



# CIRCUIT ENGINEERING DISTRICT #5

## Operational Audit

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

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

**CIRCUIT ENGINEERING DISTRICT #5  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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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](http://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.

August 23, 2021

**TO THE BOARD OF THE  
CIRCUIT ENGINEERING DISTRICT #5**

We present the audit report of the Circuit Engineering District #5 for the of period 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,



CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR



**CIRCUIT ENGINEERING DISTRICT #5  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**TABLE OF CONTENTS**

**OPERATIONAL AUDIT REPORT**

Introductory Section (Unaudited)

District Information and Officials.....	ii
District Area and Services.....	iii
Funding Sources.....	iv
Project Highlights FY 2020 .....	v
Presentation of Revenues, Expenditures, and Fund Balances of District Funds for the Period of July 1, 2019 through June 30, 2020 .....	1
Description of the District’s Funds .....	2
Purpose, Scope, General Methodology and Internal Control Considerations.....	3
Objectives and Results of Operational Audit.....	5
Appendix A: Internal Control Components and Principles .....	14
Appendix B: Statewide CIRB Fund Analysis.....	18

**INTRODUCTORY SECTION**  
**UNAUDITED INFORMATION ON PAGES ii - v**  
**PRESENTED FOR INFORMATIONAL PURPOSES ONLY**

**CIRCUIT ENGINEERING DISTRICT #5  
DISTRICT INFORMATION AND OFFICIALS  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**BACKGROUND**

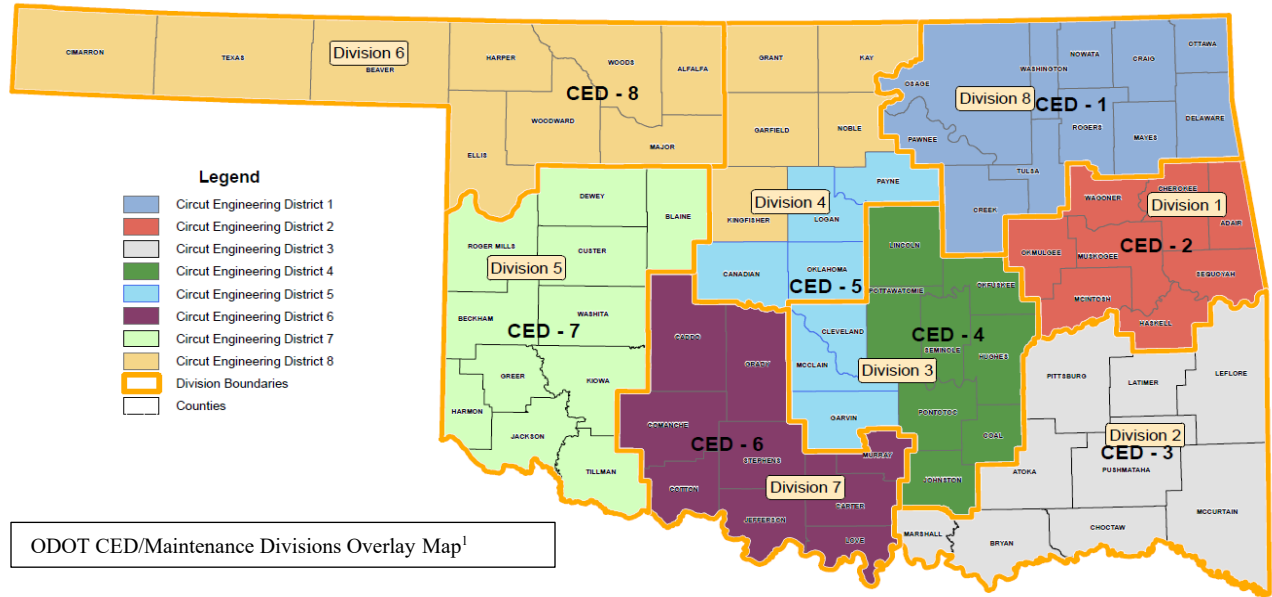
Pursuant to 69 O.S. § 687.1, counties may “create a circuit engineering district with any other county or counties” to allow county governments to “make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

Darry Stacy	President, Cleveland County
Wilson Lyles	Vice-President, McClain County
Carrie Blumert	Secretary/Treasurer, Oklahoma County
Gary Ayers	Garvin County
Marven Goodman	Logan County
Zach Cavett	Payne County
Jack Stewart	Canadian County

**CIRCUIT ENGINEERING DISTRICT #5  
DISTRICT AREA AND SERVICES  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**



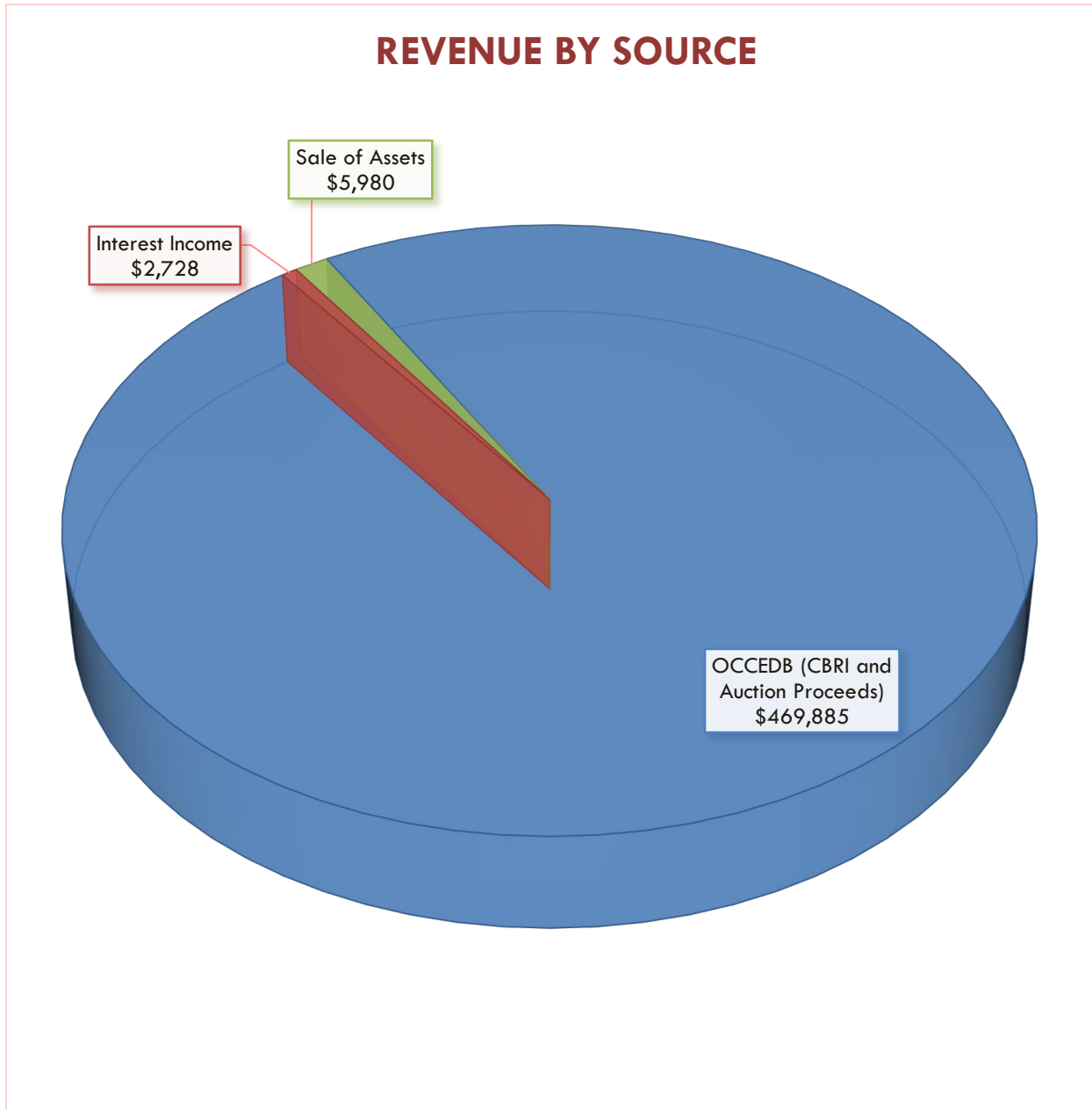
Circuit Engineering District #5 (the District) is comprised of a seven-county region in the central part of the state including: Canadian, Cleveland, Garvin, Logan, McClain, Oklahoma, and Payne counties<sup>1</sup>.

<sup>1</sup>Map [https://www.odot.org/cirb/pdfs/cirb\\_engr-dist.pdf](https://www.odot.org/cirb/pdfs/cirb_engr-dist.pdf)

**CIRCUIT ENGINEERING DISTRICT #5  
FUNDING SOURCES  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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



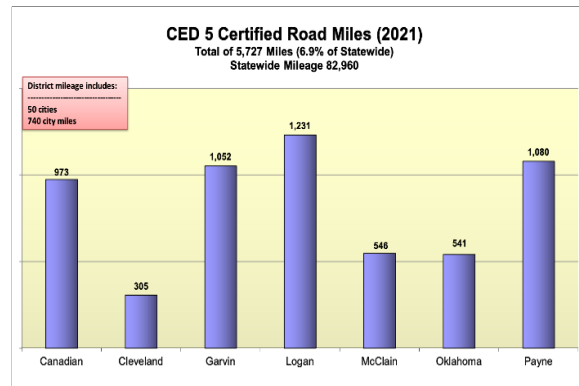
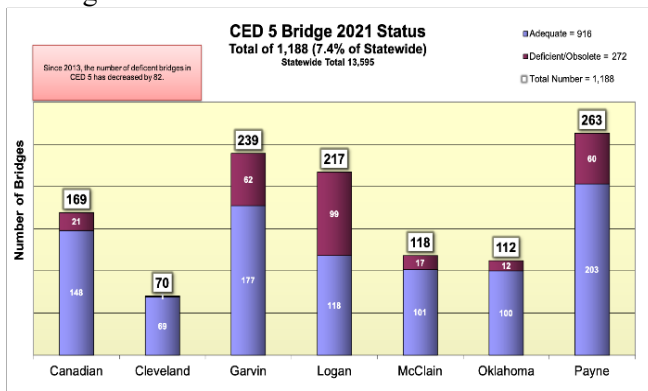
During the period the District collected \$478,593 in total revenue.



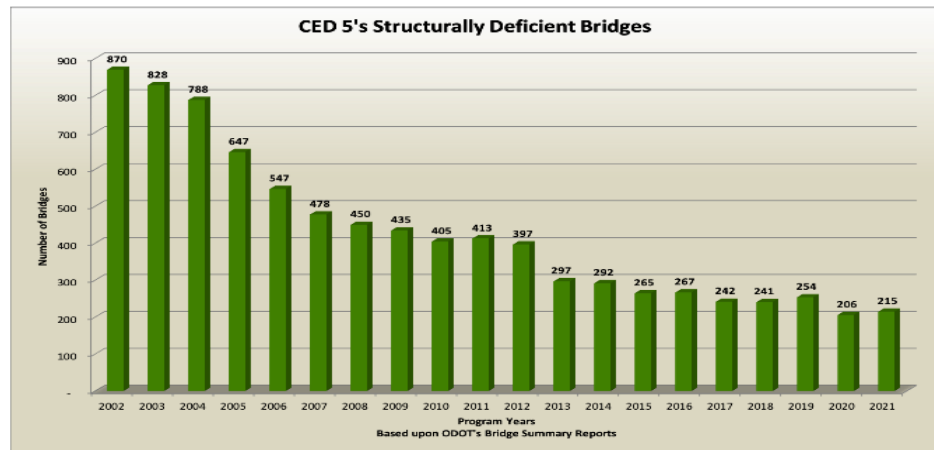
**CIRCUIT ENGINEERING DISTRICT #5  
PROJECT HIGHLIGHTS FY 2020  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

Circuit Engineering District #5 (CED#5) was established in June of 1999 as a cooperative to provide efficiencies through counties working together. HB1176 (County Improvements for Roads and Bridges Fund (CIRB) was passed in 2006. In 2006 CED#5 established their first CIRB 5-year transportation plan. CED#5 acts as a political sub-division of the State managed by the counties it represents which are the following: Payne, Logan, Oklahoma, Canadian, Cleveland, McClain, and Garvin.

These plans were comprised of projects from each of the 7 counties in Central Oklahoma, with a primary focus on replacing large bridges and roadways that the counties could not afford to construct with previous funding sources.



The CIRB program has been very successful in the past 15 years, completing a number of bridge projects and roadway projects in CED#5. As shown, CED#5 has reduced our structurally deficient bridges over the last 15 years.



CED#5 has also incorporated 127 crosstown recycled beams from ODOT highways into newly constructed county bridges in seven counties. CED#5 has also borrowed and paid back over \$8.75 million in Emergency Transportation Revolving fund monies. This has enabled the counties to construct, replace or reconstruct 35 projects across all 7 counties, mostly emergency projects following flood, ice storms, or other natural disasters.

*Source: Information provided by Circuit Engineering District #5 (presented for informational purposes).*

**CIRCUIT ENGINEERING DISTRICT #5  
PRESENTATION OF REVENUES, EXPENDITURES,  
AND FUND BALANCES of DISTRICT FUNDS  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**Presentation of District #5 Funds for the Period of July 1, 2019 through June 30, 2020**

	<b>General Fund</b>
Beginning Cash Balance, July 1	\$ 791,295
Revenues:	
Oklahoma CED Board	469,885
Interest Income	2,728
Gain on Sale of Assets	5,980
Total Revenues	478,593
Expenditures:	
Audit and Accounting	9,425
Auto Expense	112
Bank and Credit Card Fees	20
Distribution Funds	596,539
Insurance - General	3,967
Insurance - Other	45
Meetings and Conferences	7,620
Program Funds	49,500
Outside Services	2,621
Rent	484
Salaries	21,658
Supplies	434
Payroll Taxes	3,189
Payroll Service	639
Travel	1,397
Total Expenditures	697,650
Ending Cash Balance, June 30	\$ 572,238

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

**CIRCUIT ENGINEERING DISTRICT #5  
DESCRIPTION OF THE DISTRICT'S FUNDS  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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

**CIRCUIT ENGINEERING DISTRICT #5  
PURPOSE, SCOPE, GENERAL METHODOLOGY  
AND INTERNAL CONTROL CONSIDERATIONS  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**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*<sup>2</sup> 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*<sup>2</sup> 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*<sup>3</sup>, we have

**CIRCUIT ENGINEERING DISTRICT #5  
PURPOSE, SCOPE, GENERAL METHODOLOGY  
AND INTERNAL CONTROL CONSIDERATIONS  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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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.

<sup>2</sup> *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>

<sup>3</sup> *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 #5  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**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 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*.
- Reviewed a random sample of four (4) District monthly 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.
- Confirmed \$469,885 in monies (98% of total monies) received from the Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB) and determined that 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 30 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.

**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 processes related to the District’s financial reports, included the following:

- The bank reconciliations are performed monthly; however, the reconciliations are not reviewed and approved by someone other than the preparer to verify accuracy.
- 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:

- Bank account reconciliations are reviewed by someone other than the preparer and documentation of the review is maintained.
- Bank deposits are adequately secured.

**CIRCUIT ENGINEERING DISTRICT #5  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**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 control to provide reasonable assurance that revenue, expenditures, and fund balances are accurately presented on the District's monthly reports.

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

- Bank reconciliations should be reviewed by someone other than the preparer.

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:**

- The bank reconciliations are performed monthly by a licensed CPA and are sent to the secretary of the CED for review and presentation to the board. During the CED audit completion meeting the auditor stated that it needs to be made clear in the monthly meetings that information was both reviewed and presented to the board. This appears to be a semantics issue and should at most be a discussion item.
- District CED does in fact verify ending bank account balances to ensure funds are appropriately collateralized, however the auditor would like it stated in an open meeting. The fact that the CED has transferred monies in order to ensure it is properly collateralized and have letters of certificate from the bank should be proof enough that this is being done, however if a statement to that fact needs to be made in an open meeting, I do not believe that reaches the level of a reportable offense.

**Auditor Response:** Interviews and inspection of the District records for the audit period did not indicate the reconciliation were verified for accuracy. Also, interviews and inspection of the District records including the Board minutes during the audit period did not indicate the transfers were for the purpose of decreasing the bank balance in order not to exceed pledge securities held.

**Criteria:** The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014 version)<sup>4</sup> 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

<sup>4</sup>Although 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 #5  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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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.

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



**CIRCUIT ENGINEERING DISTRICT #5  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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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, the District’s expenditures (including payroll) are supported by adequate documentation and 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 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 six (6) expenditures (including payroll) totaling \$51,037 representing 7.32% 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 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 to prioritize those projects.

**CIRCUIT ENGINEERING DISTRICT #5  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**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.
- 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 5 Year Construction Work Plan.

**FINDINGS AND RECOMMENDATIONS**

**Finding 2020-002 – 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:**

- After speaking with the Auditors, it was determined that ODOT is not following their own procedures as they predetermine allocation for Counties therefore bypassing the CED's need to review allocations for Counties. Email proof of this is presented to the auditors.
- Each individual County determines priority for its projects based on dollars allocated by ODOT and presents those priorities to the CED. Projects are being reviewed and prioritized at the County level and then reviewed when presented to the CED board.

**Auditor Response:** The email presented by the Program Manger from ODOT stated "We (ODOT) only track DIVISION balance and leave it up to the CED's to determine allocation of that balance within your

**CIRCUIT ENGINEERING DISTRICT #5  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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Counties.” ODOT’s email to the District clearly states the ODOT does not determine the allocations for each county. The Administrative Code states “the priority of the project as established by the Circuit Engineering District”, therefore requiring priority of the projects to be determined by the District.

**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 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 asset inventories are accurately reported in the accounting records.

**CIRCUIT ENGINEERING DISTRICT #5  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
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Note: The District did not maintain or acquire consumable inventory items during the audit period, therefore internal controls regarding consumable inventories was 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.
- Compared those processes to governmental internal control standards outlined in the GAO *Standards for Internal Control*.

## 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:** The District has no fixed assets. The only item owned is a very old laptop that is being kept for archive purposes. Due to the minimal value of the laptop, it does not meet the threshold to be a fixed asset.

**Auditor Response:** The District did have fixed assets during the audit period. Based on discussions with the District, the Auditors located inventory transactions through board minutes and accounting postings.

**CIRCUIT ENGINEERING DISTRICT #5  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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These items were surplus and disposed of during the audit period, however inventory records were not maintained and did not reflect these changes.

**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.

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.

**CIRCUIT ENGINEERING DISTRICT #5  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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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 #5  
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.	✓	<b>NO</b>	✓	<b>YES</b>		✓	<b>NO</b>
3. Management should establish an organizational structure, assign responsibility, and delegate authority							

**CIRCUIT ENGINEERING DISTRICT #5**  
**APPENDIX A: INTERNAL CONTROL COMPONENTS AND PRINCIPLES**  
**FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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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.							



**CIRCUIT ENGINEERING DISTRICT #5**  
**APPENDIX A: INTERNAL CONTROL COMPONENTS AND PRINCIPLES**  
**FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

	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							

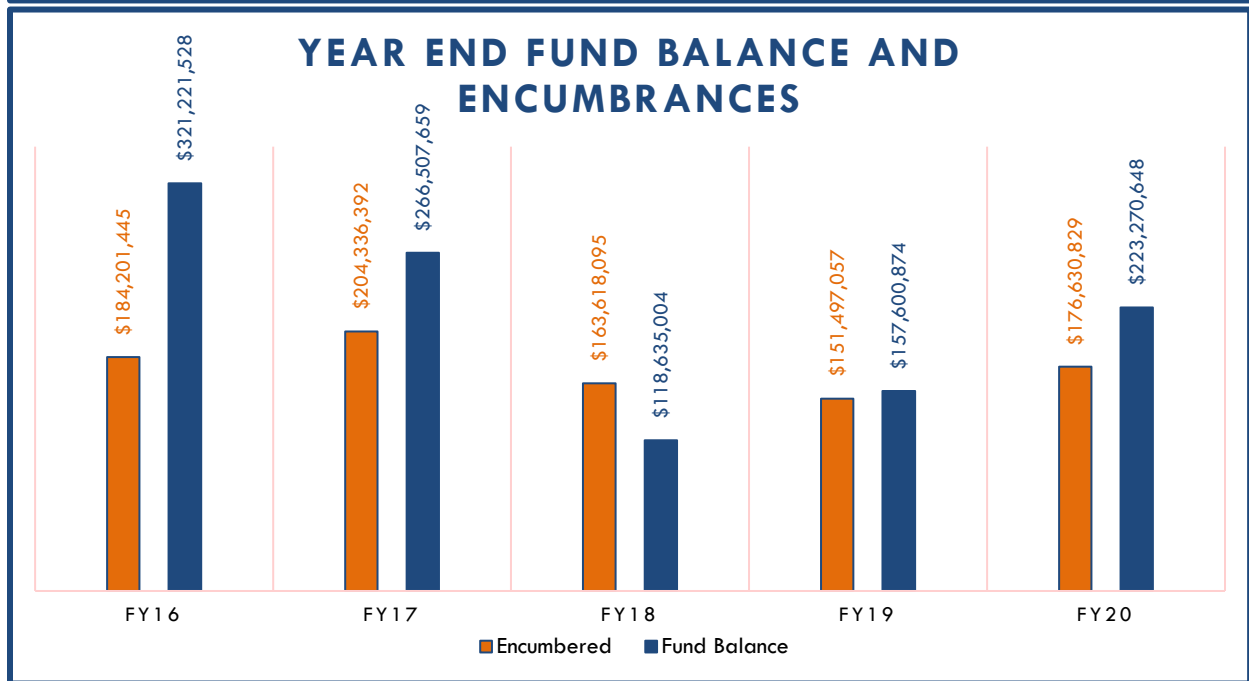
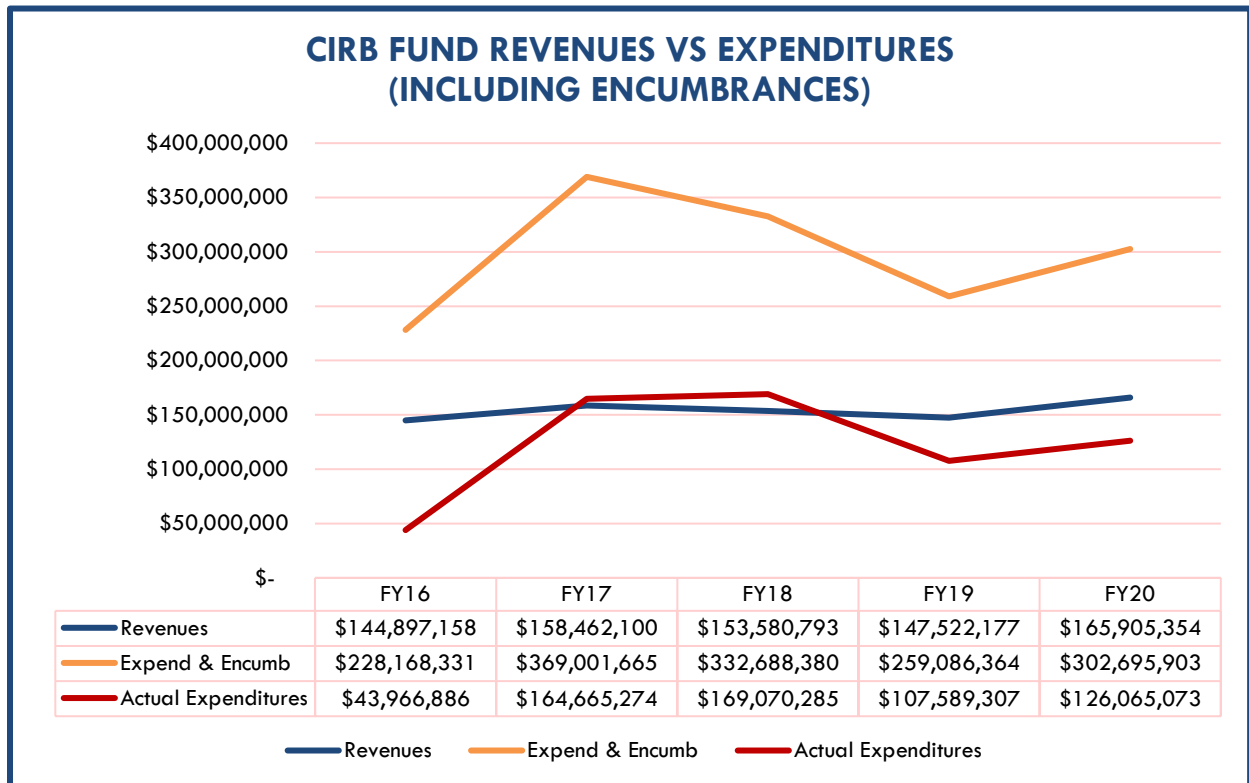
**CIRCUIT ENGINEERING DISTRICT #5**  
**APPENDIX A: INTERNAL CONTROL COMPONENTS AND PRINCIPLES**  
**FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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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 #5  
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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