

OPERATIONAL AUDIT

# OKLAHOMA COOPERATIVE CIRCUIT ENGINEERING DISTRICTS BOARD

For the period July 1, 2009 through June 30, 2011



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



Oklahoma State  
Auditor & Inspector  
Gary Jones, CPA, CFE

**Audit Report of the  
Oklahoma Cooperative Circuit  
Engineering Districts Board**

**For the Period  
July 1, 2009 through June 30, 2011**



# Oklahoma State Auditor & Inspector

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December 22, 2011

## **TO THE OKLAHOMA COOPERATIVE CIRCUIT ENGINEERING DISTRICTS BOARD**

This is the audit report of the Oklahoma Cooperative Circuit Engineering Districts Board for the period July 1, 2009 through June 30, 2011. 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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive.

GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR & INSPECTOR

# Oklahoma Cooperative Circuit Engineering Districts Board Operational Audit

## Background

The Oklahoma Cooperative Circuit Engineering Districts Board (the Board or OCCEDB) is responsible for managing both the Statewide Circuit Engineering District Revolving Fund (the CED Fund) and the Emergency and Transportation Revolving Fund (the ETR Fund).

Board members are:

Dee Schieber – Kay County, CED #8..... President  
 Gary Starns – Pontotoc County, CED #4..... Vice-President  
 Roy Alford – Latimer County, CED #3.....Secretary/Treasurer  
 Gary Deckard – Washington County, CED #1 .....Member  
 Bobby Botts – Cherokee County, CED #2. ....Member  
 Kenneth Holden – Garvin County, CED #5. ....Member  
 Mike Lennier– Grady County, CED #6. ....Member  
 Joe Don Dickey – Tillman County, CED #7. ....Member

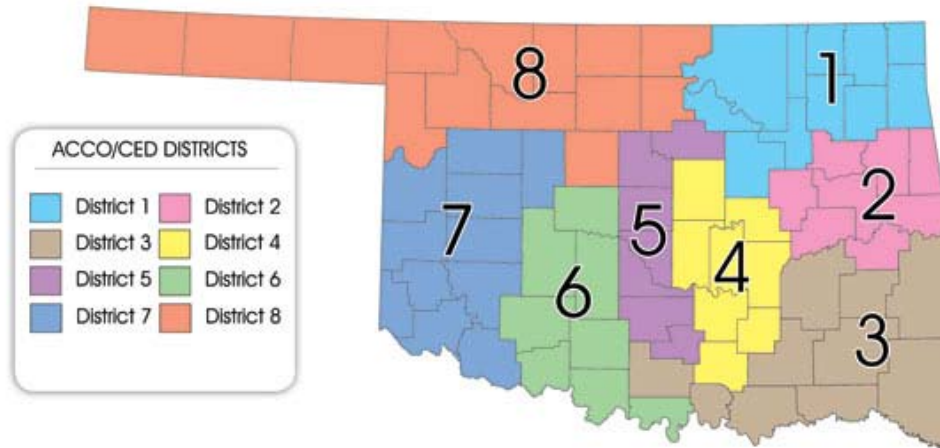
### CED Fund

The CED Fund was created on July 1, 2007. This fund is supported by the following revenue sources:

- 1/3 of 1% of the gasoline excise tax (per 74 O.S. § 227.3).
- Interest accruing to the County Road and Bridge Improvement Fund (through June 30, 2010, per 69 O.S. § 664).
- 0.48% of the tax of \$0.13 per gallon of diesel fuel (beginning July 1, 2010, per 68 O.S. § 500.7).
- 0.00125% of \$0.005 of the excise tax per gallon of special fuel (beginning July 1, 2010, per 68 O.S. § 707.1).
- Interest earned by any investment of ETR Fund monies (beginning June 6, 2010, per 69 O.S. § 687.3).

This money helps fund eight circuit engineering districts (CEDs) around the state as well as the Board.

Association of County Commissioners of Oklahoma &  
Circuit Engineering Districts



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Each CED submits a budget to the Board for approval, and then equal allocations are made to the CEDs not to exceed their budgeted portion. A budget is also approved for administrative expenses. The Oklahoma State Treasurer's Office paid \$2,449,670 to OCCEDB during fiscal year (FY) 2010 and \$4,508,623 during FY 2011. In addition, the fund received \$4,821 in interest in FY 2010 and \$4,730 in interest in FY 2011, which was divided among the eight CEDs. The table below identifies how the funds were distributed among the different areas:

	<b>FY 2010 Budget Amount</b>	<b>Expended as of 06/30/10</b>	<b>FY 2011 Budget Amount</b>	<b>Expended as of 06/30/11</b>
<b>CED #1</b>	\$ 514,195	\$ 274,396	\$ 822,500	\$ 644,280
<b>CED #2</b>	227,597	227,597	403,758	403,758
<b>CED #3</b>	656,200	273,818	754,398	663,323
<b>CED #4</b>	350,000	276,295	993,361	476,710
<b>CED #5</b>	578,000	272,068	476,320	476,320
<b>CED #6</b>	502,300	502,300	533,003	533,003
<b>CED #7</b>	340,500	272,044	666,600	593,371
<b>CED #8</b>	507,305	272,124	812,368	788,927
<b>Admin/Staff</b>	280,787	280,787	384,750	263,746

*Source: OCCEDB's accounting system, MIP (unaudited)*

The objectives of this fund are outlined in 69 O.S. § 687.1 A. as follows:

1. To allow county governments to make the most efficient use of their powers by enabling them to cooperate with each other and other units of government on a basis of mutual advantage and thereby to provide services and facilities in a manner and pursuant to forms of governmental organization that will accord best with geographic, economic, population and other factors influencing the needs and development of county government;
2. To provide research and research support to county government;
3. To provide assistance to county governments in performing the functions delegated by law including, but not limited to, the operation of road maintenance, construction, inspection, and equipment purchases and management;
4. To conduct public discussion groups, forums, panels, lectures, and other similar programs;
5. To present courses of instruction and education;
6. To obtain, develop and present scientific and all other types of information relative to the operation of the public transportation system in this state;

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7. For long-range planning and growth of the transportation system within the circuit engineering district and other circuit engineering districts within this state; and
8. To provide services to counties in a coordinated manner that will improve the quality of the transportation system and be cost effective.

The CEDs also auction surplus county equipment twice a year. Proceeds from these auctions are deposited into the CED Fund and distributed to the applicable CEDs based on the auction sales reports and a Board approved formula. OCCEDB records indicate \$202,236 was received and paid to the CEDs for auctions during the audit period.

**ETR Fund**

The Board is also responsible for managing the ETR Fund, created by 69 O.S. § 687.3 on July 1, 2008. The fund consists of all monies received by any donations, deposits designated by law, or appropriations, as well as interest earned on monies in the fund (until June 6, 2010, at which point this revenue source was statutorily transferred to the CED Fund per 69 O.S. § 687.3). Pursuant to House Bill 2381, \$25,000,000 was transferred into the ETR Fund from the State Highway Construction and Maintenance Fund in October 2008. Funds may be budgeted and expended by any qualified county or counties, pursuant to the Board’s rules for the purpose of funding emergency or transportation projects of a county that are reimbursable.

ETR Fund Activity	FY 2010	FY 2011
Total Available at 7/01	\$ 13,412,672	\$ 10,375,653
Total Approved for Counties	10,949,089	7,142,994
Total Reimbursed by Counties	7,912,070	9,915,063
Total Available at 6/30	\$ 10,375,653	\$ 13,147,722

*Source: Office of State Finance records (unaudited)*

**Purpose, Scope,  
and Sample  
Methodology**

This audit was conducted in response to 69 O.S. § 687.2, which states in part, “The State Auditor and Inspector shall audit the Statewide Circuit Engineering District on a yearly basis...”

The audit period covered was July 1, 2009 through June 30, 2011.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient



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evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. 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.

**Objective 1 – To determine whether internal controls provide reasonable assurance that revenues and expenditures related to the Statewide Circuit Engineering District Revolving fund were accurately reported in the accounting records, and whether financial operations complied with certain provisions of the agreement between the Board and the Association of County Commissioners of Oklahoma.**

## **Conclusion**

The Board’s internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records.

Financial operations generally complied with certain provisions of the agreement between the Board and the Association of County Commissioners (ACCO); however, one area could be strengthened.

## **Methodology**

To accomplish our objective, we performed the following:

- Obtained an understanding of internal controls related to the receipting and expenditure processes through discussions with OCCEDB personnel, observation, and review of documents.
- Tested controls using the following procedures:
  - Reviewed the board meeting minutes and supplemental packets for six randomly selected months (25% of the audit period) to ensure deposit and expenditure activity were independently reviewed and approved by the Board.
  - Reviewed the reconciliation reports for each month of the audit period to ensure they were performed and an independent review was documented.
  - Reviewed the bank reconciliations for six randomly selected months (25% of the audit period) to ensure they were mathematically accurate, the amounts traced and agreed to supporting documentation, and reconciling items appeared reasonable.
  - Reviewed the board meeting minutes and supplemental packets to ensure a budget was submitted and approved by the Board for two randomly selected CEDs (25% of total CEDs) and the

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- administrative function (ACCO reimbursements, payroll and other operational costs) in each fiscal year of the audit period.
- Observed the unused CED account vouchers to ensure they are maintained in a secure location.
- Reviewed the contracts for services and responsibilities between OCCEDB and ACCO covering the audit period, and determined that the following contract provisions were significant to our audit objective:
  1. A detailed invoice of expenditures should be submitted by ACCO to OCCEDB monthly for reimbursement.
  2. ACCO should not request reimbursement for office supplies or use of equipment.
  3. Meal and lodging expense reimbursements should comply with the OCCEDB meal and lodging policies.
  4. ACCO should pay OCCEDB a portion of compensation for two shared employees for the months in which this contract provision applied (June 2010–July 2011).
  5. Reimbursement to ACCO should not exceed the yearly budget amount (\$36,000).
- Reviewed the ACCO reimbursement request information in the board meeting minutes and supplemental packets for six randomly selected months (25% of the audit period) to ensure the documentation complied with provisions 1-4 above.
- Reviewed documentation of the board-approved reimbursement to ACCO for each month of the audit period to ensure the total for each fiscal year did not exceed the Board’s contractual \$36,000 limit.

**Observation**

**ACCO Reimbursement for FY 2011 Over Contract Limit**

During our audit procedures, we reviewed the OCCEDB-ACCO contracts outlining services to be provided by ACCO and duties and services remaining the responsibilities of OCCEDB. Throughout the audit period, the contracts state that “reimbursement will be paid to ACCO on a monthly basis not to exceed \$36,000 over a state calendar year<sup>1</sup> unless the two parties agree otherwise.”

We reviewed the ACCO invoices, supporting documentation, reimbursement payments, and corresponding board meeting minutes for a selection of months from the audit period and noted that the ACCO reimbursements appeared to be properly supported and approved, and in compliance with the OCCEDB-ACCO contracts. We also compiled the payment amounts from the full audit period and noted that for fiscal year 2010, the total reimbursed to ACCO was \$31,524.90. However, the total for fiscal year 2011 was \$40,280.02, which exceeds the \$36,000 threshold. The board meeting minutes did not reflect any

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<sup>1</sup> Because the contracts are written on a fiscal year basis, we interpreted “state calendar year” to mean “fiscal year.”



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acknowledgement that the June 2011 payment of \$7,243.45 exceeded the yearly threshold, although the Board did approve the individual payment. Neither the board minutes nor any documentation provided to us by the OCCEDB staff suggested that ACCO and OCCEDB had agreed to increase the FY 2011 reimbursement threshold.

We reviewed the ACCO reimbursement information provided to the Board and noted that the Board does not receive a specific report or other documentation with a cumulative total of yearly reimbursements paid to ACCO, so it may not be readily apparent to Board members when total payments are nearing the contractual threshold.

Without a cumulative total to alert members when ACCO reimbursements are nearing their limit, the payments may exceed the contractual limit without prior agreement between ACCO and OCCEDB. It appears the OCCEDB staff was unaware of the risk inherent in not providing a cumulative total of reimbursements.

**Recommendation** Management should ensure the Board receives a report or other document displaying the total yearly reimbursements to ACCO as of each reimbursement payment. If the Board anticipates exceeding the contractual reimbursement limit, it should consider establishing an agreement with ACCO to exceed the limit as outlined in the contract, or amending the contract to increase the total reimbursement limit.

**Views of Responsible Officials** The Board reviews and approves all expenditures and reimbursements each month. We have been providing the Board, since November 2011's meeting, a cumulative total of dollars reimbursed to ACCO for expenditures incurred on behalf of OCCEDB and will execute an addendum to the contract with ACCO if it is perceived to go over the contract limit.

**Objective 2 – To determine whether the Board complied with Emergency and Transportation Revolving fund application and reimbursement rules.**

**Conclusion** The Board generally complied with the ETR application and reimbursement rules. However, certain areas could be strengthened.

**Methodology** To accomplish our objective, we performed the following:

- Reviewed the Emergency and Transportation Revolving Fund Program Rules and determined that the following rules were significant to our objective:
  - Rule VII.B, which requires the county to submit all documentation regarding the project including, but not limited to, a description, location, agreements, applications, resolutions, before and after construction pictures and other project information.

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- Rule VII.E, which requires that the Board of County Commissioners enter into a contract with the OCCEDB.
- Rule VII.G, which requires that the Board submit a claim and a certificate stating that all the projects listed meet the requirements of state law and the rules adopted by the OCCEDB to the Office of State Finance (OSF) for payment.
- Rule VII.K, which requires that the county issue or cause to be issued repayment to the “State of Oklahoma ETR Fund” and send the warrant to the OSF.
- Rule VIII.F, which states that a county shall have one year from the construction start date to reimburse the ETR, unless the contract is renewed.
- Obtained an understanding of internal controls related to the ETR fund application and reimbursement process through discussions with OCCEDB personnel, observation, and review of documents.
- Reviewed the files of 44 randomly selected projects totaling \$4,964,259 (from a population of 175 items totaling \$18,092,083), for which payment was made, to determine whether:
  - A county application was approved by the CED, submitted to the Board and approved by the Board.
  - A contract was entered into between the Board of County Commissioners and the OCCEDB and was signed by representatives of both parties.
  - An approved certification letter stating that the project met state laws and OCCEDB rules was approved and sent to OSF for payment authorization.
  - A construction start date for the project (actual or estimated) was documented.
  - A description and location of the project was provided.
  - Before-construction photos of the project were provided (and if the project was completed, after-construction photos were provided).
- Reviewed the files of 38 randomly selected projects totaling \$4,024,764 (from a population of 153 items totaling \$17,427,118), for which reimbursement had been received, to determine whether copies of the county’s repayment check(s) were provided by OSF, after photos of the completed projects were provided, and reimbursement was made within one year of the recorded construction start date.

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**Observation**

**Construction Start Date Not Documented –  
Repeat Finding**

ETR Reimbursement of Funds rule VIII.F states that counties have one year from the construction start date to reimburse the ETR, unless their contract is renewed.

We reviewed 44 files of projects for which payment had been disbursed, and six of these projects did not include documentation of an actual or estimated construction start date, nor were the dates recorded on the ETR data tracking spreadsheet. In addition, we reviewed the files of 38 projects for which reimbursement was received during the audit period, and four of these projects did not include documentation of an actual or estimated start date either in the file or on the ETR data spreadsheet.

Given the number of errors noted, we further reviewed the ETR data spreadsheet and noted that a total of 28 of the total 256 projects active during the audit period did not list actual or estimated start dates. (These include the projects listed in the previous paragraph.) It should be noted that only three of the missing start dates were for projects approved after the release of the State Auditor and Inspector's last audit report, which contained this same observation. It appears OCCEDB has improved its documentation of construction start dates.

While management has a process in place to request missing information about ETR projects from the CEDs on an annual basis, it appears that this information was not consistently provided by the CEDs. Without the construction start dates, the Board cannot determine the appropriate deadline for repayment.

**Recommendation**

OCCEDB should require at minimum an estimated construction start date before funding is disbursed for an ETR project, so that a repayment deadline can be set and enforced. Further, OCCEDB should make every effort to determine the actual construction start date once the project has begun, in order to ensure that they have the most accurate repayment deadline.

**Views of Responsible  
Officials**

Currently, the Board requires that the anticipated start date be filled out on the application form before approval. The counties and CEDs are notified at a later point to provide actual start dates and final photos. This information is provided to the OCCEDB board.

**Observation**

**Before and After Construction Photos Not Documented –  
Repeat Finding**

ETR Application Process rule VII.B requires that both before-construction and after-construction photos be provided to the CED and to the Board by the county receiving funds.

In five of the 44 files reviewed of projects for which payment had been disbursed, no before-construction photos were documented. In six of the 38 files reviewed of projects for which reimbursement had been received, no after-construction photos were included.

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Since the release of the State Auditor and Inspector's previous audit report containing this observation, management has put a process in place to request missing information about ETR projects from the CEDs on an annual basis. Our discussions with OCCEDB staff also revealed that during the second half of the audit period, before-construction photos were required before an ETR application could be approved.

A review of the projects noted previously that were missing photos revealed that four of the six files missing after-construction photos were repaid after the previous audit report was released, and none of the files missing before-construction photos was approved after the previous audit report was released, consistent with the OCCEDB policy change. While management appears to have improved its photo documentation process overall, it appears that all necessary photographs are still not being consistently provided by the CEDs. These photos provide a record of physical progress at the project sites. Without them, the Board lacks physical confirmation that the construction was performed as described in the county's application.

**Recommendation** OCCEDB should continue to ensure before-construction photos have been received before disbursing funding for ETR projects, and require that after-construction photos be provided in order for a project to be considered completed.

**Views of Responsible Officials** Currently, the Board requires that the anticipated start date be filled out on the application form before approval. The counties and CEDs are notified at a later point to provide actual start dates and final photos. This information is provided to the OCCEDB board.

## Other Items Noted

Although not considered significant to the audit objectives, we feel the following issues should be communicated to management.

**Observation**                    **Clerical Errors in Project Documentation and the ETR Data Spreadsheet**

During our testwork, we noticed a number of clerical errors related to the project numbers assigned to each ETR project by OCCEDB. This included the following types of errors:

- In six cases, the project number was listed with a typo in the board meeting minutes.
- In two cases, the project number was listed with a typo on the contract.
- In four cases, the project number was listed with a typo on the physical file folders at the OCCEDB office.
- In two cases, the project number was listed with a typo on a project description within the physical file.

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While we were able to discern the appropriate project numbers with sufficient certainty to complete our testwork, it is possible that errors such as these could call into question whether the contracts in the ETR files were legally those officially approved by the Board, or make it difficult to locate the relevant contracts if needed. These errors appear to be clerical in nature.

We also noted what appeared to be four clerical errors in the ETR data spreadsheet used by OCCEDB staff to track funded projects:

- One missing reimbursement date.
- One incorrect funding sent date.
- One incorrect reimbursement amount (spreadsheet showed \$15,000; actual reimbursement was \$150,000).
- One incorrect requested amount (spreadsheet showed \$473,344; actual request was \$167,675).

Following the State Auditor and Inspector's previous audit report, management implemented a process to review the ETR data spreadsheet on a monthly basis. However, this review does not appear to have rectified 100% of clerical errors. Without sufficient review of the ETR data spreadsheet, errors could potentially lead to acceptance of insufficient reimbursements, as well as additional recordkeeping errors that may not be detected and corrected in a timely manner.

**Recommendation** Management should implement improved review procedures to ensure that project numbers are listed correctly on all key documentation retained by OCCEDB, and that the ETR Data Spreadsheet does not contain clerical errors. Management might also consider simplifying project numbers such that clerical errors are less likely to occur.

**Views of Responsible Officials** Clerical errors have been reduced.

**Observation** **Board Should Consider Developing Performance Measures – Repeat Finding**

State statutes outline specific objectives or purposes the CED funds are to be used for. Funds are paid to the individual CEDs for the purpose of achieving these objectives. However, there does not appear to be a mechanism in place to readily determine whether the objectives are being met. A tool generally used to assist in making this determination is performance measurement.

The United States Government Accountability Office's publication titled *Performance Measurement and Evaluation* states in part,

Performance measurement is the ongoing monitoring and reporting of program accomplishments, particularly progress towards pre-established goals.... Performance measures may address the type... of program activities conducted (process), the direct product and services delivered by a program (outputs), or the results of those products and services (outcomes)....

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Given the nature of the Board, the creation and monitoring of performance measures could be a valuable tool to the Board, the public, and legislators as to the effectiveness of how taxpayer funds are being used.

**Recommendation**      Although not required by law, we recommend the Board create key performance measures for the CED program.

**Views of Responsible Officials**      We will take this under advisement and present to the Board.



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