

**Circuit Engineering District #7  
CED #7 County Energy District Authority  
Investigative Audit Report**

**EXECUTIVE SUMMARY**

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**Why We Conducted This Audit**

In accordance with 74 O.S. § 212(H), our investigative audit was conducted in response to a request from the District Attorneys who serve the counties comprising the Circuit Engineering District #7. This included District Attorneys Angela Marsee, Ken Darby, Mike Fields, and Christopher Boring. Read the full audit report at <https://www.sai.ok.gov>.

**What We Found**

- Circuit Engineering District #7 (CED7) and the CED #7 County Energy District Authority (Authority) entered in to a joint-venture agreement, with the primary purpose “to engage in the business of manufacturing and marketing of a proprietary formula road repair and maintenance product.” It was determined that the authorization for the acquisition, construction, and equipping of an asphalt emulsion plant to engage in a business for this purpose is not in compliance with the law. Since neither CED7 nor the Authority has the statutory authorization to engage in the production and selling of road emulsion, the joint venture would also not be statutorily authorized to do so. (Pg. 6)
- A \$2,350,000 loan was obtained by the Authority to proceed with the building of the asphalt emulsion plant. The joint-venture agreement reflected that the financial obligation between the two entities would be shared 50/50. The entities did not comply with the terms of the agreement. The total payback of \$2,677,902.55, was funded approximately 67% from CED7 and 33% from the Authority. (Pg. 7)
- Although the payment of money by CED7 to the Authority is allowable under *60 O.S. § 176.1(D)*, some of the loan payments funded by CED7 were not properly presented to, or approved by, the CED7 board of directors. The payments were included in the board’s consent agenda, not presented as agenda items for full consideration by the board. Loaning funds to the Authority should not have been included in the consent agenda as a routine payment of claims. (Pg. 9)

- Requests, discussions, and votes to implement prepayment plans, assess fees, or charge dues to member counties to support the funding of the emulsion plant and the production of the asphalt emulsion product were presented to the CED7 board over a period of several months. However, we found no evidence that any of these funding methods were ever implemented. (Pg. 10)
- CED7 and the Authority were non-compliant with several matters related to the joint venture. A portion of the loan was not properly filed with the Secretary of State's office, funds between the two entities were comingled in violation of the joint-venture agreement, and the agreement was not filed publicly as required by law. (Pg. 12)
- Counties incorporated the specific 7 Oil emulsion product into their term bid listings. This impeded vendors, other than the Authority (7 Oil), from either bidding on the product or it prevented them from bidding in a manner that would comply with bid limitations. (Pgs. 13-16)

Although not prohibited, it was also noted that 7 Oil products were bid at higher amounts in the member counties. This appears to undermine the objective of the joint venture, which was to reduce costs for CED7 member counties. (Pg. 16)

Counties should *not* have limited their bid solicitations to an emulsion produced by only one vendor. Such limitations resulted in restricted, noncompetitive bidding practices. (Pg. 16)

There was also consideration that the 7 Oil emulsion could be presented as a sole-source product. Per an Oklahoma Department of Transportation (ODOT) analysis, the 7 Oil emulsion was not a "proprietary or exclusive formula" and did not constitute a sole-source product, or one to be narrowly bid. (Pg. 17)

- CED7 and Authority revenues were determined to be unrestricted funds, most of which were received as payments for services rendered. These funds were available to be used for the governmental purposes of CED7 (Pg. 18)
- CED7 directly employed the Authority (7 Oil's) personnel in violation of statute. This included eight employees in FY17 and six employees in FY18, resulting in payroll costs of \$182,661 and \$163,798, respectively. According to statute, the financial activity of the two entities should be maintained "separate and independent." (Pg. 20)
- Between 2010 and 2013, almost \$17,000 in payments were made to Executive Director Monte Goucher's family members. (Pg. 21)
- Other notable issues included the improper transfer of property from CED7 to the Authority, Open Meeting violations by the CED7 board, and the improper repayment of loans taken by employees from the CED7 401(a) retirement plan. (Pg. 22-26)