



CIRCUIT ENGINEERING DISTRICT #2

Operational Audit

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

Cindy Byrd, CPA
State Auditor & Inspector

**CIRCUIT ENGINEERING DISTRICT #2
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 #2**

We present the audit report of the Circuit Engineering District #2 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 #2
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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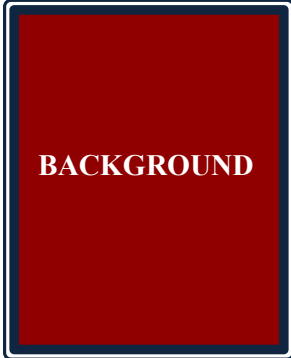
OPERATIONAL AUDIT REPORT

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**CIRCUIT ENGINEERING DISTRICT #2
DISTRICT INFORMATION AND OFFICIALS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**



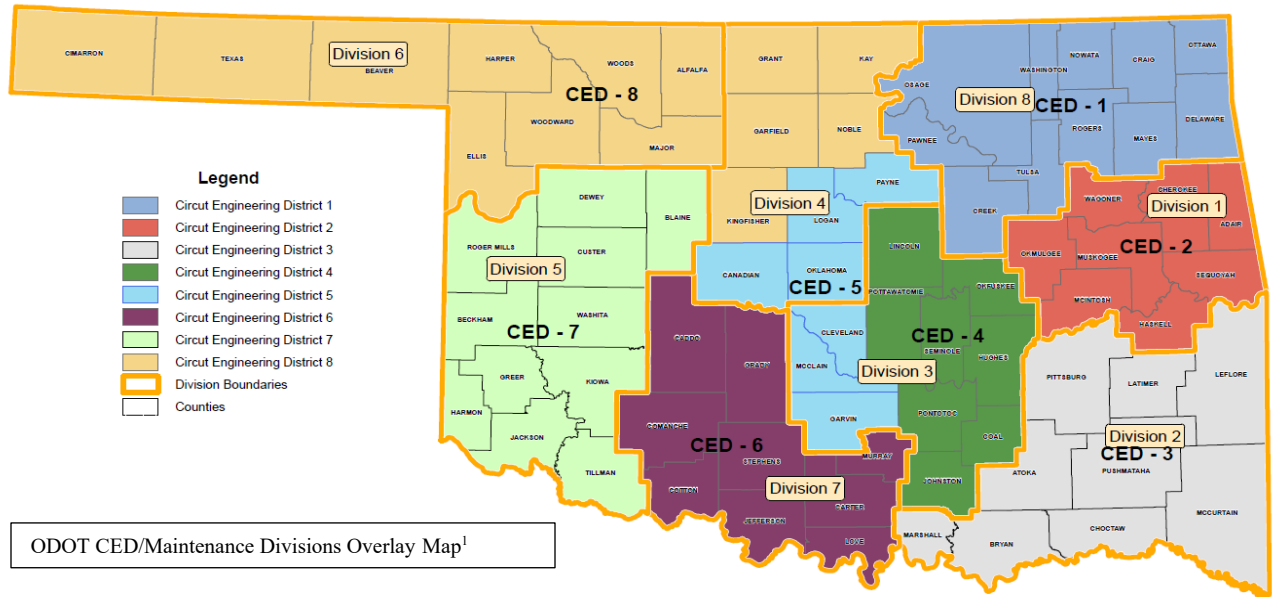
Pursuant to 69 O.S. § 687.1, counties may “create a circuit engineering district with any other county or counties” to allow county governments to “make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

- | | |
|---------------|-------------------------------------|
| Sam Chandler | President, Adair County |
| Michael Burns | Vice-President, McIntosh County |
| Clark McClary | Secretary/Treasurer, Haskell County |
| Clif Hall | Cherokee County |
| Kenny Payne | Muskogee County |
| Ron Ballard | Okmulgee County |
| Ray Watts | Sequoyah County |
| Tim Kelley | Wagoner County |

**CIRCUIT ENGINEERING DISTRICT #2
DISTRICT AREA
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**



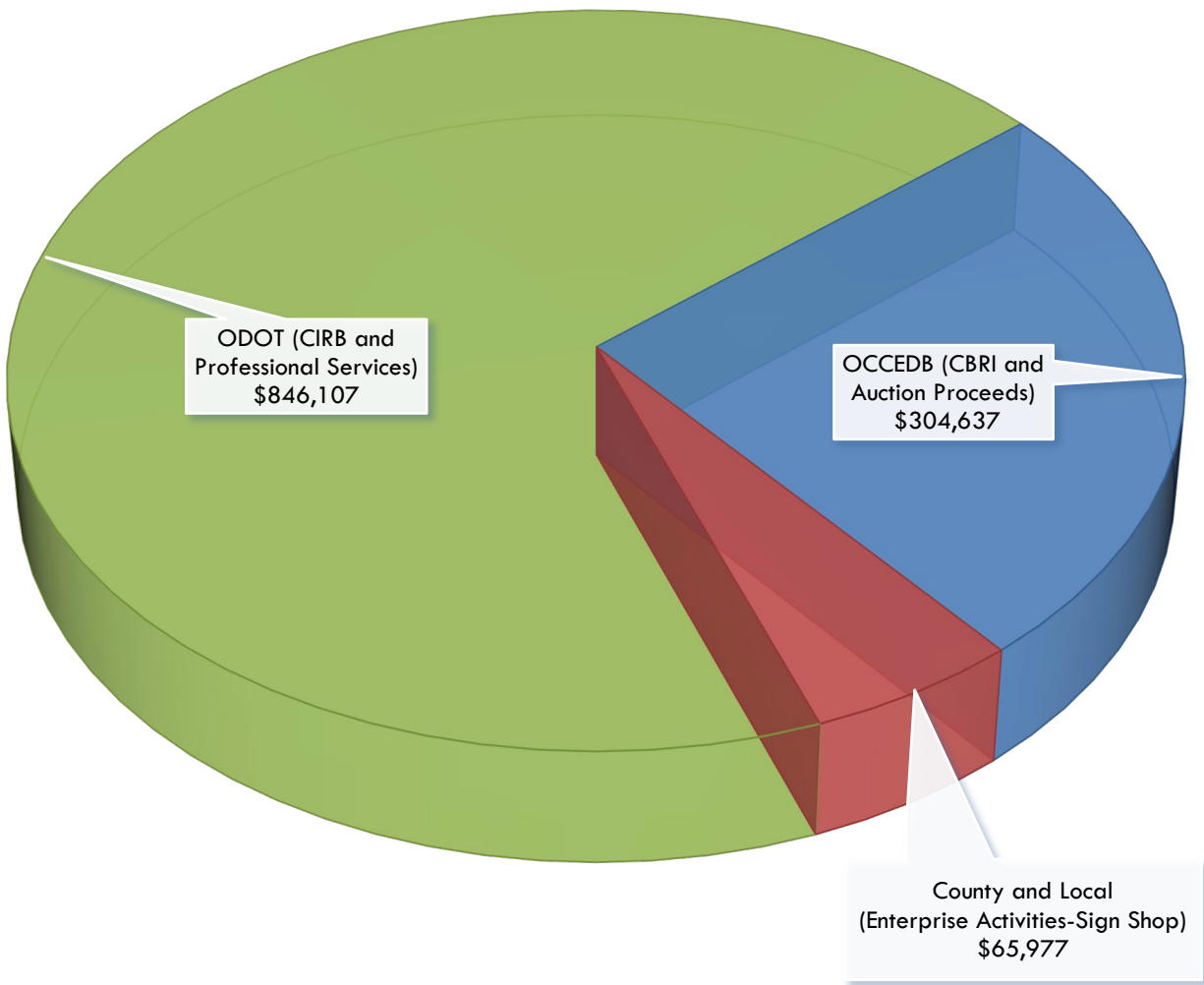
Circuit Engineering District #2 (the District) is comprised of an eight-county region, in the central-eastern part of the state including: Adair, Cherokee, Haskell, McIntosh, Muskogee, Okmulgee, Sequoyah, and Wagoner counties¹.

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

**CIRCUIT ENGINEERING DISTRICT #2
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

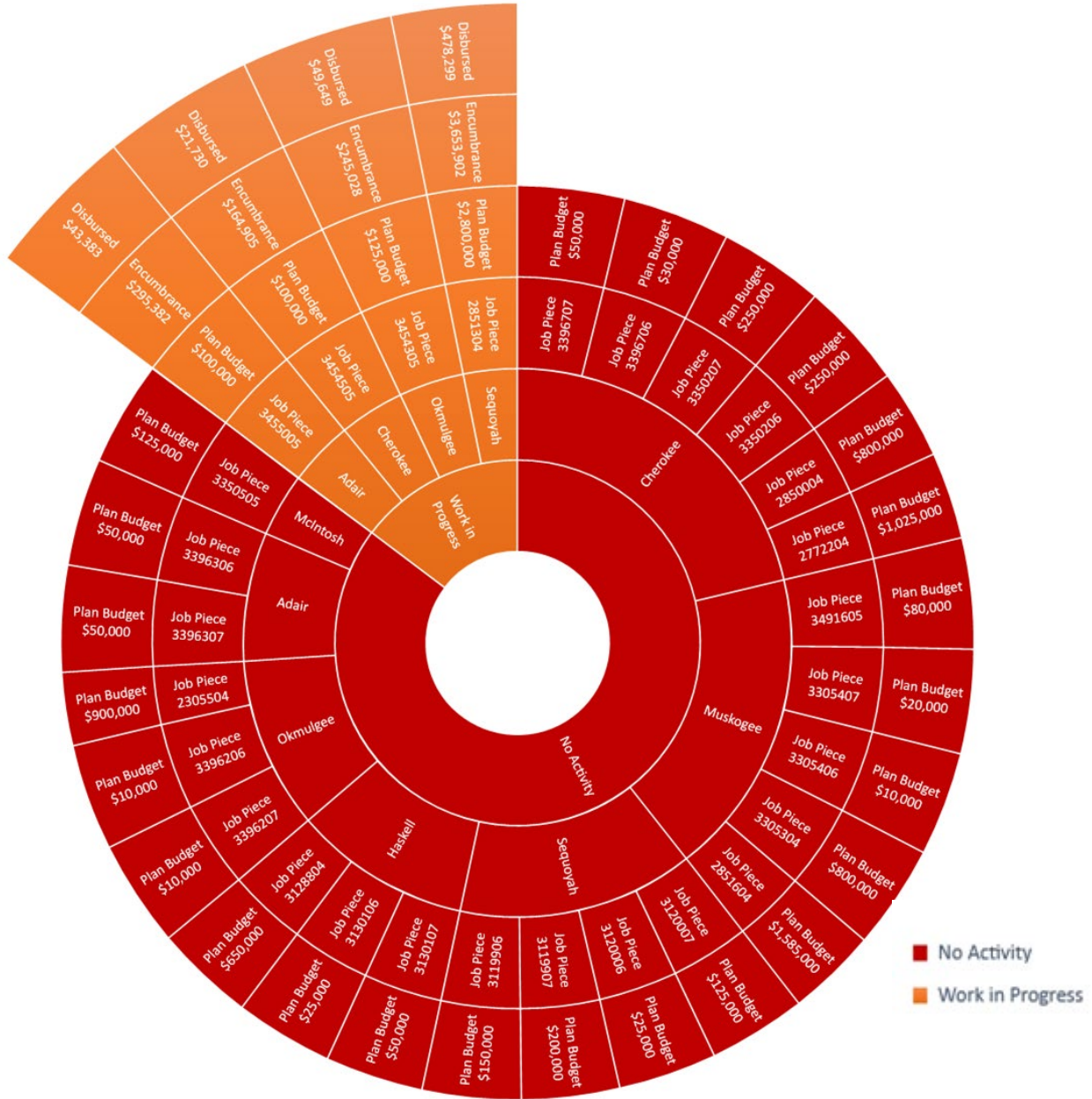


During the period the District collected \$1,216,721 in total revenue.

**CIRCUIT ENGINEERING DISTRICT #2
STATUS OF PROJECTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents the status of projects for District #2 for planned jobs in fiscal year 2021 in the 5 Year Construction Work Plan SFY-2021 through SFY-2025 consisting of projects totaling \$10,395,000.

Status of Projects

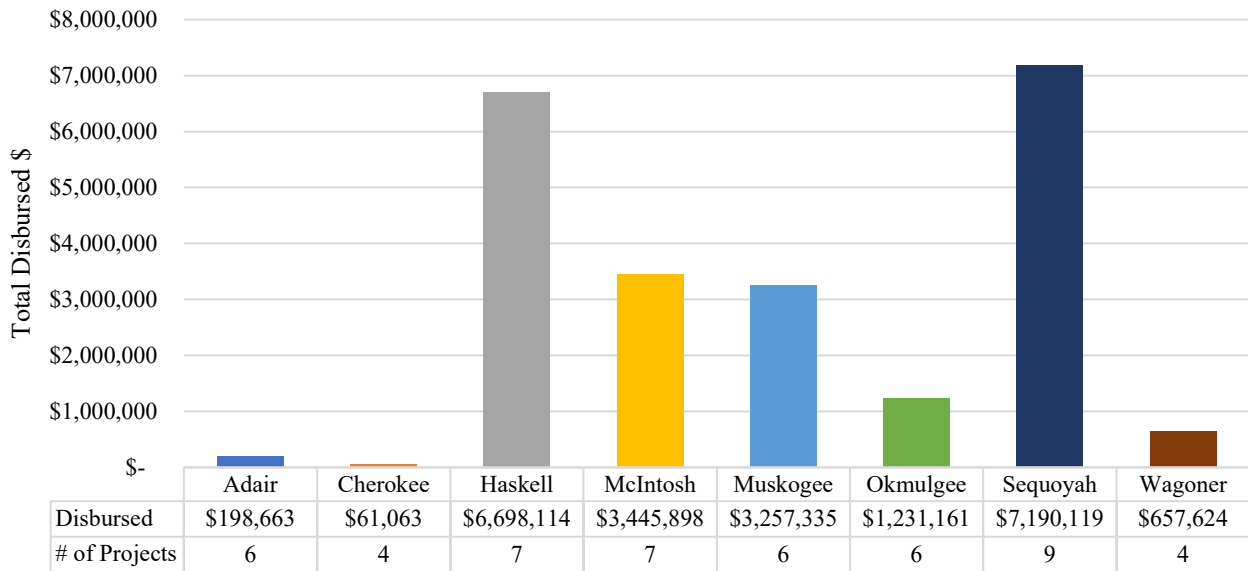


Source: Information provided from [5 Year Construction Work Plan SFY-2021 through SFY-2025](#) and Oklahoma Department of Transportation CIRB Project Information report.

**CIRCUIT ENGINEERING DISTRICT #2
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 #2 totaling \$22,739,977. This amount includes funds budgeted during fiscal years 2016 through 2021 listed by beneficiary County.

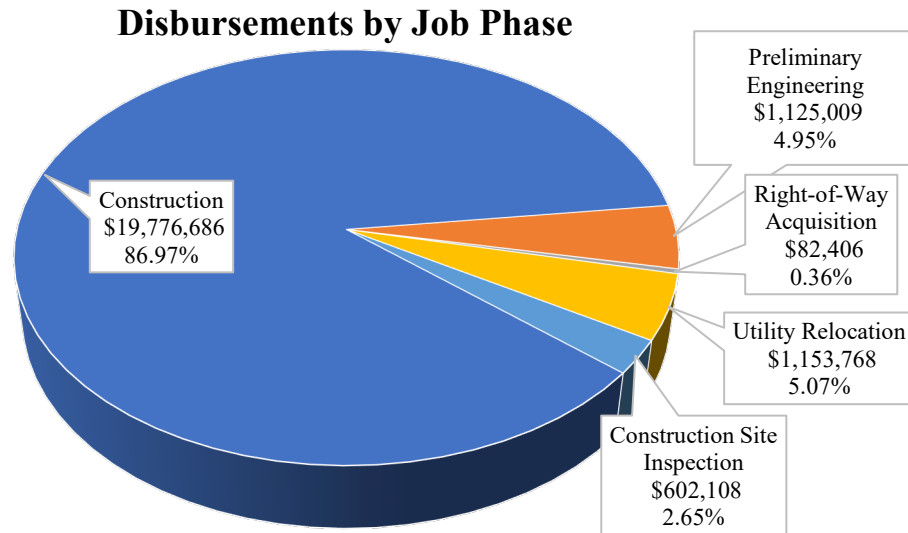
Disbursements by County



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 #2
DISBURSEMENTS BY JOB PHASE
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents fiscal year 2021 disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for District #2 totaling \$22,739,977. This amount includes funds budgeted during fiscal years 2016 through 2021 listed 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.

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.

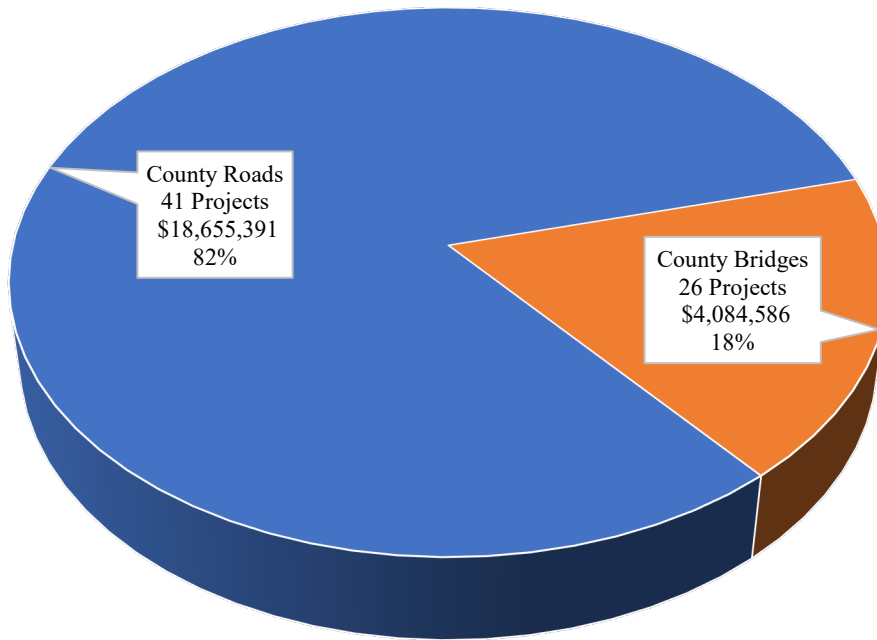
Construction Site Inspection – this job phase consists of oversight of the contractor to ensure the project is built in accordance with specifications, plans and estimates. These payments are disbursed to the District.

Source: Information provided from 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 #2
DISBURSEMENTS BY PROJECT TYPE
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Below represents the amount disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for District #2 totaling \$22,739,977. This amount includes funds budgeted during fiscal years 2016 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 #2
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 #2 divided into their respective budget years.

Fiscal Year 2021 Disbursements by Budget Year

County	2016	2017	2018	2019	2020	2021	Total *
Adair	-	44,500	18,292	30,892	61,596	43,383	\$ 198,663
Cherokee	-	3,453	20,041	15,839	-	21,730	\$ 61,063
Haskell	-	141,945	54,671	155,575	6,289,444	56,479	\$ 6,698,114
McIntosh	-	14,032	126,173	1,076,768	2,038,175	190,750	\$ 3,445,898
Muskogee	-	11	176,565	17,912	1,127,964	1,934,883	\$ 3,257,335
Okmulgee	-	-	34,438	678,369	448,468	69,886	\$ 1,231,161
Sequoyah	133,277	5,532	239,755	1,334,077	4,352,676	1,124,802	\$ 7,190,119
Wagoner	-	13,296	-	122,176	513,429	8,723	\$ 657,624
Total	\$ 133,277	\$ 222,769	\$ 669,935	\$ 3,431,608	\$ 14,831,752	\$ 3,450,636	\$ 22,739,977

*-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 #2
PROJECT HIGHLIGHTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Eastern Oklahoma Circuit Engineering District #2 (CED #2) serves Adair, Cherokee, Haskell, McIntosh, Muskogee, Okmulgee, and Sequoyah counties in eastern Oklahoma. Working in cooperation with the county commissioners, CED #2 aids with design of roads and bridges, right-of-way utility coordination, project management, construction inspection, material lab testing, sign management, and FHWA's Safety Bridge Inspection.



Dwight Mission Construction



Dwight Mission After

2022 saw the completion of several CIRB projects across CED #2. A new bridge is in place over Double Spring Creek near Terisita in Cherokee County. The Dwight Mission and Marble City projects in Sequoyah County have widened and improved roadways. A new fast cast bridge was installed over Turkey Pen in Okmulgee County and Muskogee County has a new bridge and improved roadway over Coody Creek.

Active projects include a 40-foot bridge in construction over Ash Creek in Muskogee County, a 5-mile road project at Lona Valley, and a new bridge over Possum Hollow both in Haskell County. Okmulgee County has an 8-mile road project on Dentonville Road and new bridges are being built in McIntosh and Sequoyah counties.

CED #2 continues to aid its community with improvements to roads, the removal of derelict bridges and the construction of new bridges due to funds provided through the CIRB 5-Year Construction Plan.



Coody Creek Before



Coody Creek After

Source: Information provided by Circuit Engineering District #2 (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #2
PRESENTATION OF REVENUES, EXPENDITURES,
AND FUND BALANCES OF DISTRICT FUNDS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Presentation of District #2 Funds for the Period of July 1, 2020 through June 30, 2021

	General Fund
Beginning Cash Balance, July 1	\$ 822,157
Revenues:	
ODOT (CIRB and Professional Services) Revenue	846,107
OCCEDB (CBRI and Auction Proceeds) Revenue	304,637
County and Local (Enterprise Activities - Sign Shop) Revenue	65,977
Total Revenues	1,216,721
Expenditures:	
Inventory - Sign Shop	42,651
Accrued Wages Payable	511,406
Payroll Taxes - State Withholding	27,731
Accrued Retirement Payable - OPERS	35,295
Cost of Sales - Contract Engineer	30,620
Cost of Goods - Construction Inspection	108,670
Accounting Fees	4,175
Auditing Fees Expense	438
Auto & Truck Expense	73,333
Bank Charges	496
Conference & Seminar Expense	2,983
Bridge Inspection Expense	50,467
Construction Inspection Expense	579
Engineering Service Expense	33,011
Dues and Subscriptions Expense	5,356
Freight Expense	1,101
Fuel Expense	18,346
Gifts Expense	210
Insurance Expense-Property	9,731
Employee Health/Vision/Dental	127,876
Maintenance Expense Landscaping	1,095
Maintenance & Repair - Building	5,259
Repair & Maintenance - Equipment	1,377
Sign Shop Office Equipment	291
Payroll Taxes - State Unemployment	2,641
Payroll Tax Expense	170,114
Penalties and Fines Expense	4,087
Office Supplies & Expense	12,824
Computer Hardware	534
Cleaning Services	800
Postage & Shipping Expense	750
P.O. Box Rental	257
Printing and Reproduction Expense	945
Professional Development Expense	100
Wages - Construction Inspector	1,601
Retirement Expense	128,570
Supplies Expense	1,447
Surveying Expense	25,683
Telephone/Internet Expense	20,745
Travel/Meals/Training Expense	588
Pike Pass Expense	1,800
Utilities	10,755
Total Expenditures	1,476,738
Ending Cash Balance, June 30	\$ 562,140

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

**CIRCUIT ENGINEERING DISTRICT #2
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 #2 General Fund – the General Fund is the primary operating fund of the District and is used to account for all activities.

**CIRCUIT ENGINEERING DISTRICT #2
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 #2
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 #2
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 not accurately presented on the District’s financial reports for the period. Additionally, 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 \$1,150,744 in monies (94.58% of total monies) received from the Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB) and Oklahoma Department of Transportation (ODOT) 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 District’s Bookkeeper performs all entries to the accounting program, including posting invoices, deposits, and performing bank reconciliations.

Internal control deficiencies regarding the District’s monthly financial process and reports, included the following:

- A formal policy has not been designed and/or implemented regarding financial reporting for the monthly financial reports.

**CIRCUIT ENGINEERING DISTRICT #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

- The bank reconciliations are not properly performed to verify the accuracy of balances and reconciling items.
- The General Ledger is understated by \$222,975 due to duplicate expenditure transactions.
- Bank reconciliations are not reviewed and verified to the District's underlying ledgers or outstanding items.
- Bank deposits are not reviewed and verified to the District's underlying ledgers.

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

- Bank account reconciliations are performed and reviewed by someone other than the preparer and documentation of the review is maintained.
- Bank account reconciliations outstanding items be reviewed and verified.
- Bank account reconciliations be reviewed and verified to underlying accounting ledgers.

Effect of Condition: These conditions resulted in undetected errors and misstated financial reports. These conditions could result in unrecorded transactions 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:

- Bank reconciliations should be reviewed by someone other than the preparer to the District's bank statement and underlying ledgers.
- Bank reconciliations should be performed monthly and reviewed by someone other than the preparer.

Management Response:

CED Board President: Management will update our policies and procedures to include OSAI recommendations. Bank reconciliations will be prepared monthly and reviewed to the District's bank statements and underlying ledgers by someone other than the preparer.

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.

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 #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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.

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 #2
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 twenty-seven (27) expenditures totaling \$21,075 representing 4.50% of expenditures in the population tested.
- Reviewed a random sample of two (2) payroll periods totaling \$38,840 representing 3.84% of payroll expenditures in the population tested.

FINDINGS AND RECOMMENDATIONS

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

Condition: Upon inquiry and observation of the District’s expenditure 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 District’s Bookkeeper posts entries into the accounting program, maintains blank check stock, prints the checks, and disburses (distributes/mailed) checks.

Internal control deficiencies regarding the District’s expenditure process included the following:

- Formal policies have not been designed and/or implemented regarding purchasing, bidding, debit card usage, or travel reimbursements.
- Internal transfers are not reviewed or approved by anyone other than the preparer.
- No one reviews entries entered into the accounting program .
- Invoices are not present with the check for approval by the Board.
- Documentation is not maintained regarding the method of distribution for outgoing checks.
- The District does not retain evidence regarding the submissions of timesheets by employees.
- Management’s review of payroll is not documented.
- The District’s payroll is not reviewed and approved by the Board.

**CIRCUIT ENGINEERING DISTRICT #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Additionally, in reviewing a random sample of twenty-seven (27) District expenditures (excluding payroll), the following exceptions were noted:

- Two (2) were not supported by adequate documentation due to lack of receipts or invoices.
- One (1) was not reviewed and approved by the Board.
- Four (4) included sales tax which is not an allowable expenditure of the District.

Cause of Condition: Policies and procedures have not been designed and implemented regarding the segregation of duties of the expenditure process. Additionally, policies and procedures have not been designed and implemented over the expenditure process to strengthen internal controls.

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 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:

- Develop written policies regarding purchasing, bidding, travel reimbursements and debit card usage.
- Document the review of expenditures (including payroll) by management and the Board, which includes supporting documentation of expenditures such as receipts, invoices, timesheets, payroll reports, and direct deposits.
- Ensure the accounting transactions and internal transfers are reviewed by someone other than the preparer.
- Ensure all employees submit timesheets prepared in accordance with District policies and retain timesheets for supporting documentation for payroll expenditures.
- Document distribution method for dispersal of checks.

Management Response:

CED Board President: Following the OSAI recommendations, management will implement policies and procedures to segregate duties over the Districts expenditure process to mitigate the risk involved with the concentration of duties. The District will develop written policies regarding purchasing, bidding, travel reimbursements and debit card usage. The District will document the review of expenditures and ensure that accounting transactions and internal transfers are reviewed by someone other than the preparer. Additionally, the District will ensure timesheets submitted by employees are retained along with supporting documentation and document the distribution method for the dispersal of checks.

**CIRCUIT ENGINEERING DISTRICT #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

Criteria: 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.

Further, 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.

Also, 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 #2
OBJECTIVES AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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:

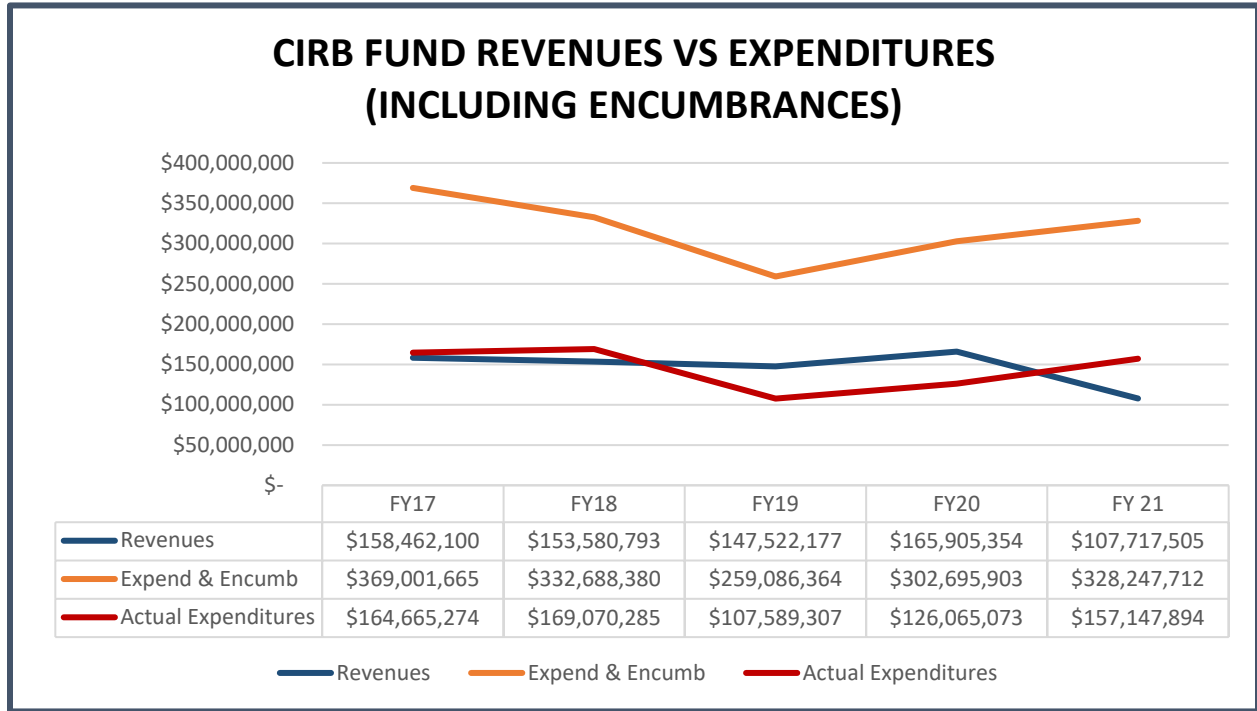
- Documented our understanding of the process for evaluating proposed changes to projects prior to modifying the District's 5 Year Construction Work Plan.
- Verified documentation for projects added to the plan prior to modifying the District's 5 Year Construction Work Plan.
- Verified documentation for removed projects 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.

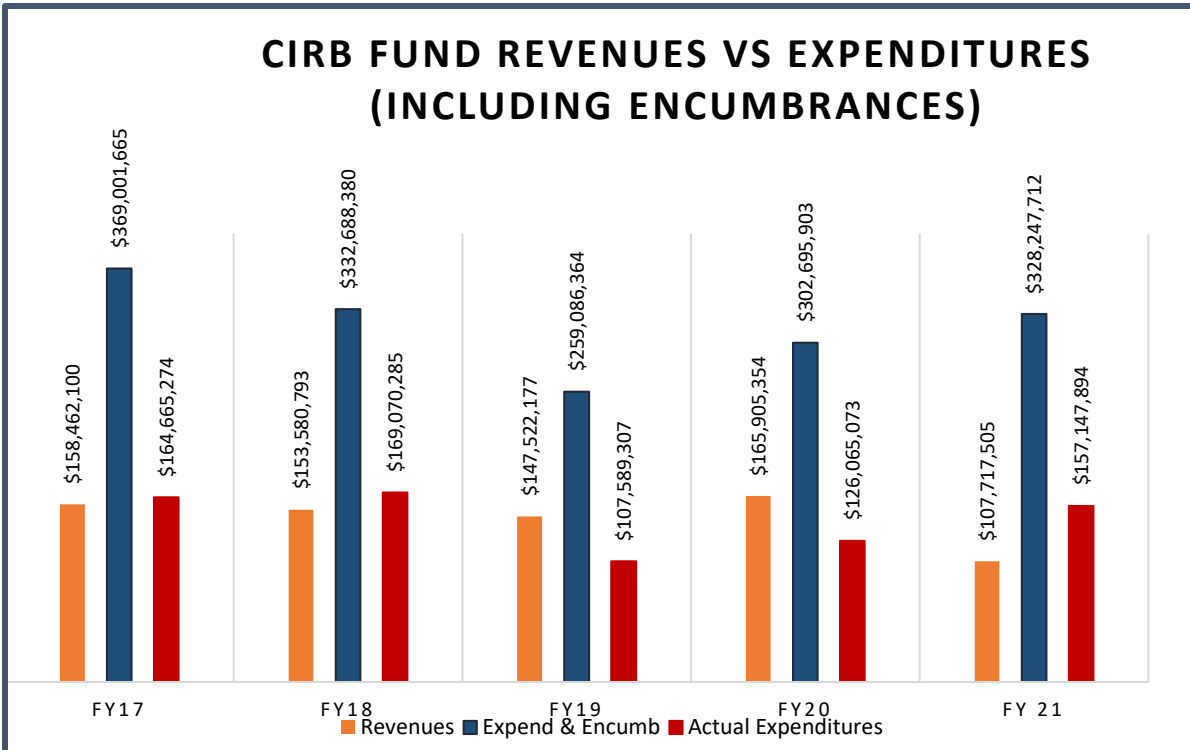
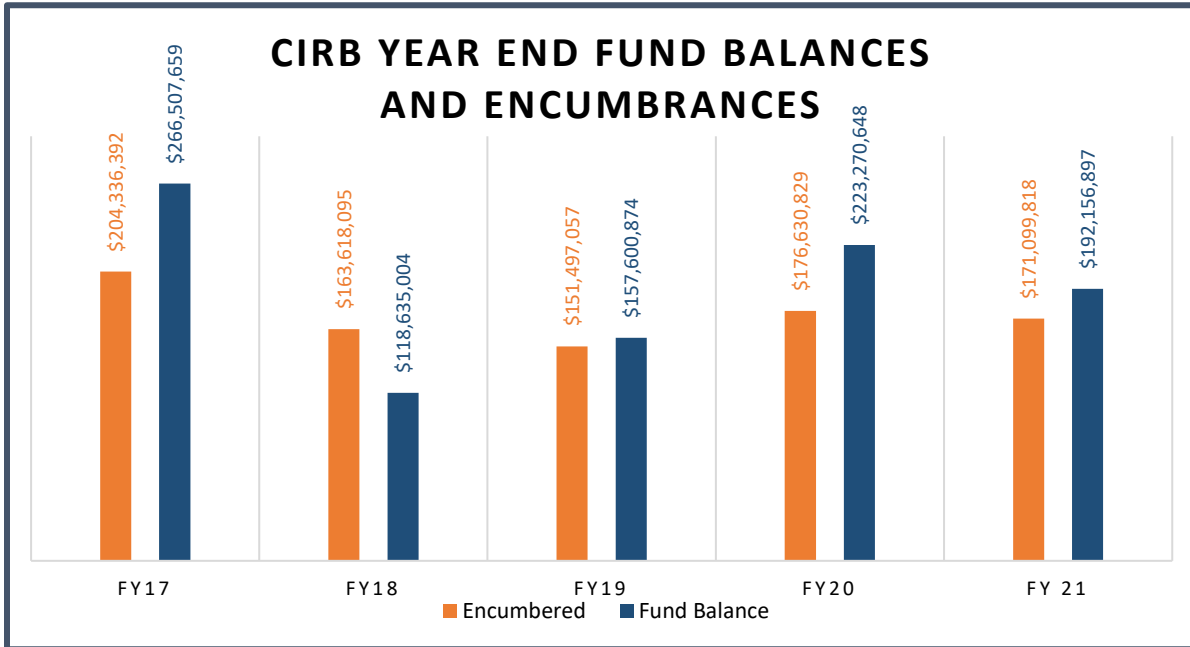
**CIRCUIT ENGINEERING DISTRICT #2
APPENDIX: STATEWIDE CIRB FUND ANALYSIS
FOR ALL CIRCUIT ENGINEERING DISTRICTS
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2021**

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 #2
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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