



CIRCUIT ENGINEERING DISTRICT #7

Operational Audit

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

Cindy Byrd, CPA
State Auditor & Inspector

**CIRCUIT ENGINEERING DISTRICT #7
OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023**

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OKLAHOMA

Office of the State Auditor & Inspector

Cindy Byrd, CPA | State Auditor & Inspector

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January 28, 2025

**TO THE BOARD OF THE
CIRCUIT ENGINEERING DISTRICT #7**

We present the audit report of the Circuit Engineering District #7 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,

A handwritten signature in blue ink that reads "Lisa Hodges". The signature is fluid and cursive.

LISA HODGES, CFE, CGFM
DEPUTY STATE AUDITOR & INSPECTOR

CIRCUIT ENGINEERING DISTRICT #7
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023

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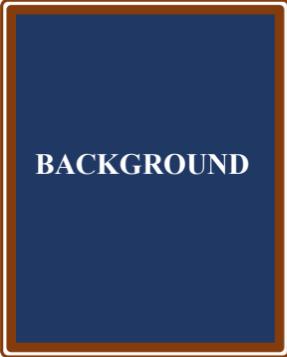
OPERATIONAL AUDIT REPORT

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INTRODUCTORY SECTION
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**CIRCUIT ENGINEERING DISTRICT #7
DISTRICT INFORMATION AND OFFICIALS
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023**



BACKGROUND

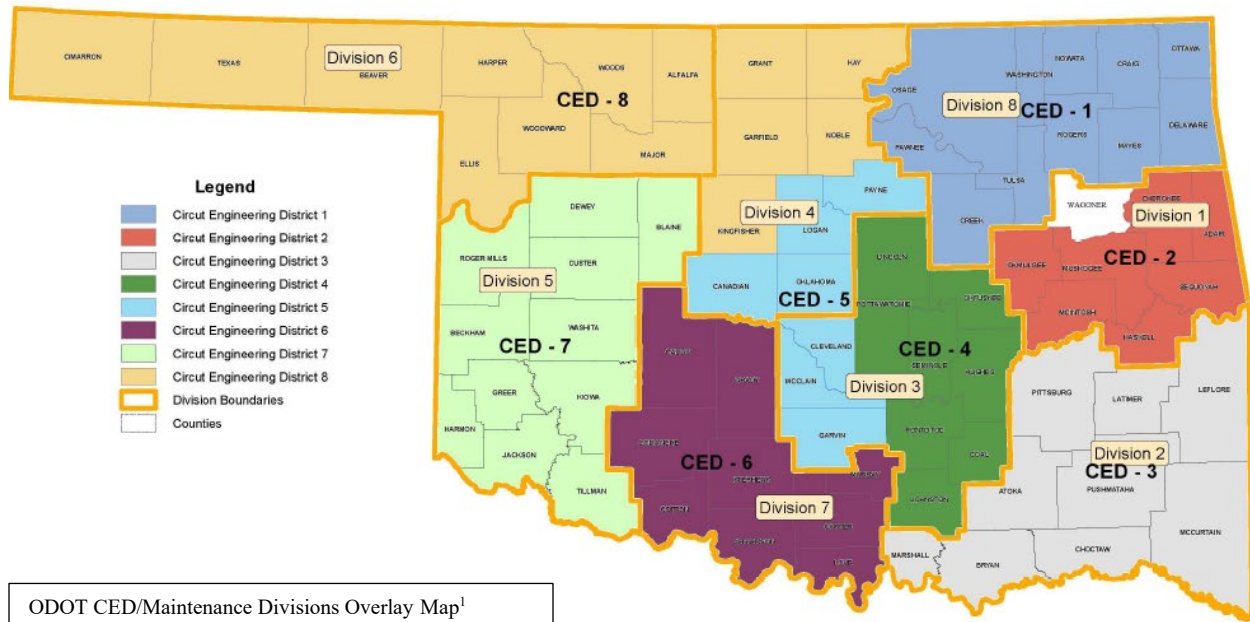
Pursuant to 69 O.S. § 687.1, counties may “create a circuit engineering district with any other county or counties” to allow county governments to “make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

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

Each participating county in the District has an appointed county commissioner 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 and Vice-President.

Kirk Butler	President, Jackson County
Wade Anders	Vice-President, Custer County
Johnny Davis	Beckham County
Daryl Hicks	Blaine County
Lance Sander	Dewey County
Steven Fite	Greer County
Gary Lewis	Harmon County
Gary Jennings	Kiowa County
Levi Krasser	Tillman County
Brian Hay	Roger Mills County
Bart Gossen	Washita County

CIRCUIT ENGINEERING DISTRICT #7
DISTRICT AREA
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023



Circuit Engineering District #7 (the District) is comprised of an eleven-county region in the western part of the state including: Beckham, Blaine, Custer, Dewey, Greer, Harmon, Jackson, Kiowa, Roger Mills, Tillman, and Washita counties¹.

On October 26, 2010, and subsequently amended on November 22, 2010, pursuant to the Oklahoma Energy Independence Act, the District created the CED #7 County Energy District Authority (the Authority). The Authority is a public trust as provided for in 60 O.S. §§ 176 et seq.

On June 26, 2012, the District and the Authority entered a joint venture agreement to create 7 Oil Joint Venture (7Oil), to produce oil emulsion. The 7Oil emulsion plant has ceased operations and is currently under liquidation.

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

**CIRCUIT ENGINEERING DISTRICT #7
PROJECT HIGHLIGHTS
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023**

Circuit Engineering District #7 (the District) was established in 1998 as a cooperative in order to provide efficiencies in grouping counties together to provide engineering and other services. Initially, federally mandated bridge safety inspection services were provided to the then Ten-County District.

In 2000, the District hired a professional engineer and developed a drafting squad in order to provide in-house bridge and roadway design and other engineering services to their member counties.

From 2001 through 2024, a total of 166 bridge projects have been designed and constructed in the 11 member counties utilizing federal bridge replacement funds, at a total construction cost of over \$89 million.

When HB 1176 was passed in 2006, the “County Improvement for Roads and Bridges” (CIRB) Program was implemented using this new funding source primarily to design and construct larger bridge and road projects that an individual county would not be able to fund with their own funding sources. At that time, Blaine County joined the District in order to facilitate the usage of CIRB funds, since those funds are allocated for each ODOT field district, and the addition of Blaine County to the District made the District 7 Boundary of 11 counties match ODOT Field District 5’s boundary. From 2009 through 2024, a total of 38 projects have been designed and constructed in the 11 member counties utilizing CIRB funds, at a total construction cost of approximately \$142 million. The District has an ODOT certified construction inspection staff and an ODOT certified materials testing lab to support them. This staff monitors the contractors who construct projects within the District to ensure the projects are built according to the plans and the ODOT Standard Specifications.

The District operates a sign shop that produces traffic signs for our member counties and cities who have interlocal agreements with their counties. These entities can order traffic signs and have them produced in a timely and cost-effective manner.

The District also provides engineering advice to our member counties, in such matters as advising commissioners on what size of pipe or bridge they may need at a location to carry the appropriate flow, or what repairs they might want to perform on a bridge or road in order to keep it in service or prolong its life.

In FY 2024, the District prepared and placed on a letting six (6) federally funded bridge/road overlay projects and three (3) state CIRB funded bridge/roadway reconstruction projects, as follows:

Federally funded Bridge and Road Overlay projects:	Project Cost
Custer Co. Barnitz Creek	\$ 1,704,388
Dewey Co. Teepee Creek	\$ 688,068
Greer Co. unnamed creek	\$ 789,688
Jackson Co. Altus-Lugert Irrigation Canal	\$ 674,292
Tillman Co. Little Deep Red Creek	\$ 867,026
Tillman Co. STP overlay project	\$ 1,533,470
TOTAL PROJECT COSTS	\$ 6,256,932

Source: Information provided by Circuit Engineering District #7 (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #7
PROJECT HIGHLIGHTS
FOR THE PERIOD OF JULY 1, 2022 THROUGH JUNE 30, 2023**

State funded CIRB Bridge and Road reconstruction projects:	Project Cost
Custer Co. Soldier Creek bridge & approaches	\$ 827,297
Jackson Co. Detention Pond for Ridgecrest Road project	\$ 842,305
Kiowa Co. Iris Street road reconstruction	\$ 7,967,800
TOTAL PROJECT COSTS	\$ 9,637,402

For FY 2025, projects currently designed and either let, placed on an ODOT letting or tentatively scheduled for letting pending completion of right-of-way acquisition and availability of funds, include nine (9) federally funded bridge replacement and overlay projects and three (3) state funded CIRB bridge/roadway reconstruction projects:

Federally funded Bridge and Road overlay projects:	Project Cost Estimate
Beckham Co. Indian Creek, Spring 2025 letting	\$ 700,000
Blaine Co. unnamed creek, Spring 2025 letting	\$ 825,000
Dewey Co. Trail Creek, Spring 2025 letting	\$ 1,000,000
Greer Co. unnamed creek, Spring 2025 letting	\$ 625,000
Jackson Co. Altus-Lugert Irrigation Canal, Spring 2025 letting	\$ 700,000
Kiowa Co. Pecan Cr., Spring 2025 letting	\$ 800,000
Tillman Co. Cooper Cr., Summer 2025 letting	\$ 800,000
Washita Co. Coffee Cr., Spring 2025 letting	\$ 800,000
Custer Co. overlay Co. Stafford Rd., Fall 2025 letting	\$ 1,100,000
TOTAL PROJECT COSTS ESTIMATE	\$ 7,350,000

State funded CIRB Bridge and Road reconstruction projects:	Project Cost Estimate
Custer Co. Crooked Cr., Crosstown Beam project, Spring 2025 letting	\$ 825,000
Harmon Co. Co. Road EW-155 reconstruction, Summer 2025	\$ 8,000,000
Washita Co. Bessie Road Part I, Summer 2025	\$ 6,200,000
TOTAL PROJECT COSTS ESTIMATE	\$ 15,025,000

Source: Information provided by Circuit Engineering District #7 (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #7
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 #7 Fund for the Period of July 1, 2022 through June 30, 2023

	<u>General Fund</u>
Beginning Cash Balance, July 1	\$ 2,571,675
Voids from Prior Year	65
Adjusted Beginning Balance, July 1	<u>2,571,740</u>
Revenues:	
ODOT Professional Services:	
Construction Inspection	464,555
Engineering Service	656,164
Bridge Inspection	248,240
County and Local Enterprise Activity:	
Sign Shop	42,122
OCCEDB:	
CED Revolving Proceeds	783,320
Auction Proceeds	24,588
Sale of Beams	4,590
Interest Income	12,883
Total Revenues	<u>2,236,462</u>
Expenditures:	
Maintenance and Operations:	
Automobile Expense	35,770
Liability Insurance	23,886
Office Expenses	55,882
Building Repairs	2,252
Computer Repairs	6,668
Equipment Repairs	167
Telephone	10,274
Utilities	11,999
Professional Fees:	
Accounting	18,700
Legal Fees	6,544
ODOT Professional Services:	
ROW Acquisitions	180,050
Engineer Consulting Fees	85,219
Licenses and Permits	200

Continued on next page

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

**CIRCUIT ENGINEERING DISTRICT #7
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):	
Subcontractors	
Environmental	6,654
GeoTech	136,062
Survey	10,500
Personal Services:	
Company Retirement Contribution	144,466
Employee Insurance Expense	138,961
Workers' Comp Insurance	5,775
Payroll Expenses - Salaries & Benefits	1,042,955
Life Insurance	13,942
Travel & Entertainment:	
Board Members Travel	612
Meals	636
Employee Travel	3,374
Training	1,098
Capital Outlay:	
Equipment Purchases	20,238
Sign Shop Expense	31,566
Total Expenditures	<u>1,994,450</u>
Ending Cash Balance, June 30	<u>\$ 2,813,752</u> *

****As of June 30, 2023, the District is owed \$3,626,833 due to capital investments and loans from taxpayer funds to the CED #7 County Energy District Authority (the Authority)/7 Oil Joint Venture Oil Plant (7Oil). The receivable is from a joint-venture project between the two entities in which they sold road emulsion.***

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

**CIRCUIT ENGINEERING DISTRICT #7
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 #7 General Fund – the General Fund is the primary operating fund of the District and is used to account for all activities.

Receivable from the District's Joint Venture

The District created the Authority and subsequently these entities jointly created 7Oil. The District was not allowed by law to enter into the joint venture agreement. Once it did, though, the District then commingled monies with the Authority and violated the agreement by not creating a third entity to oversee the project and by paying more money into the project than the specified 50/50. Some District officials accomplished this latter violation by not fully informing most board members and by having the board approve payments and transfers by way of consent agendas instead of stand-alone agenda items in meetings. This led to some of the now-former District officials being charged with embezzlement and conspiracy and pleading guilty to lesser charges. Additionally, the District did not terminate the joint-venture agreement by the date that the agreement itself required but, instead, continued selling emulsion. Due to the legality of this venture, the 7Oil emulsion plant was to cease operation and be liquidated in accordance with directives provided. The liquidation process of the 7Oil emulsion plant has not been finalized. The District likely will never recover the full \$3.6 million of taxpayer funds.

**CIRCUIT ENGINEERING DISTRICT #7
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 #7
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 #7
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.

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 Districts Board's (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 included all expenditures of the District which included 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 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 #7
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
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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 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: We will develop and implement a policy for the use of the District's Revolving Fund Reports. This will involve adjusting our current policy, adopted by the CED 7 Board for use beginning in fiscal year 2024, for the distribution of these funds. Controls and reporting procedures will be put into place to ensure that these funds are distinctly delineated in our accounting system, and expenditures of those funds follow the policy and are documented. Our budget that is submitted to the OCCEDB Board in order to receive these funds will be improved to better outline the justification for the use of these funds.

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 #7
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 the OCCEDB office.”



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