Outline of Financial Activities

I. INTRODUCTORY COMMENTS

II. SUMMARY OF SIGNIFICANT EVENTS OR CONDITIONS

- Negative cash position
- Debt over $30 million prior to fiscal year 18 (PNP and Borrows)
  - Unconstitutional indebtedness of a state agency
  - Unposted payroll and other costs (books are not closed going back currently to 2011)
- Current over-expenditures of $10 – 20 million
- Creation of agency "borrows" which are fictional assets
- Fraudulent budget submittals to OMES
  - False attestations of balanced budgets to state officials
  - Created budget accounts to hide state budgets that were unfunded
- False attestations regarding reconciled liabilities
  - Reconciliation for State CAFR did not show agency debt (unposted liabilities)
  - State cash accounts not reconciled to internal bookkeeping accounts
- Accounts payable unable to be paid on a consistent, regular or complete basis
- Omissions to the legislature regarding the financial position of the agency
- Omissions to the Board of Health regarding the financial position of the agency
- Cash payroll funded through unbudgeted sources
  - Breached federal restricted funds (e.g. Ryan White Fund)
  - Breached state restricted funds (e.g. revolving funds)
  - Misused the fund accounting system causing the comingling of costs and fund equity
  - 3 state accounting funds used like 1 fund over a period of many years forcing multiple years to remain open to accomplish financial manipulation across funds

III. DEFINITIONS

Fund Accounting	A system of accounting that is utilized for transparency and clarity in the reporting of public funds. It is designed to isolate the entire activity of specific funds so that funds do not become comingled. Each fund is a self-balancing set of accounts.
OMES	Acts as the controlling arm for the management and distribution of state-appropriated dollars by state statute. It also acts as the reviewer for agency submitted budgets attesting to the fact that the budget is balanced (O.S. Tit. 62 §§34.40 and 34.42).
OSDH Accounting Systems	This system is primarily a system that manages the fund accounting platform based upon the annual budget submitted to OMES pursuant to our state appropriation. This system should be able to be reconciled to the OMES system much like a bank balance to an entity's book balance.
Reimbursement Agency	It is an agency that expends budgeted expenditures which are meant to match known revenues which may be obtained through valid reimbursement. This reimbursement, when recovered, is often referred to among other things as program funds recovered (PFR)
Sources of Agency Revenue	State appropriations, federal grant dollars, revolving funds, (millage, fees, fines)
Borrows	These are unauthorized cash-flow vehicles which cause books to be open and costs not posted in order to facilitate rotation of cash that should be expended for prior period costs. Borrows occur when expenditures on a fund in a fiscal period are in excess of the revenue generated by that fund for the same period.

Outline of Financial Activities

Payroll not Posted	Payroll that has been paid by the Agency but not posted to the agency's internal general ledger due to the fact that proper budgeted funds for the payroll do not exist.
State CAFR	The Comprehensive Annual Financial Report (CAFR) reports on all of the funds under the control of the state through its agencies.
State Annual Audit	The state annual audit is conducted by the SAI office to verify information for the state's annual CAFR. This information assists in the verification of the various agencies' financial positions. As part of the audit engagement the agency must attest to certain questions similar to: 1) Are you aware of any matters which would cause a material misstatement to the financial reporting numbers for the agency; 2) Are you aware of any fraud that has occurred with respect to the agency fund reporting?

IV. WARNING SIGNS THAT LED TO FURTHER INQUIRY OF FINANCIAL ISSUES

- Strained relationships with the agency leadership
- Non-existence of funds for the agency's proposed build-out of the 10th, 11th and 12th floors
- Control over financial officers – no measure of independent thinking or analysis
- High turn-over of prior agency financial directors/chief financial officers
- No standardized or executive level financial reporting
- Hyper-control over the board reporting
- Causal use of non-accounting standard language (internal terminology is used to describe abnormal accounting transactions), e.g. PNP, Borrows, Moving of Funds
- Non-standardized or formalized budgeting process (original budgets not maintained)
- Complaints from vendors for no or delayed payment
- Lack of internal controls, e.g. changing budgets on the fly

V. THE TONE AT THE TOP

- Hyper-control
- Lack of transparency with the Board of Health
- Repression of objective professional opinions
- Repression of the clear-cut charachterization of agency problems (e.g. unauthorized debt)
- Hypersensitivity to objective opinions which become reflected as personnel issues
- Non-accounting personnel interpreting complex accounting relationships and financial reporting outcomes for senior management
- Cavalier attitude about implementing normal financial reporting objectives, e.g. monthly close, period cutoffs, executive reporting
- Casual excuses to avoid addressing impending financial problems, e.g. numbers are no good

VI. ABSENCE OF BUSINESS DISCIPLINE

- No business planning or documents that show business and financial viability of projects, e.g. a wish or desire gets executed without deliberation
- Examples: Stop Smoking (Quit Lines), Healthy Schools, Certified Workplace, Wellness programs, DISCUSS, 1332 Waiver

- Programs like WIC, MCH and FP are over-expended year after year without intervention

VII. WHAT ACTIVITY OR CONCERNS DOES THIS ENVIRONMENT CREATE?

A. Payroll Concerns

- The average payroll is $5.8 million every 2 weeks or $585k per business day not including other fixed and operating costs
- Challenges in meeting payroll has been going on for multiple periods and years
- Payroll which has not been posted to the ledger is being kept track of in a spreadsheet rather than a set of books of account
- Cannot meet payroll on a regular basis and pay accounts/invoices that are due
- Requires the shifting of costs and mismanagement of the 400 federal funds and the 210 revolving funds at OMES
- Casual excuses that this is a result of "allotment and posting" rather than managing the core problem which is over expenditure
- Payroll is not posted (borrowed against future revenue) to the general ledger but it has already been paid with agency assets. The borrowing comes from current federal and revolving funds.
- Continues to build new programs when the funds are not available to support these programs creating a strain on the agency as a going concern

Fiscal Year	Yearly Payroll Expenses	
2011	$	132,771,194
2012	$	139,454,839
2013	$	140,824,833
2014	$	147,014,311
2015	$	153,611,021
2016	$	157,618,639
2017	$	152,754,522
2018	$	150,824,131

B. Borrows

- **A credit facility that has created unauthorized debt for the agency (e.g. Oklahoma Constitution, Art. 10, §23, Art. 5 §55, O.S. Tit. 62 §§34.40)**
- Payroll or payables is unable to be met due to over-budgeting and various timing issues related to reimbursement.
- Money is "borrowed" from other fund areas when expenditures on a fund in a fiscal period are in excess of the revenue generated by that fund for the same period.
- If the fund account that required the infusion were to receive the revenue generated by the fund, the corresponding borrow could be reduced by a return of cash to the loaning fund

source, however, the money is not paid back in a timely manner and a false asset account remains in existence on the agency's books (i.e. a borrow)

- If a borrow that is used to cover a cost in a prior period remains unresolved, the fund covering the borrow would have to be used to extinguish it. This would permanently expend the cash, thus reducing agency assets.
- If these Agency borrows were to be currently extinguished, the cash being held in place could no longer be utilized and then shifted back for any future use.
- This would force cash become severely restricted as would the agency's ability to continue as a going concern.

C. Poor Management of Project Funds

- The current accounting system is running off a main frame that is over 30 years old, and is no longer supported. There are no available parts in the US. There are no funds available to support a new accounting system which will run approximately $3-4 million dollars.
- Over $5 million dollars was expended in moving to the CORE system and then abandoned. This happened in prior years.
- Approximately $1 million dollars was expended on the AMANDA project and then abandoned.
- Over $1.5 million spend on architectural fees – project abandoned
- These projects lack clear project management and business planning.

D. Contract Mismanagement

- Money provided in advance of contractual activity
  - Over $13 million fronted to TSET
  - $1.5 Million fronted to OUHSC
  - Others?

E. Breach of Restricted Funds to Make Required Payments

- Breach of federal restricted funds for payroll, e.g. Ryan White
- Breach of state restricted funds for payroll and payables
- Utilizing revolving funds to shore up multiple operational areas causing a strain on the agency's revolving fund account to a point where it cannot properly support the related revolving activities

F. Over-reaching control of day-to-day financial transactions

- Directions given to staff to manipulate costs and budgets affecting the funds
- Comingling of funds by means of multiple periods of cost sharing to shore-up cash deficiencies

- Constant discussion and common operating procedures of the movement of costs (expenses) across funds at financial meetings in order to meet expense demands
- Denial by senior leaders of the creation of debt which must be extinguished
- Inability to pay invoices and payroll at the same time in any given period requiring constant manipulation of cash in order to maintain an appearance of solvency

VIII. SUPPLEMENTAL REQUEST TO THE LEGISLATURE AND MEETING WITH LEGISLATORS

- Senior leaders were encouraged to make a supplemental request for funding both in a senior leadership meeting and in a separate meeting
- Senior leadership declined to make a request for supplemental because they feel it would be denied
- Brian Downs, Dr. Cline and Julie Cox-Kain met with legislators to give them a heads up on the furlough plan and talk about next phases, e.g. VOBO and RIF
- The leadership stated to legislators that the deficit is $10 million
- Legislators asked directly if OSDH were to complete the furlough and VOBO/RIF would that balance the budget and OSDH would be okay. Dr. Cline told them yes.
- 48 hours later Dr. Cline made a request for a special audit
- 3 weeks later OSDH is cutting contract to OCAP and FQHC which will not get the Agency to a stable financial position
- There is no discussion with any of these leaders about the more than $30 million in debt (PNP and Borrows) and the pathway for the Agency to clear the debt
- There are concerns about what the reaction of the legislators will be when it comes to light that there is additional debt in the Agency and the ability to work with them on future needs

IX. BOARD REPORTING

- The board reporting is nothing more than a budget utilization report that does not reflect the true financial status of the Agency
- Multiple objections were made over an extended period of time about the lack of veracity in the board reporting, e.g. reporting by omission
- All past efforts to improve board reporting were declined by senior leadership
- Dr. Cline was informed of the concerns around the board reporting which he defended
- Changes were made at the direction of the operations manager to the accounting system to make the board report more appealable and then changed back after the board meeting (e.g. March 2017, a multi-million dollar change to avoid showing a deficit in Community & Family Health)

X. CURRENT STEPS TO CORRECT FINANCIAL PICTURE

- Furloughs begin October 29th – 1 day of unpaid leave per 2-week pay period for employees making pre-tax earnings of greater than $35,000

- VOBO was abandoned – lack cash for additional pay-out
- RIF of over 200 employees
    - Must pay out in lump sum annual leave, longevity leave and 18 months of premium
    - There is no cash to support the payments or conduct the RIF
    - Requested a hardship waiver of OMES to pay 90 days instead of 18 months
    - Regardless, OSDH can barely make payroll so payment of these additional costs will be nearly impossible and cripple the agency even if they could be made
- All of these efforts are aimed at the current over-expenditures
- These efforts will not resolve the financial issues faced by OSDH due to years of over-expenditures

XI. FUTURE AND CURRENT CHALLENGES DUE TO FINANCIAL STATUS OF AGENCY

- Open records requests (one pending)
- Vendor complaints
- Agency must receive additional funding through more cuts or supplemental requests
- At extreme risk of not being able to fulfill payroll
- At risk of being unable to make any financially corrective moves because payroll cannot be funded nor a reduction in force
- Potential out-cry from public and legislature
- Audit report expected to be completed by opening session of legislature will show the above deficiencies and more
- State Auditor may require the closing of prior periods (open since 2011) which will cause the borrows to be extinguished and the cash which is being rotated to support current operations to become expended in the state fund accounting system, crippling the agency
- State Auditor may require the posting of all payroll costs which have been paid, thus crippling any available cash for the agency
- Federal grantors are already aware of several issues (there is an upcoming HRSA financial site visit-Ryan White) and the potential for reductions in the wake of known mismanagement could be detrimental to the future of this large component of funds required for essential public health delivery
- Very substantial measures will need to be taken to cure the financial debt which has been created because no matter what actions are implemented a significant amount of agency cash will be expended to restore the fund accounting problems (there is no pathway to cure through bookkeeping entries)

XII. DISCUSSION