



CIRCUIT ENGINEERING DISTRICT #2

Operational Audit

For the period of July 1, 2022 through June 30, 2023



State Auditor & Inspector

CIRCUIT ENGINEERING DISTRICT #2 OPERATIONAL AUDIT FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023

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



OKLAHOMA Office of the State Auditor & Inspector

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January 28, 2025

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, 2022 through June 30, 2023. 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,

LISA HODGES, CFE, CGFM DEPUTY STATE AUDITOR & INSPECTOR

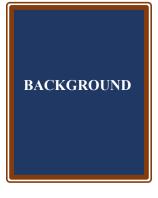
CIRCUIT ENGINEERING DISTRICT #2 FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023

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



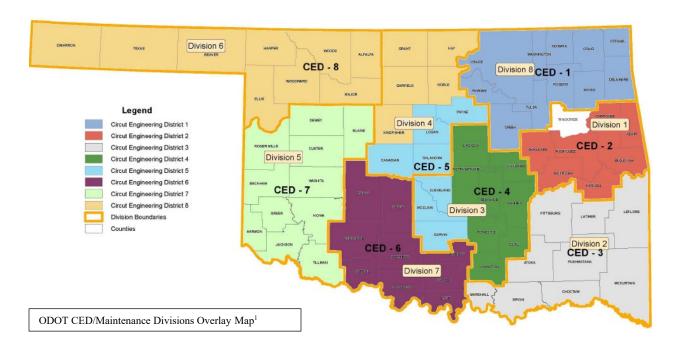
Pursuant to 69 O.S. § 687.1, counties may "create a circuit engineering district with any other county or counties" to allow county governments to "make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

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

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

Sam Chandler Ray Watts Clark McClary Clif Hall Monty Grider Kenny Payne R. David Walker President, Adair County Vice President, Sequoyah County Secretary/Treasurer, Haskell County Cherokee County McIntosh County Muskogee County Okmulgee County

CIRCUIT ENGINEERING DISTRICT #2 DISTRICT AREA FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023



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

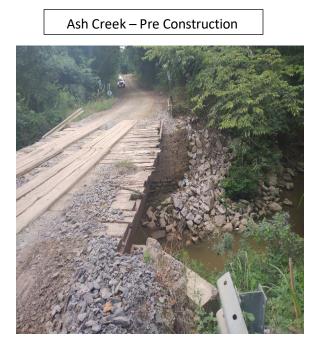
¹Map <u>https://oklahoma.gov/content/dam/ok/en/odot/documents/cirb/pdfs/cirb-engr-dist.pdf</u>

The Eastern Oklahoma Circuit Engineering District includes Adair, Cherokee, Haskell, McIntosh, Muskogee, Okmulgee, and Sequoyah counties in eastern Oklahoma that is comprised of 977 bridges and 6,228 road miles. Our task is to work in cooperation with the County Commissioners to provide public works support, construction project management, and safety bridge inspection services throughout the District. Our additional services include engineering design, right-of-way & utility relocation coordination, construction material lab testing, and a District sign shop.

During the past year, CED #2 lost several key personnel through attrition but continued to perform all of our core services and still completed bridge inspections on time.

CIRB Projects include the completion of the Ash Creek Bridge in Muskogee County and bridge repairs in Okmulgee, Sequoyah and Cherokee Counties. Luna Branch in Adair County, Manard Bayou in Cherokee County and Sallisaw View in Sequoyah County were submitted for letting and are currently under construction.

CED #2 has orchestrated many improvements to the District's county roads and bridges and has seen the reduction of derelict bridges resulting in safer routes for residents and school buses and quicker access for emergency vehicles all 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 PRESENTATION OF REVENUES, EXPENDITURES, AND CASH BALANCES OF THE DISTRICT'S FUND FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023

Presentation of District #2 Fund for the Period of July 1, 2022 through June 30, 2023

	General Fund	
Beginning Cash Balance, July 1	\$	865,483
Revenues:		
ODOT Professional Services:		
Bridge Inspection		143,728
Engineering Service		60,525
Construction Inspection		464,587
Program Management		13,705
County and Local Enterprise Activities:		
Sign Shop		91,629
OCCEDB:		,
CED Revolving Proceeds		591,353
Auction Proceeds		6,752
Total Revenues		1,372,279
		<u> </u>
Expenditures:		
Maintenance & Operations:		
Accounting Fees		3,980
Auditing Fees Expense		8,000
Auto & Truck Expense		9,475
Bank Charges		502
Conference & Seminar Expense		1,381
Bridge Inspection Expense		1,362
Construction Inspection Expense Dues Subscriptions Expense		2,715 5,166
Freight Expense		2,219
Fuel Expense		36,363
Insurance Expense - Property		5,689
Worker's Comp Insurance		4,858
Licenses Expense		483
Maintenance Expense Landscaping		322

Continued on next page

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

CIRCUIT ENGINEERING DISTRICT #2 PRESENTATION OF REVENUES, EXPENDITURES, AND CASH BALANCES OF THE DISTRICT'S FUND FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023

Continued from previous page

Expenditures (Continued):	
Repairs & Maintenance - Equipment	2,414
Meals & Legislative Lunches	520
Office Supplies	13,848
Cleaning Services/Supplies Expense	1,324
Postage & Shipping Expense	755
PO Box Rental	332
Printing and Reproduction Expense	175
Professional Development Expense	1,375
Safety & Medical Expense	318
Surveying Expense	88,964
Telephone/ Internet Expense	15,778
Pike Pass Expense	2,400
Utilities	13,953
Inventory Sign Shop	57,223
Personal Expense:	
Employee Health/Vision/Dental	109,311
Payroll Tax State Unemployment	3,202
Payroll Tax Expense	178,022
Retirement Expense	150,467
Wages	550,922
Payroll Tax State Witholding	30,310
Capital Outlay:	
Maintenance & Repair - Building	739
Travel:	
Meals & Training Expense	3,066
Total Expenditures	1,307,933
Ending Cash Balance, June 30	\$ 929,829

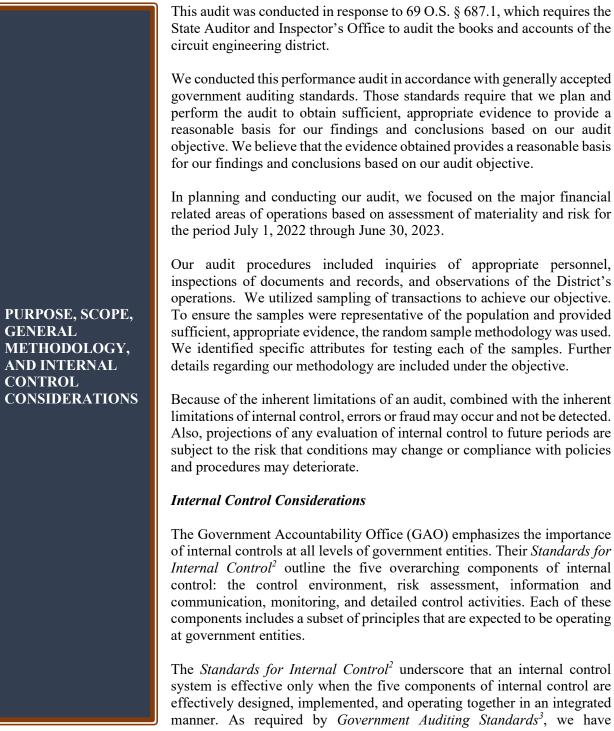
Source: District's Financial Report (presented for informational purposes).

Description of the District's Fund

The District uses funds to report on revenues, expenditures, and cash 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 is the description of the district's fund within the Presentation of Revenues, Expenditures, and Cash Balances of District's Fund:

<u>Circuit Engineering District #2 General Fund</u> – 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, 2022 THROUGH JUNE 30, 2023

identified the aspects of internal control components and underlying principles significant to the audit objective in this engagement.

Any internal control deficiencies are documented in the findings included under the objective in this report. Because our audit was limited to the internal control components and underlying principles deemed significant to our audit objective, 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 <u>https://www.gao.gov/products/GAO-18-568G</u>.

CIRCUIT ENGINEERING DISTRICT #2 OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023

Objective: To determine District's Revolving Fund Final Expenditure Report for fiscal year 2023 accurately presented the use of funds and is supported by the District records for the period.

Conclusion: With respect to the items reconciled and reviewed; the District's Revolving Fund Final Expenditure Report for fiscal year 2023 did not accurately present the use of funds and is not adequately supported by the District's records for the period. Additionally, we noted some deficiencies in internal controls regarding the CED Revolving Fund Process

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

- Documented our understanding of the District's Revolving Fund process through discussions with management and review of documentation. Evaluated the process and identified significant internal controls related to our objective.
- Compared the process to governmental internal control standards outlined in the GAO *Standards for Internal Control*.
- Reviewed the submitted reports to determine conformance with Cooperative Circuit Engineering District Board (OCCEDB) *CED Revolving Fund Policy*.

FINDINGS AND RECOMMENDATIONS

Finding 2023-001 – Internal Controls and Noncompliance Over the District's Revolving Fund Reports

Condition: There were no formal policies regarding the District's Revolving Fund report process. Internal control and noncompliance deficiencies related to the District's Revolving Fund Budget and Final Expenditure Reports included the following:

- The reports presented all expenditures of the District which included expenditures reimbursed by other revenue sources.
- The reports do not discreetly present Revolving Fund expenditures.
- The reports included a \$150,000 Depreciation Expense line item, which is unallowable as it is not a cash expense.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the District's Revolving Fund Budget and Final Expenditure Reports are prepared in accordance with the OCCEDB CED Revolving Fund established policies.

Effect of Condition: These conditions resulted in noncompliance with the OCCEDB policies and misstated financial reports. Additionally, these conditions could result in unrecorded transactions, undetected errors, or misappropriation of funds.

CIRCUIT ENGINEERING DISTRICT #2 OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the District implement documented policies and a system of internal controls to provide reasonable assurance that expenditures are accurately presented on the District's Budget and Final Expenditure Reports. Additionally, OSAI recommends the District discreetly present actual anticipated Revolving Fund expenditures on the budget and actual Revolving Fund expenditures on the Final Expenditure Report. Documentation should be maintained for all expenditures.

Management Response:

CED Board Chairman: Following the OSAI recommendations, the District will:

- implement a system of internal controls to provide reasonable assurance that expenditures are accurately presented on the District's Anticipated Annual Costs and Final Expenditure Reports.
- present actual anticipated Revolving Fund expenditures on the Anticipated Annual Costs and actual Revolving Fund expenditures on the Final Expenditure Report and ensure that Reports are prepared in accordance with the OCCEDB CED Revolving Fund established policies.
- maintain documentation for all expenditures.

Criteria: The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014 version)² 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.

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.

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 69 O.S. § 687.1(G)(3-4) states, "Administer the Statewide Circuit Engineering District Revolving Fund, created pursuant to Section 687.2 of this title; and have authority to promulgate rules to carry out the provisions of 687.1 et seq. of this title."
- CED Revolving Fund policies effective July 28, 2021, states in part "Each CEDs' budget will reflect the utilization of said funds with any remainder being banked/invested on their behalf by OCCEDB. This banked amount has no maximum dollar amount and may rollover to the next fiscal year...1. Each Circuit Engineering District will be required to submit an annual budget showing the areas and amounts of expected expenditures. 2. Each Circuit Engineering District will be required to submit a final expenditure report by August 31st to OCCEDB office."

Other Item(s) Noted:

Although not considered significant to the audit objectives, we feel the following issue should be communicated to management.

FINDINGS AND RECOMMENDATIONS

Finding 2023-002 – Internal Controls and Noncompliance Over the District's Financial Accounts

Condition: Upon inquiry, observation, and review of documents, the following internal control and noncompliance deficiencies were noted:

CIRCUIT ENGINEERING DISTRICT #2 OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023

- On June 30, 2023, the District's deposits were not secured by pledged collateral in the District's bank in the amount of \$86,829.
- In November 2022, one (1) of the District's bank accounts was overdrawn in the amount of \$8,940 for 6 calendar days.
- In December 2022, one (1) of the District's bank accounts was overdrawn in the amount of \$16,683 for 1 calendar day.
- In November 2022, the District was charged \$40 in overdraft fees by the bank.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure bank deposits are adequately secured. Additionally, policies and procedures have not been designed and implemented to ensure that bank accounts have sufficient funds to meet operating expenses as they occur and not become indebted to the bank as well as be charged additional fees.

Effect of Condition: These conditions resulted in noncompliance with state statutes and the Oklahoma Constitution as well as the misappropriation of taxpayer money in the form of unnecessary fees.

Recommendation: OSAI recommends the District design and implement policies and procedures to compare bank balances to fair market value of pledged collateral on a periodic basis to ensure that District funds are adequately secured. Documentation for this procedure should be retained. Further, we recommend the District maintain compliance with 62 O.S. § 517.4.A. Additionally, bank balances should be reviewed to ensure compliance with Article 10 § 15.A.

Management Response:

CED Board Chairman: Following the OSAI recommendations, the District will:

- compare bank balances to fair market value of pledged collateral on a periodic basis to ensure that District funds are adequately secured and maintain documentation for this procedure.
- diligently monitor bank balances to ensure that there are sufficient funds to meet operating expenses and not become indebted to the bank as well as be charged additional fees.

Criteria: The 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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Additionally, GAO Standards – Principle 12 – Implement Control Activities - 12.03 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.A. states "A treasurer of a public entity shall require that financial institutions deposit collateral securities or instruments to secure the deposits of the public entity in each such institution. The amount of collateral securities or instruments to be pledged for the security of public deposits shall be established by the treasurer of the public entity consistent with the provisions of the Security for Local Public Deposits Act; provided, such amount shall not be less than the amount of the deposit to be secured, less the amount insured."
- Article 10 § 15.A. states "Except as provided by this section, the credit of the State shall not be given, pledged, or loaned to any individual, company, corporation, or association, municipality, or political subdivision of the State, nor shall the State become an owner or stockholder in, nor make donation by gift, subscription to stock, by tax, or otherwise, to any company, association, or corporation.





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