



CIRCUIT ENGINEERING DISTRICT #2

Operational Audit

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

Cindy Byrd, CPA
State Auditor & Inspector

**CIRCUIT ENGINEERING DISTRICT #2
OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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Cindy Byrd, CPA | State Auditor & Inspector

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August 23, 2021

**TO THE BOARD OF THE
CIRCUIT ENGINEERING DISTRICT #2**

We present the audit report of the Circuit Engineering District #2 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 #2
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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INTRODUCTORY SECTION
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**CIRCUIT ENGINEERING DISTRICT #2
DISTRICT INFORMATION AND OFFICIALS
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**



BACKGROUND

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.

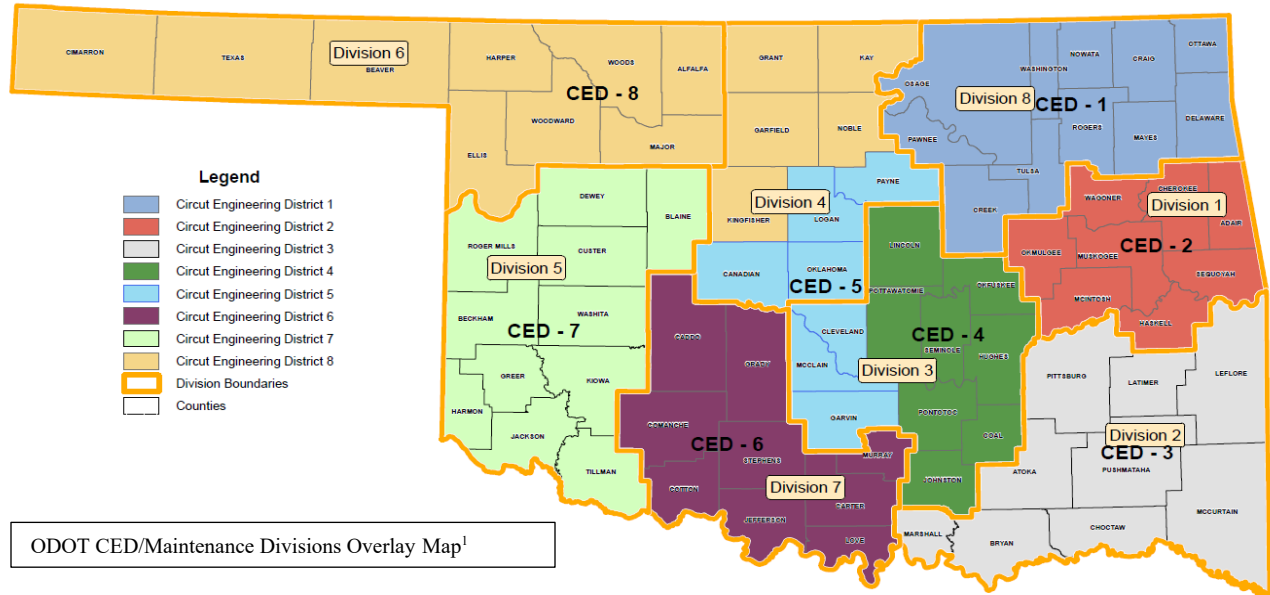
The circuit engineering district provides project-focused assistance for its member counties, a shared engineer between counties in an advisory capacity, engineering expertise that counties could not afford alone, help for small, rural counties, and help with a county five-year construction work plan.

Each participating county in the District has an appointed county commissioner 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.

Sam Chandler
Michael Burns
Clark McClary
Clif Hall
Kenny Payne
Ron Ballard
Ray Watts
Tim Kelley

President, Adair County
Vice-President, McIntosh County
Secretary/Treasurer, Haskell County
Cherokee County
Muskogee County
Okmulgee County
Sequoyah County
Wagoner County

**CIRCUIT ENGINEERING DISTRICT #2
DISTRICT AREA AND SERVICES
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**



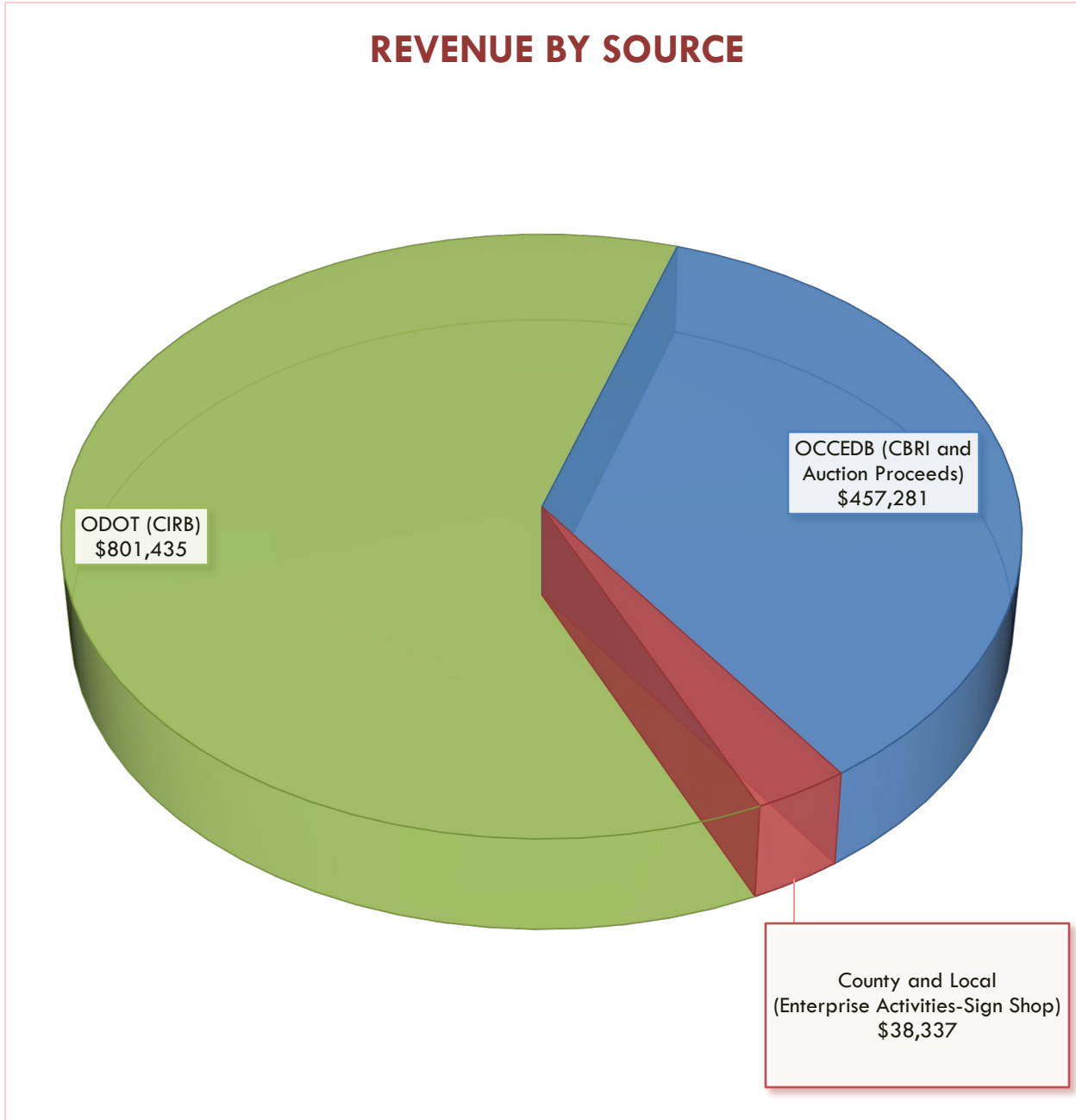
Circuit Engineering District #2 (the District) is comprised of an eight-county region in the central-eastern part of the state including: Adair, Cherokee, Haskell, McIntosh, Muskogee, Okmulgee, Sequoyah, and Wagoner counties¹.

Additionally, the District has entered into agreements with the Oklahoma Department of Transportation in order to provide professional services for the improvement of roads and bridges of member counties. Services provided include preliminary engineering, construction management, bridge inspection, fracture critical bridge inspection and program management.

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

**CIRCUIT ENGINEERING DISTRICT #2
FUNDING SOURCES
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

The District is funded by multiple sources including Federal, State and local revenues. The chart below summarizes the revenue sources.



During the period the District collected \$1,297,035 in total revenue.

**CIRCUIT ENGINEERING DISTRICT #2
PROJECT HIGHLIGHTS FY 2020
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

Eastern Oklahoma Circuit Engineering District #2 serves Adair, Cherokee, Haskell, McIntosh, Muskogee, Okmulgee, Sequoyah and Wagoner counties in eastern Oklahoma. Working in cooperation with the county commissioners, the CED #2 aids with design of roads and bridges, right-of-way utility coordination, project management, construction inspection, material lab testing, sign management, and FHWA's Safety Bridge Inspection.



Sallisaw Creek Bridge, Sequoyah County

Since its development, the CED #2 CIRB 5-Year Construction Plan has effectively completed over 75 county bridges throughout its 8-county district. \$145 million has been encumbered for projects from 2009 through 2026. The plan is fiscally balanced annually and CED #2 assists commissioners in ranking their projects by priority. Improved safety of the traveling public is always a top priority.

FY 2020 saw the completion of the Sallisaw Creek bridge in Sequoyah County, a 5 span, 528-foot bridge with approaches measuring 1430 feet. In McIntosh County, the Texanna Road project rehabilitated 5 miles of county road. A bridge over Concharty Creek in Muskogee County will not only allow ease of access to the rural residents but also safe passage for emergency vehicles and school buses.



Texanna Road, McIntosh County

Active projects include Marble City in Sequoyah County, a 2.3-mile-long overlay with 8-foot shoulder widening. Redwood Avenue in Sequoyah County is a full reconstruction and bridge rehabilitation, and Star Road in Haskell County improves 6.7 miles of roadway and a bridge replacement. CED #2 has orchestrated many improvements to eastern Oklahoma county roads and bridges and has seen the reduction of derelict bridges due to funds provided through the CIRB 5-Year Construction Plan.

Source: Information provided by Circuit Engineering District #2 (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #2
DESCRIPTION OF THE DISTRICT'S FUNDS
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

Presentation of District #2 Funds for the Period of July 1, 2019 through June 30, 2020

	<u>General Fund</u>
Beginning Cash Balance, July 1	\$ 750,036
Revenues:	
ODOT Revenue	801,435
Sign Shop Revenue	38,337
Oklahoma Cooperative CED District	452,439
CED Auction Revenue	4,842
Total Revenues	<u>1,297,053</u>
Expenditures:	
Equipment Expense	48,584
Payroll Expense	833,003
Cost of Sales - Contract Engineer	35,354
Cost of Goods - Construction Inspector	131,768
Advertising Expense	615
Office Expense	52,834
Auditing Fees Expense	11,222
Commission and Fees Expense	975
Construction Inspection Expense	12,973
Engineering Services Expense	579
Travel/Meals/Training Expense	22,173
Workers Compensation Insurance	7,384
License Expense	1,737
Maintenance and Repair Expense	14,342
Sign Shop Expense	38,659
Surveying Expense	4,863
Utilities Expense	7,867
Total Expenditures	<u>1,224,932</u>
Ending Cash Balance, June 30	<u>\$ 822,157</u>

**CIRCUIT ENGINEERING DISTRICT #2
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 #2 General Fund - the General Fund is the primary operating fund of the District and is used to account for all activities.

**CIRCUIT ENGINEERING DISTRICT #2
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 #2
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 #2
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: The District’s revenues, expenditures, and fund balances were not accurately presented on the District’s financial reports for the period, and we noted 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 processes for preparing the District’s monthly financial reports. Evaluated those processes and identified significant internal controls related to the preparation of the District’s monthly financial reports.
- Compared those processes to governmental internal control standards outlined in the GAO *Standards for Internal Control*
- Confirmed \$835,408 in monies (64% of total monies) received from the State Treasurer’s Office (ODOT, OTC, etc.) and Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB) and determined that these monies were entered into the accounting system in the proper amount.
- Confirmed all cash and investment balances at June 30th.
- 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.

FINDINGS AND RECOMMENDATIONS

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

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

- For the period of March 2020 through June 2020, financial activities for the District were not recorded into the accounting system and monthly financial reports were not prepared by the District.
- The bank reconciliations are not reviewed and approved by someone other than the preparer to verify accuracy.
- No one other than the preparer reviews and approves the deposits before or after it is taken to the bank.
- The District does not verify ending bank account balances to ensure funds are appropriately collateralized.

Other deficiencies noted:

- Fifteen (15) deposits totaling \$420,178.11 were not posted to the accounting system.
- Twelve (12) of the twenty-four (24) bank reconciliations for the audit period were not properly reconciled to accounting records.

**CIRCUIT ENGINEERING DISTRICT #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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

- All financial transactions are recorded in the accounting system.
- Monthly financial reports are prepared, reviewed, and presented to the Board for approval.
- Bank account reconciliations are performed monthly, reconciliations are reviewed by someone other than the preparer, and documentation of the review is maintained.
- Someone other than the preparer reviews and approves the bank deposit before and after it is taken to the bank.
- Bank deposits are adequately secured.

Effect of Condition: These conditions resulted in unrecorded transactions, misstated financial reports, undetected errors. Further, these conditions could result in misappropriation of funds, noncompliance with state statute, and loss of District 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 cash balances are accurately presented on the District's monthly reports.

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

- Management review and approve accounting functions.
- Monthly financial reports should be prepared, reviewed by someone other than the preparer, and presented to the Board.
- Bank reconciliations should be performed and reviewed by someone other than the preparer.
- Deposits should be verified by someone other than the preparer before and after it is taken to the bank.

Additionally, OSAI recommends that the District design 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: Management will update our policies and procedures to include OSAI recommendations to help prevent unrecorded transactions, misstated financial reports, undetected errors, and fraud. Further, management will review and approve accounting functions. Monthly reports will be presented to the District Board. Bank reconciliations will be reviewed by someone other than the preparer. Deposits will be verified before and after they are taken to the bank.

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.

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 #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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.

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.

**CIRCUIT ENGINEERING DISTRICT #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
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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 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, we were unable to determine the District’s expenditures (including payroll) were for the allowable operations of the District. We noted deficiencies regarding adequate documentation and internal controls in the expenditure (including payroll) process.

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

- Documented our understanding of the expenditure process including payroll. Evaluated those processes and identified significant internal controls related to expenditures.
- Compared those processes to governmental internal control standards outlined in the GAO *Standards for Internal Control*.
- Reviewed a random sample of expenditures totaling \$14,238 (3.74% of expenditures in the population tested).
- Reviewed a random sample of \$55,523 payroll expenditures (6.72% of payroll expenditures in the population tested).

FINDINGS AND RECOMMENDATIONS

Finding 2020-002 – Internal Controls Over the District’s Expenditures

Condition: Internal control deficiencies in the expenditure process included the following:

- The duties over the expenditure process are not properly segregated.
 - The bookkeeper receives mail, creates invoices, has access to blank check stock, prints checks, and can make changes in the bookkeeping system.
 - Management nor the board review and approve expenditures to supporting documentation.

**CIRCUIT ENGINEERING DISTRICT #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

- There are no formal policies regarding the payroll process and the duties over the payroll process are not properly segregated.
 - During the period of July 1, 2019 through April 3, 2020, the bookkeeper; received timesheets, input payroll into the accounting system, made payroll changes, processed payroll, tracked leave balances, initiated payroll direct deposits, maintained personnel files, enrolled new employees, and paid federal and state tax. A secondary person did not review or approve any payroll related information.
 - Beginning April 3, 2020, the District began outsourcing payroll; however, the payroll documentation was not reviewed and approved in conjunction with supporting documentation. In addition, from April 3, 2020 to June 30, 2020, there were no entries made into the bookkeeping software for payroll.
 - Timesheets and leave requests from July 1, 2019 through March 31, 2020 could not be located by management. Additionally, timesheets that were located for the period subsequent to March 31, 2020 were not signed by the employee or the reviewer and did not record the time taken for lunch breaks in accordance with the District policy.
 - Leave balances were not reviewed in conjunction with supporting documentation.
 - The Board does not review or approve payroll expenditures.
 - Payroll direct deposits were not compared or reviewed to the payroll documentation.

- In a random sample of twenty-nine (29) expenditures:
 - One (1) expenditure was not supported by adequate documentation.
 - One (1) expenditure included a penalty for the prior bill.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the District's expenditures (including payroll) processes are segregated; supported and reviewed to accurate and adequate documentation; reviewed and approved by the Board; entered into the accounting system; and timesheets are prepared, retained, or approved in accordance with the District's policy.

Effect of Condition: These conditions resulted in unrecorded transactions, misstated financial reports, undetected errors. Further, a single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends management implement policies and procedures to segregate duties over the District's expenditure (including payroll) process. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office and having management review and approval of accounting functions.

Further, OSAI recommends that the District:

- Document the review of expenditures (including payroll) by management and the Board.

**CIRCUIT ENGINEERING DISTRICT #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

- Review expenditures supporting documentation such as invoices, timesheets, payroll reports, and direct deposits.
- Ensure all employees submit timesheets prepared in accordance with the District policies.
- Retain approved timesheets and leave records.
- Ensure all accounting entries are entered accurately into the District accounting system.

Management Response:

CED Board Chairman: Following the OSAI recommendations, management has implemented policies and procedures to segregate duties over the District's expenditure process. The payroll has been outsourced to a third party, but timesheets and leave records are reviewed before they are sent to be processed. Before distribution, the pay stubs, vacation, and sick time report are reviewed by management for accuracy. Timesheets are submitted digitally by employees and are kept on file for review.

Invoices received for payment are reviewed for accuracy before they are processed for payment. Invoices for testing materials are reviewed by the Construction Engineer and invoice for bridge related items are reviewed by the Bridge Engineer.

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 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.

**CIRCUIT ENGINEERING DISTRICT #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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.

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 5 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:

- 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 5 Year Construction Work Plan.
- Determined 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 5 Year Construction Work Plan.

**CIRCUIT ENGINEERING DISTRICT #2
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 the District’s 5 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 5 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 5 Year Construction Work Plan.

Management Response:

CED Board Chairman: The District will establish an evaluation process for future projects and develop a method of prioritizing projects under consideration for the 5-year plan.

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. 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

**CIRCUIT ENGINEERING DISTRICT #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
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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 and consumable inventories are accurately reported in the accounting records.

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*.

FINDINGS AND RECOMMENDATIONS

Finding 2020-004 – Internal Controls Over Fixed Asset and Consumable Inventory Records

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

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

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Effect of Condition: When fixed assets and consumable inventories are not monitored, opportunities for misuse or loss of equipment or consumables 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 and consumable inventories. The Board should establish policies and procedures that provide for at a minimum, annual inventory counts, to help ensure the accurate fixed assets and monthly inventory counts are conducted to help ensure the physical and consumable inventories records are properly maintained, updated and documented.

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: Management will design and implement policies and procedures to perform and maintain periodic monitoring of fixed assets and consumable inventories.

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 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

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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.

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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	✓	NO		✓	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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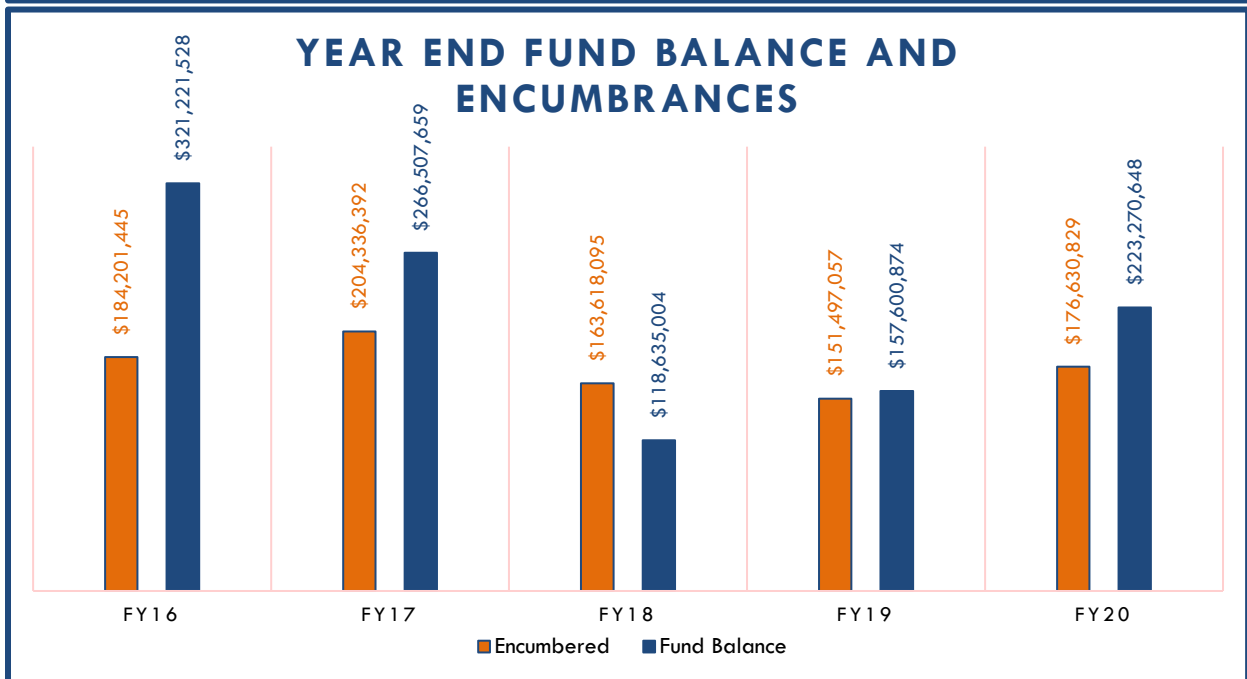
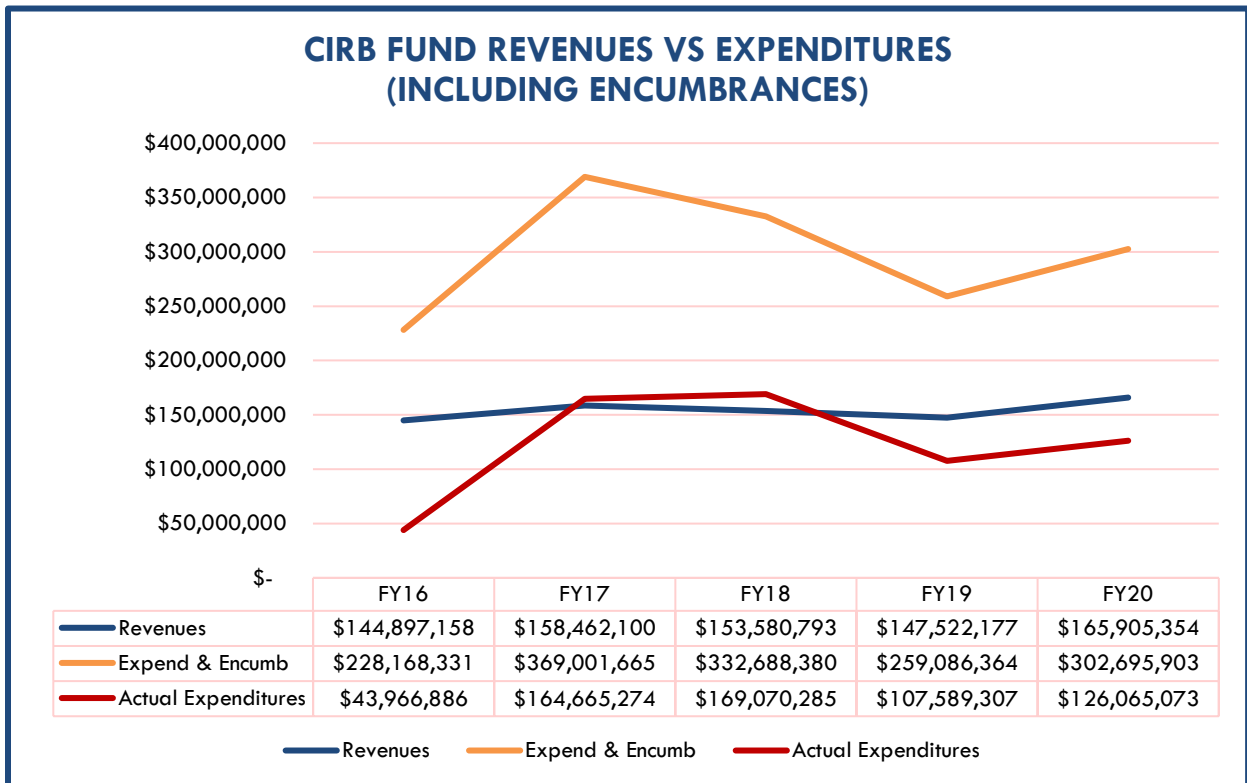
	Control Activities Component – Actions management establishes through policies and procedures to protect against risks.						
10. Management should design control activities to achieve objectives and respond to risks.	✓	NO	✓	NO		✓	NO
11. Management should design the entity’s information system and related control activities to achieve objectives & respond to risks.							
12. Management should implement control activities through policies.	✓	NO	✓	NO		✓	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.

**CIRCUIT ENGINEERING DISTRICT #2
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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