



# State Auditor & Inspector

**FY 2025 Budget Hearing Presentation**

Submitted by: Cindy Byrd, State Auditor

# Cindy Byrd, CPA

## State Auditor



The **State Auditor & Inspector, an elected official**, serves as the independent auditor of state and county government entities and, when requested, conducts Special Audits of any public entity in Oklahoma. Known commonly as “the people’s watchdog,” the State Auditor & Inspector is charged constitutionally and statutorily with assisting public entities in safeguarding public assets. The agency conducts financial statement audits, performance audits, operational audits, and forensic audits to promote transparency and accountability in the receipt and expenditure of public funds.

Founded in 1907 this agency, now encompasses the following divisions: State Agency Audit Division, County Audit and Local Government Services Division, Performance Audit Division, Forensic Audit Division, Specialized Audit Division, Quality Assurance Division, and the IT Audit Division.

The **State Auditor & Inspector** also audits the state Annual Comprehensive Financial Report (ACFR) and conducts the Single Audit of expenditures of federal funds. These audits are critical to maintaining the state’s bond rating and eligibility for federal grants and other federal funds, which were \$14 billion for SFY 2022.

The State Auditor & Inspector 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.

# Agency Vision, Mission and Core Values

**Vision:** To be the leading auditing firm in the State of Oklahoma that auditees, the legislature, citizens and other interested parties turn to with confidence for independent information regarding the effectiveness and efficiency of state and local government

**Mission:** Hold Government Accountable

**Core Values:** Independence, Integrity, Reliability, and Accountability



# Accomplishments

## Top accomplishments for FY 2023 – FY 2024

- 1) During CY 2023, the Forensic Audit Division published five forensic audits and continued to assist law enforcement and the Attorney General's Office in numerous prosecutions. The prosecution of the EPIC Charter Schools investigation, a four-year long process, is set for preliminary hearing in March 2024, and includes multiple charges of embezzlement, money laundering, and racketeering against the two owners of the school's former educational management organization and their chief financial officer. Criminal cases involving the Town of Tryon, the Town of Boynton, and Seeworth Academy also continue to progress. Guilty pleas were entered into by the three defendants in the Town of Tryon case, resulting in close to \$100,000 of restitution for the Town. The Seeworth Academy and the Town of Boynton cases are moving toward a conclusion with the next hearings scheduled in November and December, 2023, respectively, with the potential for recovery of funds for the State of Oklahoma and the Town of Boynton.
- 2) Findings in our audit of the FY 2022 ACFR included a repeat from FY 2020 and FY 2021, addressing the surge in unemployment claims that inundated the antiquated filing system at the Oklahoma Employment Security Commission, allowing a number of fraudulent claims to be paid. In FY21, OESC took steps to establish new processes to decrease the number of fraudulent claims for FY 2022. Our other finding related to material misstatement in Accounts Payable for the Oklahoma Health Care Authority. Our workload increased dramatically for the FY 2021 Single Audit (federal compliance). This audit included 22 major programs totaling \$12.4 million, of which 35%, or \$4.3 million, was COVID-19 related funding. The \$12.4 million audited represents 90.5% of the total federal expenditures on the Statewide SEFA. For the 22 major programs tested for 2021 Single Audit, 74 of the 114 audit findings were reportable. Based on the dramatic increase in federal funding, total federal findings increased from 86 in FY20 to 114 in FY21; and total reportable findings increased from 62 in FY20 to 74 in FY21. We questioned costs totaling \$29,295,972, with state maintenance of effort/matching costs being \$893,864.



# Accomplishments

## Top accomplishments for FY 2023 – FY 2024

- 3) We continue to provide guidance to counties related to COVID funding. This includes presentations at conferences as well as technical assistance for proper expenditures and reporting requirements. In FY 2023, we responded to 21 formal inquiries related to State and Local Fiscal Recovery Funds. We also developed accounting procedures to account for proceeds from class action lawsuit settlements awarded to counties for the harm caused by opioid addiction and youth vaping. The prescribed uniform electronic estimate of needs form for county government was updated and improved through a joint effort by the Board of Equalization Division and the OSU County Training Program. During FY 2023 the CED/Southeast Audit Division developed and presented a uniform chart of accounts and standard operating procedures manual to promulgate uniform financial reporting among the CEDs and published 10 CED audits.
- 4) The agency completed its third independent IT Security assessment according to the National Institute of Standards and Technology (NIST) cyber security framework with an exceptional result. NIST has established a set of standards for security controls of an entity's information systems. Compliance is critical to ensuring the agency's IT infrastructure is protected and its policies and procedures are implemented correctly. Our independence from other Executive Branch agencies necessitates the agency maintain its own IT services and the dedication of this team to security, responsiveness, compliance, and service was clearly borne out in the audit's final analysis.
- 5) In July 2023, SAI received its most recent peer review, which is required every three years in accordance with Generally Accepted Government Auditing Standards and administered by the National State Auditor's Association External Peer Review Program. The review was completed by a team of six CPAs and Quality Assurance professionals from other states. The agency received a rating of pass, which is the highest level of assurance that an external peer review team can give.



# Challenges

## Top Challenges (current & upcoming years)

- 1) The influx of billions in pandemic relief funds will continue to increase the Single Audit work at both the state and county level. In FY 2021, state agencies received more than \$13.8 billion in federal funds due to additional COVID-19 funding. That's about \$3.7 billion more than in FY20 and \$6.6B more than in FY 2019. In FY 2022, state agencies spending was on a similar track to FY 2021, which will increase our audit workload.

The 77 counties were awarded almost \$1 billion collectively in CRF and ARPA, in addition to all other federal awards. Due to this unprecedented increase in federal funding, we expect the number of single audits at the counties to continue to increase in FYs 2022 - 2024. Alternative Compliance Examination (ACE) engagements will be performed for many of the counties that received Coronavirus State and Local Fiscal Recovery Funds as an alternative to a Single Audit as allowed by the 2022 OMB Compliance Supplement. However, even as these engagements require reduced audit procedures, many of these counties require a Single Audit infrequently, or may have never required one, and this will represent a significant challenge to the counties as well as the audit teams. At least 13 of the 77 counties do not qualify for ACE engagements as they were awarded over \$10 million in Coronavirus State and Local Fiscal Recovery Funds. These counties will require special treatment as funds in excess of \$10 million awarded to them must be used in compliance with responding to the public health emergency or the negative economic impact of COVID. Funding available to Tulsa and Oklahoma counties specifically is twenty times larger than any previous federal award provided to those counties in the past decade.



# Challenges

## Top Challenges (current & upcoming years)

- 2) New AICPA and GASB standards will require planning and performing additional procedures and reporting for financial statement audits.
- 3) We have a significant number of Directors and Managers eligible to, and that plan to, retire in the next few years. In the past two years we have lost six high level employees, with experience ranging from 11 to 39 years, to retirement and to other agencies, local governments, and public firms that can offer much higher salaries. This has resulted in a tremendous loss of institutional knowledge. Turnover at the staff level affects the availability of experienced staff to promote into open higher positions, and the salary competition from the federal government, other local governments and state agencies, and the private sector impedes our ability to hire. All of this also results in higher training costs.



# Savings & Efficiencies (Current or Planned)

Savings or Efficiency Name	Brief description of how savings were achieved	Savings in Unit of Measurement*	FY 2023 (Actual \$ Savings)	FY 2024 (Projected \$ Savings)	FY 2025 (Projected \$ Savings)
Fleet	Reduced number of fleet vehicles because miles driven was down and paying mileage was a less expensive option	Cars Turned in : 2 Fleet cars-FY 23 3 Fleet cars-FY 24	\$3000	\$6000	\$9000
IT Director	SAI did not replace its retiring IT Director	Employee Salary	\$126,304	\$126,304	\$126,304

\* Hours, FTE, square feet, etc.





# Agency Goals and Key Performance Metrics

Goal		Metric	FY 22 Actuals	FY 23 Actuals	FY 24 Target	FY 29 Target
1	Reduce turnover rate for professional staff to 12% in 2029	Turnover rate percent for professional staff	16%	23%	17%	12%
2	Maintain staff auditor billable hours at or above 73.5%	Percent of staff auditors that maintain 73.5% billable hours	100%	100%	100%	100%
3	Audit working papers and reports comply with Government Auditing Standards	Percent of audit working papers and reports that comply with Government Auditing Standards	100%	100%	100%	100%
4	Staff auditor salaries are at least 90% of the regional average of State Audit Organizations	Staff auditor salaries compared to the regional average of State Audit Organization staff auditor salaries as a percentage (adjusted using the COLA index)	79.9%	79.5%	83%	90%
5	90% of audit staff have at least two years' experience	Percent of audit staff with at least two years' experience	80%	74%	82%	90%
6	100% of professional staff have a degree and/or professional certifications	Percent of professional staff with a degree and/or professional certification	93%	90%	94%	97%



# Projects for FY 2024 - 2025

## Projects

- 1) The Forensic and Performance Audit Divisions are continuing to work on two major projects that should be released by the end of CY 2023. First is an audit of the State Department of Education (SDE), requested by the Governor, detailing the revenues and expenditures of SDE, along with an evaluation of SDE's oversight of the Oklahoma Cost Accounting System, the system used by all school districts across the state to code the purpose of their expenditures. The second project is an investigation requested by the Oklahoma County District Attorney into the Oklahoma Tourism and Recreation Department's (OTRD) contracts with Swadley's Foggy Bottom Kitchen to remodel various lodge restaurants across the state. Allegations being addressed are that OTRD exceeded the contract by millions of dollars and that Swadley's overcharged OTRD for the services provided. This audit is now under the direction of the Attorney General's Office.

The Forensic Audit Division's audit of Epic Charter Schools is also ongoing, with prosecution now under the direction of the Attorney General's Office. Preliminary hearings are currently set for March 2024 against the two owners and the chief financial officer of Epic Youth Services, LLC, the former charter management organization of Epic Schools. All three were charged in the felony case with racketeering, embezzlement, presenting false claims against the state, and acquiring unlawful proceeds. Work will continue in this case seeking restitution for the State.

In April 2023, the Attorney General requested an investigative audit of the Governor's Emergency Education Relief (GEER) funds. This audit is underway with an objective to determine if GEER funds were awarded in alignment with the purpose of the grant and in accordance with law. The Forensic Audit Division is also in the final stages of an audit of Tulsa Public Schools, requested by the Governor, with the objective to report on an employee embezzlement, use of federal funds, along with other alleged contract and expenditure irregularities. Additionally, an investigative audit of Santa Fe Charter Schools is in progress, requested by the charter school's former sponsor, Oklahoma City Public Schools.

The Attorney General requested an audit of the Oklahoma Turnpike Authority in April 2023. This audit will include, but be limited to, a review of transfers between OTA and the Department of Transportation, contracting and purchasing practices, and a review of the financial controls. The audit is currently in the planning phase and is estimated to be completed by the end of FY 2024.



# Projects for FY 2024 - 2025

## Projects

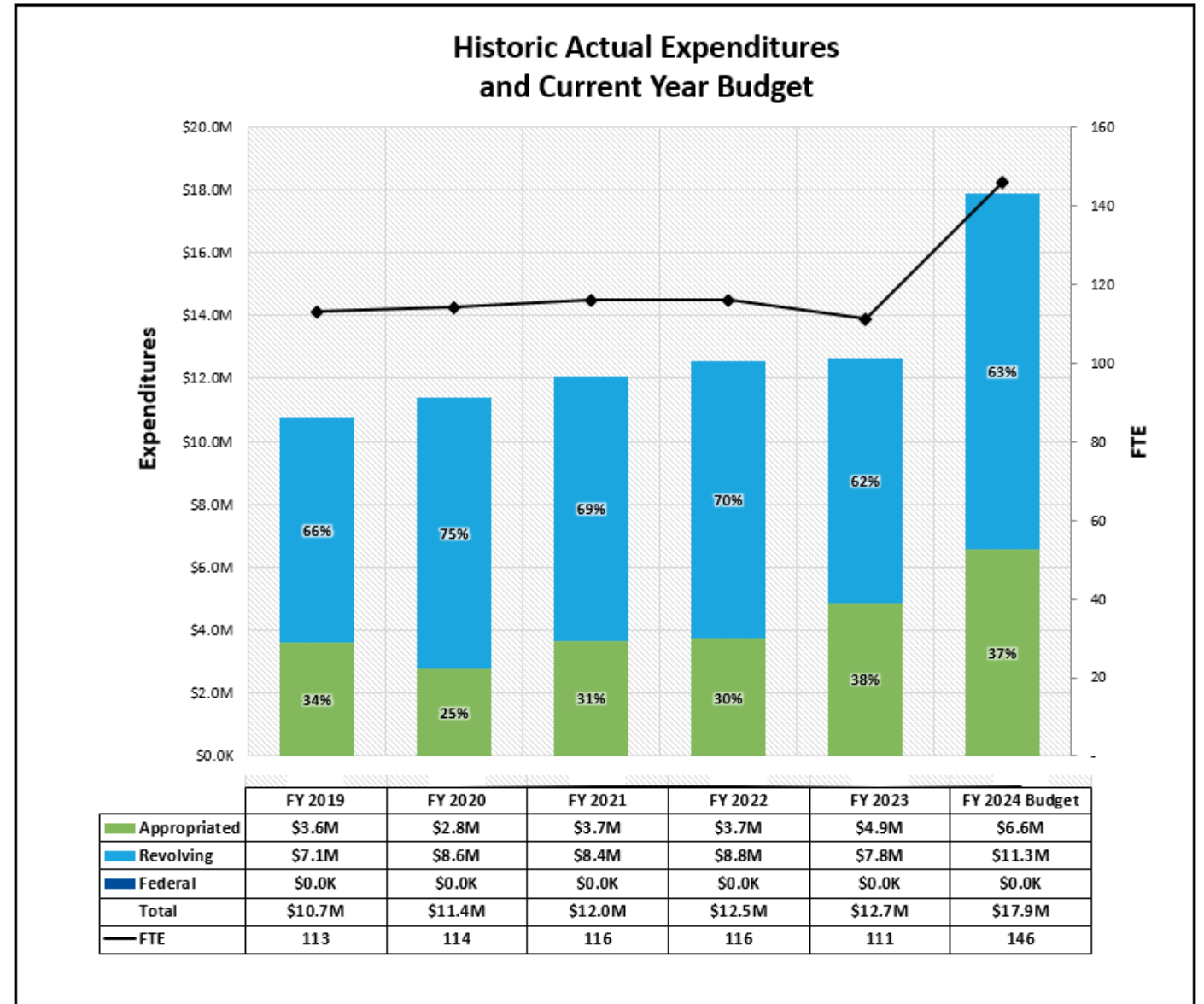
- 2) Audits of billions of dollars of COVID-related federal expenditures from the CARES Act and ARPA at the state and county level
- 3) Continued work on the electronic budget work program for all counties and looking at online uploading of digital Estimates of Need and budgets for municipalities and other public entities required to file annual budgets with our office.
- 4) An updated look for the SAI website with upgrades to improve functionality of the audit search function and CPE registration will be launched in December 2023 or January 2024.



# Historic Actual Expenditures (FY 2019-23) and Current Year Budget (FY 2024)

## Explanation of Significant Changes and Trends

- The majority of our increase in expenditures is labor costs.
- Overall labor expense is increasing every year due to salary adjustments in an effort to align more closely to market, decrease the staff turnover rate and retain institutional knowledge.



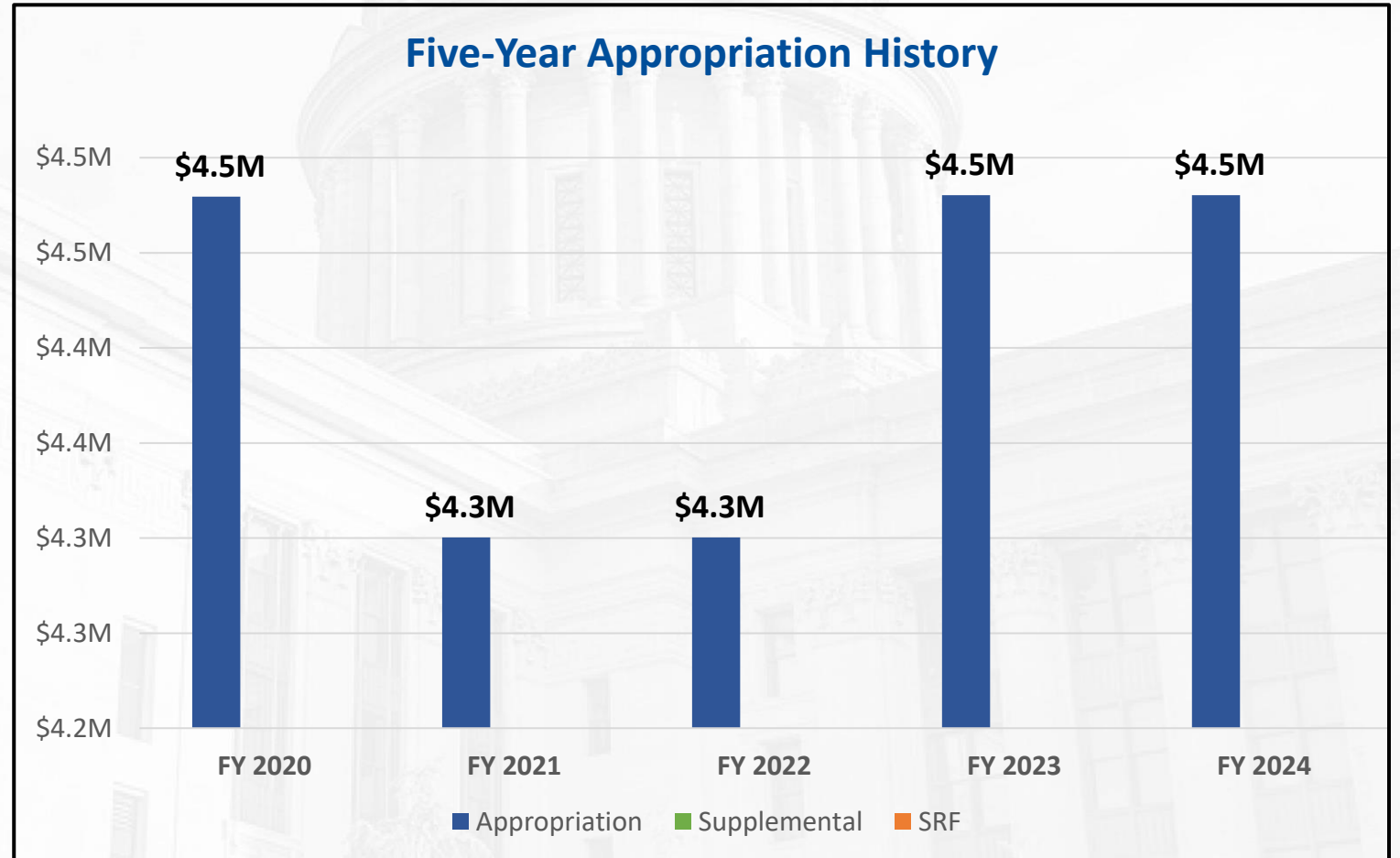


# FY 2024 Budgeted Full Time Equivalents (FTE)

	FY 2024 Budgeted FTE
<b>Total FTE</b>	145.75
<b>Supervisor FTE</b>	58
<b>Supervisors to Total FTE Ratio (%)</b>	39.79%

# Appropriation History

Fiscal Year	Legislated Appropriation (\$) (Includes supplementals and SRF/ARPA.)
FY 2020	\$4,479,495
FY 2021	\$4,300,315
FY 2022	\$4,300,315
FY 2023	\$4,480,315
FY 2024	\$4,480,315



*\*Includes Supplemental and Statewide Recovery Fund (ARPA) appropriations.*



# Financial Resource Analysis

Carryover	FY 2020	FY 2021	FY 2022	FY 2023
Total appropriated carryover amount expended (\$)	\$24,147	\$1,471,635	\$1,709,216	\$2,386,086

Historical Cash Balances	FY 2020	FY 2021	FY 2022	FY 2023
Year End Revolving Fund Cash Balances <i>(All Revolving Funds)</i>	\$934,614	\$793,445	\$610,908	\$685,688

Class Fund # <i>(Unrestricted only)</i>	Class Fund Name <i>(Unrestricted only)</i>	Current cash balance (\$)
200	Revolving fund- operating fund	\$685,688
#		\$
#		\$
#		\$
#		\$
#		\$
	<b>Total Current Unrestricted Fund Cash balance:</b>	\$

Fiscal Year	Agency's plan to deploy unrestricted cash (including amounts):
FY 2024	Pay of portion of one month's salary expense
FY 2025	
FY 2026	



*Unrestricted funds are those that are not limited by state or federal law, rule, regulation, other legally binding method, or donor restriction.*

# FY 2022 Incremental Appropriation Review

<i>Purpose of appropriation increase / decrease</i>	<i>Amount of increase or decrease (\$)</i>	<i>Included in FY24 appropriation? (Yes/No)</i>	<i>If yes, included in appropriation for same purpose? (Yes/No)</i>	<i>If not included for same purpose, please explain.</i>
<b>FY 2022</b>				
No adjustment	\$			
	\$			
	\$			
	\$			
	\$			
	\$			
	\$			
	\$			
<b>Total adjustment</b>	<b>\$</b>			



*\*Do not include SRF / ARPA appropriation increases.*



# FY 2023 Incremental Appropriation Review

<i>Purpose of appropriation increase / decrease</i>	<i>Amount of increase or decrease (\$)</i>	<i>Included in FY24 appropriation? (Yes/No)</i>	<i>If yes, included in appropriation for same purpose? (Yes/No)</i>	<i>If not included for same purpose, please explain.</i>
<b>FY 2023</b>				
OSU lapsed pass-thru balance-resulted in increase	\$180,000	yes	yes	
	\$			
	\$			
	\$			
	\$			
	\$			
	\$			
	\$			
<b>Total adjustment</b>	\$			



*\*Do not include SRF / ARPA appropriation increases.*

# FY 2024 Incremental Appropriation Review

<i>Purpose of appropriation increase / decrease</i>	<i>Amount of increase or decrease (\$)</i>	<i>Does this need to be included in your FY 2025 appropriation? (Yes/No)</i>	<i>If yes, included in appropriation for same purpose? (Yes/No)</i>	<i>If not included for same purpose, please explain.</i>
<b>FY 2024</b>				
No adjustment	\$			
	\$			
	\$			
	\$			
	\$			
	\$			
	\$			
	\$			
<b>Total adjustment</b>	\$			



*\*Do not include SRF / ARPA appropriation increases.*

# Budget & Supplemental Request Summary

Request Name		FY 2025 Appropriated Request Amount (\$) {or FY 2024 for Supplementals}	Type of Request: Operating, One-time, or Supplemental
1	Additional appropriations to increase staff salaries	\$1,000,000	Operating request
2			
3			
4			
5			



# (1) Budget Request

<b>Name of Request: Additional appropriations to increase staff salaries</b>	
Type: (Operating, One-Time, Supplemental) Operating	\$ Amount Requested for FY 2025 (Or FY 2024, if supplemental) \$1,000,000
Describe why these funds are needed.  To combat the high turnover rate in the office and to complete high profile audits, an increase of \$1 million is requested to raise staff salaries to stem the increasing rate of turnover and to retain qualified auditors to meet deadlines. The Legislature addressing this funding issue through appropriated funds is a much more efficient manner vs. increasing billing rates that may cause budgeting issues for other agencies.	





# Appendix

# The Brain Drain

Position at SAI	Destination Employer	Salary Leaving SAI	Beginning Salary at New Employer	Increase - Percent Difference
<b>Audit Director</b>	Public Audit Firm	\$108,000	\$133,000	25,000 – 23.15%
<b>Admin Svcs Manager</b>	Corporation Commission	\$84,750	\$94,000 Current salary \$106,000	9,250 – 10.91%
<b>Staff Auditor</b>	DOT	\$52,200	\$61,600	9,400 – 18%
<b>IT Staff Auditor</b>	Department of Health	\$63,000	\$85,000	22,000 – 34.92%
<b>Staff Auditor</b>	OMES	\$49,400	\$62,500	13,100 – 26.52%