



CIRCUIT ENGINEERING DISTRICT #3

Operational Audit

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

Cindy Byrd, CPA
State Auditor & Inspector

**CIRCUIT ENGINEERING DISTRICT #3
OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023**

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OKLAHOMA
Office of the State Auditor & Inspector

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February 3, 2025

**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, 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 #3
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023

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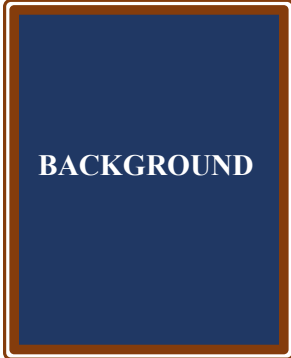
OPERATIONAL AUDIT REPORT

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**CIRCUIT ENGINEERING DISTRICT #3
DISTRICT INFORMATION AND OFFICIALS
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023**



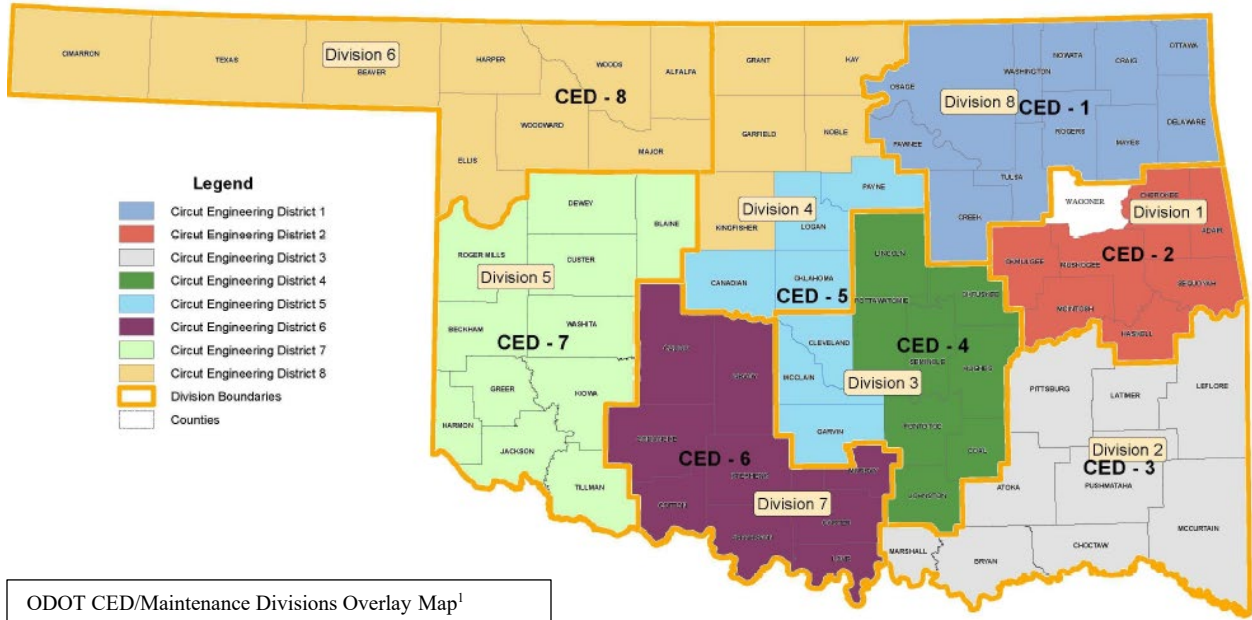
Pursuant to 69 O.S. § 687.1, counties may “create a circuit engineering district with any other county or counties” to allow county governments to “make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

Jeremy Bullard	President, Latimer County
Darrel Kerr	Vice-President, Choctaw County
Charlie Rogers	Secretary/Treasurer, Pittsburg County
Spike Eaves	Atoka County
Tony Simmons	Bryan County
Cody Covey	LeFlore County
Chris Duroy	Marshall County
Robert Beck	McCurtain County
Mike Brittingham	Pushmataha County

**CIRCUIT ENGINEERING DISTRICT #3
DISTRICT AREA
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023**



ODOT CED/Maintenance Divisions Overlay Map¹

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
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 #3 Fund for the Period of July 1, 2022 through June 30, 2023

	General Fund
Beginning Cash Balance, July 1	\$ 1,170,014
Revenues:	
ODOT Professional Services:	
Bridge Inspection	131,319
Engineering Service	383,334
Construction Inspection	1,089,867
OCCEDB:	
CED Revolving Proceeds	812,789
Auction Proceeds	18,701
Interest Income	376
Total Revenues	2,436,386
Expenditures:	
Maintenance & Operations:	
Audit Fees	8,000
Computer & Internet	10,451
Office Equipment Rental	3,076
Janitorial	3,850
Office Supplies	3,497
Office Equipment & Programs	25,889
Postage & Delivery	362
Business Licenses & Permits	1,998
Bank Fees	48
Training/Education/Seminars	235
Repairs & Maintenance	4,440
Automotive:	
Fuel	50,552
Repairs & Service	8,559
Tolls	800
Insurance:	
General Liability Insurance	4,703
Worker's Compensation	4,040

Continued to next page

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

**CIRCUIT ENGINEERING DISTRICT #3
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	<u>General Fund</u>
Expenditures (Continued):	
Lab:	
Testing Equipment	4,231
Equipment Service & Maintenance	6,877
Testing Laboratory Licenses	1,240
Testing Laboratory	131
Misc. Shop Supplies	6,764
Subcontracted Engineering:	
Design	258,394
Geotechnical	37,953
Inspection Services	25,910
Utilities	6,849
Personnel Services:	
Payroll Prep.	2,916
Salary/Wage	557,477
Taxes	212,854
Employee Health & Life Insurance	92,745
Employee Retirement	129,720
Capital Outlay:	
Vehicles	38,904
Office Computers	550
Travel:	
Lodging	9,243
Grants:	540,000
Total Expenditures	<u>2,063,258</u>
Ending Cash Balance, June 30	<u>\$ 1,543,142</u>

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

**CIRCUIT ENGINEERING DISTRICT #3
DESCRIPTION OF THE DISTRICT'S FUND
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023**

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:

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, 2022 THROUGH JUNE 30, 2023**

**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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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, 2022 through June 30, 2023.

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 objective. 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 the 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, 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 <https://www.gao.gov/products/GAO-18-568G>.

**CIRCUIT ENGINEERING DISTRICT #3
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 process to governmental internal control standards outlined in the GAO *Standards for Internal Control*.
- Reviewed the submitted reports to determine conformance with Oklahoma 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. The internal control and noncompliance deficiencies related to the District's Revolving Fund Budget and Final Expenditure Reports included the following:

- The reports included all expenditures of the District which included expenditures reimbursed by other revenue sources.
- The reports do not discreetly present Revolving Fund expenditures.
- The District did not expend all of their Revolving Fund monies.
- The District's Budget report included the following unallowable line items: CBRI Repayment, Building Depreciation, Equipment Depreciation, and Errors and Omissions.

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.

**CIRCUIT ENGINEERING DISTRICT #3
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023**

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.

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. Monies allocated to the District in excess of the budget should be banked/invested on their behalf by OCCEDB as per policy. Documentation should be maintained for all expenditures.

Management Response:

CED Board Chairman: The District will analyze our budget next year. In preparing the budget and report, we will take out unallowable line items and strive to make our numbers more accurate. We will also be in contact with the OCCEDB about possible amendments through their policy.

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.

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.

**CIRCUIT ENGINEERING DISTRICT #3
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023**

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 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 CED’s 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.”

O·K·L·A·H·O·M·A
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