



CIRCUIT ENGINEERING DISTRICT #8

Operational Audit

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

Cindy Byrd, CPA
State Auditor & Inspector

**CIRCUIT ENGINEERING DISTRICT #8
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 #8**

We present the audit report of the Circuit Engineering District #8 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 #8
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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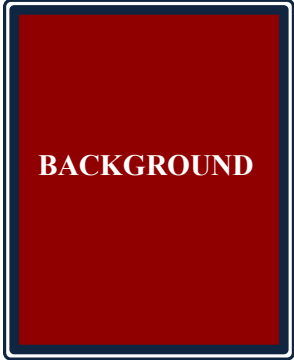
OPERATIONAL AUDIT REPORT

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**CIRCUIT ENGINEERING DISTRICT #8
DISTRICT INFORMATION AND OFFICIALS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**



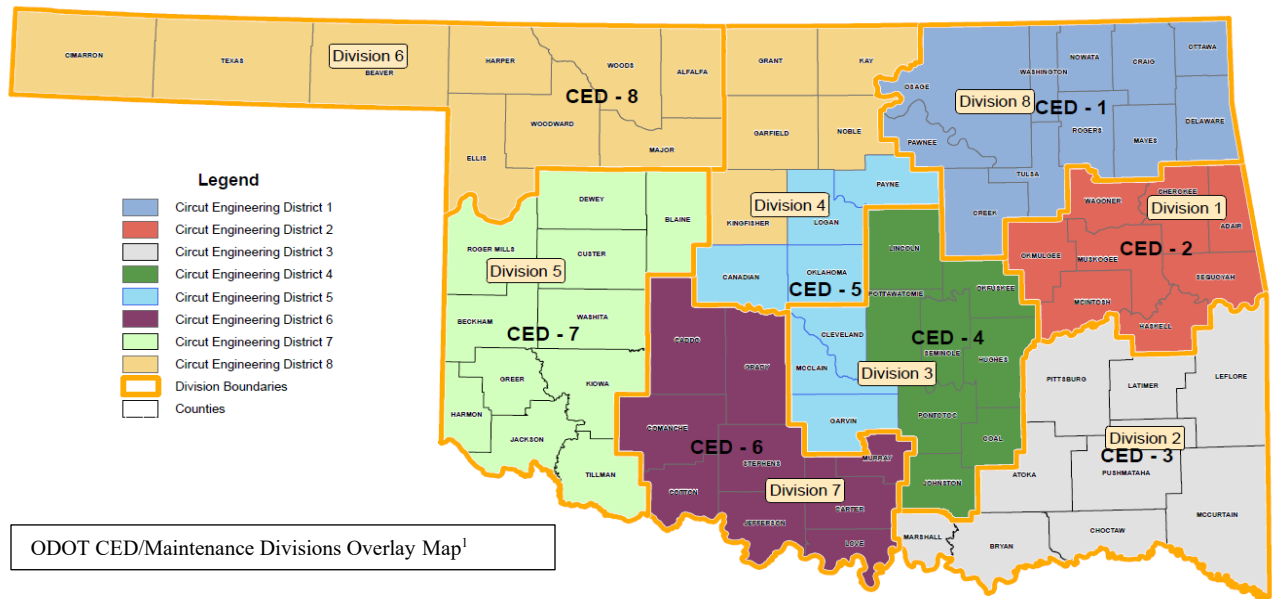
Pursuant to 69 O.S. § 687.1, counties may “create a circuit engineering district with any other county or counties” to allow county governments to “make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

- | | |
|----------------|-----------------------------------|
| Max Hess | President, Grant County |
| Marc Bolz | Vice-President, Garfield County |
| Randy McMurphy | Secretary/Treasurer, Woods County |
| Marvin Woodall | Alfalfa County |
| Roy Fleming | Beaver County |
| Danny Bass | Cimarron County |
| Chad Petree | Ellis County |
| Gary Nielsen | Harper County |
| Jason Shanks | Kay County |
| Ray Shimanek | Kingfisher County |
| Travis Darr | Major County |
| Jason Keinholz | Noble County |
| Ted Keeling | Texas County |
| Troy White | Woodward County |

**CIRCUIT ENGINEERING DISTRICT #8
DISTRICT AREA
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**



Circuit Engineering District #8 (the District) is comprised of a fourteen-county region, in the northeastern part of the state including: Alfalfa, Beaver, Cimarron, Ellis, Garfield, Grant, Harper, Kay, Kingfisher, Major, Noble, Texas, Woods, and Woodward counties¹.

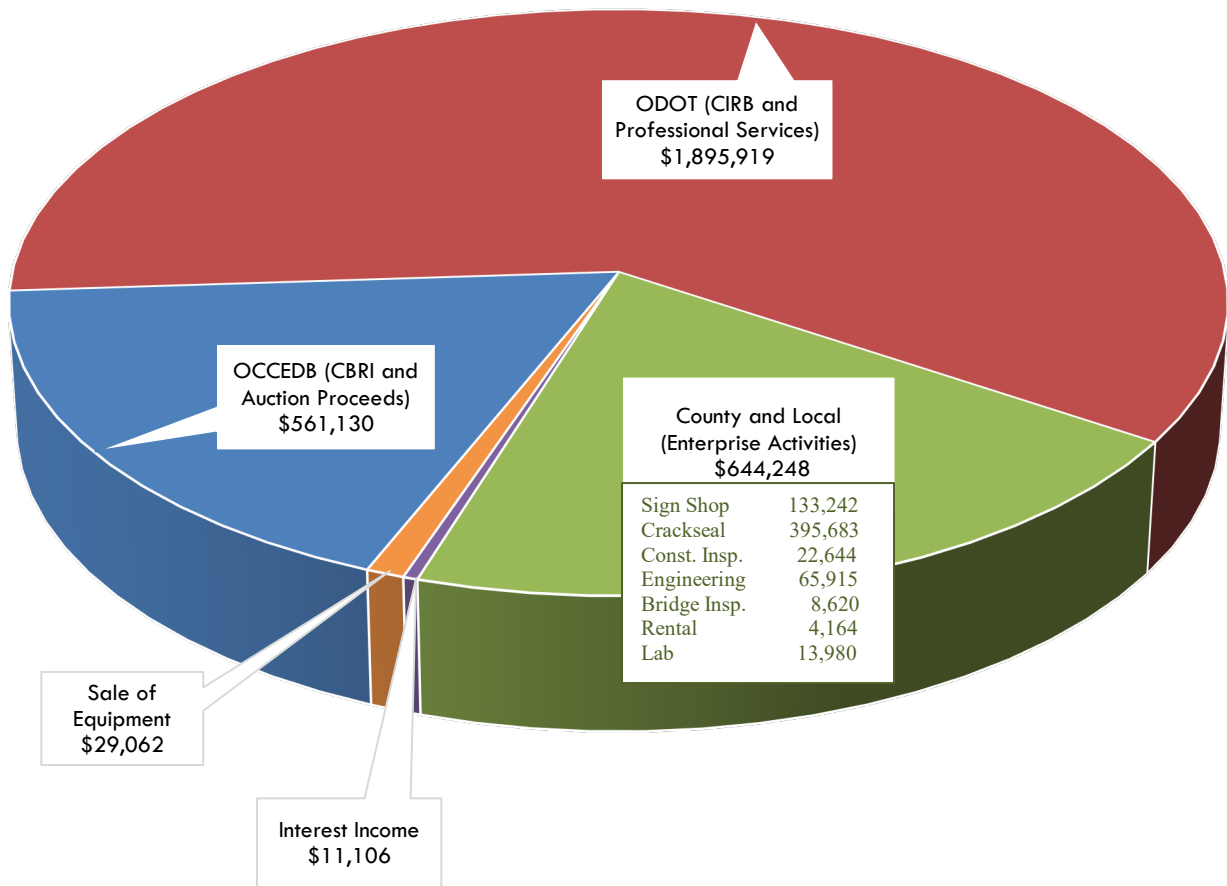
On September 21, 2010, pursuant to the Oklahoma Energy Independence Act, the District created the CED #8 County Energy District Authority (the Authority). The Authority is a public trust as provided for in 60 O.S. §§ 176, et seq.

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

**CIRCUIT ENGINEERING DISTRICT #8
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

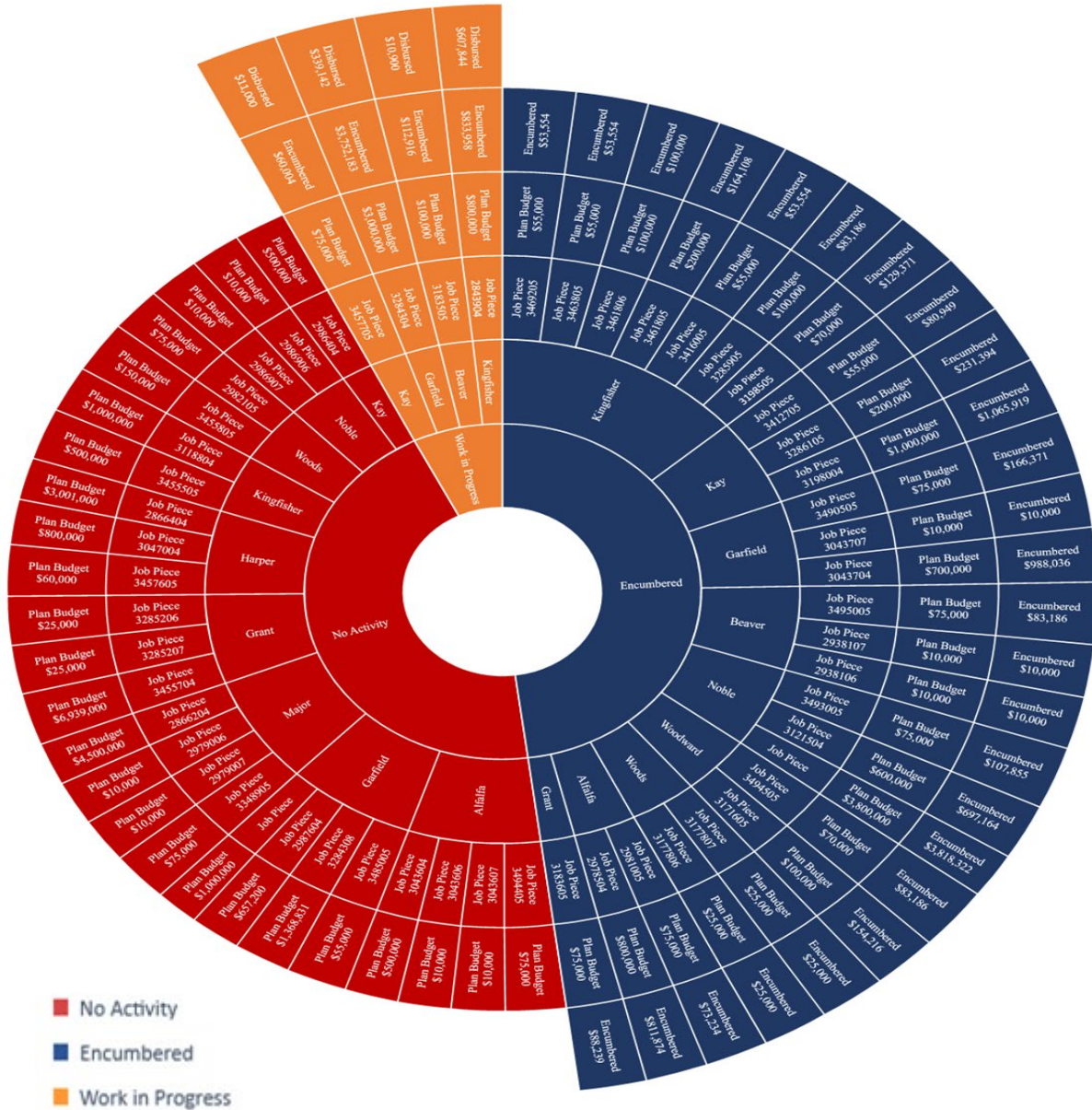


During the period the District collected \$3,141,465 in total revenue.

**CIRCUIT ENGINEERING DISTRICT #8
STATUS OF PROJECTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents the status of projects for District #8 for planned jobs in fiscal year 2021 in the 5 Year Construction Work Plan SFY-2021 through SFY-2025 consisting of projects totaling \$ 33,756,031.

Status of Projects

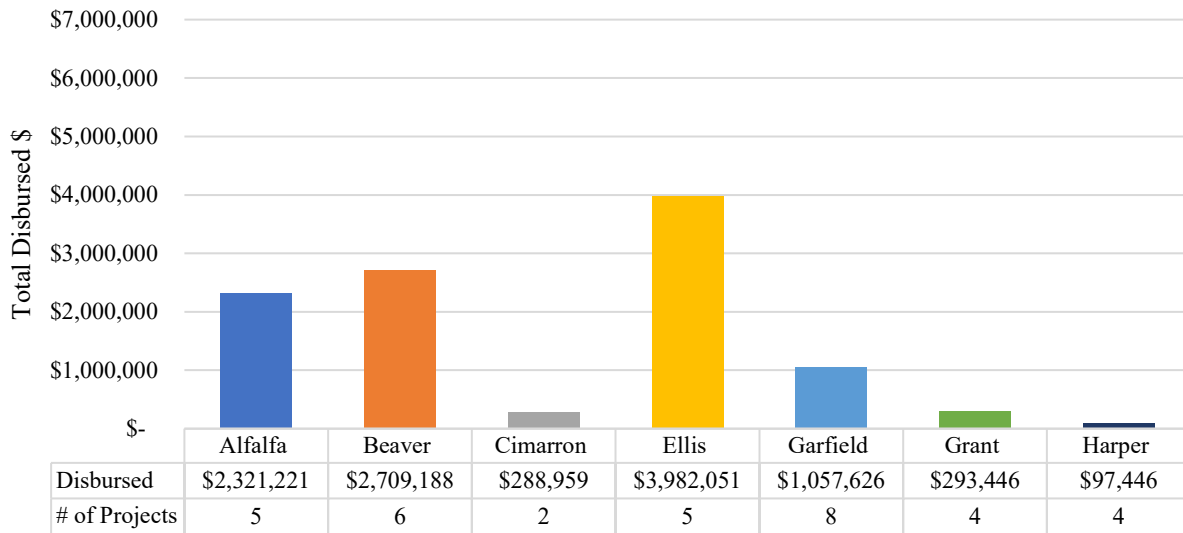


Source: Information provided from [5 Year Construction Work Plan SFY-2021 through SFY-2025](#) and Oklahoma Department of Transportation CIRB Project Information report.

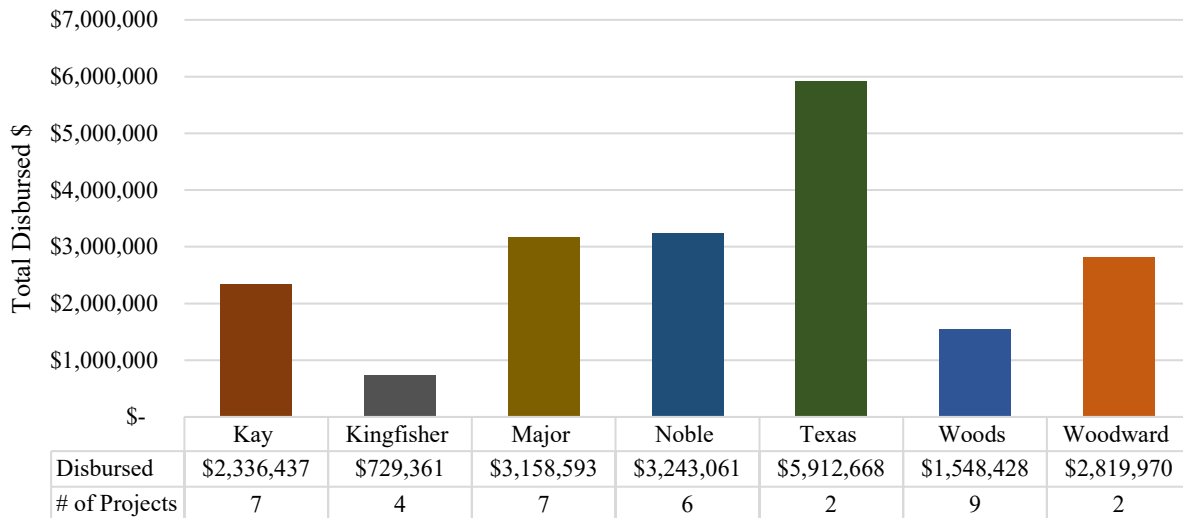
**CIRCUIT ENGINEERING DISTRICT #8
DISBURSEMENTS BY COUNTY
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents the fiscal year 2021 disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for projects in District #8 totaling \$30,498,455. This amount includes funds budgeted during fiscal years 2015 through 2021 listed by beneficiary County.

Disbursements by County



Disbursements by County

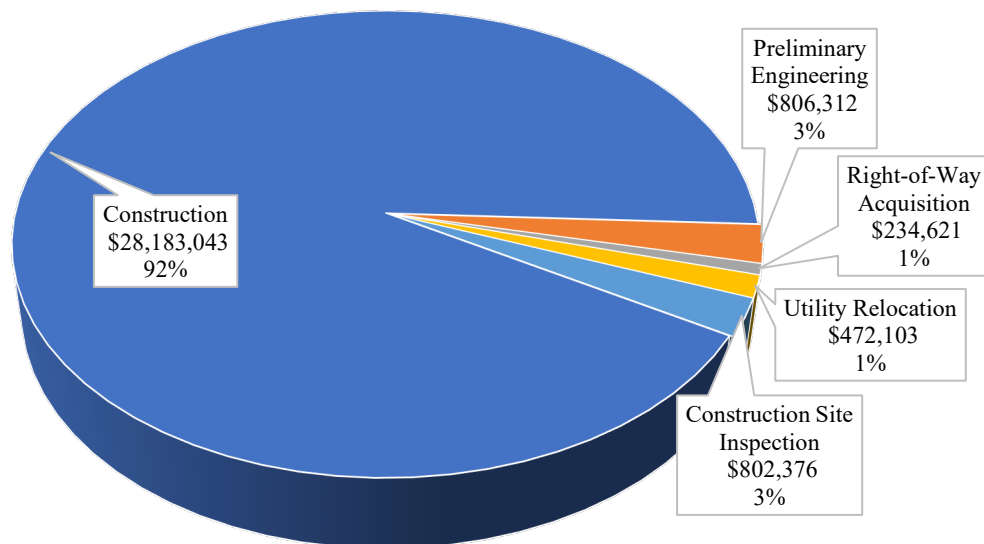


Source: Information provided from ODOT PFS report and the Statewide Accounting System – Summary of Receipts and Disbursement reports and Allotment Budget and Available Cash Reports (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #8
DISBURSEMENTS BY JOB PHASE
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents fiscal year disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for District #8 totaling \$30,498,455. 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.

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 #8
STATUS OF PROJECTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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.

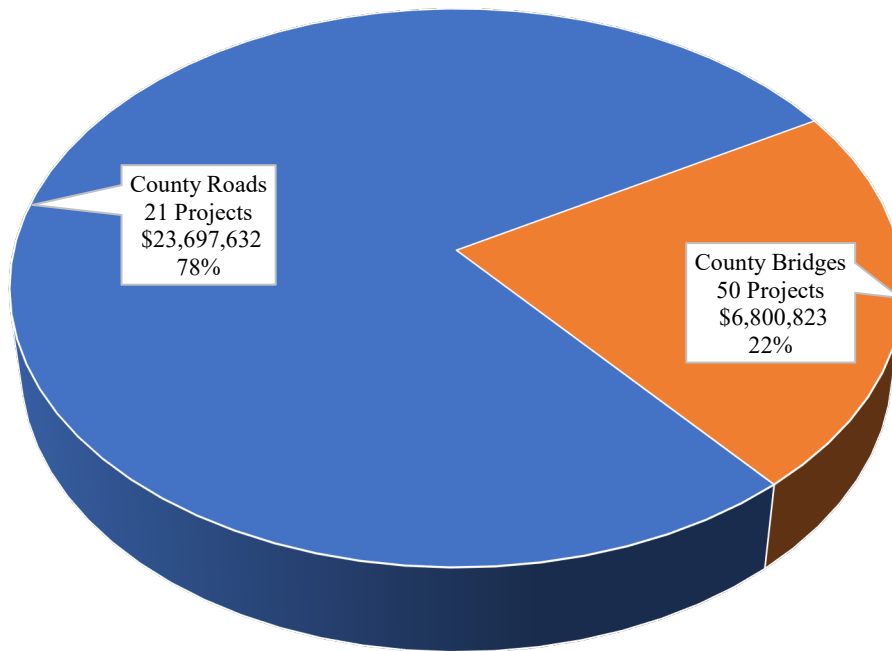
Construction Site Inspection – this job phase consists of oversight of the contractor to ensure the project is built in accordance with specifications, plans and estimates. These payments are disbursed to the District.

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 #8
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 #8 totaling \$30,498,455. 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 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 #8
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 #8 divided into their respective budget years.

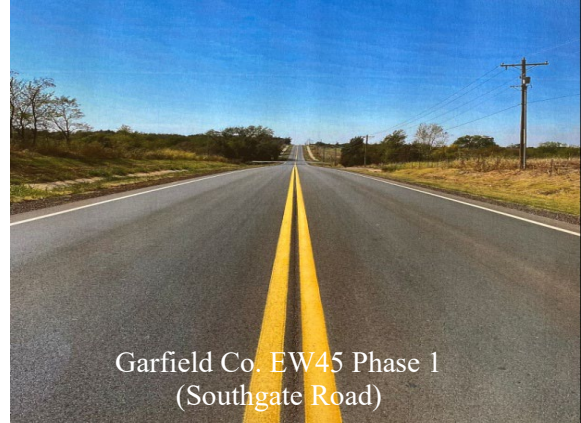
Fiscal Year 2021 Disbursements by Budget Year

County	2015	2016	2017	2018	2019	2020	2021	Total *
Alfalfa	12,930	-	2,426	-	-	2,305,866	-	\$ 2,321,221
Beaver	1,571	-	30,608	-	19,288	1,360,625	1,297,097	\$ 2,709,188
Cimarron	-	-	5,188	-	26,928	256,843	-	\$ 288,959
Ellis	295	10,269	-	-	2,604	281,589	3,687,296	\$ 3,982,051
Garfield	-	33,050	10,628	-	116,525	99,240	798,183	\$ 1,057,626
Grant	-	947	21,901	-	191,189	66,409	13,000	\$ 293,446
Harper	-	-	17,861	-	54,967	-	24,618	\$ 97,446
Kay	-	-	32,677	11,531	7,800	2,181,040	103,390	\$ 2,336,437
Kingfisher	9,016	1,682	10,841	-	4,624	5,700	697,498	\$ 729,361
Major	-	26,660	10,182	-	8,015	675,088	2,438,647	\$ 3,158,593
Noble	13,336	2,340	28,077	7,200	10,981	3,156,623	24,503	\$ 3,243,061
Texas	-	-	-	-	-	5,291,042	621,626	\$ 5,912,668
Woods	-	10,282	6,729	7,189	38,432	636,933	848,864	\$ 1,548,428
Woodward	-	6,927	-	-	1,653,604	5,583	1,153,856	\$ 2,819,970
Total	\$ 37,147	\$ 92,157	\$ 177,117	\$ 25,920	\$ 2,134,956	\$ 16,322,582	\$ 11,708,577	\$ 30,498,455

* -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 #8
PROJECT HIGHLIGHTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021

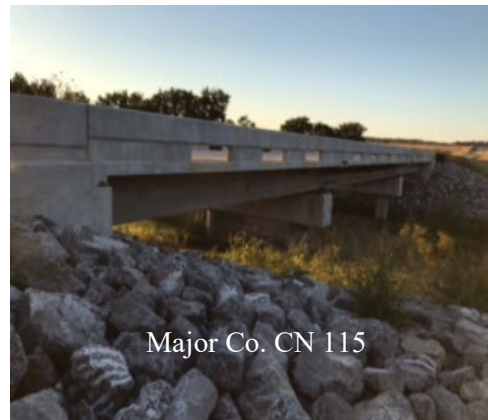


FY 2021 Accomplishments:

- 12 ODOT lettings District wide, including 7 bridge replacements and 15 miles of roadway
Approximate project construction costs: \$20,622,574.80 (\$15,305,193.03 CIRB & \$5,317,381.77 Federal STP Funds)

Provided Services

- Provides a Plan to Replace Structurally Deficient Truss Bridges
- Material Request Program for Bridges/Roads (Funded \$626,666.65 in FY 2021)
- FHWA's Safety Bridge Inspections
- Project Management
- Design on County Roads and Bridges
- Construction Management/Inspection on County Projects
- Material Lab Testing
- Coordinated Used Beam Program
- R/W & Utility Coordination
- Develop Counties' 5 Year Construction Plan
- Implemented a Crack Seal Program for Preventive Maintenance on County Roads
- Sign Shop Producing Traffic and 911 Signs
- Conference/Training Facility for County use and Assisting in Road Scholar Classes



Source: Information provided by Circuit Engineering District #8 (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #8
PRESENTATION OF REVENUES, EXPENDITURES,
AND FUND BALANCES OF DISTRICT FUNDS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Presentation of District #8 Funds for the Period of July 1, 2020 through June 30, 2021

	<u>General Fund</u>	<u>Energy District</u>
Beginning Cash Balance, July 1	\$ 2,457,690	\$ 6,020
Revenues:		
Oklahoma Cooperative Circuit Engineering District Board (OCCEDB)		
CBRI Interest	561,130	-
Oklahoma Department of Transportation (ODOT)		
Bridge Inspection Income	354,304	-
Construction Inspection Income	685,156	-
Engineering Income	856,459	-
County and Local (Enterprise Activities)		
Sign Shop Income	133,242	-
Crackseal Income	395,683	-
Construction Inspection Income	22,644	-
Engineering Income	65,915	-
Bridge Inspection	8,620	-
Rental of Trailer House	4,164	-
Lab	13,980	-
Sale of Equipment	29,062	-
Interest Income	11,106	-
Total Revenues	<u>3,141,465</u>	<u>-</u>
Expenditures:		
Accounts Payable	501,248	-
Advertising	162	-
Cross Town Beams	31,500	-
Computer Equipment	13,176	-
Computer Repairs & Maintenance	2,950	-
Construction Inspection	13,459	-
Crackseal Expense	34,720	-
Drafting	8,721	-
Engineering	586,576	-
Inventory Asset	83,088	-
Lab Equipment	3,509	-
Lab Repairs & Maintenance	10,920	-
Materials Request Program	626,667	-
Meals	2,118	-
continued on next page		

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

**CIRCUIT ENGINEERING DISTRICT #8
PRESENTATION OF REVENUES, EXPENDITURES,
AND FUND BALANCES OF DISTRICT FUNDS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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	<u>General Fund</u>	<u>Energy District</u>
Motels	6,989	-
NODA Temp	5,000	-
Office Building Rent	15,000	-
Office Expense	5,317	-
Other Captial Assets	2,820	-
Reimbursed Expenses	1,378	-
Retirement 10%	8,020	-
Sign Shop	9,173	-
Software	9,586	-
Trailer Rental M&R	2,160	-
Training	12,230	-
Vehicle	79,652	-
Vehicle Repairs & Maintenance	42,137	-
Payroll	1,188,828	-
Bank Fees	-	72
Total Expenditures	<u>3,307,104</u>	<u>72</u>
Ending Cash Balance, June 30	<u>\$ 2,292,051</u>	<u>\$ 5,948</u>

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

**CIRCUIT ENGINEERING DISTRICT #8
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 #8 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 #8 County Energy District Authority Fund – the Energy District accounts for transactions relating to providing support and developing wind energy operations for member counties.

**CIRCUIT ENGINEERING DISTRICT #8
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 #8
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 #8
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 \$2,457,050 in monies (78.21% 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: Upon inquiry and observation of the District’s receipting 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 office manager has the only access to the accounting software, prepares monthly reports, and prepares bank reconciliations.

Other Control Deficiencies noted:

- Monthly financial reports should be reviewed by someone other than the preparer before it is presented to the Board. Additionally, supporting documentation should be attached to the financial reports for the Board to review.
- Bank reconciliations are not and verified to the District’s financial ledgers.

**CIRCUIT ENGINEERING DISTRICT #8
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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

- Review of revenue, expenditures, and fund balances to verify that these amounts are accurately presented on the monthly reports and reviewed by someone other than the preparer.
- Bank account reconciliations are reviewed and verified to the District's financial ledgers.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, 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 reviewed to the bank statement and financial ledgers.

Management Response:

CED Board President: Management is currently reviewing bank reconciliations to the financial ledgers to verify accuracy prior to approval. The verified bank reconciliations will be submitted to the Board for review at the monthly meetings.

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.

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.

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 #8
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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.

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.

**CIRCUIT ENGINEERING DISTRICT #8
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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 thirty-four (34) expenditures totaling \$106,344 representing 5.20% of expenditures in the population tested.
- Reviewed a random sample of two (2) payroll periods totaling \$202,902 representing 17.27% of payroll expenditures in the population tested.

FINDINGS AND RECOMMENDATIONS

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

Condition: After performing testwork of thirty-four (34) random expenditures, the following exceptions were noted:

- Six (6) totaling \$1,293 were not supported by adequate documentation due to lack of itemized receipts,
- Eighteen (18) totaling \$79,025 were not reviewed and approved by the Board, and
- Four (4) totaling \$1,243 included sales tax which is not an allowable operation for the District.

Additionally, the District does not have an adequate segregation of duties. One individual enrolls new hires, maintains personnel files, makes payroll changes within the system, and processes direct deposits.

Furthermore, utilizing a random sample of two (2) of the District’s payroll periods consisting of all twenty-two (22) employees for each pay period, the following items were noted:

Pay Period 7/30/2020:

- Two (2) timesheets did not accurately calculate time.
- Six (6) did not have adequate documentation to support payroll expenditure related to deductions and withholdings.

Pay Period 11/30/2020:

- Two (2) timesheets did not accurately calculate time.

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- Eight (8) did not have adequate documentation to support payroll expenditures related to deductions and withholdings.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the District's expenditures are supported by accurate and adequate documentation; and reviewed and approved by the Board. Additionally, policies and procedures have not been implemented to ensure timesheets are properly and accurately documented. Furthermore, policies and procedures have not been implemented to ensure adequate documentation is maintained for payroll deductions. Lastly, 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 over the District's expenditure process. Additionally, OSAI recommends management implement 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 risk 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 approve accounting functions.

Management Response:

CED Board President: Policies and procedures will be developed to ensure adequate documentation is retained for all expenditures including payroll. Management has implemented a review of payroll by comparing timesheets to generated payroll reports from the accounting system. The Board will review the financial statements and the expenditure reports at the monthly meeting.

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

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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.

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.

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.

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.

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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:

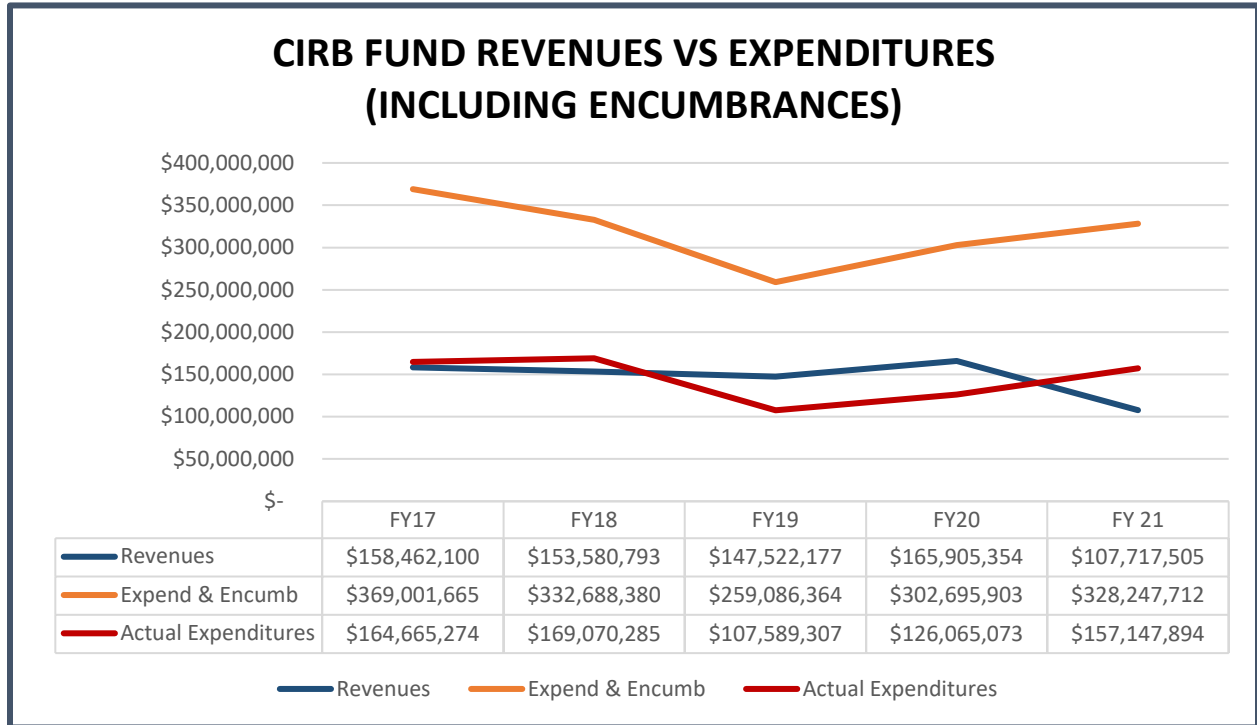
- Documented our understanding of the process for evaluating proposed changes to projects prior to modifying the District's 5 Year Construction Work Plan.
- Verified documentation for projects added to the plan to ensure changes conform to the intent of the program and the project evaluation criteria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

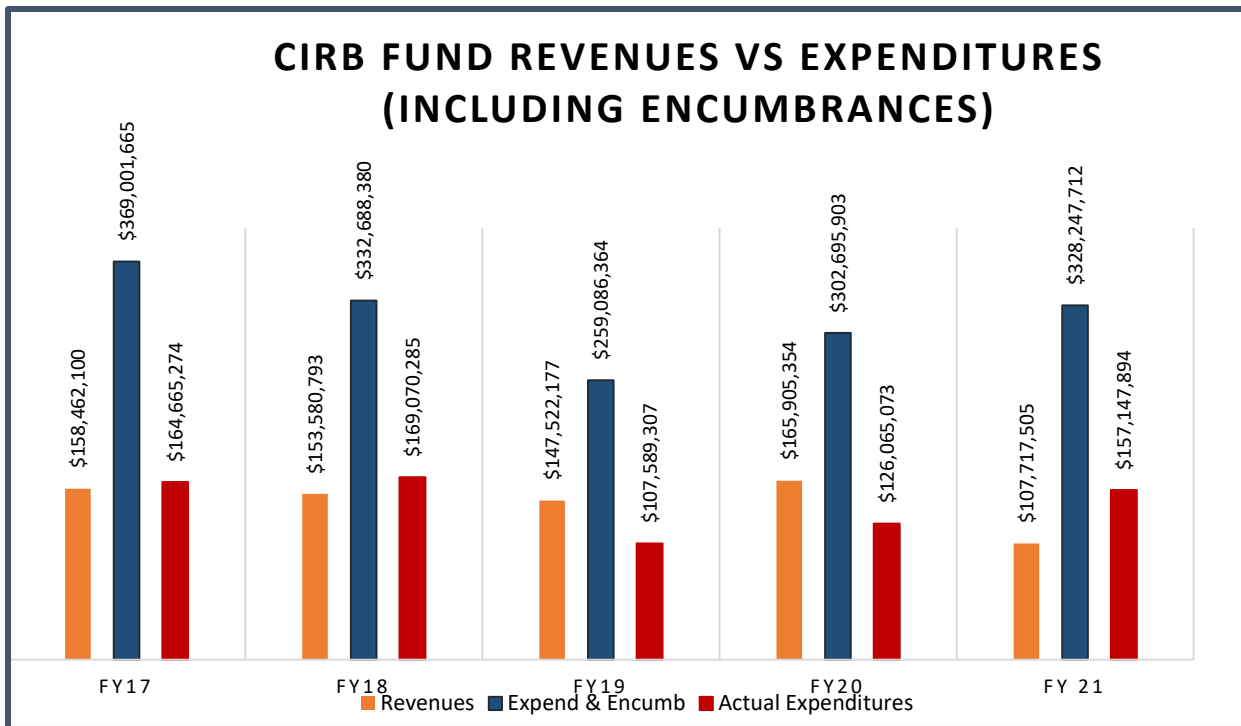
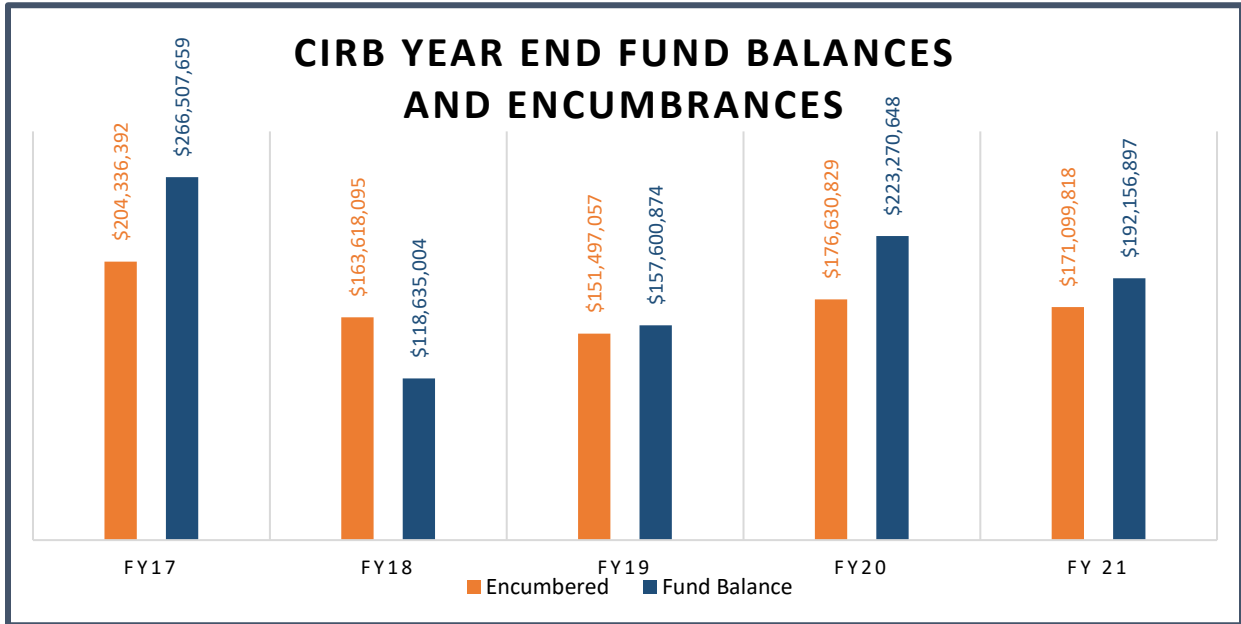
**CIRCUIT ENGINEERING DISTRICT #8
APPENDIX: STATEWIDE CIRB FUND ANALYSIS
FOR ALL CIRCUIT ENGINEERING DISTRICTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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 #8
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



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