



CIRCUIT ENGINEERING DISTRICT #1

Operational Audit

For the Period of July 1, 2019 through June 30, 2020

Cindy Byrd, CPA
State Auditor & Inspector

**CIRCUIT ENGINEERING DISTRICT #1
OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by [69 O.S. § 687.1](#), has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Prairie Collection (<http://digitalprairie.ok.gov/cdm/search/collection/audits/>) pursuant to 65 O.S. § 3-114.



Cindy Byrd, CPA | State Auditor & Inspector

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August 23, 2021

**TO THE BOARD OF THE
CIRCUIT ENGINEERING DISTRICT #1**

We present the audit report of the Circuit Engineering District #1 for the period of July 1, 2019 through June 30, 2020. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.) and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**CIRCUIT ENGINEERING DISTRICT #1
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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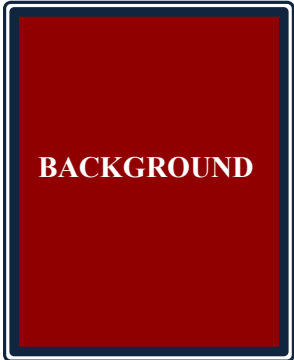
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**CIRCUIT ENGINEERING DISTRICT #1
DISTRICT INFORMATION AND OFFICIALS
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**



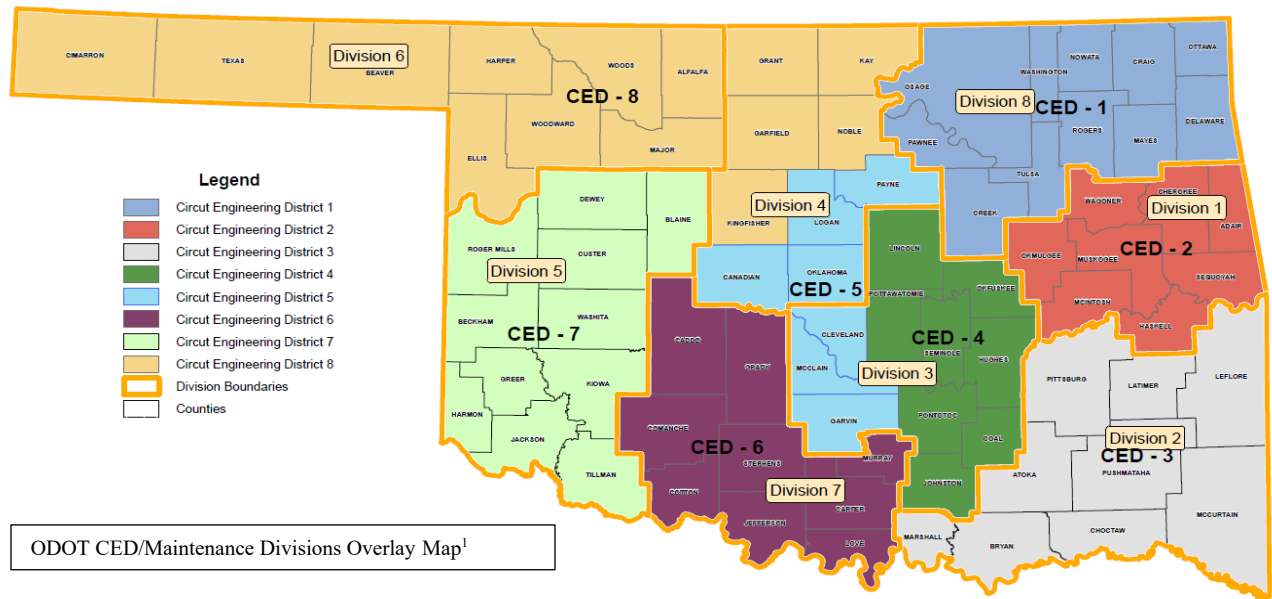
Pursuant to 69 O.S. § 687.1, counties may “create a circuit engineering district with any other county or counties” to allow county governments to “make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and development of county government.” The District is considered a political subdivision of the state.

The circuit engineering district provides project-focused assistance for its member counties, a shared engineer between counties in an advisory capacity, engineering expertise that counties could not afford alone, help for small, rural counties, and help with a county five-year construction work plan.

Each participating county in the District has an appointed county commissioner or county representative to serve as members from the District’s respective county seats. Each District then elects officers from the members as follows: President, Vice-President, and Secretary/Treasurer.

- | | |
|------------------|-----------------------------------|
| Dan Delozier | President, Rogers County |
| Mitch Antle | Vice-President, Washington County |
| Lowell Walker | Secretary/Treasurer, Craig County |
| Newt Stephens | Creek County |
| David Poindexter | Delaware County |
| Ryan Ball | Mayes County |
| Doug Sonenberg | Nowata County |
| Kevin Paslay | Osage County |
| Charles Brown | Pawnee County |
| Alex Mills | Tulsa County |
| Russell Earls | Ottawa County |

**CIRCUIT ENGINEERING DISTRICT #1
DISTRICT AREA AND SERVICES
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**



Circuit Engineering District #1 (the District) is comprised of an eleven-county region in the north eastern part of the state including: Craig, Creek, Delaware, Mayes, Nowata, Osage, Ottawa, Pawnee, Rogers, Tulsa, and Washington counties¹.

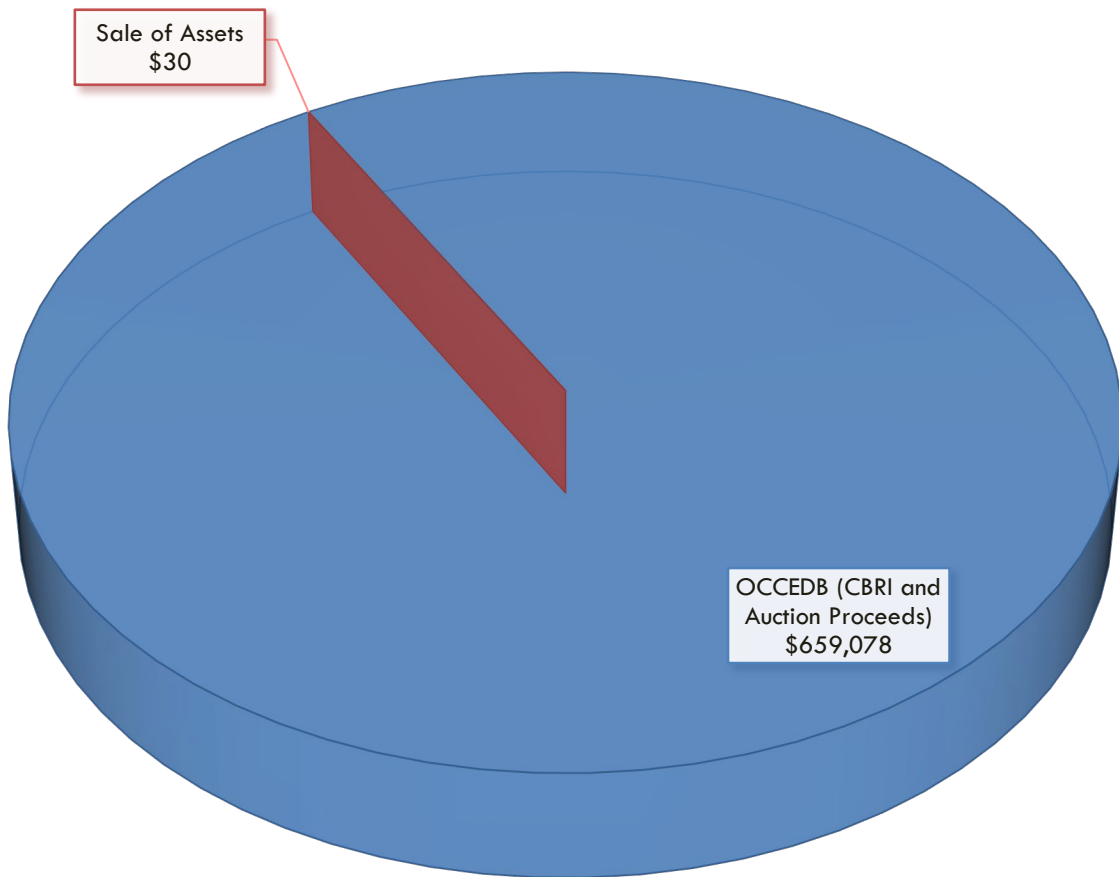
On December 1, 2011, pursuant to the Oklahoma Energy Independence Act, the District created the CED #1 County Energy District Authority (the Authority). The Authority is a public trust as provided for in 60 O.S. §§ 176, et seq.

¹Map https://www.odot.org/cirb/pdfs/cirb_engr-dist.pdf

**CIRCUIT ENGINEERING DISTRICT #1
FUNDING SOURCES
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

The District is funded by state and local revenues. The chart below summarizes the revenue sources.

REVENUE BY SOURCE

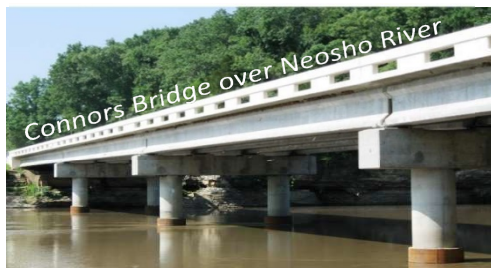


During the period the District collected \$659,108 in total revenue.

**CIRCUIT ENGINEERING DISTRICT #1
PROJECT HIGHLIGHTS FY 2020
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

Circuit Engineering District #1 (CED #1) was established in 1999 as a cooperative to provide efficiencies through counties working together. With the passing in 2006 of HB1176, the County Improvements for Roads and Bridges Fund (CIRB), CED #1 established their first CIRB 5-year transportation plan. This plan included projects from each of the 11 counties in northeast Oklahoma, with a primary focus on replacing large bridges that the counties could not afford to construct with previous funding sources.

The CIRB plan has been very successful in the past 15 years, with 102 bridge projects and 21 roadway projects completed in CED #1. More than \$161 million has been spent, making roads and bridges safer for the traveling public. One of the most notable projects was the 1,305-foot-long bridge over the Arkansas River on NS3595 Road between Pawnee and Osage Counties. This bridge, also known as the Blackburn Bridge, is the second longest county bridge in Oklahoma.



Another project of importance was the Connors Bridge over the Neosho River on NS4590 Road near Fairland in Ottawa County. Located on a major collector connecting SH-137 and US-60, the old Connors Bridge was severely damaged during the Neosho River 2007 flood, which resulted in an emergency fast-track project. The project required coordination with GRDA and establishment of a perpetual wildlife habitat area near the bridge.

CED #1 also implemented a Materials Request Grant Program to provide funding for county-built projects. Many counties had the equipment, manpower, and knowledge to construct small bridges, rebuild roadways, and overlay asphalt roads; however, they did not have enough local funds to pay for the materials. Through this program, CED #1 has funded 102 material grants totaling over \$4.9 million.

CED #1 has also incorporated 90 recycled beams from ODOT highways into newly constructed county bridges in six counties and has projects planned to use another 120 used beams. In addition, CED #1 has borrowed and paid back over \$12 million in Emergency Transportation Revolving funds, enabling counties to construct 63 projects across all 11 counties, mostly emergency projects following natural disasters.

In SFY 2020, CED #1 expended over \$21 million on 11 projects in 5 counties. An important project was Bridge 56 over Beaty Creek in Delaware County. The roadway approach washed out during a flood. The construction will be completed in summer 2021. These programs, together with the leadership and vision of the CED #1 board, has greatly improved the county transportation system in northeast Oklahoma.



Source: Information provided by Circuit Engineering District #1 (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #1
PRESENTATION OF REVENUES, EXPENDITURES,
AND FUND BALANCES OF DISTRICT FUNDS
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

Presentation of District #1 Funds for the Period of July 1, 2019 through June 30, 2020

	General Fund	Energy District
Beginning Cash Balance, July 1	\$ 160,280	\$ 503
Revenues:		
Oklahoma CED Board	659,078	-
Gain on Sale of Equipment	30	-
Total Revenues	659,108	-
Expenditures:		
Contract - Program Management	114,800	-
Contract - Used Beam Management	135	-
Contract - Material Request Grant	1,032	-
Contract - Project Scoping	16,796	-
Contract - Committee Meetings	388	-
Material Request Grants	550,000	-
Legal and Auditing	2,400	-
Meeting Expenses	828	-
Website	65	-
Total Expenditures	686,444	-
Ending Cash Balance, June 30	\$ 132,944	\$ 503

Source: District's Financial Report (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #1
DESCRIPTION OF THE DISTRICT'S FUNDS
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

Description of the District's Funds

The District uses funds to report on revenues, expenditures, and fund balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the District's funds within the Presentation of Revenues, Expenditures, and Fund Balances of District Funds:

Circuit Engineering District #1 General Fund – the General Fund is the primary operating fund of the District and is used to account for all activities except those legally or administratively required to be accounted for in other funds.

CED #1 County Energy District Authority Fund – the Authority Fund accounts for transactions relating to providing support and developing wind energy operations for member counties.

**CIRCUIT ENGINEERING DISTRICT #1
PURPOSE, SCOPE, GENERAL METHODOLOGY
AND INTERNAL CONTROL CONSIDERATIONS
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

**PURPOSE, SCOPE,
GENERAL
METHODOLOGY,
AND INTERNAL
CONTROL
CONSIDERATIONS**

This audit was conducted in response to 69 O.S. § 687.1, which requires the State Auditor and Inspector’s Office to audit the books and accounts of the circuit engineering district.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the period July 1, 2019 through June 30, 2020.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the District’s operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples. Further details regarding our methodology are included under each objective.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*² outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Each of these components, listed in Appendix A for your reference, includes a subset of principles that are expected to be operating at government entities.

The *Standards for Internal Control*² underscore that an internal control system is effective only when the five components of internal control are effectively designed, implemented, and operating together in an integrated manner. As required by *Government Auditing Standards*³, we have

**CIRCUIT ENGINEERING DISTRICT #1
PURPOSE, SCOPE, GENERAL METHODOLOGY
AND INTERNAL CONTROL CONSIDERATIONS
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

identified the aspects of internal control components and underlying principles significant to each audit objective in this engagement and our assessments are detailed in Appendix A.

Any internal control deficiencies are documented in the findings included under each objective in this report. Because our audit was limited to the internal control components and underlying principles deemed significant to our audit objectives, it may not have disclosed all internal control deficiencies that may have existed at the time of the audit.

² *Standards for Internal Control in the Federal Government*, or the “Green Book,” sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>

³ *Government Auditing Standards*, or the “Yellow Book,” also promulgated by the GAO, guides our performance and operational audits. Last version 2018, accessible online at <https://www.gao.gov/products/GAO-18-568G>.

**CIRCUIT ENGINEERING DISTRICT #1
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

Objective 1: To determine the District’s revenues, expenditures, and fund balances are accurately presented on the District’s financial reports for the period.

Conclusion: With respect to the items reconciled and reviewed; the District’s revenues, expenditures, and fund balances were accurately presented on the District’s financial reports for the period. However, we noted some deficiencies in internal controls regarding the financial reporting process.

Objective 1 Methodology: To accomplish objective 1, we performed the following:

- Documented our understanding of the process for preparing the District’s monthly financial reports. Evaluated the process and identified significant internal controls related to the preparation of the District’s monthly financial reports.
- Compared the process to governmental internal control standards outlined in the *GAO Standards for Internal Control*.
- Reviewing a random sample of four (4) District monthly financial reports (33.33% of months in the population tested) to ensure the monthly reports were signed and approved by someone other than the preparer, reconciled to the general ledger, and reconciled to the bank statement.
- Reconciled total collections from the month to the general ledger for each month and to the District’s monthly financial reports.
- Confirmed \$659,078 in monies (99.99% of total monies) received from the Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB) and determined these monies were entered into the accounting system in the proper amount.
- Prepared a general ledger schedule of cash and investments at June 30 to ensure the schedule reconciled to the District’s monthly financial reports.
- Confirmed all cash and investment balances at June 30th.
- Re-performed the June 30th bank reconciliation and confirmed reconciling items.
- Reviewed bank balances of all accounts at June 30th on the District’s general ledger to ensure that investments were adequately secured as required by 62 O.S. § 517.4(C).
- Reconciled the District’s total expenditures from the monthly financial reports to the financial institution’s total disbursements.

FINDINGS AND RECOMMENDATIONS

Finding 2020-001 – Internal Controls Over District’s Monthly Financial Reports

Condition: There were no formal policies regarding the District’s financial process, and internal control deficiencies in the process related to the District’s monthly financial reports, included the following:

- Monthly financial reports should be reviewed by someone other than the preparer before it is presented to the Board.
- The bank reconciliations are not performed monthly nor approved by someone other than the preparer to verify accuracy.

**CIRCUIT ENGINEERING DISTRICT #1
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

- The District does not verify ending bank account balances to ensure funds are appropriately collateralized.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure:

- Review revenue, expenditures, and fund balances to verify that these amounts are accurately presented on the monthly reports and reviewed by someone other than the preparer.
- Bank account reconciliations are performed and reviewed by someone other than the preparer and documentation of the review is maintained.
- Bank deposits are adequately secured.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the District implement a system of internal controls to provide reasonable assurance that revenue, expenditures, and fund balances are accurately presented on the District's monthly financial reports.

To improve internal controls over the District's monthly reports, we recommend the following:

- Monthly financial reports should be reviewed by someone other than the preparer.
- Bank reconciliations should be performed monthly and reviewed by someone other than the preparer.

Additionally, OSAI recommends that the District design policies and procedures to compare bank balances to the fair market value of pledged collateral on a periodic basis to ensure that funds are adequately secured. Documentation for this procedure should be maintained.

Management Response:

CED Board Chairman: CED #1 will establish and implement a policy that provides a review of the financial statement, bank reconciliations, and bank account insurance/collateral limits each month by a person other than the person preparing the financial statement and reconciling the account.

Criteria: The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014 version)⁴ aided in guiding our assessments and conclusion.

GAO Standards – Principle 2 – Exercise Oversight Responsibility - 2.10 states:

Oversight for the Internal Control System

These responsibilities are supported by the organizational structure that management establishes. The oversight body oversees management's design, implementation, and operation of the entity's organizational structure so that the processes necessary to enable the oversight body to fulfill its responsibilities exist and are operating effectively.

⁴Although this publication (GAO Standards) addresses controls in the federal government, this criterion can be treated as best practices and may be applied as a framework for an internal control system for state, local, and quasi-governmental entities.

**CIRCUIT ENGINEERING DISTRICT #1
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

GAO Standards – Principle 10 – Design Control Activities - 10.03 states in part:

Design of Appropriate Types of Control Activities

Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. The common control activity categories listed in figure 6 are meant only to illustrate the range and variety of control activities that may be useful to management. The list is not all inclusive and may not include particular control activities that an entity may need.

Segregation of duties

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Appropriate documentation of transactions and internal control

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

Additionally, GAO Standards – Principle 12 – Implement Control Activities - 12.02 through 12.04 states:

Documentation of Responsibilities through Policies

Management documents in policies the internal control responsibilities of the organization. Management documents in policies for each unit its responsibility for an operational process’s objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

Title 62 O.S. § 517.4(C) states, “Securities eligible for collateral shall be valued at market value. The treasurer shall review and determine the market value of collateral pledged for security not less than quarterly. The market value of pledged securities shall be provided to the treasurer by either the financial institution holding the deposit or the financial institution holding the collateral securities, which market value must have been obtained from an independent, recognized and documented source. The State Treasurer shall promulgate

**CIRCUIT ENGINEERING DISTRICT #1
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

rules to provide for the valuation of collateral if the market value is not readily determinable. The State Treasurer shall prescribe reporting requirements and forms for financial institutions to list collateral securities pursuant to this section.”

Objective 2: To determine whether the District’s expenditures (including payroll) are supported by adequate documentation and for the allowable operations of the District.

Conclusion: With respect to the items tested, the District’s expenditures (including payroll) are supported by adequate documentation and for the allowable operations of the District.

Objective 2 Methodology: To accomplish objective 2, we performed the following:

- Documented our understanding of the expenditure process including payroll. Evaluated the process and identified significant internal controls related to expenditures.
- Compared the process to governmental internal control standards outlined in the *GAO Standards for Internal Control*.
- Reviewed a random sample of four (4) expenditures totaling \$152,400 representing 23.95% of expenditures in the population tested.

FINDINGS AND RECOMMENDATIONS

No findings were noted as a result of the procedures performed.

Objective 3: To determine whether the District established a process to evaluate proposed projects when using County Improvements for Roads and Bridges (CIRB) funds, prioritized those projects, and that they were submitted in the District’s 5 Year Construction Work Plan to ensure compliance with 69 O.S. § 507 B and Administrative Code 730:10-23-5 and 730:10-23-7.

Conclusion: With respect to the items reviewed, the District complied with 69 O.S. § 507 B in part, requiring the District to submit the District’s Five-Year Construction Work Plan to the Department of Transportation. The District did not comply with 69 O.S. § 507 B and Administrative Code 730:10-23-5 and Administrative Code 730:10-23-7, which required the District to establish a process to evaluate proposed projects when using County Improvements for Roads and Bridges (CIRB) funds, and prioritize those projects.

Objective 3 Methodology: To accomplish objective 3, we performed the following:

**CIRCUIT ENGINEERING DISTRICT #1
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

- Determined the District has established a process to evaluate proposed projects for conformance to the intent of the program and the project evaluation criteria prior to compiling the District’s Five-Year Construction Work Plan.
- Determine the District has established a process for determining the level of priority for projects and has compiled a prioritized list of recommended projects.
- Determined the District submitted a prioritized list of recommended projects to the Department of Transportation for the District’s Five-Year Construction Work Plan.

FINDINGS AND RECOMMENDATIONS

Finding 2020-002 – Internal Controls Over the District’s Five-Year Construction Work Plan

Condition: The District has not established processes for the following:

- Evaluation of proposed projects for conformance to the intent of the program and to project evaluation criteria used to compile the District’s Five-Year Construction Work Plan.
- Determining the level of priority for projects to include on the list of recommended projects.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure proposed projects are prioritized and evaluated to determine the conformance with intent of program and project evaluation criteria.

Effect of Condition: These conditions resulted in noncompliance with state statute and Administrative Codes.

Recommendation: OSAI recommends that the District establish an evaluation process for proposed projects to determine the conformance with intent of the program and project evaluation criteria. Further, OSAI recommends the District establish a process to assign priority levels to each project to be considered for the District’s Five-Year Construction Work Plan.

Management Response:

CED Board Chairman: CED #1 will establish and implement a policy for evaluating projects and assigning project priorities.

Criteria: Title 69 O.S. § 507 B., states in part “The funds shall be used for the sole purpose of construction or reconstruction of county roads or bridges on the county highway system that are of the highest priority as defined by the Transportation Commission. Counties may accumulate annual funding for a period of up to five (5) years for a specific project, with such funding to be held by the Transportation Commission to the credit of the county project. The Transportation Commission shall promulgate rules for the administration of the process and the development of criteria for determining the level of priority for projects and include such projects in a five-year construction plan that will be updated annually.

**CIRCUIT ENGINEERING DISTRICT #1
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

Projects in the five-year construction plan shall be contracted as provided by law and awarded by the Transportation Commission.”

Administrative Code 730:10-23-5. Project eligibility and approval

Projects shall be considered and approved for inclusion in the five year construction work plan annually by the Department of Transportation on the basis of specific project evaluation criteria. These criteria shall generally consider factors including the ability of the county to effect the improvements through the utilization of other resources and funding mechanisms, the priority of the project as established by the Circuit Engineering District, project feasibility and cost including the ability of the county to participate, existing phase of project development, anticipated safety and mobility benefits realized by the traveling public and commerce, and the extent the project will improve the overall level of service and longevity of the county transportation system in the area.

Administrative Code 730:10-23-7 Project selection

Upon determination of the conformance of a proposed project with the intent of the program and the project evaluation criteria, the coordinating Circuit Engineering District will compile a prioritized list of recommended projects occurring within the District to be transmitted for further consideration by the Department of Transportation. In the absence of an acceptable project recommendation from any CED, the Department reserves the authority to select and recommend projects to the Transportation Commission as determined appropriate.

Objective 4: To determine if the District’s internal controls provide reasonable assurance that fixed assets and consumable inventories are accurately reported in the accounting records.

Conclusion: The District’s internal controls do not provide reasonable assurance that fixed assets inventory is accurately reported in the accounting records.

Note: The District did not maintain or acquire consumable inventories during the audit period, therefore internal controls regarding consumable inventories is not applicable.

Objective 4 Methodology: To accomplish objective 4, we performed the following:

- Documented our understanding of the processes related to fixed assets, which included reviewing fixed assets records to determine periodic verifications were performed.
- Documented our understanding of the processes related to consumable inventories, which included reviewing consumable inventories records to determine periodic verifications were performed.
- Compared those processes to governmental internal control standards outlined in the GAO *Standards for Internal Control*.

**CIRCUIT ENGINEERING DISTRICT #1
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

FINDINGS AND RECOMMENDATIONS

Finding 2020-003 – Internal Controls Over Fixed Assets Records

Condition: The District is not performing periodic monitoring of fixed assets.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure fixed assets inventory is properly maintained and updated through a periodic review by the District.

Effect of Condition: When fixed assets inventory is not monitored, opportunities for misuse or loss of equipment can occur. Further, this condition could result in errors, and unrecorded transactions in the accounting records.

Recommendation: OSAI recommends that the District perform and document periodic physical inventory reviews of fixed assets. The Board should establish policies and procedures that provide for at a minimum, annual inventory counts to help ensure that fixed asset records are accurate.

The results of each inventory count, and any subsequent modifications to inventory records, should be reviewed and approved by a member of management who is independent of maintaining inventory records and performing the count. Documentation of the review should be maintained. The reviewer should also ensure that any significant purchases are reflected in the records and that any items removed are supported by approved surplus documentation.

In addition, the inventory records should only be accessible to the necessary personnel.

Management Response:

CED Board Chairman: CED #1 will establish and implement a policy for asset records and periodic inventory of assets.

Criteria: The GAO Standards – Section 2 – Objectives of an Entity - OV2.24 states:

Safeguarding of Assets

A subset of the three categories of objectives is the safeguarding of assets. Management designs an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

Further, GAO Standards – Principle 2 – Exercise Oversight Responsibility - 2.10 states:

Oversight for the Internal Control System

These responsibilities are supported by the organizational structure that management establishes. The oversight body oversees management's design, implementation, and

**CIRCUIT ENGINEERING DISTRICT #1
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
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operation of the entity's organizational structure so that the processes necessary to enable the oversight body to fulfill its responsibilities exist and are operating effectively.

Also, GAO Standards – Principle 10 – Design Control Activities - 10.03 states in part:

Design of Appropriate Types of Control Activities

Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. The common control activity categories listed in figure 6 are meant only to illustrate the range and variety of control activities that may be useful to management. The list is not all inclusive and may not include particular control activities that an entity may need.

Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, GAO Standards – Principle 12 – Implement Control Activities - 12.02 through 12.04 states:

Documentation of Responsibilities through Policies

Management documents in policies the internal control responsibilities of the organization. Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

**CIRCUIT ENGINEERING DISTRICT #1
APPENDIX A: INTERNAL CONTROL COMPONENTS AND PRINCIPLES
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

Work Related to Internal Controls

OSAI considered several factors, including the subject matter of the project, to determine whether internal controls were significant to the audit objective. Based on its consideration, OSAI determined that internal controls were significant for this audit. OSAI then considered the components of internal control and the underlying principles included in the Standards for Internal Control in the Federal Government. According to the Government Accountability Office, considering internal controls in the context of a comprehensive framework can help auditors to determine whether underlying deficiencies exist.

Overall Conclusion for the Internal Control Components and Principles Identified as Significant

The table below outlines the components and principles of internal control, identifies those considered significant to our specific objective in this engagement, and notes whether those principles were found to be operating effectively. For those not operating effectively, further discussion and related recommendations are included in the report.

As recommended by GAO Standards section 9.32, the full outline of the fundamental components of internal control and their underlying principles is included for your reference.

Internal Control Component/Principle	Audit Objective 1	Operating Effectively?	Audit Objective 2	Operating Effectively?	Audit Objective 3	Audit Objective 4	Operating Effectively?
	Control Environment Component – Foundation that provides processes and structure to help an entity set expectations and achieve its objectives.						
1. The oversight body and management should demonstrate a commitment to integrity and ethical values.							
2. The oversight body should oversee the entity’s internal control system.	✓	NO	✓	YES		✓	NO
3. Management should establish an organizational structure, assign responsibility, and delegate authority							

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to achieve the entity's objectives.							
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.							
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.							
		Risk Assessment Component – Dynamic process of identifying, analyzing, and managing risks facing the entity.					
6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.							
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.							
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.							
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.							

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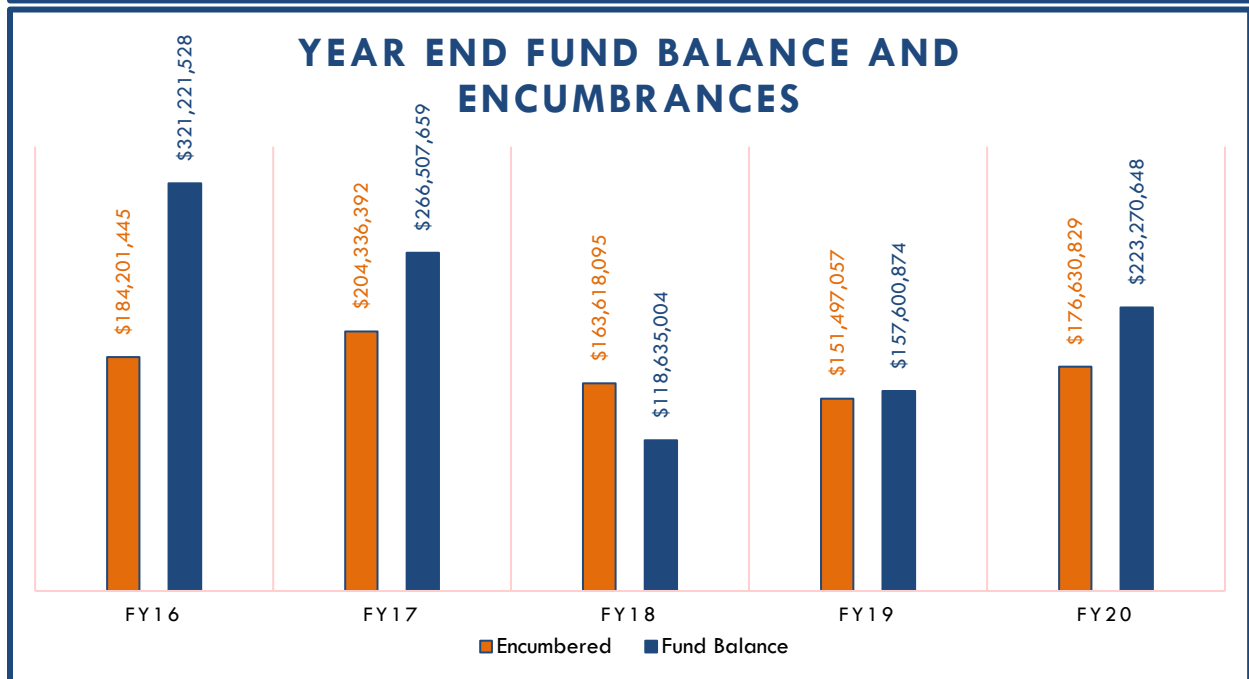
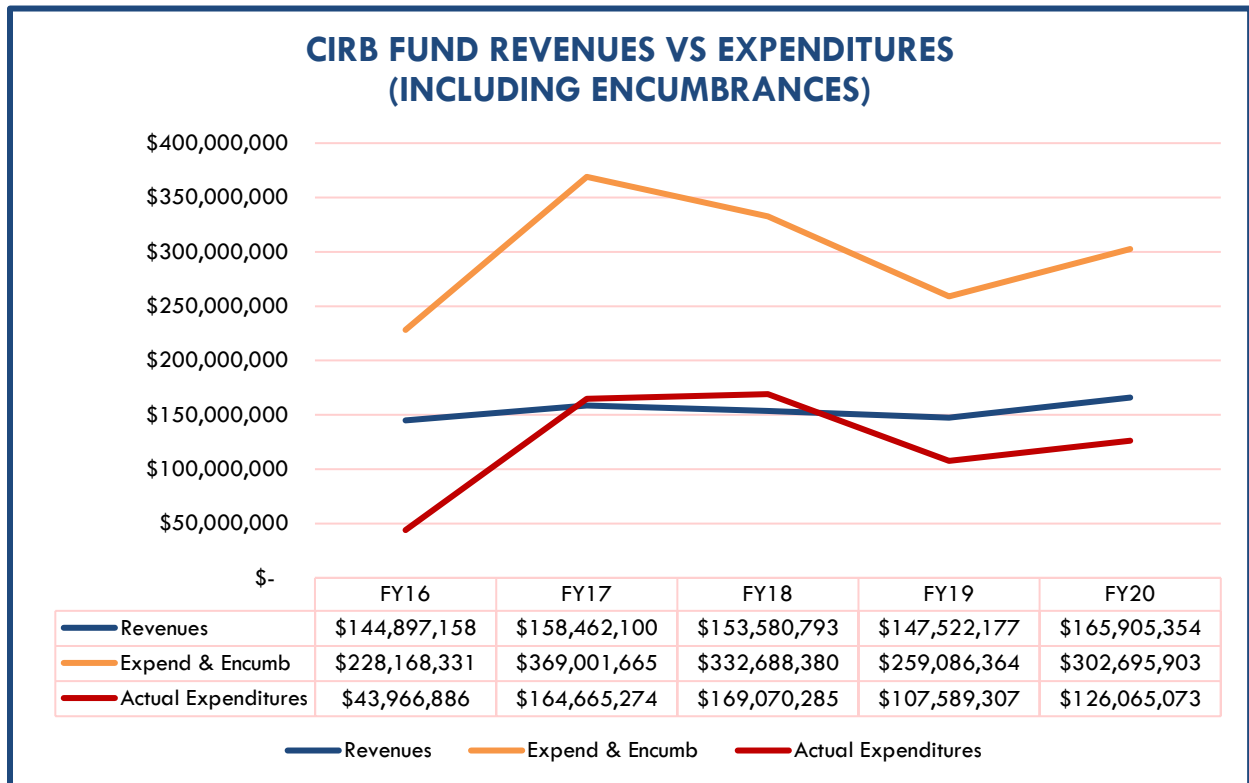
Control Activities Component – Actions management establishes through policies and procedures to protect against risks.							
10. Management should design control activities to achieve objectives and respond to risks.	✓	NO	✓	YES		✓	NO
11. Management should design the entity’s information system and related control activities to achieve objectives & respond to risks.							
12. Management should implement control activities through policies.	✓	NO	✓	YES		✓	NO
Information and Communication Component – Quality information communicated and used to support the internal control system.							
13. Management should use quality information to achieve the entity’s objectives.							
14. Management should internally communicate the necessary quality information to achieve the entity’s objectives.							
15. Management should externally communicate the necessary quality information to achieve the entity’s objectives.							
Monitoring Component – Activities to assess the quality of performance and promptly correct any deficiencies.							
16. Management should establish and operate monitoring							

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activities to monitor the internal control system and evaluate the results.							
17. Management should remediate identified internal control deficiencies on a timely basis.							

The GAO emphasizes that each of the five components of internal control must be effectively designed, implemented, and operating; for an internal control system to be effective, the components must operate together in an integrated manner. They further stress that documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity’s internal control system.

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APPENDIX B: STATEWIDE CIRB FUND ANALYSIS
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**



Source: Information provided from the Statewide Accounting System- Summary of Receipts and Disbursement reports and Allotment Budget and Available Cash reports (presented for informational purposes).

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



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