OKLAHOMA SAI STATE AUDITOR & INSPECTOR

CIRCUIT ENGINEERING DISTRICT #7

Operational Audit

For the Period of July 1, 2019 through June 30, 2020

Cindy Byrd, CPA
State Auditor & Inspector

CIRCUIT ENGINEERING DISTRICT #7
OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020

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.

OKLAHOMA SAI STATE AUDITOR & INSPECTOR

Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

August 23, 2021

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, 2019 through June 30, 2020. 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,

Cindy Byrd

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

TABLE OF CONTENTS

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

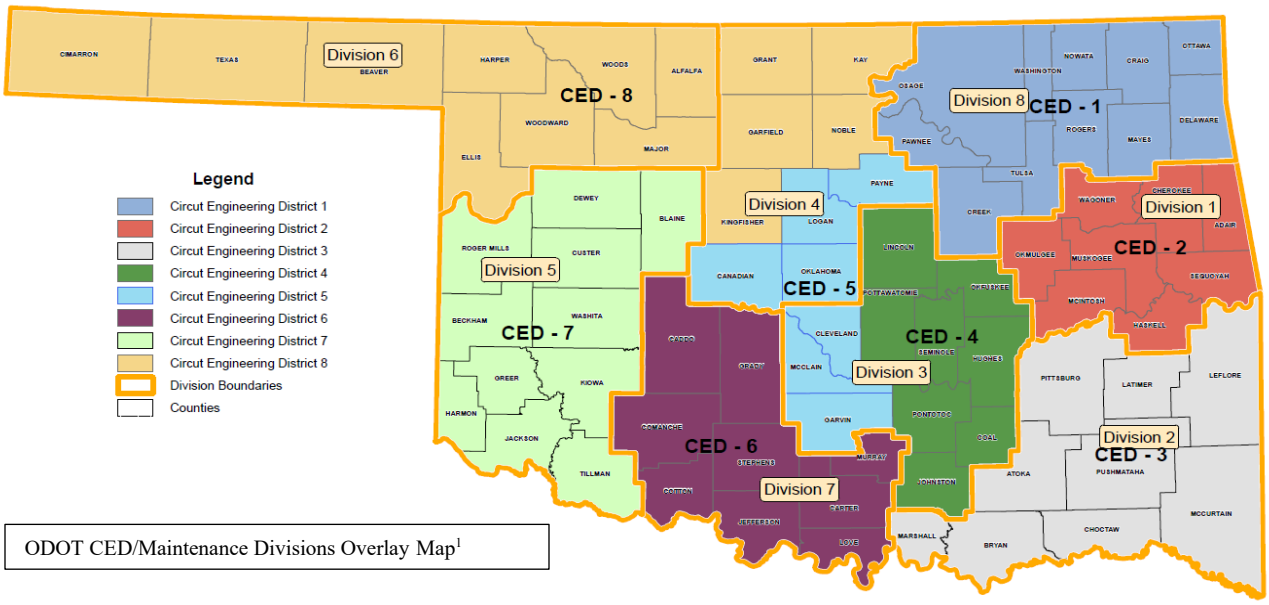
BACKGROUND

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 to serve as members from the District's respective county seats. Each District then elects officers from the members as follows: President, Vice-President.

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



ODOT CED/Maintenance Divisions Overlay Map[1]

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, Kiowas, Roger Mills, Tillman, and Washita counties[1].

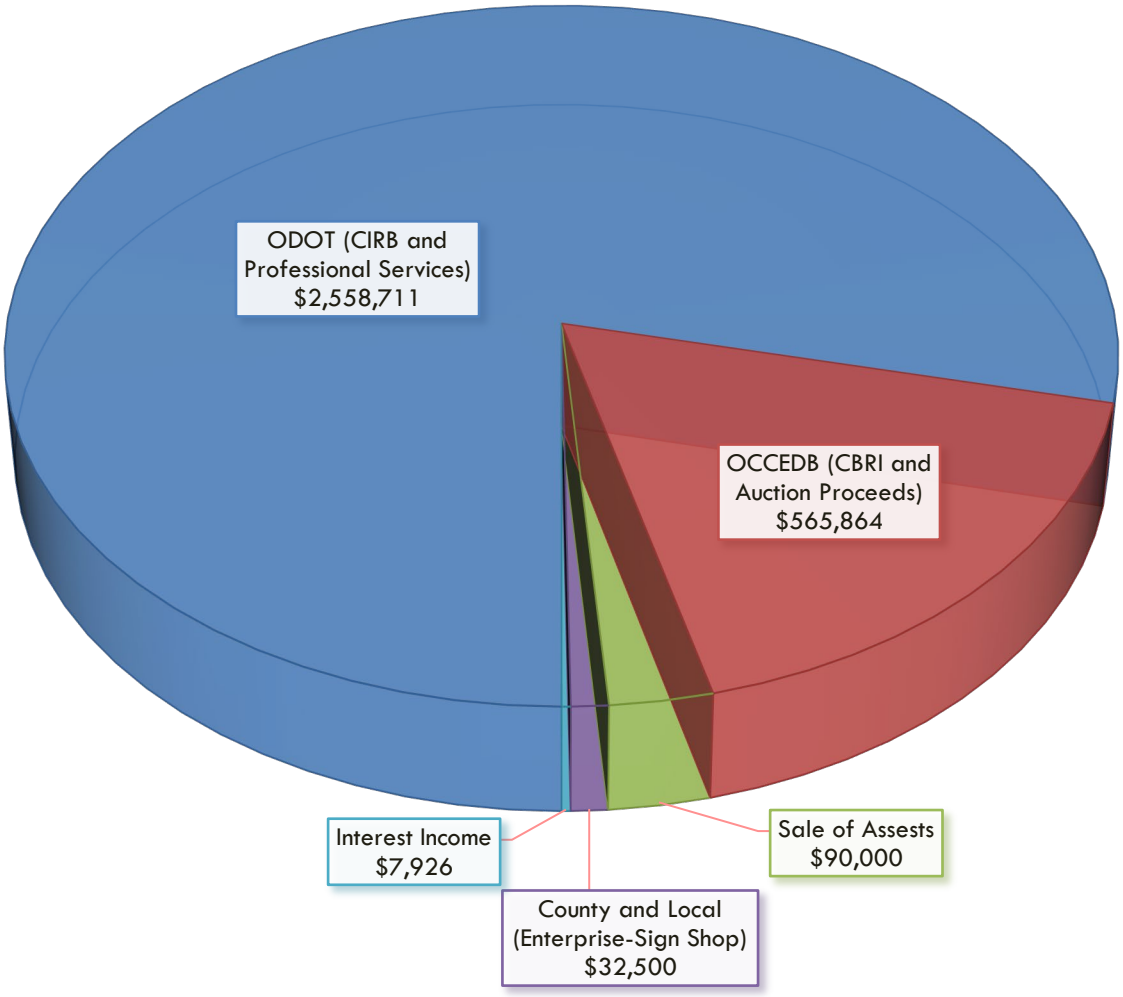
Additionally, the District has entered into agreements with the Oklahoma Department of Transportation in order to provide professional services for the improvement of roads and bridges of member counties. Services provided include preliminary engineering, construction management, bridge inspection, fracture critical bridge inspection and program management.

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.

[1]Map https://www.odot.org/cirb/pdfs/cirb_engr-dist.pdf

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

REVENUE BY SOURCE



During the period the District collected $3,255,001 in total revenue.

CIRCUIT ENGINEERING DISTRICT #7
PROJECT HIGHLIGHTS FY 2020
FOR THE PERIOD OF JULY 1, 2019 THROUGH JUNE 30, 2020

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 2020, a total of 149 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 $73 million.

An example of such a project is the Dewey County Canadian River Bridge project, which utilized federal "American Recovery and Reinvestment Act (ARRA) funds in 2008. This bridge connects US 183 near Taloga (Dewey Co. seat) and US 270 (near Oakwood) , and is the only Canadian River crossing between US 183 and SH 33 near Thomas, with a detour length of 39 miles. The old bridge had a 10 ton load limit and was very restrictive to commercial traffic. The total construction cost for the project was $1.75 million.

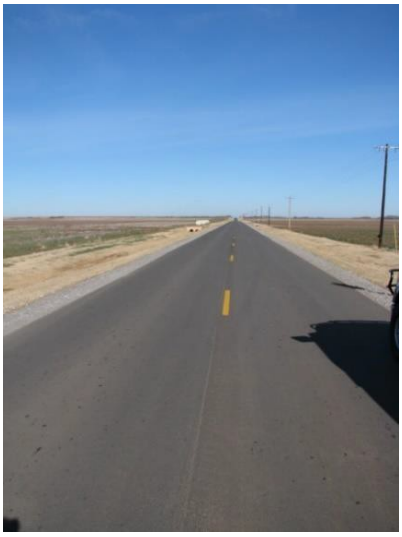
Another typical example of a federally funded bridge project that was designed by CED 7, is the Barnitz Creek Bridge, 4 miles West of Arapaho. The old bridge had a load limit of 7 tons. The new bridge was built with a construction cost of just over $821,000 in 2019.

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 2020, a total of 32 projects have been designed and constructed in the 11 member counties utilizing CIRB funds, at a total construction cost of $116.4 million.

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

An example of such a CIRB project, designed by CED 7, is the Red River Bridge, near the Southwest corner of Oklahoma, Southwest of Hollis in Harmon County. The old bridge was a one-lane bridge with a load limit of 9 tons, and with condition issues that threatened to cause closure of the bridge if it was not replaced when it was. It has a 30 mile detour length. The total cost for the construction of theproject was $7.2 million, with the State of Texaspaying for half of the construction costs, since it is a border bridge. The bridge length is 1,450 feet.

Another typical CIRB project is the reconstruction of "Humphreys Road" (County Road NS-210) which connects SH 5 and US 62, East and South of Altus in Jackson County. This was a 9 mile total length reconstruction project, with a total construction cost of $8.4 million (constructed in two parts due to the 8 mile maximum project length statutory restrictions).



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 ensure the projects are built according to the plans and the ODOT Standard Specification.

CED 7 also has 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, orwhat repairs he might want to perform on a bridge or road in order to keep it in service or prolong its life.

In FY 2020, CED 7 prepared and let 6 federally funded bridge projects and two state CIRB funded roadway reconstruction projects, as follows:

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

- **FEDERALLY FUNDED BRIDGE PROJECTS FY 2020:**

1. Beckham Co. West Elk Creek, project cost $ 762,027
2. Blaine Co. Weavers Creek, project cost $ 641,854
3. Dewey Co. Kizer Creek, project cost $ 578,689
4. Greer Co. unnamed creek, project cost $ 268,793
5. Jackson Co. Maxwell Creek, project cost $ 309,671
6. Kiowa Co. unnamed creek, project cost $ 487,898

TOTAL PROJECT COSTS $ 3,048,932

- **STATE FUNDED CIRB ROAD RECONSTRUCTION PROJECTS FY 2020:**

1. Dewey Co. Indian Road, reconstruct 8 miles, project cost $ 8,869,940
2. Harmon County Louis Road, reconstruct 7 miles, project cost $ 6,351,483

TOTAL PROJECT COSTS $ 15,221,423

For FY 2021, projects currently designed and either let or placed on ODOT lettings include 5 federally funded bridge replacement projects and two state funded CIRB roadway reconstruction projects:

- **FEDERALLY FUNDED BRIDGE PROJECTS FY 2021:**

1. Beckham Co. Little Turkey Creek, August 2021 Letting, project estimate $ 789,062
2. Blaine Co. Salt Creek, July 2021 Letting, project estimate $ 612,114
3. Dewey Co. unnamed creek, June 2021 Letting, low bid $ 421,766
4. Tillman Co. Deep Red Creek, May 2021 Letting, low bid $888,258
5. Washita Co. unnamed creek, October 2021 Letting, project estimate $ 548,692

TOTAL PROJECT COSTS $ 3,259,892

- **STATE FUNDED CIRB ROAD RECONSTRUCTION PROJECTSFY 2021:**

1. Blaine Co., American Horse Lake Road, reconstruct 6 miles, June Letting, low bid $ 6,893,690
2. Greer Co. Cottonwood Road, reconstruct 4 miles, October 2021 Letting, project estimate $4,477,349

TOTAL PROJECT COSTS $ 11,371,039

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, 2019 THROUGH JUNE 30, 2020

Presentation of District #7 Funds for the Period of July 1, 2019 through June 30, 2020

	General Fund
Beginning Cash Balance, July 1	$ 1,005,046
Revenues:	
Miscellaneous Income	63
CBRI Allocation	542,051
CIRB Project Management	75,000
Sign Making	32,437
Income for Construction Inspection	651,846
Income for Engineering	1,582,135
Auction Proceeds	23,813
Bridge Inspection Fee	249,730
Gain/Loss on Sale	90,000
Interest Income Earned	7,926
Total Revenues	3,255,001
Expenditures:	
Payroll Expenses	1,523,013
Maintenance and Operation	12
Automobile Expense	39,142
Insurance	19,620
ROW Acquisition	346,360
Engineer Consulting Fees	59,645
Licenses and Permits	2,190
Environmental	11,964
Drafting	6,919
Geotech	50,066

Continued to next page

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, 2019 THROUGH JUNE 30, 2020

Continued from previous page	**General Fund**
Survey	169,254
Subcontractors - Other	43,018
Office Expenses	33,918
Repairs	18,970
Political Consultant	36,100
Accounting	55,459
Legal Fees	41,879
Telephone	9,709
Travel and Entertainment	14,812
Utilities	8,399
Vehicle Purchase	103,982
Equipment Purchase	63
Energy District	243,960
COGS	13,582
Total Expenditures	2,852,036
Ending Cash Balance, June 30	$ 1,408,011

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

Presentation of the Authority's Funds for the Period of July 1, 2019 through June 30, 2020

	Authority Fund
Beginning Cash Balance, July 1	$ 46,932
Revenues:	
Chip Seal Oil	1,194,227
Seal Coat Oil	59,564
Interest	101
Total Revenues	1,253,892
Expenditures:	
Interest Expense	3,615
Company Retirement Contributor	21,585
Employee Insurance Expense	20,507
Payroll Expenses - Other	129,318
Automobile Expense - Other	3,114
Fuel	3,324
Automobile Expense - Other	588
Advertising	65
Freight	36,378
Contract Employees	8,661
Subcontractors - Other	10,499
Job Cost - Other	200
Other Consumables	1,160
Dues	405
Office Supplies	2,969
Other Expenses	65
Office Expenses - Other	5,011
Building Repairs	7,324

Continued on next page

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, 2019 THROUGH JUNE 30, 2020

Continued from previous page	**Authority Fund**
Cell Phone	221
Telephone - Other	53
Meals	1,360
Travel	1,457
Travel, Lodging, Meals - Other	12,083
Water	2,269
Gas and Electric	39,743
Miscellaneous	45
Equipment Purchases	22
Debt Payments - Principal	187,871
Equipment Purchases	51,051
Due to CED	(262,581) *
COGS	900,345
Total Expenditures	1,188,727
Ending Cash Balance, June 30	$ 112,097

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

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

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 Authority Fund 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.

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, 2019 through June 30, 2020.

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, listed in Appendix A for your reference, 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

identified the aspects of internal control components and underlying principles significant to each audit objective in this engagement and our assessments are detailed in Appendix A.

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.

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 those processes and identified significant internal controls related to the preparation of the District's monthly financial reports.
- Compared those processes to governmental internal control standards outlined in the GAO *Standards for Internal Control*
- Confirmed $3,100,010 in monies (95% of total monies) received from the State Treasurer's Office (ODOT, OTC, etc.) and Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB) and determined that these monies were entered into the accounting system in the proper amount.
- Prepared a general ledger schedule of cash and investments at June 30th to ensure the schedule reconciled to the District's financial report.
- Confirmed all cash and investment balances at June 30th.
- Re-performed the June 30th bank reconciliation and confirmed reconciling items.
- Reviewed bank balances of all accounts at June 30th on the Districts general ledger to ensure that investments were adequately secured as required by 62 O.S. § 517.4(C).

FINDINGS AND RECOMMENDATIONS

Finding 2020-001 – Internal Controls Over District's Monthly Financial Reports

Condition: The duties over the District's financial operations are not properly segregated. The administrative assistant opens the mail, posts all revenue transactions to the accounting system, and prepares the deposits which were not reviewed for accuracy by someone other than the preparer.

Other control deficiencies noted:

- The monthly financial reports are not reviewed and approved before they are presented to the Board.
- Bank reconciliations have been outsourced to a CPA firm; however, no one reviews the bank reconciliations to verify accuracy and these reconciliations are not approved by someone other than the preparer.

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

- Review revenue, expenditures, and fund balances to verify that these amounts are accurately presented on the monthly reports and are reviewed by someone other than the preparer.

- Bank account reconciliations are reviewed by someone other than the preparer and documentation of the review is maintained.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, misappropriation of funds, noncompliance with state statute, and loss of District funds.

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

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

- Management review and approve accounting functions.
- Monthly financial should be reviewed by someone other than the preparer.
- Bank reconciliations should be reviewed by someone other than the preparer.

Management Response:
CED Board Chairman: To increase internal controls of deposits, the District will further segregate deposit processes as recommended by OSAI. Duties will be split between the administrative assistant and office manager and reviewed and documented for accuracy by someone other than the preparer.

The District will implement a review and approval process for the monthly financial reports before they are presented to the Board and for reviewing and approving bank reconciliations that are prepared by an outside firm.

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

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

> *Oversight for the Internal Control System*
> These responsibilities are supported by the organizational structure that management establishes. The oversight body oversees management's design, implementation, and operation of the entity's organizational structure so that the processes necessary to enable the oversight body to fulfill its responsibilities exist and are operating effectively.

[4]Although 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 quasi-governmental entities.

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. The common control activity categories listed in figure 6 are meant only to illustrate the range and variety of control activities that may be useful to management. The list is not all inclusive and may not include particular control activities that an entity may need.
>
> *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*
> 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.

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) are not supported by adequate documentation and for the allowable operations of the District.

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 forty-five (45) expenditures totaling $170,985 representing 11.39% of expenditures in the population tested.
- Reviewed a random sample of fourteen (14) expenditures totaling $18,074 representing 1.47% of expenditures in the population tested.
- Reviewed a random sample of two (2) payroll periods totaling $114,803 representing 7.73% of payroll expenditures in the population tested.

FINDINGS AND RECOMMENDATIONS

Finding 2020-002 – Internal Controls Over the District's Expenditures

Condition: The duties over the payroll process are not properly segregated, we noted the following:

- One (1) employee enrolls all new hires, maintains all employee personnel files, performs payroll, approves timesheets, makes payroll alterations, submits direct deposits, is a check signer, and maintains the leave ledger.
- Payroll direct deposits are not reviewed for accuracy.
- Leave ledger is not reviewed for accuracy.

Other control deficiencies noted:

- The District paid employees for work performed on behalf of the Authority.
- The District was unable to locate a contract for an independent contractor paid during the audit period.
- In a random sample of forty-five (45) of the District's expenditures, excluding payroll, the following items were noted:
    - Thirty (30) expenditures were not approved or reviewed.
    - Two (2) expenditures were not supported with adequate documentation such as an itemized invoice.
    - Three (3) expenditures were not reviewed and approved by the Board.

- In a random sample of fourteen (14) of the Authority expenditures, excluding payroll, the following items were noted:
    - Nine (9) expenditures were not reviewed and approved by someone other than the preparer.
    - Four (4) expenditures were not reviewed and approved by the Board.
- In a random sample of two (2) payroll periods which included thirty-nine (39) payroll transactions, the following items were noted:
    - Twelve (12) transactions did not have adequate documentation to support payroll withholdings.
    - Six (6) transactions were not supported by timesheets.

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

- The District's expenditures (including payroll) processes are segregated; supported by accurate and adequate documentation; and reviewed and approved by the Board.
- The District and Authority's accounting functions are separated.

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.

Recommendation: OSAI recommends management develop policies and procedures to segregate duties over the District's expenditure 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:

- Document the review of expenditures, including payroll, by management and the Board.
- Review of expenditures supporting documentation such as invoices, timesheets, payroll reports, and direct deposit.
- Employees' time records should be maintained to document time worked for the District or Authority.

Management Response:
CED Board Chairman: The District will follow the recommendation from OSAI to develop policies and procedures to segregate duties as much as possible within the limitations of available personnel and to develop controls that mitigate risks. Actions to be taken will include documentation of management and Board review of expenditures, including supporting documents. Actions have already been taken regarding employee time sheets and supporting documentation for employee withholdings. Actions have begun to separate District and Authority expenditures.

Criteria: The GAO Standards – Section 2 – Objectives of an Entity - OV2.24 states:

> *Safeguarding of Assets*
> A subset of the three categories of objectives is the safeguarding of assets. Management designs an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

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

> *Oversight for the Internal Control System*
> These responsibilities are supported by the organizational structure that management establishes. The oversight body oversees management's design, implementation, and operation of the entity's organizational structure so that the processes necessary to enable the oversight body to fulfill its responsibilities exist and are operating effectively.

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

> *Design of Appropriate Types of Control Activities*
> Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. The common control activity categories listed in figure 6 are meant only to illustrate the range and variety of control activities that may be useful to management. The list is not all inclusive and may not include particular control activities that an entity may need.
>
> Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

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

> *Documentation of Responsibilities through Policies*
> 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.

Also, the District Employee Personnel Policy Handbook, Time Recording, section page 6 states:

> CED #7 keeps accurate records of the actual hours worked on all projects. Employees submit weekly time sheets to accurately record their regular hours worked, overtime, absences, holiday and vacations on a individual project basis.

Objective 3: To determine whether the District established a process to evaluate proposed projects when using County Improvements for Roads and Bridges (CIRB) funds, prioritized those projects, and that they were submitted in 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 in part, requiring the District to submit the District's 5 Year Construction Work Plan to the Department of Transportation. The District did not comply with 69 O.S. § 507 B and Administrative Code 730:10-23-5 and Administrative Code 730:10-23-7, which required the District to establish a process to evaluate proposed projects when using County Improvements for Roads and Bridges (CIRB) funds, and prioritize those projects.

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

- Determined the District has established a process to evaluate proposed projects for conformance to the intent of the program and the project evaluation criteria prior to compiling the District's Five-Year Construction Work Plan.
- Determine the District has established a process for determining the level of priority for projects and has compiled a prioritized list of recommended projects.
- Determined the District submitted a prioritized list of recommended projects to the Department of Transportation for the District's Five-Year Construction Work Plan.

FINDINGS AND RECOMMENDATIONS

Finding 2020-003 – Internal Controls and Noncompliance Over the District's Five-Year Construction Work Plan

Condition: Upon inquiry, observation, and review of records, we noted the following:

- The District has not established a process to evaluate proposed projects for conformance to the intent of the program and to project evaluation criteria used to compile the District's Five-Year Construction Work Plan.
- The District has not established a process for determining the level of priority for projects to include on the list of recommended projects.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure proposed projects are prioritized and evaluated to determine the conformance with intent of program and project evaluation criteria.

Effect of Condition: These conditions resulted in noncompliance with state statute and Administrative Codes.

Recommendation: OSAI recommends that the District establish an evaluation process for proposed projects to determine the conformance with intent of the program and project evaluation criteria Further, OSAI recommends the District establish a process to assign priority levels to each project to be considered for the District's Five-Year Construction Work Plan.

Management Response:
CED Board Chairman: The District will develop a process to evaluate and prioritize future proposed projects to ensure they conform to the intent of the CIRB program, prior to being transmitted to the Department of Transportation for further consideration to be added to the District's Five-Year Year Plan.

Criteria: Title 69 O.S. § 507 B., states in part "The funds shall be used for the sole purpose of 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. Counties may accumulate annual funding for a period of up to five (5) years for a specific project, with such funding to be held by the Transportation Commission to the credit of the county project. The Transportation Commission shall promulgate rules for the administration of the process and the development of criteria for determining the level of priority for projects and include such projects in a five-year construction plan that will be updated annually. Projects in the five-year construction plan shall be contracted as provided by law and awarded by the Transportation Commission."

Administrative Code 730:10-23-5. Project eligibility and approval

> Projects shall be considered and approved for inclusion in the five year construction work plan annually by the Department of Transportation on the basis of specific project evaluation criteria. These criteria shall generally consider factors including the ability of the county to effect the improvements through the utilization of other resources and funding mechanisms, the priority of the project as established by the Circuit Engineering District, project feasibility and cost including the ability of the county to participate, existing phase of project development, anticipated safety and mobility benefits realized by the traveling public and commerce, and the extent the project will improve the overall level of service and longevity of the county transportation system in the area.

Administrative Code 730:10-23-7 Project selection

> Upon determination of the conformance of a proposed project with the intent of the program and the project evaluation criteria, the coordinating Circuit Engineering District will compile a prioritized list of recommended projects occurring within the District to be transmitted for further consideration by the Department of Transportation. In the absence

of an acceptable project recommendation from any CED, the Department reserves the authority to select and recommend projects to the Transportation Commission as determined appropriate.

Objective 4: To determine if the District's internal controls provide reasonable assurance that fixed assets and consumable inventories are accurately reported in the accounting records.

Conclusion: The District's internal controls do not provide reasonable assurance that fixed assets and consumable inventories are accurately reported in the accounting records.

Objective 4 Methodology: To accomplish objective 4, we performed the following:

- Documented our understanding of the processes related to fixed assets, which included reviewing fixed assets records to determine periodic verifications were performed.
- Documented our understanding of the processes related to consumable inventories, which included reviewing consumable inventories records to determine periodic verifications were performed.
- Compared those processes to governmental internal control standards outlined in the GAO *Standards for Internal Control*.

FINDINGS AND RECOMMENDATIONS

Finding 2020-004 – Internal Controls Over Fixed Assets Records and Consumable Inventories

Condition: The District is not performing periodic monitoring of fixed assets or consumable inventories.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure fixed assets and consumable inventories are properly maintained and updated through a periodic review by the District.

Effect of Condition: When fixed assets and consumable inventories are not monitored, opportunities for misuse or loss of equipment or consumables can occur. Further, this condition could result in errors, and unrecorded transactions in the accounting records.

Recommendation: OSAI recommends that the District perform and document periodic physical inventory reviews of fixed assets and consumable inventories. The Board should establish policies and procedures that provide for at a minimum, annual inventory counts to ensure accurate fixed assets and monthly inventory counts, and ensure the consumable inventories records are properly maintained, updated and documented.

Management Response:
CED Board Chairman: The District will develop Board approved policies regarding fixed and consumable inventories that includes OSAI's recommended annual inventory counts for fixed assets and monthly inventory counts for consumable inventories.

Criteria: The GAO Standards – Section 2 – Objectives of an Entity - OV2.24 states:

> *Safeguarding of Assets*
> A subset of the three categories of objectives is the safeguarding of assets. Management designs an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

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

> *Oversight for the Internal Control System*
> These responsibilities are supported by the organizational structure that management establishes. The oversight body oversees management's design, implementation, and operation of the entity's organizational structure so that the processes necessary to enable the oversight body to fulfill its responsibilities exist and are operating effectively.

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

> *Design of Appropriate Types of Control Activities*
> Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. The common control activity categories listed in figure 6 are meant only to illustrate the range and variety of control activities that may be useful to management. The list is not all inclusive and may not include particular control activities that an entity may need.
>
> Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.
>
> Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

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

> *Documentation of Responsibilities through Policies*
> 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.

Work Related to Internal Controls

OSAI considered several factors, including the subject matter of the project, to determine whether internal controls were significant to the audit objective. Based on its consideration, OSAI determined that internal controls were significant for this audit. OSAI then considered the components of internal control and the underlying principles included in the Standards for Internal Control in the Federal Government. According to the Government Accountability Office, considering internal controls in the context of a comprehensive framework can help auditors to determine whether underlying deficiencies exist.

Overall Conclusion for the Internal Control Components and Principles Identified as Significant

The table below outlines the components and principles of internal control, identifies those considered significant to our specific objective in this engagement, and notes whether those principles were found to be operating effectively. For those not operating effectively, further discussion and related recommendations are included in the report.

As recommended by GAO Standards section 9.32, the full outline of the fundamental components of internal control and their underlying principles is included for your reference.

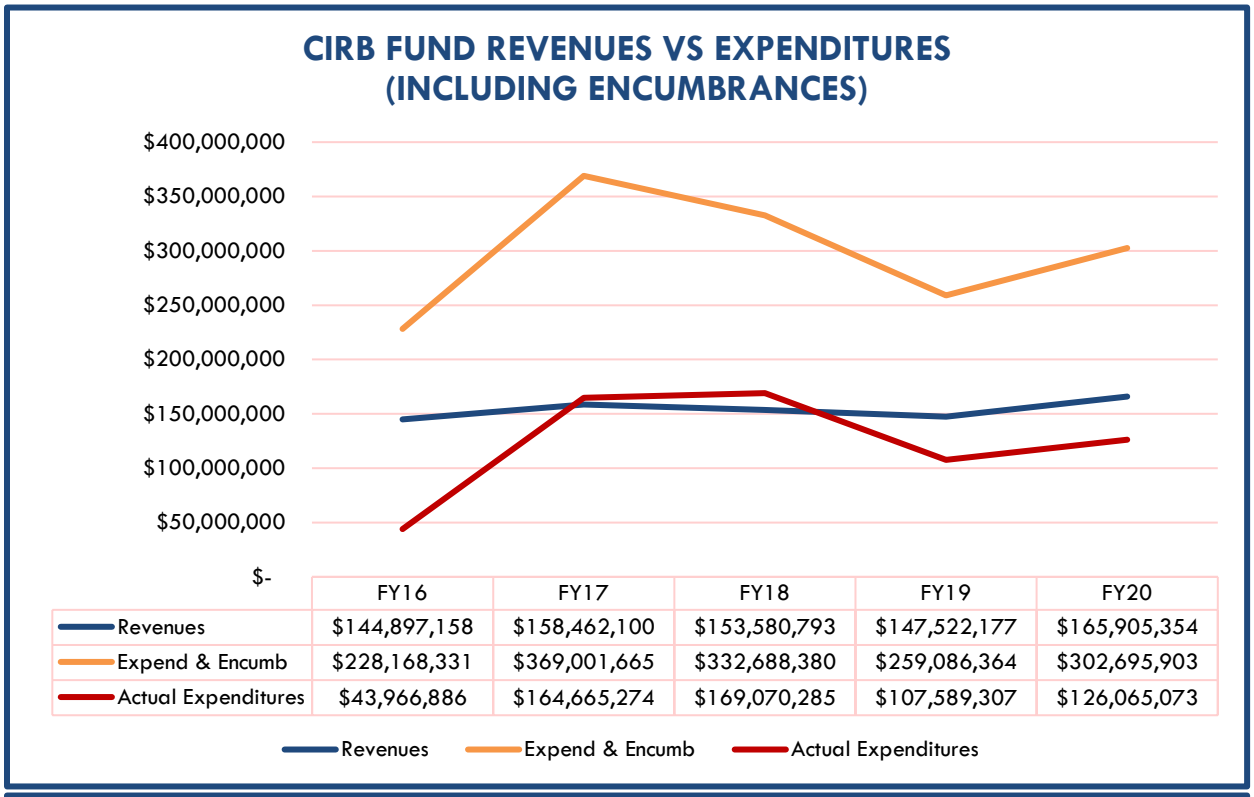
Internal Control Component/Principle	Audit Objective 1	Operating Effectively?	Audit Objective 2	Operating Effectively?	Audit Objective 3	Audit Objective 4	Operating Effectively?
		Control Environment Component – Foundation that provides processes and structure to help an entity set expectations and achieve its objectives.					
1. The oversight body and management should demonstrate a commitment to integrity and ethical values.							
2. The oversight body should oversee the entity's internal control system.	✓	NO	✓	NO		✓	NO
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.							

4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.							
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.							
		Risk Assessment Component – Dynamic process of identifying, analyzing, and managing risks facing the entity.					
6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.							
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.							
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.							
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.							
		Control Activities Component – Actions management establishes through policies and procedures to protect against risks.					

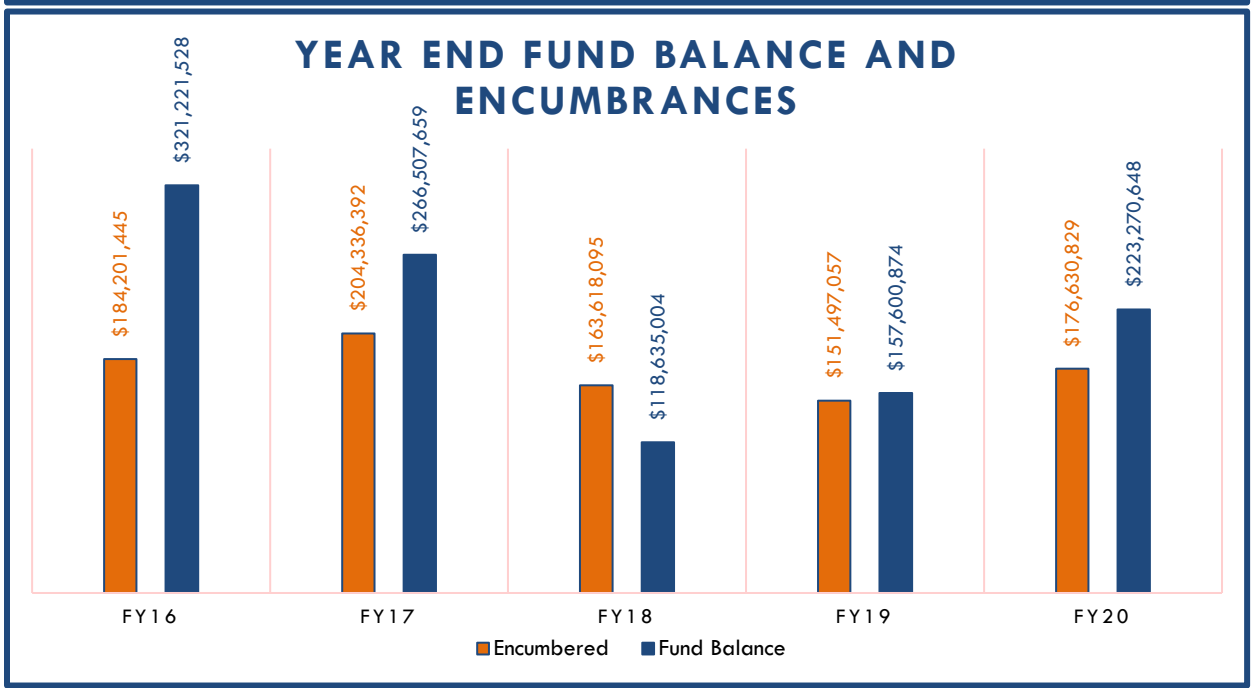
10. Management should design control activities to achieve objectives and respond to risks.	✓	NO	✓	NO		✓	NO
11. Management should design the entity's information system and related control activities to achieve objectives & respond to risks.							
12. Management should implement control activities through policies.	✓	NO	✓	NO		✓	NO
		Information and Communication Component – Quality information communicated and used to support the internal control system.					
13. Management should use quality information to achieve the entity's objectives.							
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.							
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.							
		Monitoring Component – Activities to assess the quality of performance and promptly correct any deficiencies.					
16. Management should establish and operate monitoring activities to monitor the internal control							

system and evaluate the results.							
17. Management should remediate identified internal control deficiencies on a timely basis.							

The GAO emphasizes that each of the five components of internal control must be effectively designed, implemented, and operating; for an internal control system to be effective, the components must operate together in an integrated manner. They further stress that documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system.



	FY16	FY17	FY18	FY19	FY20
Revenues	$144,897,158	$158,462,100	$153,580,793	$147,522,177	$165,905,354
Expend & Encumb	$228,168,331	$369,001,665	$332,688,380	$259,086,364	$302,695,903
Actual Expenditures	$43,966,886	$164,665,274	$169,070,285	$107,589,307	$126,065,073



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).*

Cindy Byrd, CPA | State Auditor & Inspector
2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov