



# CIRCUIT ENGINEERING DISTRICT #4

**Operational Audit** 

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

Cindy Byrd, CPA

State Auditor & Inspector

## CIRCUIT ENGINEERING DISTRICT #4 OPERATIONAL AUDIT FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023

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#### Cindy Byrd, CPA | State Auditor & Inspector

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January 30, 2025

#### TO THE BOARD OF THE CIRCUIT ENGINEERING DISTRICT #4

We present the audit report of the Circuit Engineering District #4 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

Olsa Hodges

**DEPUTY STATE AUDITOR & INSPECTOR** 

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

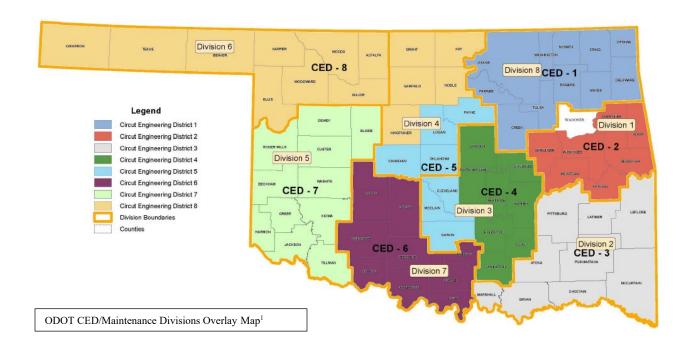


Pursuant to 69 O.S. § 687.1, counties may "create a circuit engineering district with any other county or counties" to allow county governments to "make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

Cacy Cribbs President, Johnston County Tim Porter Vice President, Seminole County Secretary, Okfuskee County James Yandell Treasurer, Lincoln County Lee Doolen Nicholis Lee Coal County Jim Lively **Hughes County** Danny Davis Pontotoc County Melissa Dennis Pottawatomie County



Circuit Engineering District #4 (the District) is comprised of an eight-county region, in the central part of the state including: Coal, Hughes, Johnston, Lincoln, Okfuskee, Pontotoc, Pottawatomie, and Seminole counties<sup>1</sup>.

<sup>&</sup>lt;sup>1</sup>Map <a href="https://oklahoma.gov/content/dam/ok/en/odot/documents/cirb/pdfs/cirb-engr-dist.pdf">https://oklahoma.gov/content/dam/ok/en/odot/documents/cirb/pdfs/cirb-engr-dist.pdf</a>

Circuit Engineering District No. 4 (the District) is a multi-county governmental entity voluntarily comprised of regional member counties. The District became active January 1, 2003 with the primary objective to employ professional and technical personnel in order to provide value-based services and management, maximizing the economic benefit of the resources available for the maintenance and construction of its member county road and bridge inventories.

#### **Engineering and Program Management**

The District provides engineers who are experts in understanding the complexities involved in bringing a cost-effective project from planning, to design, and finally construction. Projects are either let through the State DOT using CIRB and Federal funds or constructed via the District and County staff for force account projects. The engineering staff also assists its member counties with creating and implementing their transportation plans. Each of the budgeted spending plans are then built into one equitable funding plan which targets each county's infrastructure upgrade and replacement needs.

#### **FY2023 Accomplishments:**

- CIRB project construction lettings include; Old State Highway 18 Resurfacing Pottawatomie County,
   Walnut Creek Bridge Okfuskee County, Turkey Creek Bridge Seminole County, Tiger Creek Bridge Hughes County & Buzzard Creek Bridge Johnston County.
- \$124 Million of total CIRB encumbrances to date by end of FY2023 District wide.
- Assist in the creation and approval of District's \$80 Million FY2024-2028 CIRB 5-Year Construction Plan.

#### **Construction Management and Inspection**

Inspection services make sure that projects remain as scheduled and on budget where possible within the confines of the construction plans and contracts. Inspectors keep the County Commissioners well informed of project operations during the entirety of construction.





#### **FY2023 Accomplishments:**

- CM project JP27886 4.5 miles of Detour Road, Hughes County, construction completed in FY2023.
- CM project JP32973 Bridge over Tiger Creek, Hughes County, construction completed in FY2024.
- CM project JP32381 Bridge over Turkey Creek, Seminole Co., construction completed in FY2024.
- CM project JP30017 Bridge over Buzzard Creek, Johnston Co., construction Completed in FY2024.

#### **Safety Bridge Inspection**

The District provides a highly trained and certified bridge inspection crew to ensure the District's local government owned bridges are acceptable and safe for the driving public. In addition, the District Engineer analyzes the inspection data to provide in-depth reports and load ratings. Safety bridge inspection is a federally mandated and funded program.

#### **FY2023 Accomplishments:**

- Conducted and completed over 730 bridge safety field inspections and reports.
- Conducted and completed over 2 fracture critical bridge safety inspections and reports.
- Completed 44 special bridge inspections for bridges with significant condition deficiencies.
- Completion of 267 bridge load rating analysis, identifying maximum tonnage and signage needs.

#### **Force Account Construction**

The District provides experienced personnel to lead or assist in the construction of small bridge and maintenance jobs resulting in savings to our counties annually. The District provides an array of tools and construction equipment for the use of these projects that are not typically possessed by individual counties. Typical projects include: pier and abutment repairs, pre-stressed beam repairs, bridge construction, pile driving, concrete slab construction, and culvert repair or replacements.





#### **FY2023 Accomplishments:**

- New 30-foot recycled crosstown steel beam bridge replacing washed out existing structure.
- New 65-foot recycled crosstown steel beam bridge replacing temporary drainage structure.
- Scour repairs on structurally deficient bridges in Johnston County.

#### **Sign Production Shop**

The District road sign manufacturing service is used by counties and other local government agencies as an inventory management tool. By consolidating materials and personnel, member counties have a quick and cost-effective way to keep on-hand signs. Staff is knowledgeable of the Manual of Uniform Traffic Control Devices (MUTCD) and machinery for sign production.

#### **FY2023 Accomplishments:**

• Manufactured approximately 2,000 highway traffic signs for more than a three dozen government entities including counties, local municipalities and tribal governments throughout the District.

Source: Information provided by Circuit Engineering District #4 (presented for informational purposes).

#### Presentation of District #4 Fund for the Period of July 1, 2022 through June 30, 2023

	General Fund	
Beginning Cash Balance, July 1	\$	1,481,917
Revenues:		
ODOT Professional Services:		
Bridge Inspection		423,701
Engineering Service		31,543
Construction Inspection		484,035
Program Management		1,085
County and Local Enterprise Activity:		
Bridge Construction		364,961
Sign Shop		94,801
OCCEDB:		,
CED Revolving Proceeds		685,936
Auction Proceeds		21,682
Interest Income		8,978
Sale of Assets		8,525
Total Revenues		2,125,247
Expenditures:		
Maintenance & Operations:		
ODOT Professional Service Expense:		
Bridge Inspection Service Expense		480
Construction Inspection Services:		
Certified Material Lab Testing		53,159
CM Testing Equipment Calibration		63
Construction Testing & Inspection Equipment		3,240
Permits & Licensing Fees		37
Engineering Services Expense:		7 116
Design Software Licensing Professional Engineering & Survey		7,116 28,920
Construction Service Expense:		20,720
Heavy Equipment Hauling		9,500
Heavy Equipment Maintenance & Repair		3,370
Materials		74,690

Continued on next page

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

# CIRCUIT ENGINEERING DISTRICT #4 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	General Fund
Expenditures (Continued):	
Rental Equipment	12,109
Supplies & Tools	28,986
Heavy Equipment Diesel	7,255
Specialized Contract Labor	31,243
Sign Shop Expense:	
Fork Lift Maintenance & Repairs	125
Contract Labor	4,631
Equipment Repair	461
Production Materials	59,678
Supplies	101
Insurance Expense:	
Liability	5,748
Workers Comp	10,764
Office Expense	35,249
Fleet Vehicle Expense	45,529
Professional Fees and Expenses	20,740
Professional Services Expense	22,522
Utilities Expense	14,971
CED Revolving Grants:	
CED Special Transportation Projects	226,666
Capital Outlay:	
Vehicles	96,513
Personnel Services:	
Payroll Tax	59,521
OPEH&W Health Insurance Employer Contribution	178,033
OPERS Employer Retirement Contribution	112,754
Employee Payroll - Salaries	736,027
Travel:	
Lodging	1,381
Meals	327
Mileage	6,110
Total Expenditures	1,898,019
Ending Cash Balance, June 30	\$ 1,709,145

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 #4 General Fund</u> – the General Fund is the primary operating fund of the District and is used to account for all activities.

State Auditor and Inspector's Office to audit the books and accounts of the circuit engineering district.

This audit was conducted in response to 69 O.S. § 687.1, which requires the

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*<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 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

PURPOSE, SCOPE, GENERAL METHODOLOGY, AND INTERNAL CONTROL CONSIDERATIONS

# CIRCUIT ENGINEERING DISTRICT #4 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.

<sup>&</sup>lt;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 <a href="https://www.gao.gov/products/GAO-14-704G">https://www.gao.gov/products/GAO-14-704G</a>

<sup>&</sup>lt;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 <a href="https://www.gao.gov/products/GAO-18-568G">https://www.gao.gov/products/GAO-18-568G</a>.

### CIRCUIT ENGINEERING DISTRICT #4 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 Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB) *CED Revolving Fund Policy*.

#### FINDINGS AND RECOMMENDATIONS

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

**Condition:** Internal control and noncompliance deficiencies in the process related to the District's Revolving Fund Budget and Final Expenditure Reports included the following:

- The reports included all expenditures of the District which includes expenditures reimbursed by other revenue sources.
- The reports do not discreetly present Revolving Fund expenditures.
- Due to comingled funding sources, we were unable to determine all Revolving Fund monies were expended.

**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.

**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:** The District will establish new fiscal year budgeting and end of fiscal year expenditure reports that are exclusive to OCCEDB Revolving Funds, and which are in accordance with OCCEDB established policies.

**Criteria:** The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014 version)<sup>2</sup> aided in guiding our assessments and conclusion.

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.

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 CEDs' budget will reflect the utilization of said funds with any reminder 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."



