

**OKLAHOMA
COOPERATIVE
CIRCUIT
ENGINEERING
DISTRICTS BOARD**

**FOR THE PERIOD
JULY 1, 2007 THROUGH
JUNE 30, 2008**

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

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

**For the Period
July 1, 2007 through June 30, 2008**

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

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June 29, 2009

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

Following is the audit report for the Oklahoma Cooperative Circuit Engineering Districts Board for the period July 1, 2007 through June 30, 2008. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Steve Burrage".

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Board Members

James Gee President
Carlos Squires Vice-President
Gary Starns Secretary-Treasurer
Gary Deckard Member
Bobby Botts Member
Roy Alford Member
Kenneth Holden Member
Dee Schieber Member

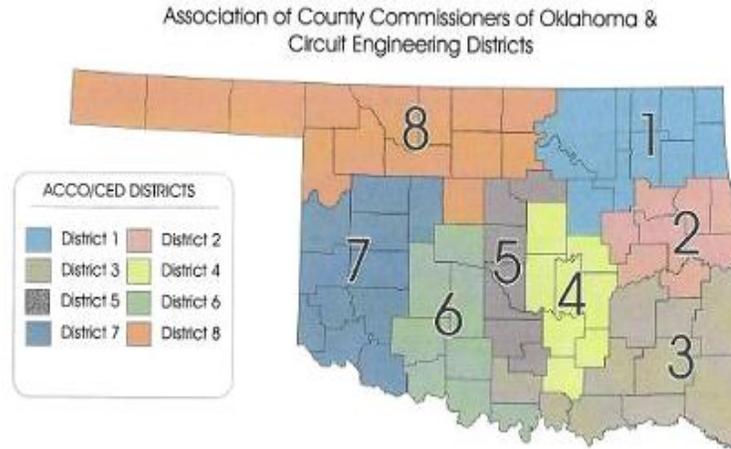
Key Contacts

Randy Robinson OCCEDB Program Manager
Kim Faught ACCO Controller
Monte Goucher Executive Director of Circuit Engineering District 7
Debbie Walpole Finance Officer of Circuit Engineering District 7

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Background

The statewide circuit engineering district revolving fund (the Fund) was created on July 1, 2007. The fund is supported by 1/3 of 1% of the gasoline excise tax (74 O.S. § 227.3) as well as interest accruing to the county road and bridge fund (69 O.S. § 664). This money helps fund eight circuit engineering districts (CEDs) around the state and is managed by the Oklahoma Cooperative Circuit Engineering Districts Board (the Board).



Each CED submits a budget to the Board for approval. As revenue was disbursed to the fund (\$3,229,603 by the State Treasurer’s Office plus \$21,500 in interest accrued throughout the year), equal allocations were made to the CEDs not to exceed their budgeted portion. Table 1 below identifies these amounts:

| Table 1 - Approved Budget Amounts | |
|--|--------------------|
| | Amount |
| CED 1 | \$231,385 |
| CED 2 | \$305,069 |
| CED 3 | \$92,300 |
| CED 4 | \$420,000 |
| CED 5 | \$150,000 |
| CED 6 | \$140,688 |
| CED 7 | \$692,697 |
| CED 8 | \$359,806 |
| Board | <u>\$320,000</u> |
| Total | <u>\$2,711,945</u> |

SOURCE: CED budgets

During the audit period, the Board did not have an accounting staff; therefore, they contracted with CED 7 to perform the accounting functions related to the fund. Compliance related to certain provisions of this contract is discussed in Objective 2 of this report.

According to portions of 69 O.S. § 687.1, the fund is to be used:

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- 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;
- To provide research and research support to county government;
- 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;
- To conduct public discussion groups, forums, panels, lectures, and other similar programs;
- To present courses of instruction and education;
- To obtain, develop and present scientific and all other types of information relative to the operation of the public transportation system in this state;
- For long-range planning and growth of the transportation system within the circuit engineering district and other circuit engineering districts within this state; and
- To provide services to counties in a coordinated manner that will improve the quality of the transportation system and be cost effective...

**Authority, Scope,
and Sample
Methodology**

This audit was conducted in response to 69 O.S. § 687.2¹, which requires the State Auditor's Office to audit the Statewide Circuit Engineering District annually.

The audit period covered was July 1, 2007 through June 30, 2008.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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 identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

¹ 69 O.S. § 687.2 states in part, "There is hereby created in the State Treasury a revolving fund for the State Treasurer to be designated the "Statewide Circuit Engineering District Revolving Fund". The fund...shall consist of all monies received by the State Treasurer pursuant to the provisions of Section 227.3 of Title 74 of the Oklahoma Statutes... All monies accruing to the credit of the fund are hereby appropriated and may be budgeted and expended by the State Treasurer solely for the purpose of funding the statewide circuit engineering board organized pursuant to Section 687.1 of this title. The State Auditor and Inspector shall audit the Statewide Circuit Engineering District on a yearly basis, and the statewide circuit engineering district board shall be responsible for the cost of the audit..."

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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 – Determine if the Board’s 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.

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

Methodology To accomplish our objective, we performed the following:

- Reviewed 69 O.S. §§ 687.1 to 687.2; 69 O.S. § 664; and 74 O.S. § 227.3;
- Documented internal controls related to the receipting and expenditure processes;
- Tested controls which included:
 - Reviewing ten scanned copies of checks issued by the State Treasurer’s Office to ensure the amount of the check agreed to the amount deposited;
 - Judgmentally selecting CED 7 and haphazardly selecting CED 4 and CED 8. From this selection, we reviewed all 18 expenditure claims paid by the Board (seven to CED 7, six to CED 4, and five to CED 8) to ensure they were properly authorized and the cumulative total of the payments did not exceed the CEDs’ approved budget;
 - Reviewing all 11 expenditure claims paid to the Association of County Commissioners (ACCO) to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, and the expenditure was reasonable for the Board’s mission.

Observation

**Questionable Supporting Documentation and Lack of a Detailed
Review Regarding Payments to ACCO**

The Agreement between the Board and ACCO dated July 18, 2007, states in part,

...The purpose of this contract is to define the services and compensation to be provided to or by the Board and provides a temporary solution while this entity, the Board, is being set up to function.

Services to be provided:

1. Reimbursement of costs associated with ACCO’s Transportation Engineer. Activities/costs would include but not limited to:
 - a. Current pay and benefits.
 - b. Travel and meals.

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2. Other services agreed to by both parties.

...Each invoice will provide a detailed accounting of services performed and expenses...

We reviewed all 11 claims paid to ACCO during the period which totaled \$141,513. The majority of these costs were attributable to the transportation engineer's salary and benefits (\$125,110). There were \$1,413 in food purchases and \$14,990 in other costs (i.e. fuel, lodging, attorney fees, and office supplies). The following deficiencies were noted:

- The food for the transportation engineer is a reimbursable expense under the terms of the contract but would not be reimbursable under the state's travel reimbursement act. However, on many occasions, the transportation engineer bought meals for other people (the receipts indicate they were affiliated with a CED) with no description on the supporting documentation as to why the meals were purchased. Although immaterial to the overall total expenditures of the fund, we question whether these expenditures further the provisions of the county road improvement act;
- Supporting documentation related to lodging did not always explain why the costs were incurred;
- The vehicle log completed by the transportation engineer does not provide a detailed description of why the vehicle was being used;
- One reimbursement for fuel (\$59) was not supported with a receipt;
- Two invoices included a flat rate of \$25 for tolls rather than actual costs.

Deficiencies such as this may lead to misappropriation of assets.

Recommendation

We recommend:

- The Board consider whether purchasing meals for various parties associated with the CEDs is appropriate considering the intent of 69 O.S. § 687.1 (A), objectives of the CEDs. If the Board determines this is a part of the mission, detailed documentation should be retained as required by the agreement which includes, but is not limited to, all parties who benefited from the expenditure and a detailed description as to why it was necessary to purchase the food;
- The vehicle logs completed by the transportation engineer include a detailed description as to why the vehicle was being used. Fuel purchases and the *PIKEPASS* statement should be reconciled to the log by an independent party prior to payment;
- A detailed review be performed of reimbursement requests submitted by ACCO. During the audit period, CED 7 performed a cursory review on the ACCO invoices, but according to staff relied mainly on the Board for approval. ACCO now performs a portion of the accounting duties for the Board; therefore, the Board is the only independent review/approval of these expenditures. It is imperative their approval include a detailed review which includes ensuring all costs are supported and reasonable.

**Views of Responsible
Officials**

Going forward, OCCEDB will follow the documentation recommendations described above relating to meals, lodging, and a vehicle log. OCCEDB also plans to implement

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policies regarding meals and lodging which formally clarifies the Board's expectations as they relate to incurring such expenses. The accounting department will also begin periodically reconciling fuel purchasing activity and the activity on the PIKEPASS statements to the information provided in the vehicle log. Additionally, management will urge the Board to exercise its right to review receipts that support the charges on ACCO's detailed monthly invoices periodically (if not monthly) in order to determine that the expenses are proper.

Objective 2 - Determine if the Board and the Circuit Engineering District 7 were in compliance with certain provisions in Article I and Article V of the professional services agreement.

Conclusion

The Board and Circuit Engineering District 7 were in compliance with the following provisions² of Article I and Article V of the professional services agreement:

- 1.1 (a) - Administer and assist the Board in distributing the monies contained in the revolving fund;
- 1.1 (b) - Assist CEDs with the development of working budgets;
- 1.1 (c) - Assist and consult CEDs with the setup of accounts and business related activities;
- 1.1 (d) - Create an adequate accounting system for the monies contained in the revolving fund;
- 1.1 (e) - Board payroll;
- 1.1 (h) - Compile and provide audit information relating to monies from the revolving fund for the State Auditor and Inspector;
- 1.1 (k) - Prepare all required financial reports related to the revolving fund for review by the Board;
- 5.1 (a) - CED 7 will be paid at a rate of one hundred dollars (\$100) per hour for all services provided under this agreement;
- 5.1 (c) – The amounts in paragraph 5.1 (a) and (b) cumulatively shall not exceed Sixty Thousand Dollars (\$60,000) during the fiscal year.

However, they were not in compliance or were in partial compliance with the following conditions of the agreement:

- 1.1 (f) - Provide statewide monitoring of the revolving fund, reviewed biannually;
- 1.1 (g) - Provide annual reviews of CED audits to ensure proper use of monies from the revolving fund;
- 1.1 (l) - Develop and institute the appropriate internal controls to ensure the protection of public funds.

Methodology

To achieve our objective, we performed the following:

² There are eight articles within the professional services agreement with multiple subsections within each article. Certain portions of Articles I and V were considered applicable for this objective. The conclusion first presents the applicable portions of the Article I and V the Board and/or CED 7 complied with. Second, we present the applicable portions of Articles I and V that the Board and/or CED 7 either partially complied or did not comply with.

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- Interviewed management for the Board and CED 7 regarding the professional services agreement;
- Reviewed the professional services agreement between the Board and CED 7 and identified applicable provisions to test for compliance;
- We documented internal controls related to the receipting and expenditures processes and tested the expenditure controls;
- Interviewed two state board members, reviewed the CED budgets, and reviewed an information packet sent to the CEDs (information related to applying for a federal tax ID number, paying federal and state taxes, workers' compensation insurance, etc);
- Reviewed CED 7's general ledger and bank statements for the fund;
- Interviewed three state board members regarding CED 7's monitoring of the fund and the income/ expense reports CED 7 provided to the Board;
- Reviewed the January 16, 2008 and March 12, 2008 income/expense reports provided to the Board;
- Reviewed the most recent independent audit performed on each CED;
- Reviewed all nine expenditure claims paid to CED 7 for accounting services.

Observation

Compliance Issues Noted

Section 1.1 (f), (g), and (l) of the professional services agreement between the Board and CED 7 states:

- 1.1 Services. CED 7 agrees to provide professional financial and accounting services and to develop appropriate internal controls to ensure the protection of public funds that are to be administered and distributed by the Board from the Revolving Fund. CED 7 agrees to generally provide services within the following areas of responsibility: ...
- (f) Provide statewide monitoring of the Revolving Fund, reviewed biannually;
 - (g) Provide annual reviews of CED audits to ensure proper use of monies from the Revolving Fund;
 - (l) Develop and institute the appropriate internal controls...to ensure the protection of public funds that are to be administered and distributed by the Board from the Revolving Fund.

An effective internal control system provides for adequate supporting documentation and detailed reviews of expenditures claims prior to payment.

The following were noted:

- One control deficiency related to the expenditure (lack of a detailed review on ACCO expenditures) process was identified and presented under Objective 1 in this report;
- CED 7 did not review the audits of the CEDs. It should be noted CED 4 has yet to receive a fiscal year 2007 audit as required by 69 O.S. § 687.1 (F). Without a review of the independent audits, funds may have been disbursed to a CED whose accounting records may contain material misstatements.

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measure in place to determine whether the goal is being achieved. Without measuring performance, it is difficult to determine if the program is operating as intended.

Recommendation Although not required by law, we recommend the Board create a mission statement, vision, goals, and key performance measures for the CED program.

Views of Responsible Officials OCCEDB will take this recommendation under serious consideration as the organization agrees that planning, measuring, and evaluating performance is important.

Observation **Identity of the Board is Unclear**

State statutes do not define the identity of the Board; therefore, it is unclear if they are a state or county entity and which laws and regulations they should follow. For example, the vehicle purchased by the Board has a county license plate. Management's explanation for this was the Board was more similar to a county than a state agency or city. However, money from the fund is at times being expended similar to a private business (i.e. working meals are being paid by the entity).

Recommendation We recommend the Board consider seeking an Attorney General's opinion as to whether the Board is a state or county entity or seek legislation to clarify its status.

Views of Responsible Officials OCCEDB will take this recommendation into consideration.



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