



# CIRCUIT ENGINEERING DISTRICT #8

## Operational Audit

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

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

**CIRCUIT ENGINEERING DISTRICT #8  
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 #8**

We present the audit report of the Circuit Engineering District #8 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 #8  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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

**CIRCUIT ENGINEERING DISTRICT #8  
DISTRICT INFORMATION AND OFFICIALS  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**BACKGROUND**

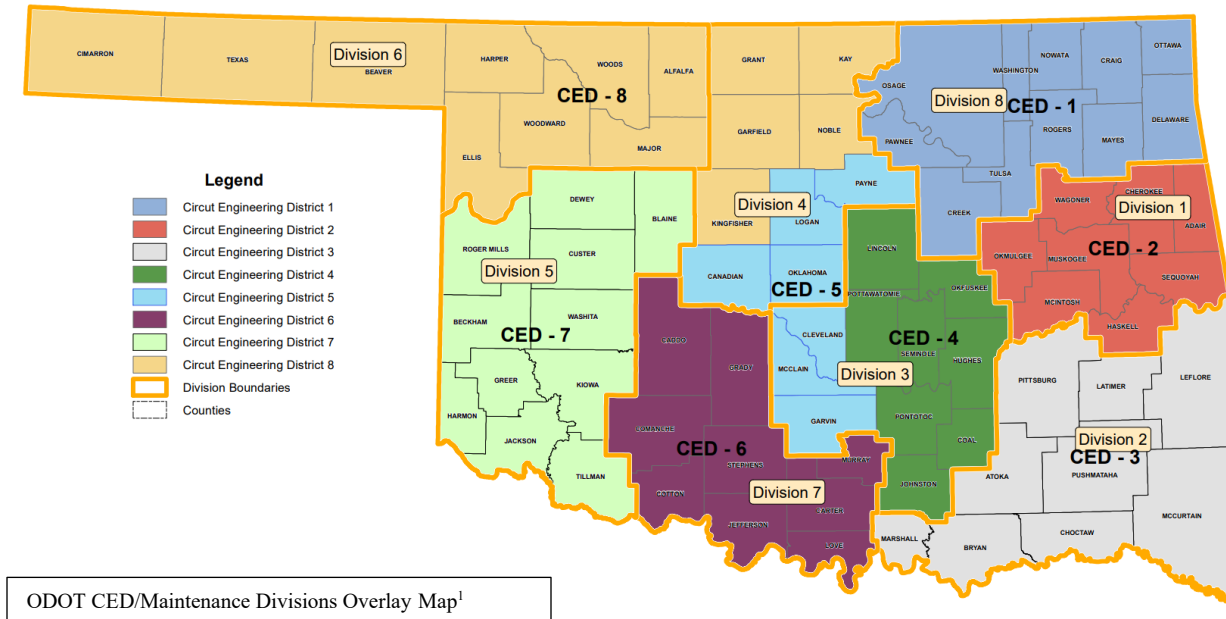
Pursuant to 69 O.S. § 687.1, counties may “create a circuit engineering district with any other county or counties” to allow county governments to “make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

Max Hess	President, Grant County
Marc Bolz	Vice-President, Garfield County
Randy McMurphy	Secretary/Treasurer, Woods County
Stan Tucker	Alfalfa County
Roy Fleming	Beaver County
Danny Bass	Cimarron County
Frankie Stevens	Ellis County
Gary Nielsen	Harper County
Jason Shanks	Kay County
Ray Shimanek	Kingfisher County
John Haworth	Major County
Jason Keinholz	Noble County
Ted Keeling	Texas County
Randy Johnson	Woodward County

**CIRCUIT ENGINEERING DISTRICT #8  
DISTRICT AREA AND SERVICES  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**



Circuit Engineering District #8 (the District) is comprised of a fourteen-county region in the north western part of the state including: Alfalfa, Beaver, Cimarron, Ellis, Garfield, Grant, Harper, Kay, Kingfisher, Major, Noble, Texas, Woods, and Woodward counties<sup>1</sup>.

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.

On September 21, 2010, pursuant to the Oklahoma Energy Independence Act, the District created the CED #8 County Energy District Authority (the Authority). The Authority is a public trust as provided for in 60 O.S. §§ 176, et seq.

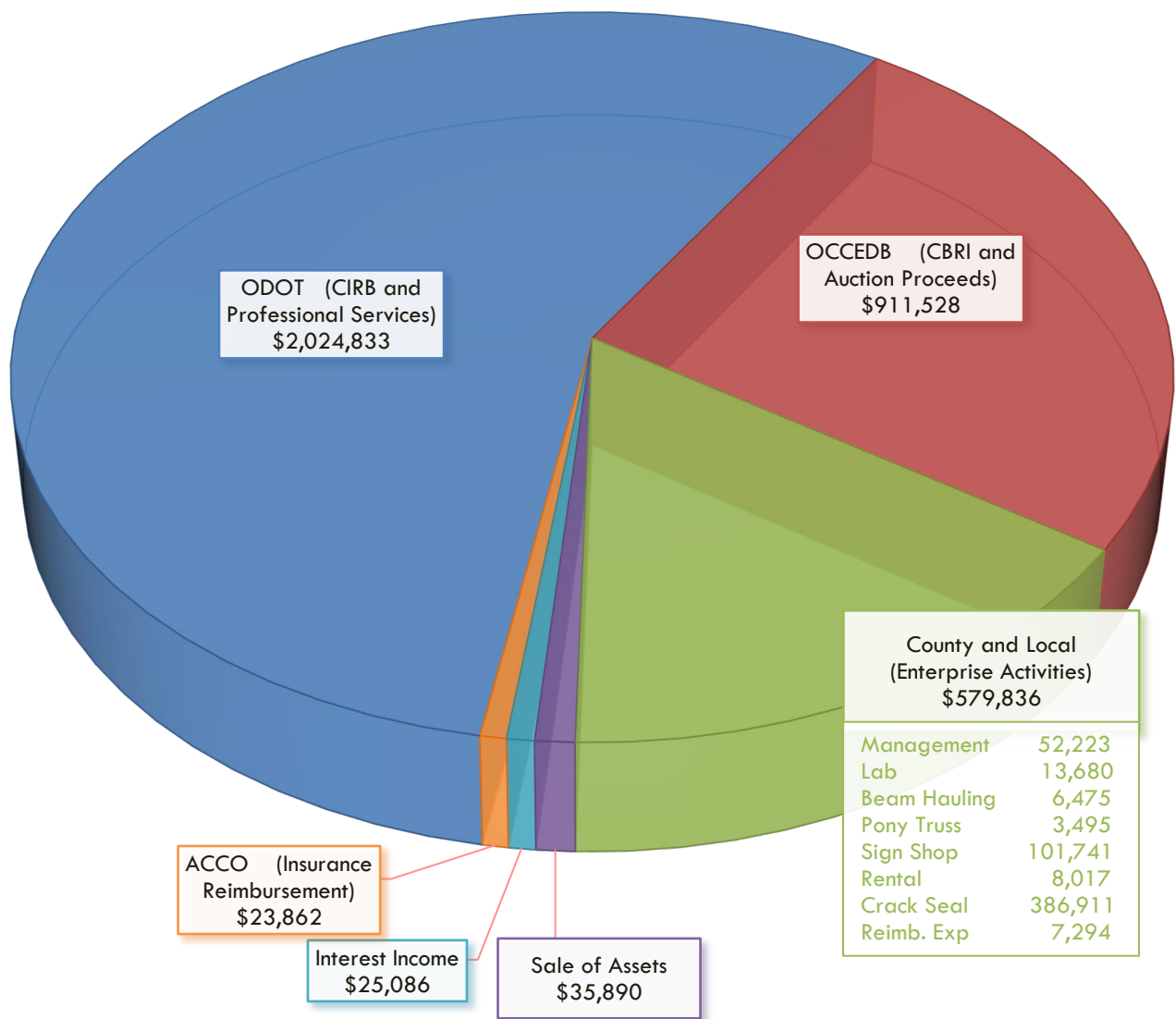
<sup>1</sup>Map [https://www.odot.org/cirb/pdfs/cirb\\_engr-dist.pdf](https://www.odot.org/cirb/pdfs/cirb_engr-dist.pdf)

**CIRCUIT ENGINEERING DISTRICT #8  
FUNDING SOURCES  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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

**REVENUE BY SOURCE**



During the period the District collected \$3,601,035 in total revenue.



**CIRCUIT ENGINEERING DISTRICT #8  
PROJECT HIGHLIGHTS FY 2020  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**FY 2020 Accomplishments:**

- 15 ODOT lettings District wide, including 8 bridge replacements and 21.3 miles of roadway Approximate project construction costs: \$26,533,393 ( \$22,343,652 CIRB & \$4,189,741 Federal STP Funds)

**Provided Services**

- Provides a Plan to Replace Structurally Deficient Truss Bridges (Funded \$1,942,364)
- Material Request Program for Bridges/Roads (Funded \$885,833 in FY 2020, \$3,794,753 Total)
- FHWA's Safety Bridge Inspections
- Project Management
- Design on County Roads and Bridges
- Construction Management/Inspection on County Projects
- Material Lab Testing
- Coordinated Used Beam Program
- R/W & Utility Coordination
- Develop Counties' 5 Year Construction Plan
- Implemented a Crack Seal Program for Preventive Maintenance on County Roads
- Sign Shop Producing Traffic and 911 Signs
- Conference/Training Facility for County use and Assisting in Road Scholar Classes



*Source: Information provided by Circuit Engineering District #8 (presented for informational purposes).*

**CIRCUIT ENGINEERING DISTRICT #8  
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 #8 Funds for the Period of July 1, 2019 through June 30, 2020**

	<u>General Fund</u>	<u>Authority Fund</u>
Beginning Cash Balance, July 1	\$ 2,282,951	\$ 6,092
Revenues:		
Sign Shop Income	101,741	-
Engineering Income	927,886	-
Construction Income	548,633	-
Lab Income	13,680	-
Bridge Inspection Income	486,154	-
Pony Truss Income	3,495	-
Program Management	108,558	-
Auction Proceeds	27,459	-
CBRI 12.5%	884,069	-
Mileage Reimbursement	5,825	-
Reimbursed Expenses	7,294	-
Rental Income	8,017	-
Vehicle Sales	35,890	-
Beam Hauling	6,475	-
Crack Seal Income	386,911	-
Interest Income	25,086	-
SIG/SIF Claim	23,862	-
Total Revenues	3,601,035	-

Continued on next page

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

**CIRCUIT ENGINEERING DISTRICT #8  
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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	<u>General Fund</u>	<u>Authority Fund</u>
Continued from previous page		
Expenditures:		
Utilities	19,399	-
Fuel & Maintenance	52,113	-
Lodging & Meals	6,448	-
Advertising	274	-
Office Supplies	23,575	-
Computer Equipment & Repairs	19,255	-
Software	12,898	-
SIG/SIF	19,569	-
Insurance	189,560	-
Retirement	90,067	-
Lab Maintenance/Shipping	9,370	-
Sign Shop Material	36,197	-
Salaries	1,111,351	-
Monthly Meeting Expenses	1,035	-
Meeting Room Expenses	5,447	-
Training	2,025	-
Legal & Auditing	6,725	-
Vehicles	114,977	-
Office Building Rent/Internet	17,067	-
NODA Temp	11,621	-
Materials Request Program 2019	73,333	-
Materials Request Program 2020	812,500	-
Pier Design Survey, Drafting, Geotech, Environmental, Testing, & Engineering	475,074	-
Rental Maintenance & Repairs	1,194	-
Beam Hauling	9,875	-
Crack Seal	251,087	-
Construction Expense	53,238	-
Reimbursed Expenses	1,022	-
Banking Fees	-	72
Total Expenditures	<u>3,426,296</u>	<u>72</u>
Ending Cash Balance, June 30	<u>\$ 2,457,690</u>	<u>\$ 6,020</u>

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

**CIRCUIT ENGINEERING DISTRICT #8  
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 #8 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 #8 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 #8  
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 #8  
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 #8  
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 process 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*.
- Reviewing a random sample of four (4) bank statements and related bank reconciliations (6.67% of the total bank statements in the population tested) to ensure bank reconciliations were reviewed and approved by someone other than the preparer and correctly 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 \$2,930,536 in monies (81% of total monies) received from the State Treasurer’s Office (ODOT, OTC, etc.), Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB), and Federal grantor agencies (if applicable) 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 30th 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:** The duties over the District’s financial operations are not properly segregated. The administrative assistant posts all revenue and disbursement transactions to the accounting system, prepares invoices, performs bank reconciliations, and prepares the monthly financial reports which were not reviewed for accuracy by someone other than the preparer.

**CIRCUIT ENGINEERING DISTRICT #8  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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Other control deficiencies noted include:

- Of the four (4) bank statements tested, two (2) were not approved by someone other than the preparer.

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

- Revenue, expenditures, and fund balances are accurately presented on the monthly reports and reviewed by someone other than the preparer.
- Bank account reconciliations are reviewed by someone other than the preparer and documentation of the review is maintained.

**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 develop policies and procedures that designs a system of internal control 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:

- Management review and approve accounting functions to help ensure segregation of duties.
- Monthly financial reports should be reviewed by someone other than the preparer.
- Bank reconciliations should be reviewed by someone other than the preparer.

**Management Response:**

**CED Board Chairman:** Policies and procedures will be put in place to review and maintain approved documents.

**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 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.

<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 #8  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
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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 #8  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**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 for the allowable operations of the District. However, we noted some deficiencies regarding adequate documentation and internal controls in the expenditure 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 thirty-one (31) expenditures totaling \$155,822 representing 6.49% of expenditures in the population tested.
- Reviewed a random sample of eighteen (18) payroll expenditures totaling \$87,072 representing 8.03% of payroll expenditures in the population tested.

**FINDINGS AND RECOMMENDATIONS**

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

**Condition:** The duties over the expenditure process (including payroll) are not properly segregated, we noted the following:

- The administrative assistant issues purchase orders, maintains purchase order log, places orders, logs invoices into the accounting system, has access to blank check stock, prints checks, and mails checks.
- The administrative assistant maintains all employees' personnel files, enters all payroll information into the accounting system, can make changes in the payroll system, can add employees to the timekeeping system, compiles timesheets, enters each employee’s time into the accounting system, and submits payroll to accounting system to process.

Other deficiencies noted:

- Board approved expenditure and payroll reports are not retained by the District.
- Payroll direct deposits were not compared or reviewed to the payroll documentation.
- In a random sample of eighteen (18) District payroll expenditures:
  - Four (4) expenditures were not supported by accurate timesheets.
  - Four (4) expenditures were not supported by adequate documentation.

**CIRCUIT ENGINEERING DISTRICT #8  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure the District's expenditures (including payroll) processes are segregated; supported by accurate and adequate documentation; and reviewed and approved by the Board.

**Effect of Condition:** 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 develop policies and procedures to segregate duties over the District's expenditure 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.
- Review of expenditures supporting documentation such as invoices, timesheets, payroll reports, and direct deposit.

**Management Response:**

**CED Board Chairman:** Policies and procedures will be put in place to segregate duties. Expenditures will be signed and kept for documentation. Payroll reports and direct deposits will be reviewed.

**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.

**CIRCUIT ENGINEERING DISTRICT #8  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
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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 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, 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, prioritize those projects, and submit the District’s Five-Year Construction Work Plan to the Department of Transportation.

**CIRCUIT ENGINEERING DISTRICT #8  
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 Five-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 Five-Year Construction Work Plan.

**FINDINGS AND RECOMMENDATIONS**

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

**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 2020-003 – Internal Controls Over Fixed Assets Records and Consumable Inventories**

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

**CIRCUIT ENGINEERING DISTRICT #8  
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020**

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**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.

**Effect of Condition:** When fixed assets and consumable inventories are not monitored, opportunities for misuse or loss of equipment or loss 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:** Inventory will be performed on a quarterly basis and reviewed for approval. Management will review fixed assets and keep documentation.

**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.

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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.

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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.	✓	<b>NO</b>	✓	<b>NO</b>		✓	<b>NO</b>
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							

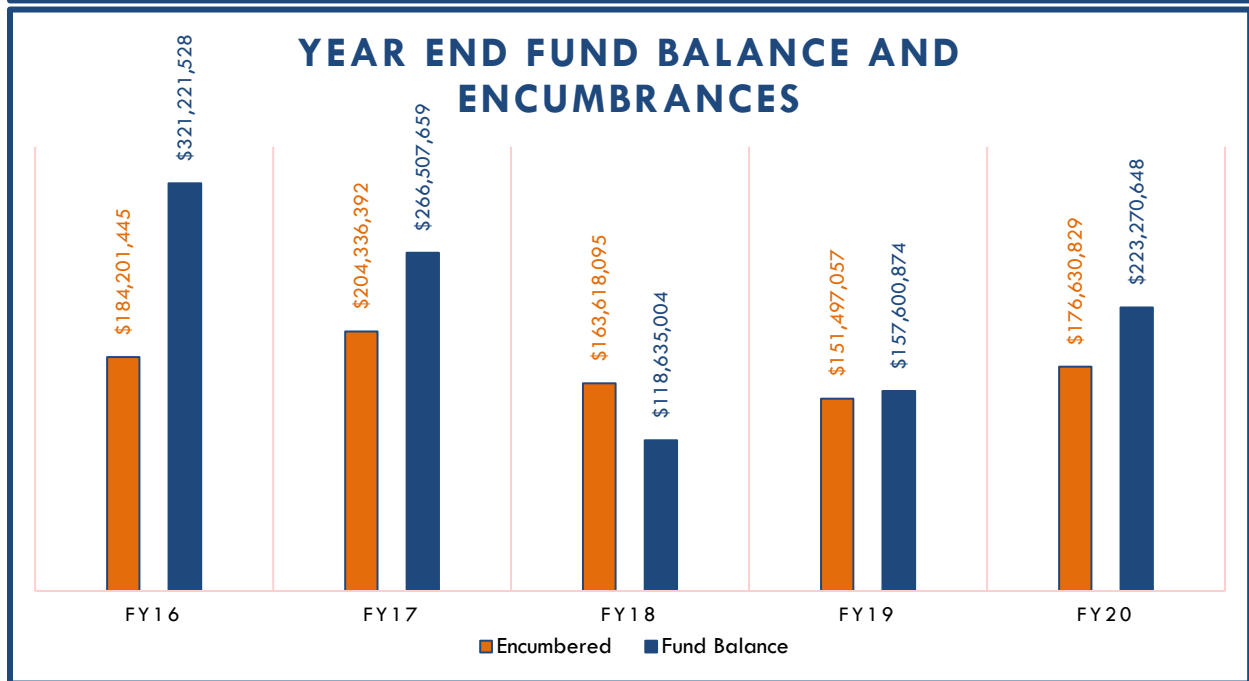
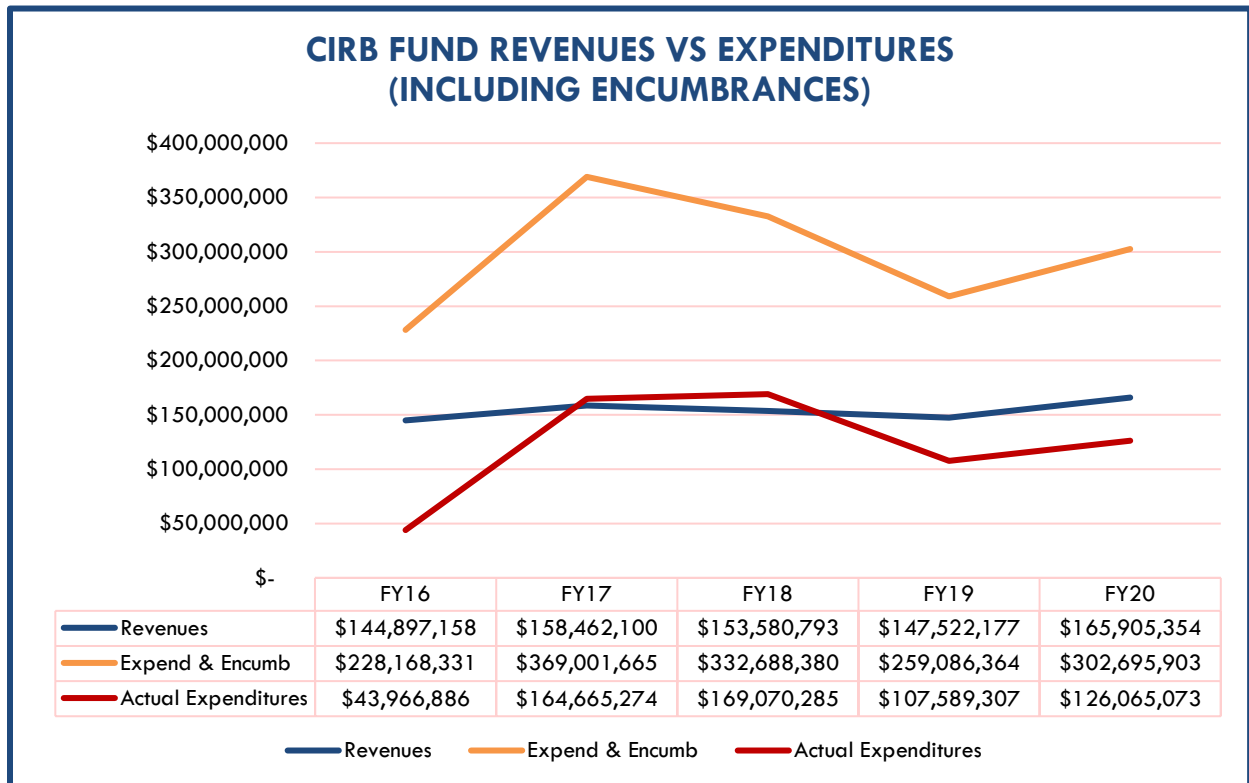
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monitoring activities to monitor the internal control system and evaluate the results.							
17. Management should remediate identified internal control deficiencies on a timely basis.							

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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