audit. These reports provide public officials relevant information that can be used in the efficient delivery of government services.

### **Special Audits**

A Special (Investigative or Forensic) Audit meets the definition of a “leave no stone unturned” kind of inspection. These reports often aid prosecutors pursuing facts in the prosecution of criminal allegations of fraud or embezzlement.

Special Audits are not required to follow the auditing standards that guide the other audit work of the Office and they are not limited to defined objectives.

A Special Audit typically includes analysis of an entity’s internal financial records, bank records, and other documents. An investigative auditor conducts numerous interviews during the fact-gathering process. This type of audit is regularly requested when fraud, embezzlement or misuse of public funds is suspected.

Of note is the increase in public corruption identified in numerous smaller Oklahoma cities and towns. We’ll detail these concerns later in this report.

### **Agreed Upon Procedures Engagement**

Often the least invasive and most cost-effective evaluation is the Agreed Upon Procedures Engagement or AUP. An AUP is limited in scope to a specific procedure or subject as requested by the public entity. The auditor doesn’t offer an opinion or make recommendations as a result of the inspection. While it is conducted in accordance with government auditing standards, this type of inspection is limited.

AUP’s may not be requested in place of a Financial Statement Audit with the exception that municipalities with a population under 2,500 and annual income of \$25,000 or more may hire a private sector accounting firm to have an AUP.

### **Comprehensive Annual Financial Report (CAFR)**

The CAFR is prepared by the Office of Management & Enterprise Services is audited by our State Agency Audit Division. This report is critical to reviewing the receipt and expenditure of public funds.

The statewide CAFR Audit takes about nine months to examine and complete. Some of the audit work takes place all year long at larger agencies like the Department of Human Services, Transportation, the Tax Commission, and the Department of Education. The report reviews the expenditure of public funds by state government and most contain findings of internal control issues.

The CAFR contains a wealth of information about the State of Oklahoma, its government entities, and its people. The audit report is due by December 31<sup>st</sup> each year.

We also audit the Oklahoma County CAFR and Tulsa County CAFR.

### **The Statewide Single Audit**

The team of auditors who examine the statewide CAFR also conduct the Statewide Single Audit for Oklahoma. The audit is an intensive compliance review into

the expenditure of designated federal program funds. It is a key factor in any consideration and determination whether Oklahoma will continue to receive federal funds in the next fiscal year.

Breaking it down, this Single Audit is basically a review of public stewardship in the state's expenditure of federal funds.

Many state and county entities depend on the flow of federal dollars to fund various programs that deliver government services to Oklahoma residents from newborns to the elderly. In many instances, the state is required to match a certain percentage of designated federal funds.

Discrepancies in the expenditure of federal funds, costs that are questioned by the state auditor, or noncompliance with program requirements are included in the final report. The report and its findings are then thoroughly reviewed at the federal level for accuracy and compliance with audit reporting requirements.

The Single Audit is required to be completed by March 31<sup>st</sup> of each year.

### **Peer Review**

Every three years, the State Auditor's Office undergoes a Peer Review conducted through its affiliation with the National Association of State Auditors, Comptrollers and Treasurers and its subunit, the National State Auditors Association.

A team of five auditors, our peers from other state auditing shops around the country, spend a week in Oklahoma City reviewing audits we released over a 12-month period. The group carefully reviews our audit reports and the design of our quality control system.

The Peer Review team, as part of its review, examines our work papers which should fully support any finding in an audit report. They also look at our training records to ensure our staff meets the minimum training requirements set by governmental auditing standards.

Our next Peer Review is scheduled for July 2020.

### **Work Papers**

Noted previously, work papers are the effective equivalent of evidence – the result of fact-finding that is part of every type of audit. These financial documents, interview notes, and other records are maintained electronically and are subject to the Open Records Act upon publication of an audit report unless otherwise exempt from the Act.

Among our auditing responsibilities is to be able to accurately determine fact from fiction. All findings included in our reports are fully supported by details in our work papers.

### **TODAY'S AUDITS**

Change is just as constant in the audit world as everywhere else in our professional and personal lives. Technological advances and software have evolved to support auditors in better coverage and improved efficiency regardless of the type of audit being conducted.

Our Office, too, has advanced to ensure its staff has the tools needed to work effectively and efficiently in today's audit world.

For the most part, desk top adding machines, pencils and paper were long ago replaced with computer screens and electronic spreadsheets. Audit software can more accurately compute in 30 minutes or less what once required 36 hours or more by hand.

Data Analytics assist an auditor to identify discrepancies in balance sheets, receipt/deposit records, and other financial documents to point out anomalies that could mean the existence of fraud and misuse of funds.

### **Data Dumps**

As part of the audit work performed on

counties, our Information Services Division regularly receives data dumps from a county's accounting software provider. This data is sifted using our auditing software and then organized in a way that is useful to our staff conducting county audits.

This may seem like a simple thing and, with today's technology, it arguably is. It's important to note here because it reduces audit time, which reduces audit costs, which means a more efficient work product for county taxpayers.

## **AGENCY DIVISIONS**

The State Auditor's Office conducted 344 audits in FY2019 which included every type of audit listed previously.

### **STATE AGENCY AUDIT**

Funding state government very much relies on the independence and quality of the reports conducted by this group of auditors.

The amount of planning and preparation that goes into both the statewide Comprehensive Annual Financial Report and the federal Single Audit is extensive and takes just as much time as the actual testwork the division performs on these two Financial Statement reports.

The management team within the State Agency Audit Division has been effectively working together for many years. The tenure of this group assures competence in the audit process, appropriate application of auditing standards, and objective judgement on the proper expenditure of public funds.

We referenced these two audit reports previously and expressed our position as to the significance of each. It's one of those unseen but necessary things that occurs behind the limelight to ensure free school nutrition programs are funded, health care costs for retirees and the

elderly is manageable, and supplemental programs remain in place to assist single parents with children, the disabled, and the down-trodden.

For FY18, there were two findings included in the CAFR issued in December 2018. There were 48 findings included in the Single Audit issued in March 2019. Among these findings in the Single Audit were 19 addressing areas of material noncompliance and 17 indicating material weaknesses in internal controls.

One finding in the CAFR noted that our review of the preliminary financial statements identified an overstatement of the Net Pension Liability by approximately \$1.7 billion. This item was corrected following a discussion with the Financial Reporting Unit at OMES.

Regarding the Single Audit, a finding was included for the Oklahoma Department of Emergency Management for advancing more than \$21 million to subgrantees without ensuring compliance with applicable federal requirements. The amount equals 40 percent of all funds provided to subgrantees during FY18. The agency concurred with the finding and adopted a corrective action plan to prevent its recurrence.

This Division also conducted the following Financial Statement, Operational or AUP audits in FY19:

- Oklahoma Department of Transportation State Purchase Card
- Construction Industries Board
- Oklahoma Accountancy Board
- Oklahoma Department of Human Services – ASA

### **COUNTY AUDIT**

This division is made up of almost 50 auditing personnel living across the state and operating out of five regional district offices.

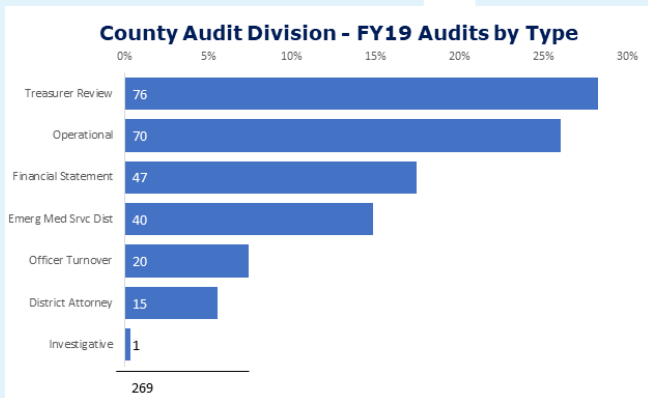
The geographical location of these auditors matters because they're busy con-

ducting audits in the state's 77 counties.

To help minimize travel and transportation costs, the auditors are usually assigned an audit area within a couple of hours drive whenever possible. In many instances, these auditors will initially work on-site at the county courthouse and stay at a local hotel until field work is completed.

In all, this Division produced 269 (more than 78 percent) of all audits conducted in FY19.

These audit reports included Treasurer Reviews, Operational and Financial Statement Audits of counties, Emergency Medical Service Districts and District Attorney offices, Turnover Audits of outgoing county officials, and one Investigative Audit.



Our Office conducts an annual audit of each county government in two-year increments. These audits include the three County Commissioner Districts, the County Clerk, Assessor, Treasurer, Court Clerk and Sheriff's Office.

The cost of these audits is paid through a one-tenth of one mill property tax assessment to county residents. For about one-third of counties, the funding for its annual audit is not enough to cover the actual cost of its audit. The Office supplements these counties with funding from other revenue sources to ensure audits are conducted as required by state law.

### **SINGLE AUDIT FOR COUNTIES**

Although not required to do so, the Office includes a federal Single Audit within its

Financial Statement audit for counties required to report the expenditure of federal funds. The cost is less than if a county were to hire an outside auditor and, because we're already auditing a county, it makes sense to provide this service.

As with the flow of federal funds to the state, a Single Audit is critical for the payment of federal dollars to a county that qualifies for disaster relief, law enforcement grants, and other federal funds available at the county government level. Our Single Audit reports assist the county to comply with the strings attached to these federal resources.

Among the compliance findings we may identify in a county audit is inadequate internal controls and noncompliance over the Inmate Trust Fund Checking Account and the Sheriff Commissary Fund. This finding was included in 14 of the 47 Financial Statement County Audit Reports published in FY19.

### **COUNTY MANAGEMENT SERVICES UNIT**

While apart from the County Audit Division, this unit remains an integral part of the assistance the Office provides county officials through consultation services.

The Unit works in tandem with the OSU County Training Program (OSU-CTP) to develop training classes for county officials and employees. Staffed by one full-time employee, the Unit offers technical, budgetary and accounting assistance.

Of note is that due to the work of this Unit and other Office support services, the agency has implemented a uniform, Estimate of Needs form for counties.

Years in the making, imagine 77 different charts of accounts specific to each county. This hurdle has been overcome. All counties are now utilizing the same Chart of Accounts and will begin implementing this electronic form. Much credit belongs

to county software providers, county officials, private sector accountants, and OSU-CTP for making this effort for improved transparency at the county level a reality.

A similar form was launched last year for Oklahoma school districts. The going was easier here because all school districts already had a uniform Chart of Accounts established by the state Department of Education.

## **PERFORMANCE AUDIT**

When you want to know if you're getting the best bang for your buck, you seek a Performance Audit. These auditors look at an entity's programs, policies, procedures, communication, delivery of services and other concerns.

A Performance Audit may be targeted at specific programs or transactions. If the request presents broader concerns, performance auditors will narrow these to specific objectives and procedures through intensive planning and risk assessment.

In FY19, this Division published three Performance Audits, 16 Operational Audits, two Turnover Audits and one Special Audit.

Operational Audits are performed routinely to comply with statutory auditing requirements of state agencies. These entities are on a rotation and not subject to audit annually.

As noted previously, Performance Audits must be requested.

The most recent example of the value of this type of audit was the State Health Department scandal of FY18.

While it was widely reported the agency had lost \$30 million and required an immediate infusion of funds by the state legislature, our office was able to decipher the very convoluted scheme by which the

agency hid money from both the state legislature and the state's budget office.

Utilizing an antiquated accounting program and internal processes, even officials at the Health Department were unable to understand the money wasn't really missing, just very well concealed.

Performance auditors dissected internal transactions, interviewed multiple personnel, reviewed hundreds of documents, and provided concise testimony and evidence of the scheme to the Attorney General's Multi-County Grand Jury Unit. While the intent may not have been wholly malicious, the misdirection resulted in the loss of more than 200 hundred jobs throughout the agency's various programs. County health departments likely experienced the bulk of service disruption.

The \$30 million supplemental appropriation to the Health Department was recovered and re-appropriated to county government in FY19.

Among the FY19 audits published, the Division identified a possible scheme at the Oklahoma Department of Wildlife Conservation by which a preferred vendor, who was also the brother of an employee, may have been given bid specifications prior to a project being let for bid. The result was the vendor was able to submit a bid matching the specs and was subsequently awarded the contract.

The audit, requested by the agency, found noncompliance, circumvention, and likely abuse of the Oklahoma Competitive Bidding Act. The independent review and audit report gave agency leadership the information it needed to confidently address an issue it suspected may have been occurring.

## **SPECIAL INVESTIGATION**

Of all the audits conducted by our Office, the reports published by this Division usu-

ally draw the most attention because this is where you typically go to identify corruption committed by public officials and employees.

We spend a significant amount of time training personnel in each division to recognize the warning signs of potential fraud.

Every auditor begins each assignment with professional skepticism which requires our staff to remain objective, non-assuming, and start each audit with a blank slate. These characteristics are critical to our independence.

The goal is for the audit to be intentionally about fact finding and going only where the investigation leads. To that end, we do avoid rabbit trails that are unverifiable and unnecessarily costly for the auditee.

This is especially true in the Special Investigation Division because these audits are often emotional for some, if not all, of the parties involved.

The Division published eight audits in FY19 including five requested by district attorneys, one requested by the attorney general, one requested by a board of county commissioners, and one requested through the citizen petition process.

Special Audit Reports published in FY19 were

- #9 Area Volunteer Fire Dept.
- Town of Billings
- Town of Boynton
- City of Geary
- Geary Public Schools
- Chickasha Public Schools
- Country Corner Fire District
- Murray County 911 Trust Authority

An ongoing concern of this Office is the governance of many small cities and towns in Oklahoma. We regularly receive complaints regarding utility billing issues, violations of the Open Records Act, the Open Meeting Act, improper use of credit cards or equipment, and a wide array of ways in which public officials purportedly

disregard residents' concerns.

While different factors contribute to the complaints we receive, it is not unusual for these concerns to be born out in an audit report.

"The Town of Boynton has been embroiled in fraud, waste, abuse, and financial mismanagement for several years," states the Executive Summary of this entity's Special Audit. Requested by a district attorney, this was our second audit of the Town in six years. Fiscal mismanagement of the Town dates to at least 2009.

Safeguards recommended by the first audit were ignored allowing the rampant corruption to simply transfer to new players.

This audit cited misappropriation of town funds by the former Town Clerk totaling more than \$86,000.

The former Clerk wrote 145 checks to herself above her approved annual payroll of \$37,600. We found no evidence that any of these payments were authorized by the board or that the board was even aware of the activity.

Check 'Memo Line' Description	Number of Checks Issued	Amount
Payroll or Partial Pay	35	\$27,641.00
Bill Payments	38	\$29,743.48
Reimbursements	31	\$13,975.00
Miscellaneous Payments	24	\$9,808.46
Mileage	11	\$2,950.00
Meter Reading	4	\$1,350.00
Mowing	2	\$650.00
<b>Totals</b>	<b>145</b>	<b>\$86,117.94</b>

Another former employee received more than \$37,000 in questionable compensation above his annual salary of \$36,000.

These frauds occurred due to:

- Lack of Board oversight
- Lack of Internal Controls
- Disregard for the law in management of the Town's finances
- Failure to keep records supporting the receipt or expenditure of funds
- Missing payroll records

As of the release of this report, there are 22 audits of municipalities either underway or pending. Of these, 12 include allegations of wrongdoing or misappropriation of funds related to utility billing. Eight audits are requests from district attorneys, six are board requests, and eight are citizen petition requests.

## **SPECIALIZED AUDIT**

This group of auditors primarily conducts audits under contract with other public entities.

The Oklahoma Horse Racing Commission contracts with our Office to monitor all wagering activities at the state's three race-tracks and the off-track wagering facilities it licenses.

The Commission also contracts with us to monitor all gaming activities occurring at two of the state's racetracks it licenses. These auditors monitor and track all gaming revenue to ensure an accurate accounting of proceeds designated for state education funds.

The US Department of the Interior (DOI), through its Office of Natural Resources Revenue, contracts with our Office to conduct mineral royalty audits on federal lands in Oklahoma. As a result of the cooperative agreement, the state receives 50 percent of all federal royalty dollars paid to DOI as well as 50 percent of all royalty dollars collected as a result of an audit.

State funds are not expended on this agreement as the Office is fully reimbursed.

## **INFORMATION SERVICES**

The independence required by government-auditing standards necessitates that our Office be segregated from certain state services.

While many IT and ISD services were consolidated several years ago under the Office of Chief Information Officer, our Office has successfully made the case to retain its IT-related staff and auditors to both preserve its independence and safeguard the data stored in its servers.

Perhaps now, more than at any other time, the arrival of advanced auditing software and other technology offers powerful tools in providing taxpayers with transparency and accountability.

Our ISD group does an outstanding job in keeping our networks, equipment, and auditors up and running. They play a critical role in reducing both downtime and audit time – all of which improve efficiencies and we're all about that.

ISD responded to 2,762 helpdesk tickets from staff in FY19.

Data dumps were praised previously in this report and the significance of this capability – beyond county audits – deserves repeating. The work of our IT auditors really gets to the heart of information which has eluded lawmakers, residents, taxpayers, and others for years.

The task of diving deep into the data was previously very cost prohibitive. Testing 100 percent of transactions was not feasible.

Today, audit software does a lot of the heavy lifting by sorting, collating, sifting, and otherwise organizing data for auditors. It means we often have the capability to test up to 100 percent of certain transactions.

The public, public officials and public employees are on the cusp of having more information on the expenditure of public funds than they may ever need. We're making Oklahoma accountable through standardization in our ever evolving digital world.



## PEER REVIEW REPORT

April 21, 2017


The Honorable Gary Jones, CPA, CFE, Oklahoma State Auditor  
Oklahoma State Auditor and Inspector  
State Capitol  
2300 North Lincoln Boulevard, Room 100  
Oklahoma City, Oklahoma 73105

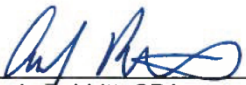
We have reviewed the system of quality control of Oklahoma State Auditor and Inspector (the office) in effect for the period March 1, 2016 through February 28, 2017. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with professional standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with professional standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all design matters in the system of quality control or all compliance matters with the system. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of Oklahoma State Auditor and Inspector in effect for the period March 1, 2016 through February 28, 2017 has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. **The Oklahoma State Auditor and Inspector has received a peer review rating of *pass*.**

  
William Styres  
Concurring Reviewer  
External Peer Review Team  
National State Auditors Association

  
Andy Babbitt, CPA  
Team Leader  
External Peer Review Team  
National State Auditors Association



O·K·L·A·H·O·M·A  
S·A·I  
STATE AUDITOR & INSPECTOR



**Cindy Byrd, CPA | State Auditor & Inspector**

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