



CIRCUIT ENGINEERING DISTRICT #3

Operational Audit

For the period of July 1, 2020 through June 30, 2021

Cindy Byrd, CPA
State Auditor & Inspector

**CIRCUIT ENGINEERING DISTRICT #3
OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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



January 26, 2023

**TO THE BOARD OF THE
CIRCUIT ENGINEERING DISTRICT #3**

We present the audit report of the Circuit Engineering District #3 for the period of July 1, 2020 through June 30, 2021. 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 #3
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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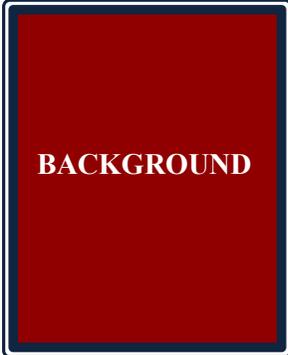
OPERATIONAL AUDIT REPORT

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INTRODUCTORY SECTION
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**CIRCUIT ENGINEERING DISTRICT #3
DISTRICT INFORMATION AND OFFICIALS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**



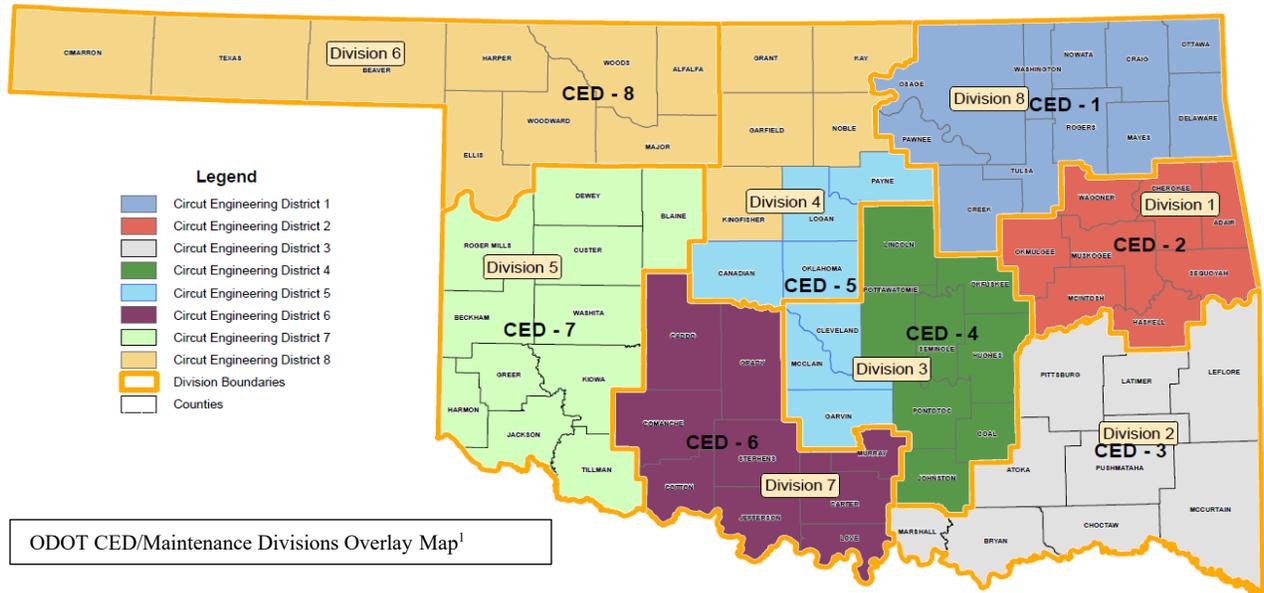
Pursuant to 69 O.S. § 687.1, counties may “create a circuit engineering district with any other county or counties” to allow county governments to “make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

Chris White	President, McCurtain County
Ronnie Thompson	Vice-President, Choctaw County
Kevin Smith	Secretary/Treasurer, Pittsburg County
Shane Tomlinson	Atoka County
Tony Simmons	Bryan County
Jeremy Bullard	Latimer County
Craig Olive	LeFlore County
Josh Cantrell	Marshall County
Brad Burgett	Pushmataha County

**CIRCUIT ENGINEERING DISTRICT #3
DISTRICT AREA
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**



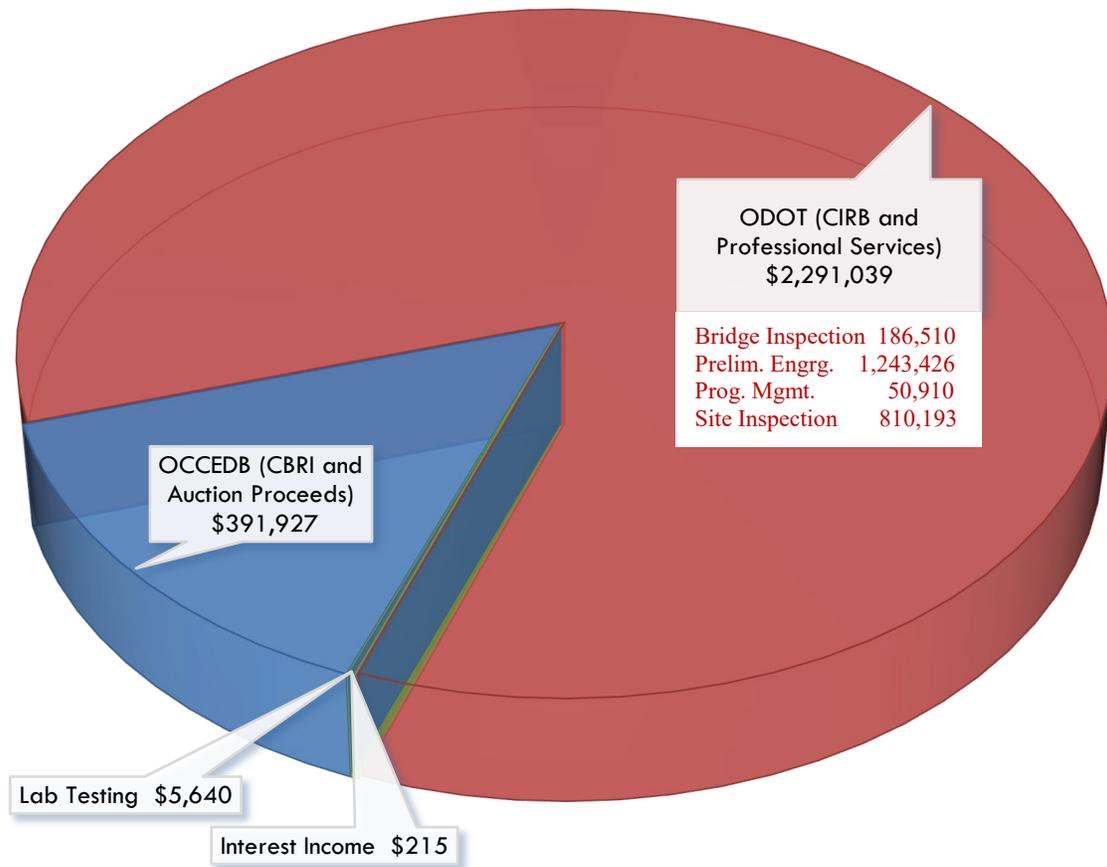
Circuit Engineering District #3 (the District) is comprised of a nine-county region, in the southeastern part of the state including: Atoka, Bryan, Choctaw, Latimer, LeFlore, Marshall, McCurtain, Pittsburg, and Pushmataha counties¹.

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

**CIRCUIT ENGINEERING DISTRICT #3
REVENUE BY SOURCE
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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

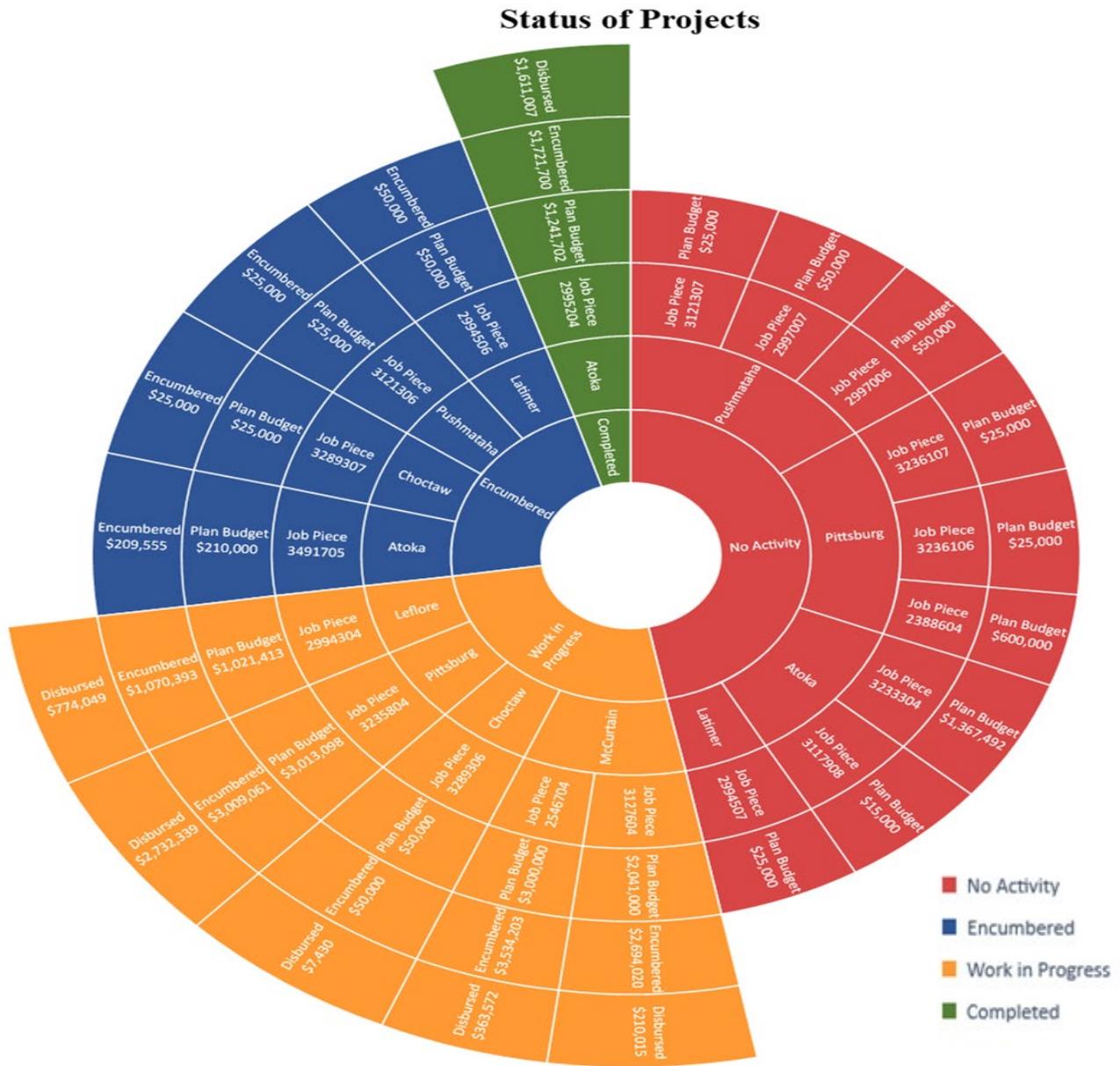
Revenue by Source



During the period the District collected \$2,688,821 in total revenue.

**CIRCUIT ENGINEERING DISTRICT #3
STATUS OF PROJECTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents the status of projects for District #3 for planned jobs in fiscal year 2021 in the 5 Year Construction Work Plan SFY-2021 through SFY-2025 consisting of projects totaling \$12,859,705.

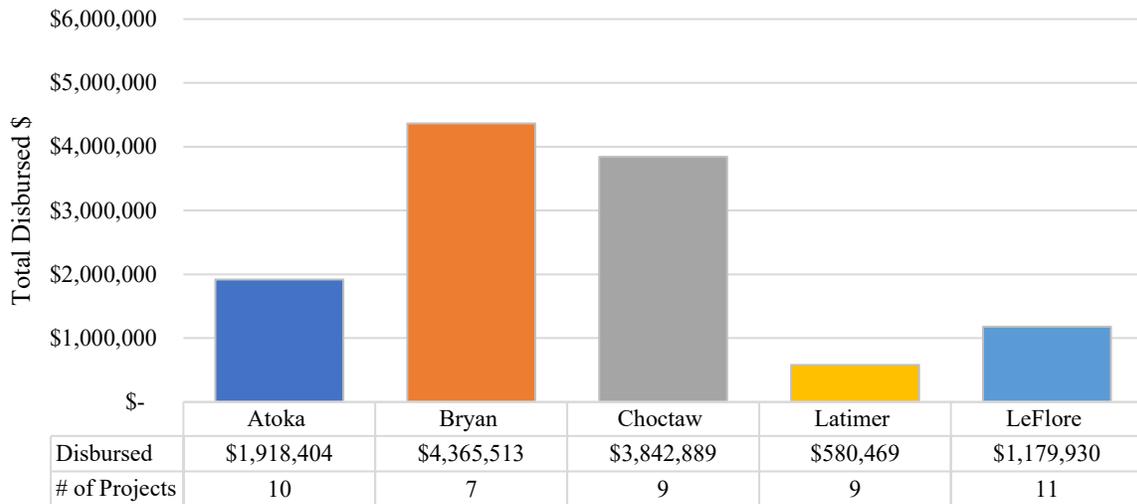


Source: Information provided from [5 Year Construction Work Plan SFY-2021 through SFY-2025](#) and Oklahoma Department of Transportation CIRB Project Information report.

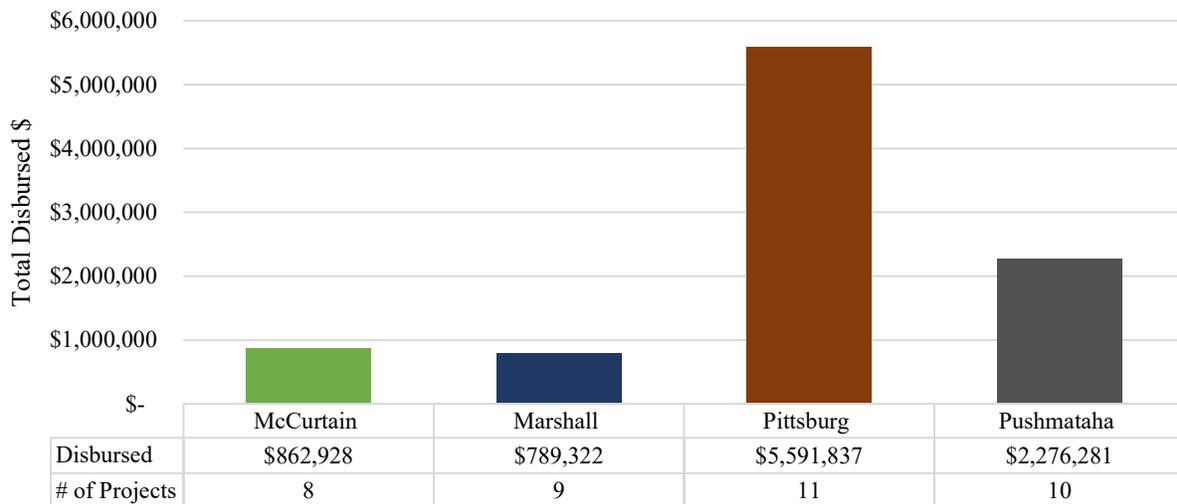
**CIRCUIT ENGINEERING DISTRICT #3
DISBURSEMENTS BY COUNTY
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents fiscal year 2021 disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for projects in District #3 totaling \$21,407,573. This amount includes funds budgeted during fiscal years 2015 through 2021 listed by beneficiary County.

Disbursements by County



Disbursements by County

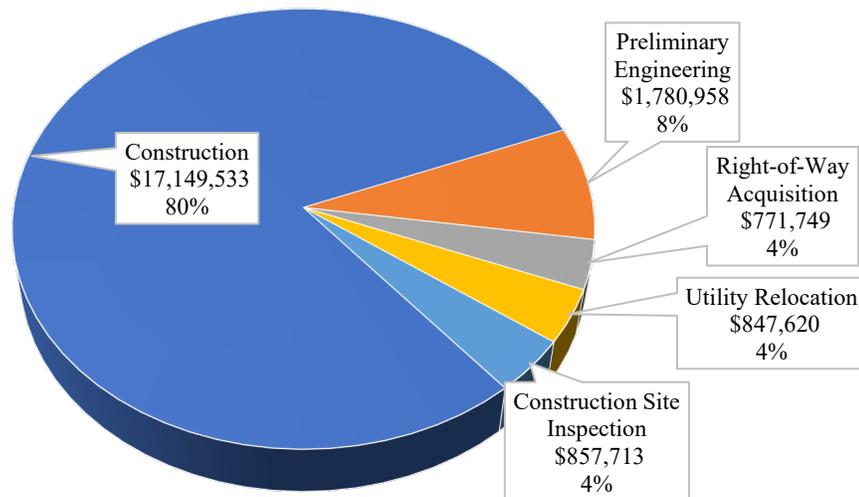


Source: Information provided from ODOT PFS report and the Statewide Accounting System – Summary of Receipts and Disbursement reports and Allotment Budget and Available Cash Reports (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #3
DISBURSEMENTS BY JOB PHASE
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents fiscal year 2021 disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for District #3 totaling \$21,407,573. This amount includes funds budgeted during fiscal years 2015 through 2021 listed by job phase.

Disbursement by Job Phase



Preliminary Engineering – this job phase accounts for the design portion of the PDP (Project Development Process) that includes collection of survey, geotechnical, and other design data. Further, this phase includes the application of design standards to a proposed typical section/bridge location; hydraulic analysis for all drainage structures; and compilation into a plan set. Also, this phase can include environmental clearance requirements through the National Environmental Policy Act (NEPA) when utilizing federal funding and a checklist clearance when 100% state funded.

Right-of-Way Acquisition – this job phase consists of acquiring the needed property to relocate utilities and construct the project to current design standards based on the application of the design to the existing facility.

Utility Relocation – this job phase consists of moving existing utilities (electric, water, phone, gas lines, etc.) from being in conflict with the cut and fill of the earthwork and bridge structure so the construction site is free from conflict and hazards.

Construction – this job phase consists of building the project as proposed and designed. Further, this phase includes preparing project for letting which involves compiling all bid specifications, plans and estimates.

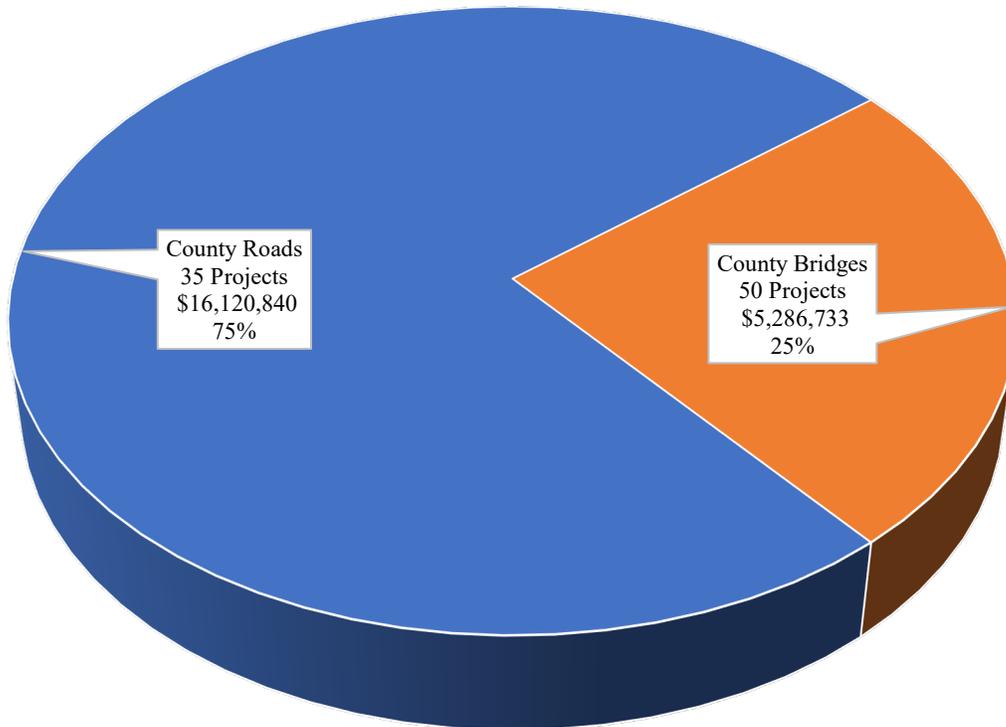
Construction Site Inspection – this job phase consists of oversight of the contractor to ensure the project is built in accordance with specifications, plans and estimates. These payments are disbursed to the District.

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

**CIRCUIT ENGINEERING DISTRICT #3
DISBURSEMENTS BY PROJECT TYPE
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents the amount of disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for District #3 totaling \$21,407,573. This amount includes funds budgeted during fiscal years 2015 through 2021 listed by project type. Title 69 O.S. § 507(B) defines the purpose of the 5 Year Construction Work Plan as “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.”

Disbursements by Project Type



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

**CIRCUIT ENGINEERING DISTRICT #3
DISBURSEMENTS BY BUDGET YEAR
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents the fiscal year 2021 disbursements for County Roads and Bridge projects for District #3 divided into their respective budget years.

Fiscal Year 2021 Disbursements by Budget Year

County	2015	2016	2017	2018	2019	2020	2021	Total *
Atoka	1,200	-	675	2,764	102,415	99,656	1,711,694	\$ 1,918,404
Bryan	-	-	-	61,415	11,194	119,554	4,173,350	\$ 4,365,513
Choctaw	-	-	-	10,678	2,010,464	368,795	1,452,952	\$ 3,842,889
Latimer	-	5,538	-	35,297	53,398	453,071	33,165	\$ 580,469
LeFlore	-	-	-	35,114	26,670	339,597	778,549	\$ 1,179,930
McCurtain	-	53,402	-	10,900	51,762	127,895	618,969	\$ 862,928
Marshall	-	-	-	780	64,408	620,123	104,011	\$ 789,322
Pittsburg	-	-	-	-	90,836	126,885	5,374,116	\$ 5,591,837
Pushmataha	-	-	-	55,907	133,575	1,676,796	410,003	\$ 2,276,281
Total	\$ 1,200	\$ 58,940	\$ 675	\$ 212,855	\$ 2,544,722	\$ 3,932,372	\$ 14,656,809	\$ 21,407,573

*-These totals are payments made during FY 2021 from the County Improvement for Roads and Bridges (CIRB) funds to vendors. The amounts are presented by the beneficiary County and the year in which the funds were encumbered.

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

**CIRCUIT ENGINEERING DISTRICT #3
PROJECT HIGHLIGHTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**



Southeast 3 Circuit Engineering District

P.O. Box 130 / 203 Pepsi Cola Avenue
Hugo, OK 74743
Phone (580)326-9191
Fax (580)326-9183

Southeast 3 Circuit Engineering District or CED3 is mission driven. That mission is "Southeast 3 Circuit Engineering District partners with government and private professionals to work as a team to provide timely and economic solutions that meet the engineering needs of our 27 county commissioners." Some of those partners include other CED's, private engineering consultants, the Department of Transportation, the Oklahoma Corporative Circuit Engineering District's Board, and the Association of County Commissioners. With the publication of this report, CED3 wishes to thank the Office of the State Auditor and Inspector for coming along side CED3 and becoming a valued partner.

Prior to this operational audit, CED3 has had financial audits. The scope differs as does the focus of the findings and reporting. As the reader continues past this preface, the operational audit speaks for itself auditing some financial and also other issues that would affect the health and operation of CED3. As a partner, the Office of the State Auditor and Inspector provided CED3 good instruction along with the audit to set and maintain good controls. Throughout the audit process, the Auditor's staff was very professional, acting with civility and patience. Each had true concern for their work and mission to promote accountability and fiscal integrity.

Asked to provide an encouraging accomplishment of CED3 during the year of audit, CED3 would like to acknowledge the work of our lab supervisor and his staff to bring online an asphalt testing lab. After noting some loss of time control with outside testing and cost of testing asphalt, the Board agreed to perform this work in-house. This effort required remodel of the lab work area and placement of new equipment, the proper purchase of equipment and its calibration. Personnel received training and certification. Once ready and running, the Oklahoma Department of Transportation, ODOT, approved and certified the lab. ODOT required CED3 to sign up for verification testing with AASHTO, however it is an accomplishment worth noting here of the extra step that the staff at CED3 made to gain the accreditation with AASHTO.

After review of the findings, CED3 would also like to show appreciation to each board member for the guidance given prior to this audit and the response to this audit. Like good sailors of old, they best set our sails and are ready to adjust the rigging with the changing winds to keep us running true to our mission.

Sincerely,

James D. Watson
Program Manager

Source: Information provided by Circuit Engineering District #3 (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #3
PRESENTATION OF REVENUES, EXPENDITURES,
AND FUND BALANCES OF DISTRICT FUNDS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Presentation of District #3 Funds for the Period of July 1, 2020 through June 30, 2021

	General Fund
Beginning Cash Balance, July 1	\$ 870,391
Revenues:	
OCCEDB (CBRI and Auction Proceeds)	391,927
ODOT (CIRB and Professional Services)	
Bridge Inspection	186,510
Preliminary Engineering	1,243,426
Program Management	50,910
Site Inspection	810,193
Local and County (Enterprise Activities)	
Compaction Testing	750
Material Testing	4,890
Interest Income	215
Total Revenues	2,688,821
Expenditures:	
Automobile Expenses	47,253
Bank Fees	334
Business Licenses and Permits	3,003
Computer and Internet Expenses	7,650
Equipment Rental	1,325
Insurance Expense	16,484
Janitorial Expense	4,736
Meal and Entertainment	196
Miscellaneous Expense	1,976
Office Supplies	1,114
Office Expense	15,013
Testing Laboratory	43,344
Payroll Expenses	1,045,872
Professional Fees	1,220,122
Repairs and Maintenance	2,132
Telephone Expenses	3,929
Travel Expense	2,856
Utilities	4,803
Capital Outlay	8,678
Audit Fees	29,237
Grants to member counties	40,000
Interest Expense	1,222
Total Expenditures	2,501,279
Ending Cash Balance, June 30	\$ 1,057,933

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

**CIRCUIT ENGINEERING DISTRICT #3
DESCRIPTION OF THE DISTRICT'S FUNDS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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 #3 General Fund – the General Fund is the primary operating fund of the District and is used to account for all activities.

**CIRCUIT ENGINEERING DISTRICT #3
PURPOSE, SCOPE, GENERAL METHODOLOGY
AND INTERNAL CONTROL CONSIDERATIONS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

**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, 2020 through June 30, 2021.

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

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

Internal Control Considerations

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

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

**CIRCUIT ENGINEERING DISTRICT #3
PURPOSE, SCOPE, GENERAL METHODOLOGY
AND INTERNAL CONTROL CONSIDERATIONS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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

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

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

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

**CIRCUIT ENGINEERING DISTRICT #3
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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

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

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

- Documented our understanding of the process for preparing the District’s monthly financial reports. Evaluated the process and identified significant internal controls related to the preparation of the District’s monthly financial reports.
- Compared the process to governmental internal control standards outlined in the *GAO Standards for Internal Control*.
- Confirmed \$2,666,330 in monies (99.26% of total monies) received from the Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB) and Oklahoma Department of Transportation (ODOT). Determined these monies were entered into the accounting system in the proper amount.
- Prepared a general ledger schedule of cash and investments at June 30 to ensure the schedule reconciled to the District’s financial report.
- 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.

FINDINGS AND RECOMMENDATIONS

Finding 2021-001 – Internal Controls Over District’s Monthly Financial Reports

Condition: The District does not have an adequate segregation of duties to ensure that duties assigned to individuals are done so in a manner that would not allow one individual to control both the recording function and the procedures relative to processing a transaction. The office manager posts all revenue transactions to the accounting system, prepares the deposits, performs the bank reconciliations, and prepares the monthly financial reports. Accounting transactions, ledgers, bank reconciliations and financial reports are not reviewed for accuracy by someone other than the preparer.

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

- A review of the District’s financial reports are performed to verify that revenue, expenditures, and fund balance amounts are accurately presented.

**CIRCUIT ENGINEERING DISTRICT #3
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

- A review of the monthly bank account reconciliations are performed and documentation of the reviews are maintained.

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

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

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

- Management review and approval of accounting functions.
- 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 President: The Board will discuss the proper action to take to correct this in the future to ensure effective segregation of duties.

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

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

Oversight for the Internal Control System

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

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.

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

**CIRCUIT ENGINEERING DISTRICT #3
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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

12.02 Management documents in policies the internal control responsibilities of the organization.

12.03 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.

12.04 Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

**CIRCUIT ENGINEERING DISTRICT #3
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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) were for the allowable operations of the District. However, we noted some deficiencies regarding adequate documentation and internal controls in the expenditure (including payroll) process.

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

- Documented our understanding of the expenditure process (including payroll). Evaluated those processes and identified significant internal controls related to expenditures.
- Compared those processes to governmental internal control standards outlined in the GAO *Standards for Internal Control*.
- Reviewed a random sample of twenty-nine (29) expenditures totaling \$237,545 representing 12.28% of expenditures in the population tested.
- Reviewed a random sample of two (2) payroll periods totaling \$51,758 representing 9.19% of payroll expenditures in the population tested.

FINDINGS AND RECOMMENDATIONS

Finding 2021-002 – Internal Controls Over District’s Expenditures

Condition: Upon inquiry and observation of the District’s purchasing process, it was noted that the District does not have an adequate segregation of duties to ensure that duties assigned to individuals are done so in a manner that would not allow one individual to control both the recording function and the procedures relative to processing a transaction.

Access to the District’s accounting program is limited to one individual who performs all duties related to expenditures, generates all reports, has access to check stock and written checks, prints checks, and distributes checks.

Additionally, this individual enrolls new employees, maintains personnel files, approves timesheets, is authorized to edit timesheets to make payroll changes, and updates payroll information in the accounting program. Payroll claims are not routinely compared to supporting documentation, and payroll is not presented to the Board for approval or review.

Also, utilizing a random sample of twenty-nine (29) of the District’s expenditures (excluding payroll), the following exceptions were noted:

- Twelve (12) totaling \$23,056 did not have evidence of being reviewed and approved.

**CIRCUIT ENGINEERING DISTRICT #3
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

- Three (3) totaling \$2,465 were not supported by adequate documentation due to lack of itemized receipts.
- One (1) in the amount of \$1,160 was not made for the appropriate amount due to payment not matching invoiced amount.
- Four (4) totaling \$2,219 included charges for late fees, interest, and sales tax which are not allowable expenditures of the District.

Furthermore, utilizing a random sample of two (2) of the District's payroll periods consisting of all twelve (12) employees for each pay period, the following items were noted:

Pay Period 12/01/2020:

- One (1) timesheet was not reviewed by someone other than the preparer.
- Eight (8) did not have adequate documentation to support payroll expenditures related to deductions and withholdings.

Pay Period 02/15/2021:

- One (1) timesheet was not reviewed by someone other than the preparer.
- Seven (7) did not have adequate documentation to support payroll expenditures related to deductions and withholdings.

Cause of Condition: Policies and procedures have not been designed and implemented to strengthen internal controls and provide segregation of duties regarding the expenditure (including payroll) process.

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. This condition could result in unrecorded transactions, misstated financial reports, undetected errors and misappropriation of funds.

Recommendation: OSAI recommends management implement policies and procedures to segregate duties over the District's expenditure (including payroll) process. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk 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 approve accounting functions.

Further, OSAI recommends that the District:

- Implement a written policy for allowable expenditures.
- Document the review of expenditures including payroll by management and the Board.
- Ensure expenditures (including payroll) are reviewed and approved for accuracy and adequate documentation.
- Ensure payroll expenditures are reviewed and approved by someone other than the preparer.
- Maintain personnel files with all supporting documentation to support payroll withholdings.
- Maintain supporting documentation for all expenditures.

**CIRCUIT ENGINEERING DISTRICT #3
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Management Response:

CED Board President: We will prepare the proper documents and, in the future, will have them reviewed by the Board. The documents will be prepared by a separate individual, other than the primary person preparing the payroll. Additionally, we will work to ensure that supporting documentation is present.

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.

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.

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

Documentation of Responsibilities through Policies

12.02 Management documents in policies the internal control responsibilities of the organization.

12.03 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

**CIRCUIT ENGINEERING DISTRICT #3
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operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.

12.04 Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. 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 changes to 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) and Administrative Code 730:10-23-5 and 730:10-23-7, which required the District to establish a process to evaluate proposed changes to projects when using County Improvements for Roads and Bridges funds.

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

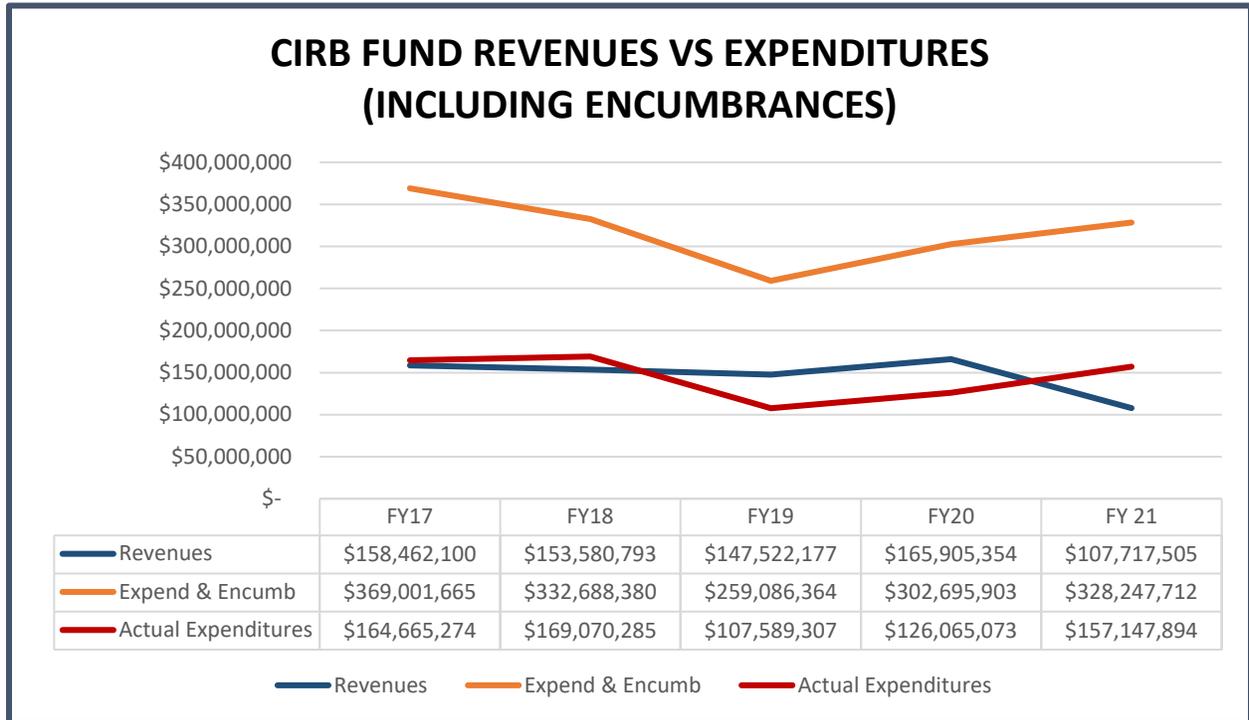
- Documented our understanding of the process for evaluating proposed changes to projects prior to modifying the District's 5 Year Construction Work Plan.
- Verified documentation for projects added to the plan prior to modifying the District's 5 Year Construction Work Plan.
- Verified documentation for removed projects prior to modifying the District's 5 Year Construction Work Plan.

FINDINGS AND RECOMMENDATIONS

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

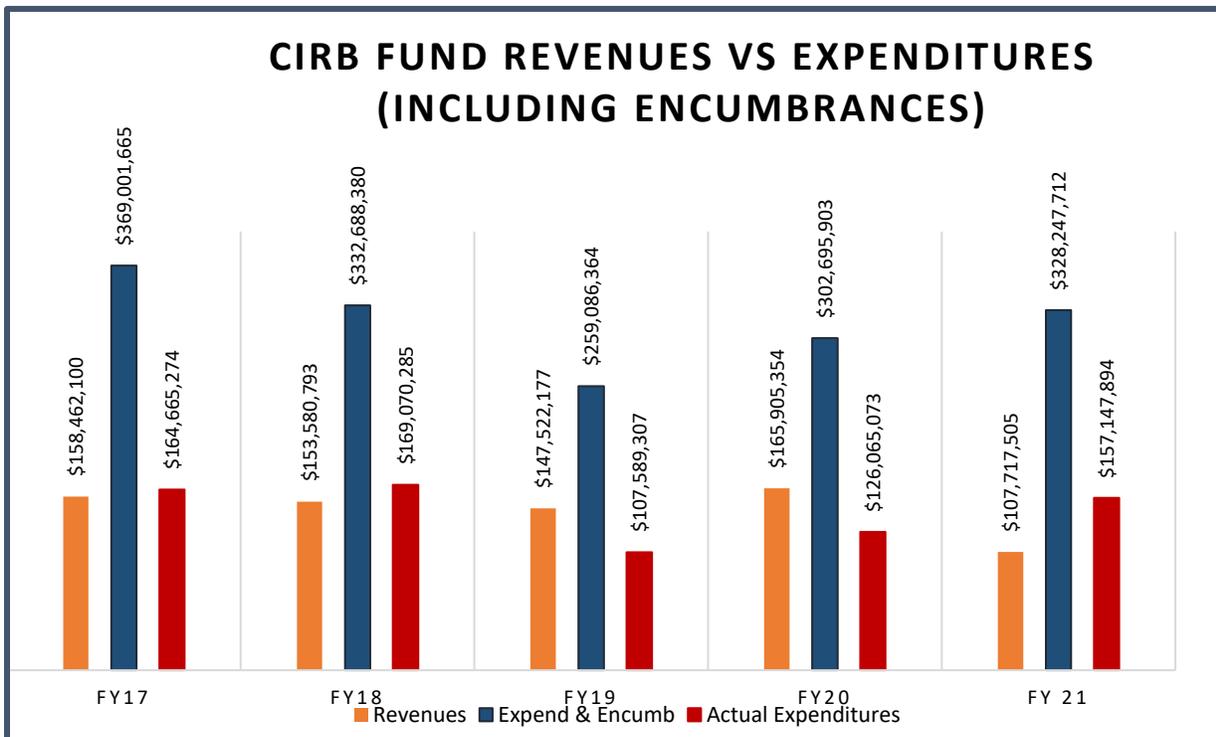
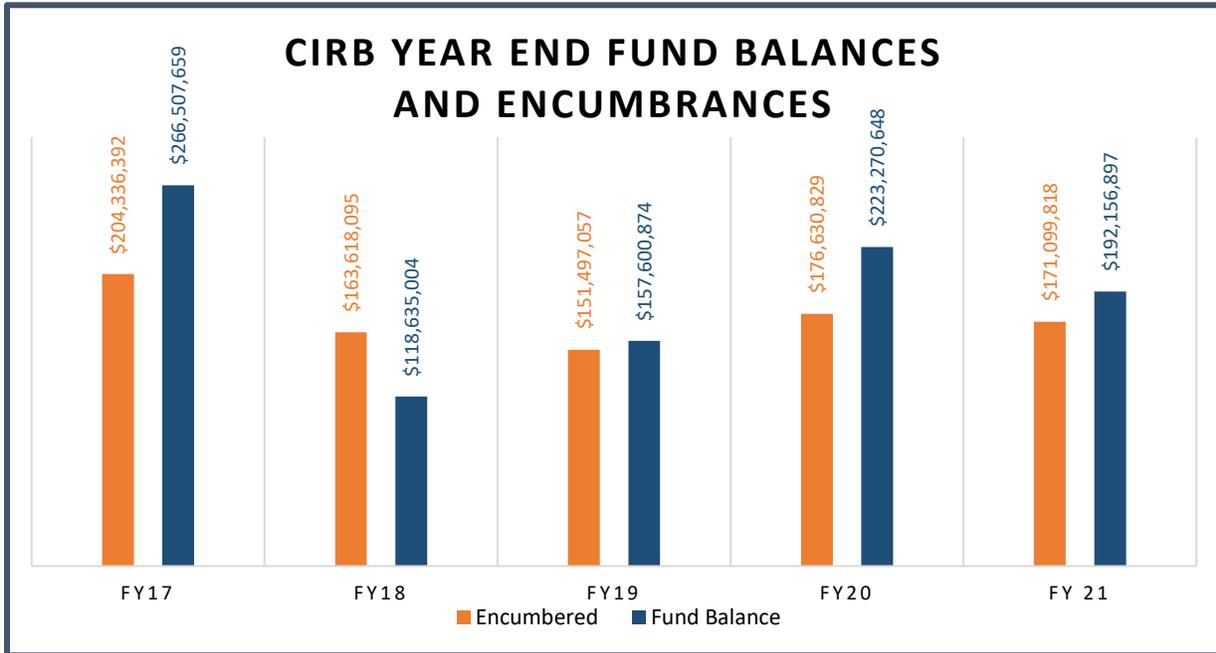
**CIRCUIT ENGINEERING DISTRICT #3
APPENDIX: STATEWIDE CIRB FUND ANALYSIS
FOR ALL CIRCUIT ENGINEERING DISTRICTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

The analysis of the CIRB fund presented in the charts below, represents activities for all eight (8) Circuit Engineering Districts.



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).

**CIRCUIT ENGINEERING DISTRICT #3
APPENDIX: STATEWIDE CIRB FUND ANALYSIS
FOR ALL CIRCUIT ENGINEERING DISTRICTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**



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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