



CIRCUIT ENGINEERING DISTRICT #7

Operational Audit

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

Cindy Byrd, CPA
State Auditor & Inspector

**CIRCUIT ENGINEERING DISTRICT #7
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 #7**

We present the audit report of the Circuit Engineering District #7 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 #7
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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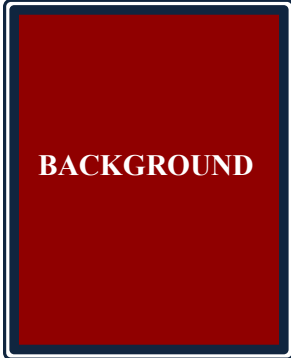
OPERATIONAL AUDIT REPORT

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INTRODUCTORY SECTION
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PRESENTED FOR INFORMATIONAL PURPOSES ONLY

**CIRCUIT ENGINEERING DISTRICT #7
DISTRICT INFORMATION AND OFFICIALS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**



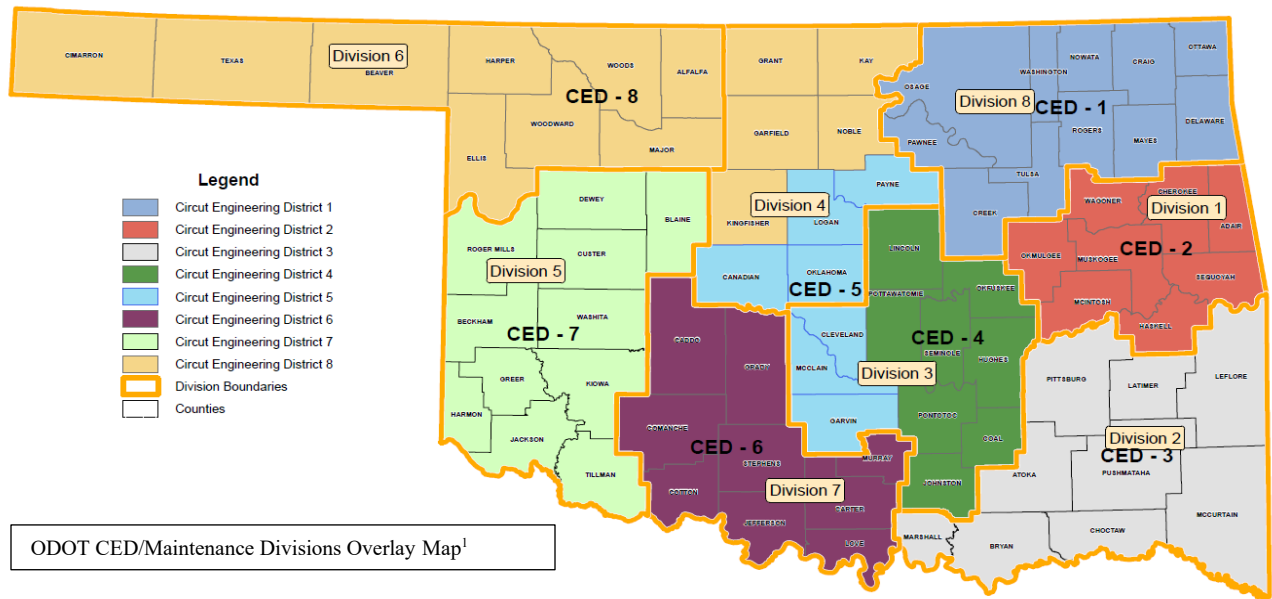
Pursuant to 69 O.S. § 687.1, counties may “create a circuit engineering district with any other county or counties” to allow county governments to “make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

Tim Bingham	President, Kiowa County
Kirk Butler	Vice-President, Jackson County
Johnny Davis	Beckham County
Mike Allen	Blaine County
Wade Anders	Custer County
Dillon Berry	Dewey County
Steven Fite	Greer County
Gary Lewis	Harmon County
Brian Hay	Roger Mills County
Joe Don Dickey	Tillman County
Bart Gossen	Washita County

**CIRCUIT ENGINEERING DISTRICT #7
DISTRICT AREA
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**



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.

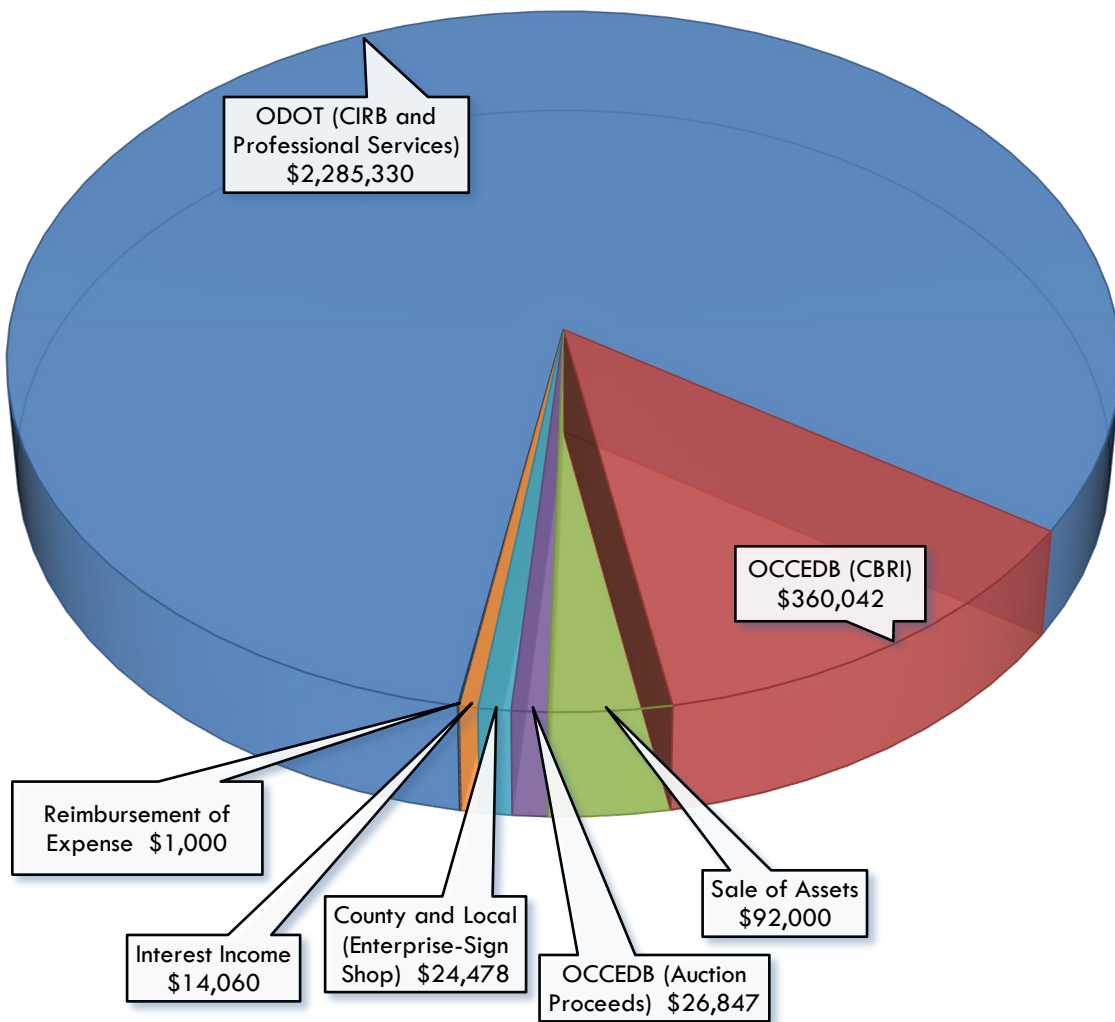
On October 26, 2010 and subsequently amended on November 22, 2010, pursuant to the Oklahoma Energy Independence Act, the District created the CED #7 County Energy District Authority (the Authority). The Authority is a public trust as provided for in 60 O.S. §§ 176, et seq.

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

**CIRCUIT ENGINEERING DISTRICT #7
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

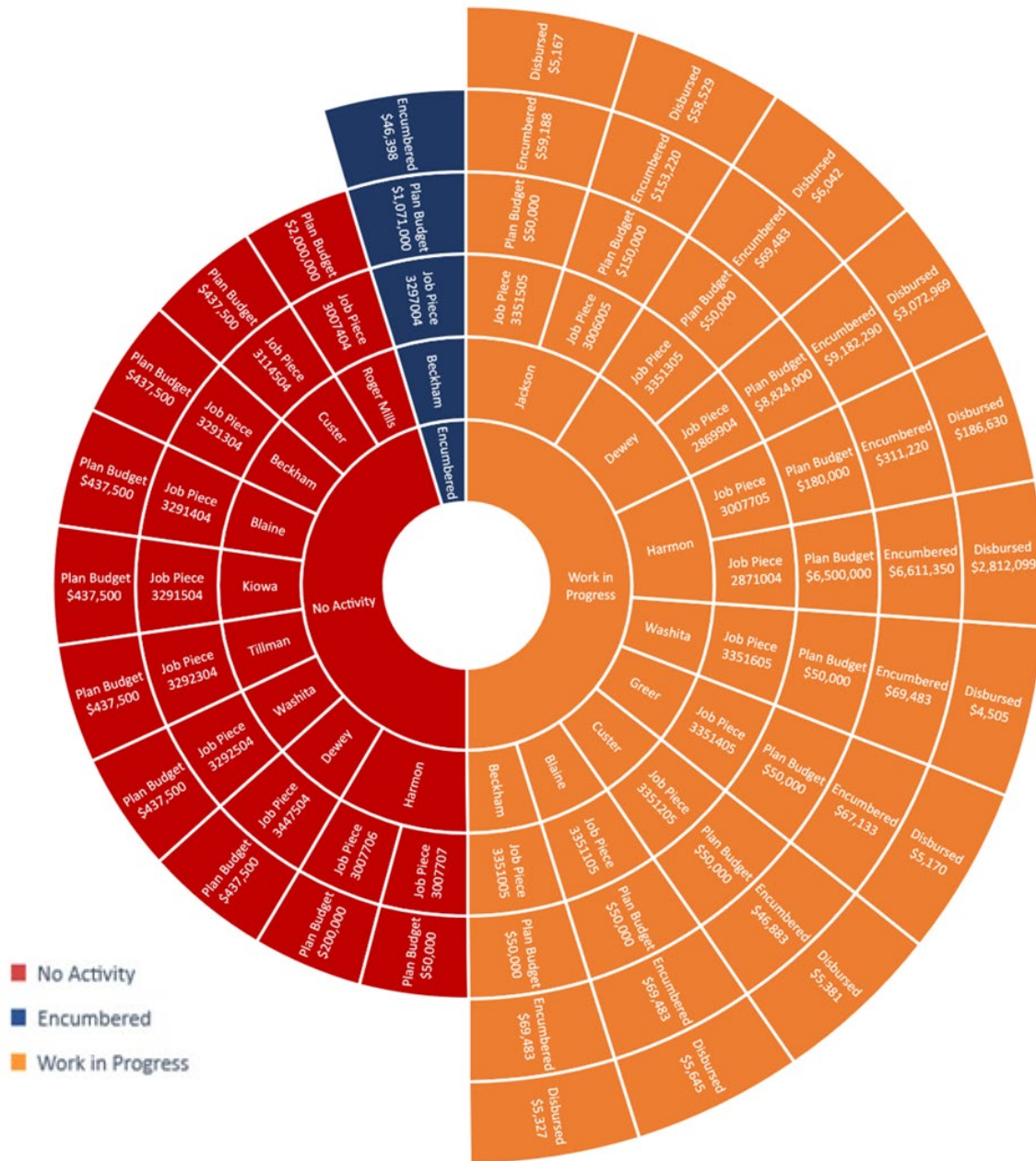


During the period the District collected \$2,803,757 in total revenue.

CIRCUIT ENGINEERING DISTRICT #7
STATUS OF PROJECTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021

Below represents the status of projects for District #7 for planned jobs in fiscal year 2021 in the 5 Year Construction Work Plan SFY-2021 through SFY-2025 consisting of projects totaling \$22,387,500.

Status of Projects

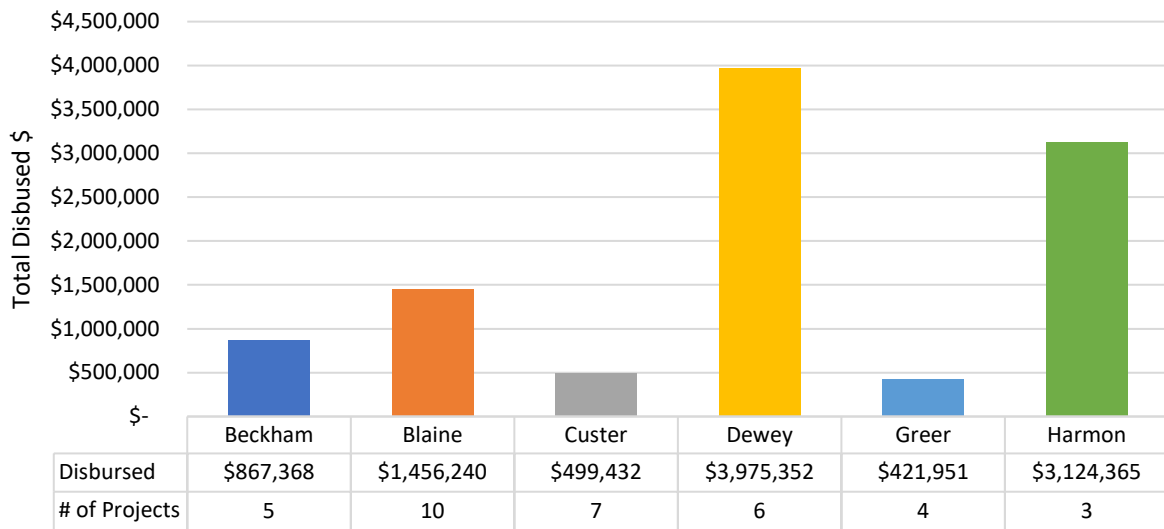


Source: Information provided from [5 Year Construction Work Plan SFY-2021 through SFY-2025](#) and Oklahoma Department of Transportation CIRB Project Information report.

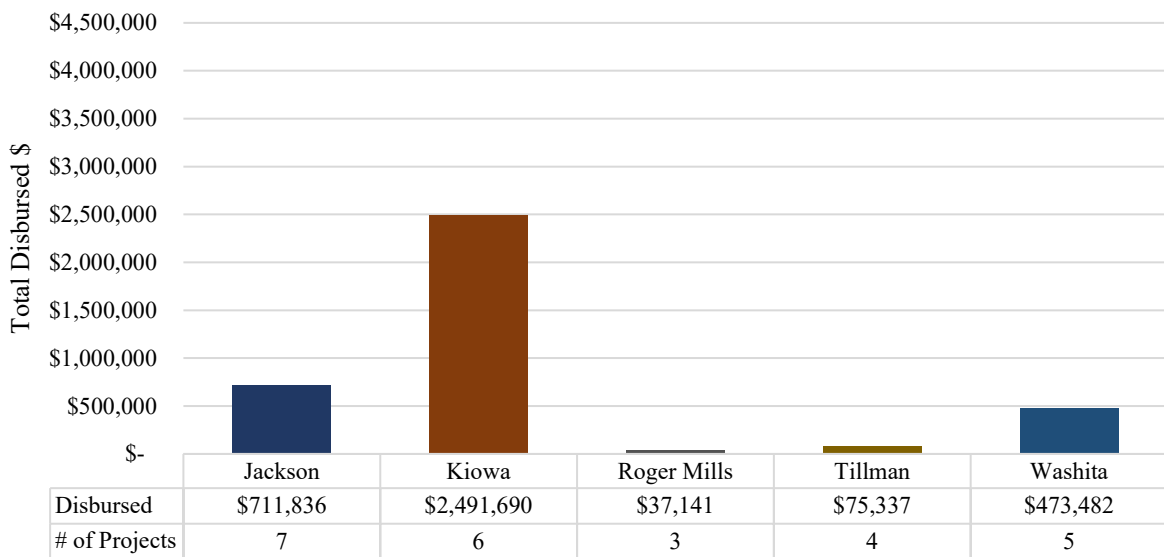
**CIRCUIT ENGINEERING DISTRICT #7
DISBURSEMENTS BY COUNTY
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents the fiscal year disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for projects in District #7 totaling \$14,134,194. This amount includes funds budgeted during fiscal years 2015 through 2021 listed by beneficiary County.

Disbursements by County



Disbursements by County

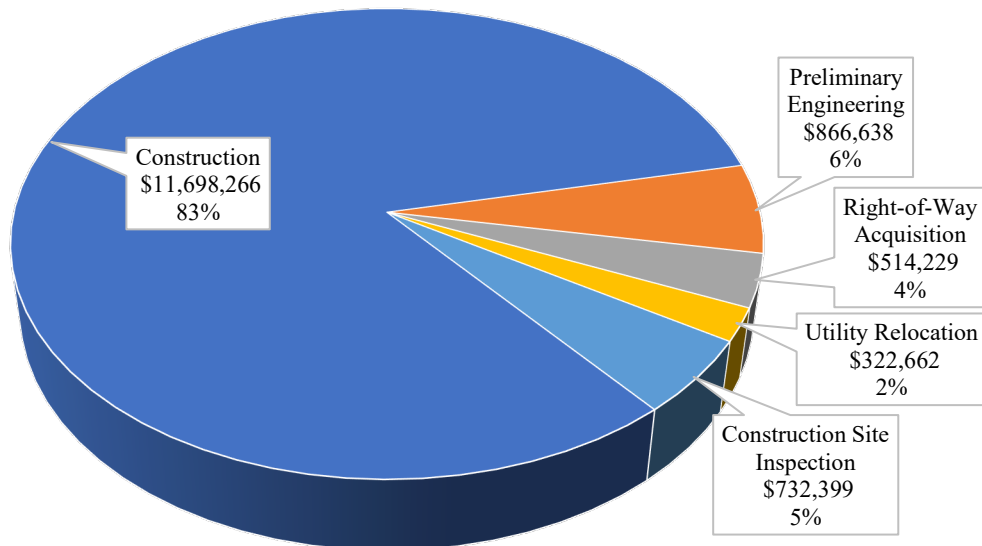


Source: Information provided from [5 Year Construction Work Plan SFY-2021 through SFY-2025](#) and Oklahoma Department of Transportation CIRB Project Information report.

**CIRCUIT ENGINEERING DISTRICT #7
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 #7 totaling \$14,134,194. This amount includes funds budgeted during fiscal years 2015 through 2021 listed by job phase.

Disbursements 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.

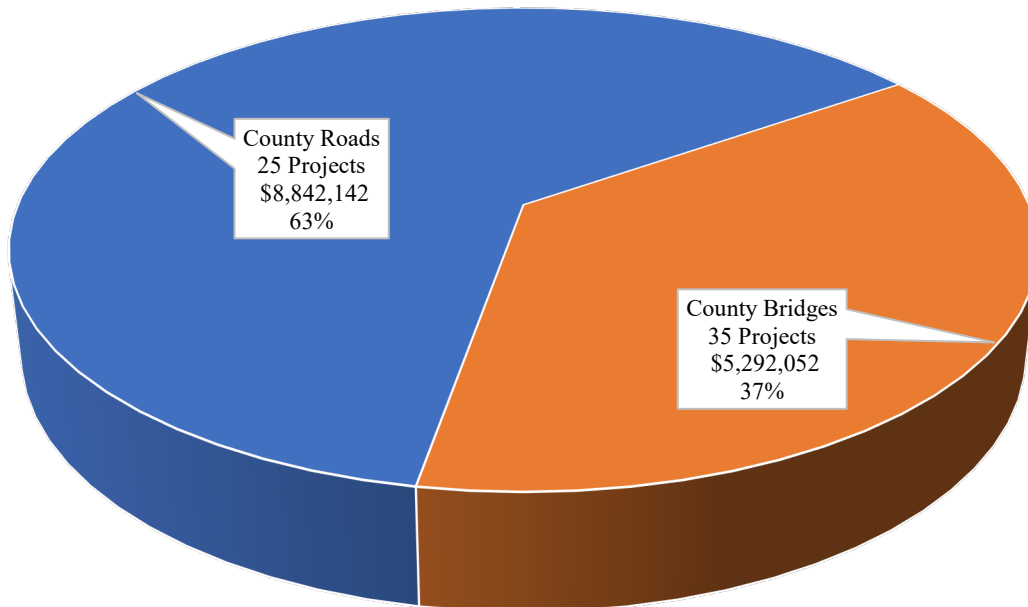
Construction Site Inspection – this job phase consists of oversight of the contractor to ensure the project is built in accordance with specifications, plans and estimates. These payments are disbursed to the District.

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

**CIRCUIT ENGINEERING DISTRICT #7
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 #7 totaling \$14,134,194. 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 [5 Year Construction Work Plan SFY-2021 through SFY-2025](#) and Oklahoma Department of Transportation CIRB Project Information report.

**CIRCUIT ENGINEERING DISTRICT #7
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 County Bridge projects for District #7 divided into their respective budget years.

Fiscal Year 2021 Disbursements by Budget Year

County	2015	2016	2017	2018	2019	2020	2021	Total *
Beckham	-	-	-	-	24,455	41,511	801,402	\$ 867,368
Blaine	-	-	-	38,413	89,556	713,279	614,992	\$ 1,456,240
Custer	-	-	-	5,951	605	381,287	111,589	\$ 499,432
Dewey	-	-	222,518	655	-	39,821	3,712,358	\$ 3,975,352
Greer	-	-	-	-	75,456	2,073	344,422	\$ 421,951
Harmon	30,640	-	-	41,059	-	10,089	3,042,577	\$ 3,124,365
Jackson	-	4,300	-	-	1,418	285,798	420,320	\$ 711,836
Kiowa	32,926	-	-	13,500	35,949	1,938,874	470,441	\$ 2,491,690
Roger Mills	-	-	22,803	-	5,354	8,984	-	\$ 37,141
Tillman	-	-	-	-	7,815	64,272	3,250	\$ 75,337
Washita	-	3,700	489	-	26,292	438,496	4,505	\$ 473,482
Total	\$63,566	\$8,000	\$245,810	\$99,578	\$266,900	\$3,924,484	\$9,525,856	\$14,134,194

*-These totals are payments made during FY 2021 from the County Improvements 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 #7
PROJECT HIGHLIGHTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Circuit Engineering District #7 (CED 7) 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 CED 7 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 countries.

From 2001 through 2022, a total of 155 bridge projects have been designed and constructed in the 11 member counties utilizing federal bridge replacement funds, at a total construction cost of just over \$78 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 CED 7 in order to facilitate the usage of CIRB funds, since those funds are allocated for each ODOT field division, and the addition of Blaine County to CED 7 made the County District 7 Boundary of 11 counties match ODOT Field Division 5’s boundary. From 2009 through 2021, a total of 33 projects have been designed and constructed in the 11 member counties utilizing CIRB funds, at a total construction cost of \$120.3 million.

CED 7 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 insure the projects are built according to the plans and the ODOT Standard Specifications.

CED 7 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.

CED 7 also provides engineering advice to our member counties, in such matters as advising commissioners on what size of pipe or bridge he may need at a location to carry the appropriate flow, or what repairs he might want to perform on a bridge or road in order to keep it in service or prolong its life.

In FY 2022, CED 7 prepared and let seven (7) federally funded bridge projects and two (2) state CIRB funded roadway reconstruction projects, as follows:

Federally funded bridge projects:

1. Beckham Co. Little Turkey Creek, project cost \$ 685,919
2. Blaine Co. Salt Creek, project cost \$ 530,480
3. Custer Co. West Barnitz Creek, project cost \$ 917,875
4. Dewey Co. unnamed creek, project cost \$ 421,767
5. Kiowa Co. unnamed creek, project cost \$ 435,497
6. Tillman Co. Deep Red Creek, project cost \$ 888,258
7. Washita Co. unnamed creek, project cost \$ 309,671

TOTAL PROJECT COSTS \$ 4,189,497

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

**CIRCUIT ENGINEERING DISTRICT #7
PROJECT HIGHLIGHTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

State funded CIRB Road reconstruction projects:

1. Blaine Co. American Horse Lake Road, reconstruct 6 miles, project cost \$ 6,893,691
2. Greer County Cottonwood Road, reconstruct 4 miles, project cost \$ 3,939,214

TOTAL PROJECT COSTS \$ 10,832,905

For FY 2023, 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 projects and four (4) state funded CIRB bridge/roadway reconstruction projects:

Federally funded bridge projects:

1. Beckham Co. West Elk Creek, September 2022 Letting, low bid \$ 1,011,262
2. Blaine Co. unnamed creek, Spring 2023 Letting, project estimate \$ 750,000
3. Custer Co. unnamed creek, Spring 2023 letting, project estimate \$ 440,000
4. Dewey Co. Teepee Creek, Spring 2023 Letting, project estimate \$ 578,000
5. Greer Co. Sleepy John Creek, February 2023 Letting, project estimate \$ 591,000
6. Jackson Co. Cottonwood Creek, Spring 2023 Letting, project estimate \$ 600,000
7. Kiowa Co. Elk Creek, July 2022 Letting, low bid \$ 1,176,073
8. Tillman Co. Curtis Creek, July 2022 Letting, low bid \$ 529,408
9. Washita Co. unnamed cr., Spring 2023 Letting, project estimate \$ 687,000

TOTAL PROJECT COSTS \$ 6,362,743

State funded CIRB Road reconstruction projects:

1. Custer Co., Lawter Road, reconstruct 2 miles, March 2023 Letting, project estimate \$ 6.2 million
2. Custer Co. Soldier Cr., Crosstown Beam project, Spring 2023 Letting, project Estimate \$600,000
3. Custer Co. Crooked Cr., Crosstown Beam project, Spring 2023 Letting, project Estimate \$600,000
4. Roger Mills Co. Canadian River bridge, March 2023 Letting, project estimate \$2.5 million

TOTAL PROJECT COSTS \$ 9.9 Million

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

**CIRCUIT ENGINEERING DISTRICT #7
PRESENTATION OF REVENUES, EXPENDITURES,
AND FUND BALANCES OF DISTRICT FUNDS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Presentation of District #7 Funds for the Period of July 1, 2020 through June 30, 2021

	General Fund
Beginning Cash Balance, July 1	\$ 1,408,011
Revenues:	
Miscellaneous Income	2,237
CBRI Allocation	360,042
CIRB Project Management	30,670
Sign Making	22,241
Income for Construction Inspection	695,205
Income for Engineering	1,336,927
Auction Proceeds	26,847
Bridge Inspection Fee	222,528
Gain/(Loss) on Sale	92,000
Interest Income Earned	14,060
Reimbursed Expenses	1,000
Total Revenues	2,803,757
Expenditures:	
Payroll Expenses	1,325,709
Automobile Expense	38,249
Insurance	20,492
ROW Acquisition	202,484
Advertising	244
Engineer Consulting Fees	163,172
Licenses and Permits	2,367
Environmental	29,855
Drafting	1,840
GeoTech	56,276
Survey	55,687
Office Expenses	48,169
Repairs	16,062
Political Consultant	9,000
Accounting	17,575
Legal Fees	126,386
Telephone	9,319
Taxes	55
Travel & Entertainment	8,684
Utilities	9,248
Vehicle Purchases	158,309
Equipment Purchases	16,827
Due from Energy District	(333,099) *
Investment in Oil 7	400,000
COGS	20,753
Total Expenditures	2,403,663
Ending Cash Balance, June 30	\$ 1,808,105

*Expenditures reimbursed by the Energy District.

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

**CIRCUIT ENGINEERING DISTRICT #7
PRESENTATION OF REVENUES, EXPENDITURES,
AND FUND BALANCES OF DISTRICT FUNDS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Presentation of the Authority's Funds for the Period of July 1, 2020 through June 30, 2021

Beginning Cash Balance, July 1	\$	<u>115,097</u>
Revenues:		
Chip Seal Oil		664,875
Seal Coat Oil		67,614
Interest		<u>82</u>
Total Revenues		<u>732,571</u>
Capital Contribution from CED		<u>400,000</u>
Expenditures:		
Company Retirement Contributions		14,762
Employee Insurance Expense		12,263
Payroll Expenses - Other		118,517
Automobile Expense - Other		1,292
Fuel		5,259
Consulting Fees		10,249
Advertising		31
Freight		38,850
Contract Employees		24,265
Other Consumables		6,444
Bank Service Charge		30
Dues		(32)
Office Supplies		9,575
Other Expenses		3,313
Office Expenses - Other		1,065
Building Repairs		328
Equipment Repairs		23,626
Repairs - Other		83,509
Professional Fees		12,435
Professional Life Insurance Policy		8,325
Cell Phones		269
Telephone - Other		440
Travel		5,244
Travel, Lodging, Meals - Other		3,058
Water		1,634
Gas & Electric		50,374
Maintenance & Operations		22
COGS		376,934
Due to CED		<u>333,066</u>
Total Expenditures		<u>1,145,147</u>
Ending Cash Balance, June 30	\$	<u>102,521</u>

*Expenditures were paid by the Circuit Engineering District #7 General Fund.

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

**CIRCUIT ENGINEERING DISTRICT #7
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 #7 General Fund – the General Fund is the primary operating fund of the District and is used to account for all activities except those legally or administratively required to be accounted for in other funds.

CED #7 County Energy District Authority Fund – the Energy District accounts for transactions relating to providing assistance to member counties in the negotiation and preparation of Wind Farm Road Maintenance agreements and accounts for business transactions of manufacturing and marketing of a proprietary formula road repair product to member counties for use in resurfacing roadways.

**CIRCUIT ENGINEERING DISTRICT #7
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 #7
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 #7
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 \$2,224,825 in monies (79.35% of total monies) received from the Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB) and Oklahoma Department of Transportation and 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 monthly financial reports.
- 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: While gaining an understanding of internal controls related to the District’s monthly financial reports, the following deficiencies were noted:

- Monthly financial reports are not reviewed by someone other than the preparer before they are presented to the Board.
- The bank reconciliations are not approved by someone other than the preparer to verify accuracy.

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Additionally, while re-performing the June 30, 2021, Operating and ICS accounts' bank reconciliations, it was noted the bank accounts do not reconcile to the general ledger individually and original bank reconciliations were not properly performed accurately.

- External accountant cleared a subsequent month transaction in the amount of \$5,946 to force bank reconciliations to match. This is due to another transaction for \$5,946 dated May 18, 2021, not being entered until August 16, 2021. This caused the General Ledger to be overstated on June 30, 2021.
- A transaction for \$300 was dated July 28, 2021, in District's accounting system; however, it should have been dated June 28, 2021. This caused the General Ledger to be overstated on June 30, 2021.
- The Operational account balance according to the general ledger is \$11,215 and the reconciled ending bank balance is (\$292,201). This resulted in a variance of \$303,416.
- The ICS account balance according to the general ledger is \$1,586,108 and the reconciled bank balance is \$1,282,682. This resulted in a variance of \$303,416.
 - When combining the Operational, ICS, and Auction Reserves account on the general ledger, the accounts reconcile to the bank.

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

- Amounts are accurately presented on the monthly reports and reviewed by someone other than the preparer.
- Bank account reconciliations are properly performed and reviewed by someone other than the preparer and documentation of the review is maintained.

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

- Monthly financial reports should be reviewed by someone other than the preparer.
- Bank reconciliations should be performed monthly and reviewed for accuracy by someone other than the preparer.

Management Response:

CED Board President: We have implemented controls designed to prevent these conditions in the future, including reviewing financial reports and bank reconciliations for accuracy.

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.

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 #7
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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.

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.

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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 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) District expenditures totaling \$85,006 representing 7.20% of expenditures in the population tested.
- Reviewed a random sample of fifteen (15) Energy District expenditures totaling \$61,979 representing 8.70% of expenditures in the population tested.
- Reviewed a random sample of two (2) payroll periods totaling \$83,653 representing 6.23% of payroll expenditures in the population tested.

FINDINGS AND RECOMMENDATIONS

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

Condition: Upon inquiry and observation of the District’s payroll 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.

- The duties over payroll are not segregated. One employee enrolls new employees, maintain personnel files, reviews timesheets, processes payroll, authorizes the direct deposit, and can sign physical paychecks.

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Additionally, we utilized a random sample of twenty-nine (29) District expenditures (excluding payroll). The following exceptions were noted:

- Nine (9) totaling \$15,720 were not reviewed and approved by someone other than the preparer.
- Three (3) totaling \$1,184 were not supported by adequate documentation.
- Five (5) totaling \$172 were not approved by the Board.

Also, we utilized a random sample of fifteen (15) Energy District expenditures. The following exceptions were noted:

- Six (6) totaling \$13,710 were not reviewed and approved by someone other than the preparer.
- Four (4) totaling \$9,747 were not supported by adequate documentation.

Furthermore, we utilized a random sample of two (2) payroll periods totaling thirty-six (36) payroll transactions for the District and the Authority, the following items were noted:

Pay Period 9/15/2020:

- Four (4) did not have timesheets to support payroll.
- Five (5) did not agree to supporting documentation regarding tax withholdings.

Pay Period 4/30/2021:

- Two (2) did not agree to supporting documentation regarding tax withholdings.

Other internal control deficiencies in the expenditure process include:

- Interfund transfers are not reviewed or approved by anyone other than the preparer.
- Payroll direct deposits were not reviewed to payroll documentation.

Cause of Condition: Policies and procedures have not been designed and implemented with regard to segregation of duties and/or compensating internal controls over the payroll process. Additionally, policies and procedures have not been designed and implemented over the expenditure process to strengthen internal controls. Furthermore, policies and procedures have not been designed and implemented to strengthen internal controls and provide segregation of duties regarding the 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 develop policies and procedures to segregate duties over the District's payroll process. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks 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 approval of accounting functions.

Further, OSAI recommends that the District:

- Ensure expenditures (including payroll) are reviewed and approved for accuracy and adequate documentation.

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

- Maintain personnel files with all supporting documentation to support payroll withholdings.
- Maintain supporting documentation for all expenditures.
- Document the review of expenditures (including payroll) by management and the Board.
- Ensure direct deposits and interfund transfers are reviewed by someone other than the preparer.
- Ensure timesheets are submitted per the District's Time Recording Policy.

Management Response:

CED Board President: We have implemented policies and procedures to strengthen internal controls over CED 7 expenditures.

Criteria: 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.

Further, GAO Standards – Principle 10 – Design Control Activities - 10.03 states in part:

Design of Appropriate Types of Control Activities

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

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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.

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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:

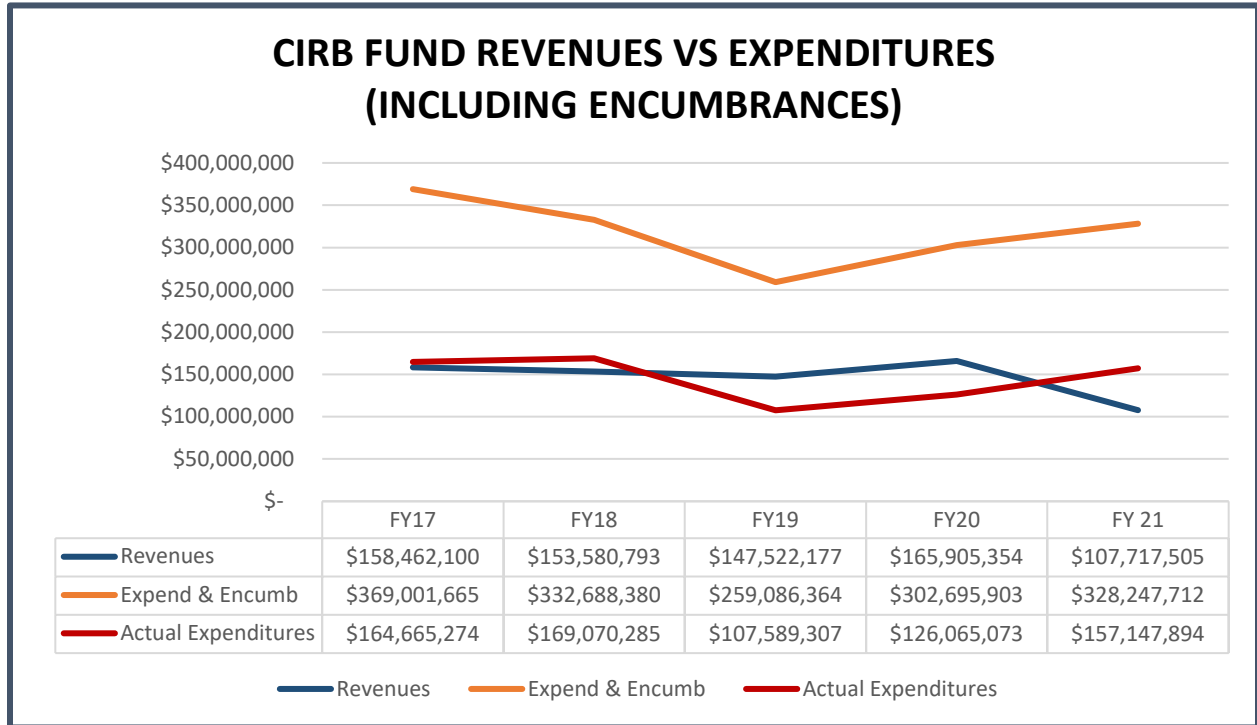
- Documented our understanding of the process for evaluating proposed changes to projects prior to modifying the District's 5 Year Construction Work Plan.
- Verified documentation for projects added to the plan to ensure changes conform to the intent of the program and the project evaluation criteria prior to modifying the District's 5 Year Construction Work Plan.
- Verified documentation for removed projects to ensure changes conform to the intent of the program and the project evaluation criteria 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.

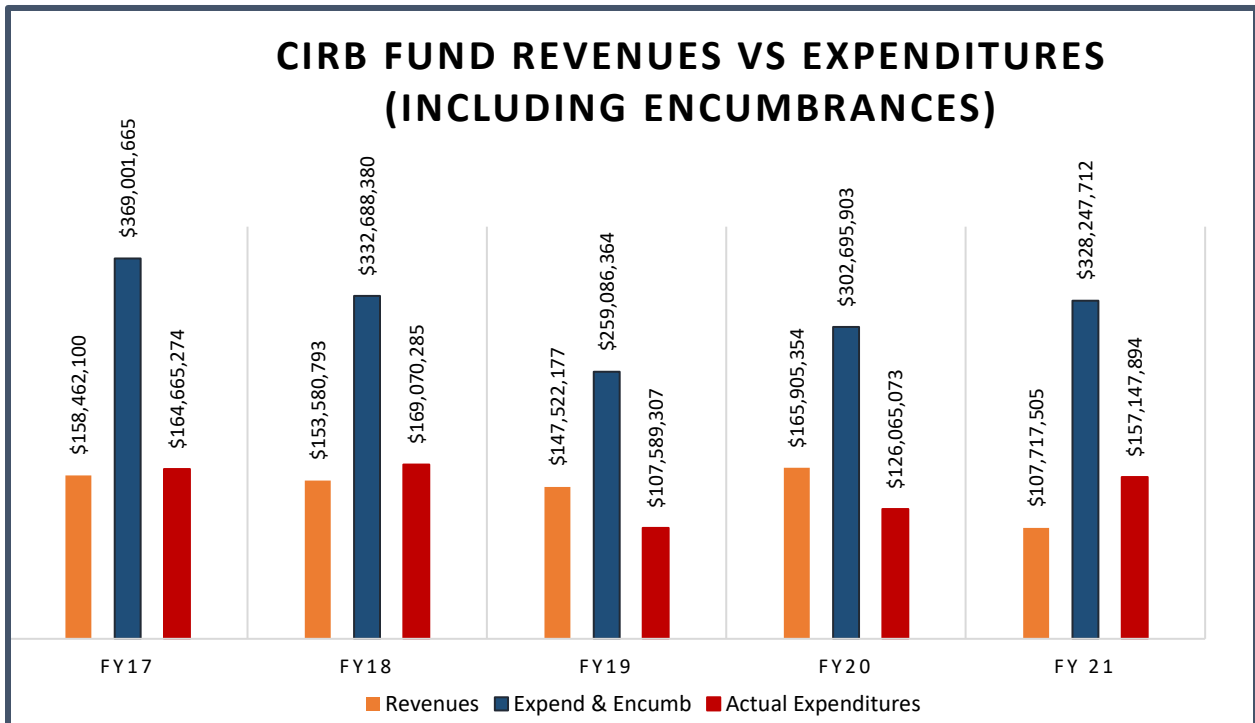
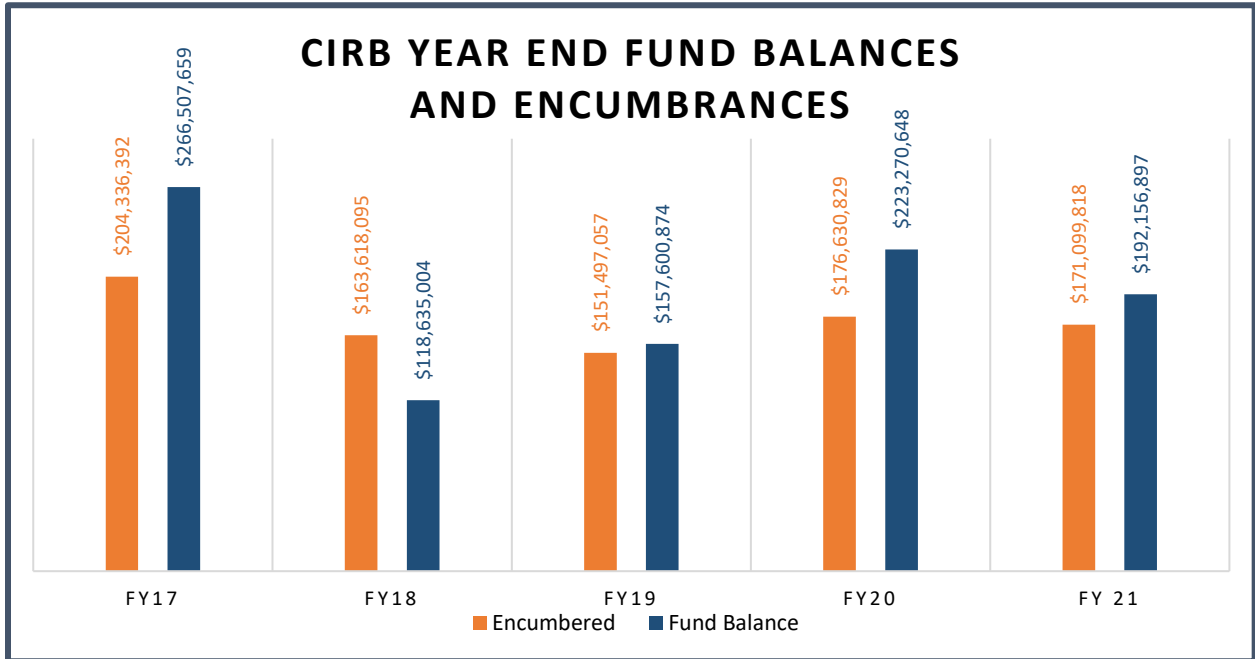
**CIRCUIT ENGINEERING DISTRICT #7
 APPENDIX: STATEWIDE CIRB FUND ANALYSIS
 FOR ALL CIRCUIT ENGINEERING DISTRICTS
 FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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 #7
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



Cindy Byrd, CPA | State Auditor & Inspector

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