



CIRCUIT ENGINEERING DISTRICT #7

Operational Audit

For the period of July 1, 2021 through June 30, 2022

Cindy Byrd, CPA
State Auditor & Inspector

**CIRCUIT ENGINEERING DISTRICT #7
OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

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OKLAHOMA
Office of the State Auditor & Inspector

Cindy Byrd, CPA | State Auditor & Inspector

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January 22, 2024

**TO THE BOARD OF THE
CIRCUIT ENGINEERING DISTRICT #7**

We present the audit report of the Circuit Engineering District #7 for the period of July 1, 2021 through June 30, 2022. 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 #7
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

TABLE OF CONTENTS

OPERATIONAL AUDIT REPORT

Introductory Section (Unaudited)

District Information and Officials.....	ii
District Area.....	iii
Revenue by Source.....	iv
CIRB Fund Disbursements by County.....	v
CIRB Fund Disbursements by Job Phase.....	vi
CIRB Fund Disbursements by Project Type.....	vii
CIRB Fund Disbursements by Year Encumbered	viii
Project Highlights	ix

Presentation of Revenues, Expenditures, and Cash Balances of District Fund for the Period of July 1, 2021 through June 30, 2022.....	1
---	---

Description of the District’s Fund.....	3
---	---

Purpose, Scope, General Methodology and Internal Control Considerations.....	4
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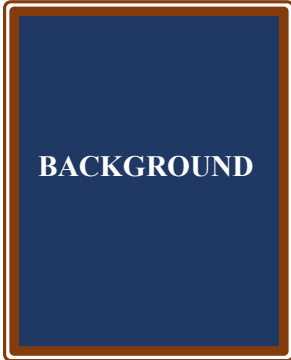
Objective and Results of Operational Audit	6
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CIRB Five Year Construction Work Plan (Unaudited)

Appendix A: Status of Projects FY 2021	14
Appendix B: Status of Projects FY 2022	17

INTRODUCTORY SECTION
UNAUDITED INFORMATION ON PAGES ii - x
PRESENTED FOR INFORMATIONAL PURPOSES ONLY

**CIRCUIT ENGINEERING DISTRICT #7
DISTRICT INFORMATION AND OFFICIALS
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**



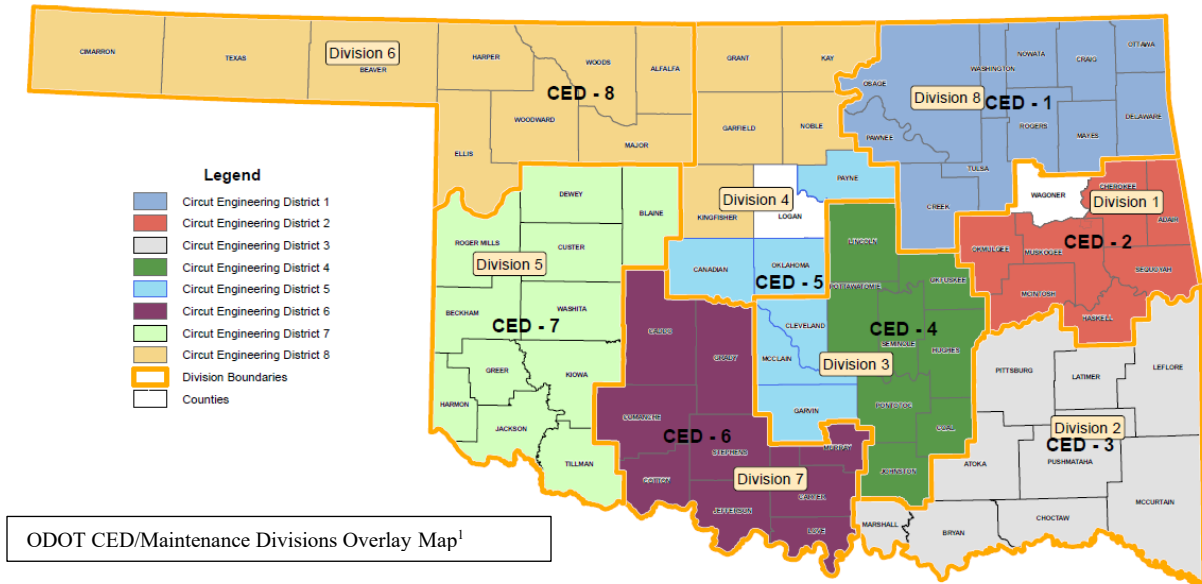
Pursuant to 69 O.S. § 687.1, counties may “create a circuit engineering district with any other county or counties” to allow county governments to “make the most efficient use of their powers [...] that will accord best with geographic, economic, population and other factors influencing the needs and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

- | | |
|---------------|-------------------------------|
| Kirk Butler | President, Jackson County |
| Wade Anders | Vice-President, Custer County |
| Johnny Davis | Beckham County |
| Mike Allen | Blaine County |
| Dillon Berry | Dewey County |
| Steven Fite | Greer County |
| Gary Lewis | Harmon County |
| Gary Jennings | Kiowa County |
| Brian Hay | Roger Mills County |
| Kent Smith | Tillman County |
| Bart Gossen | Washita County |

**CIRCUIT ENGINEERING DISTRICT #7
DISTRICT AREA
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**



Circuit Engineering District #7 (the District) is comprised of an eleven-county region, in the western part of the state including: Beckham, Blaine, Custer, Dewey, Greer, Harmon, Jackson, Kiowa, Roger Mills, Tillman, and Washita counties¹.

On October 26, 2010, and subsequently amended on November 22, 2010, pursuant to the Oklahoma Energy Independence Act, the District created the CED #7 County Energy District Authority (the Authority). The Authority is a public trust as provided for in 60 O.S. §§ 176, et seq.

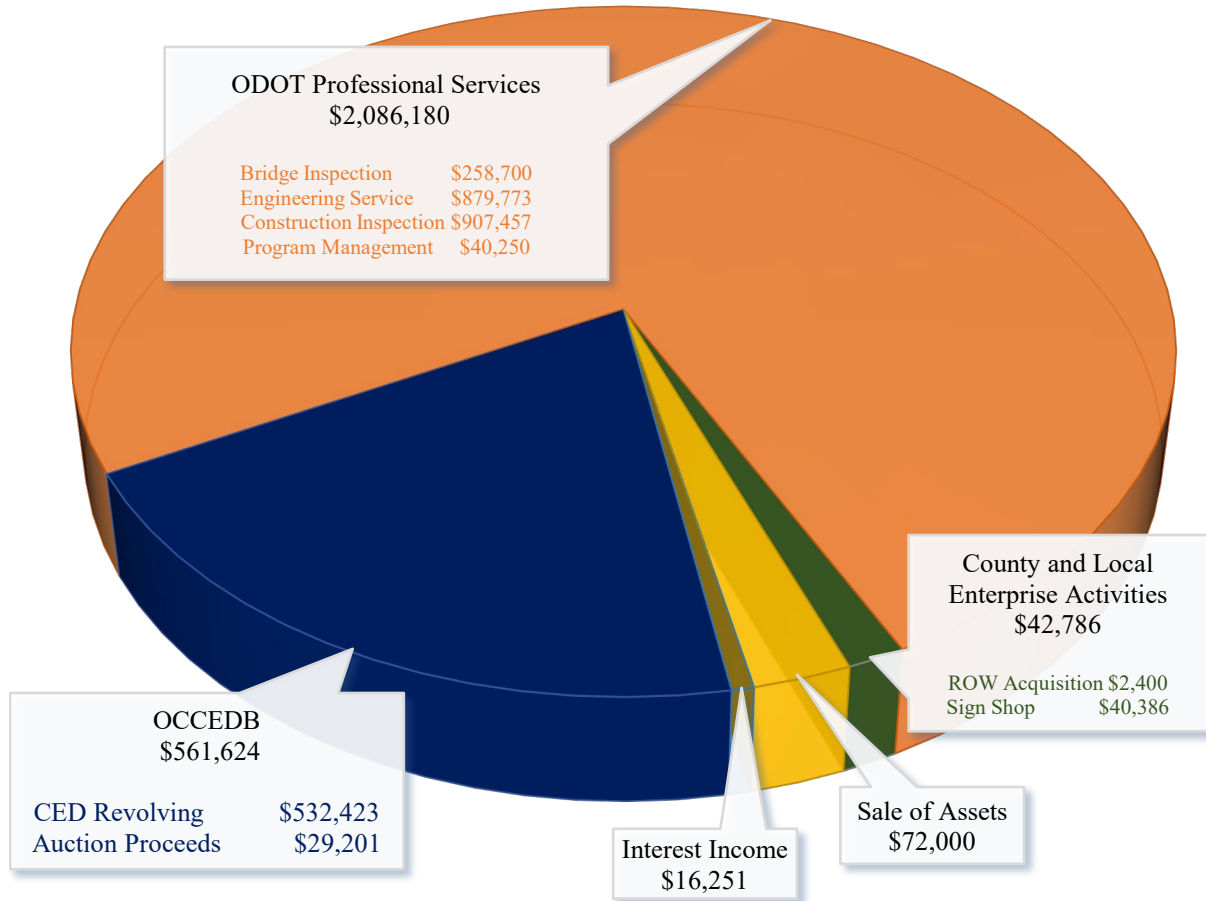
On June 26, 2012, the District and the Authority entered a joint venture agreement to create 7 Oil Joint Venture (7Oil), to produce oil emulsion. The 7Oil emulsion plant has ceased operations and is currently under liquidation.

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

**CIRCUIT ENGINEERING DISTRICT #7
REVENUE BY SOURCE
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

The District is funded by state and local revenues. The chart below summarizes the revenue sources.

Revenue by Source

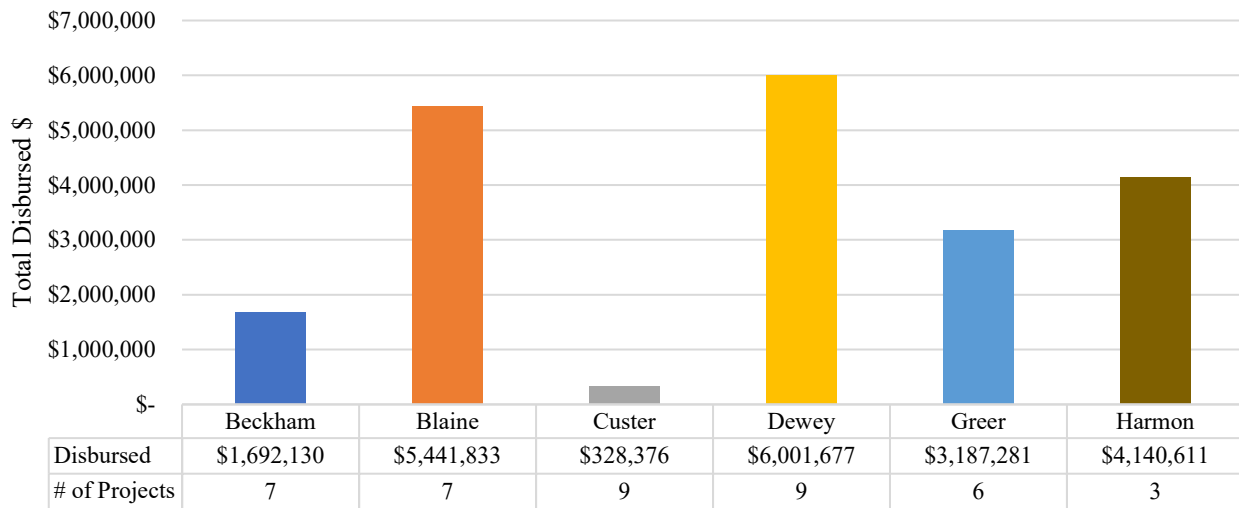


During the period the District collected \$2,778,841 in total revenue. The Oklahoma Department of Transportation (ODOT) Professional Service proceeds of \$2,086,180 are derived from contractual bridge inspection, engineering services, construction inspection and program management. The Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB) proceeds totaling \$561,624 are derived from CED Revolving fund consisting of motor fuel and gross production collections passed from the state through OCCEDB to the District; and Auction proceeds are derived from the sale of equipment at auctions hosted by the OCCEDB at a rate of 2% of the gross sale price. County and Local Enterprise Activities proceeds of \$42,786 are derived from payments received from member counties for construction services provided by the District, regulatory roadway products, and custom roadway signs. Sale of Assets proceeds of \$72,000 are derived from selling four District vehicles to member counties. The remaining \$16,251 was interest income from the District's investment account. These funds are used for the administration and management of the District, and to provide services to member counties.

**CIRCUIT ENGINEERING DISTRICT #7
CIRB FUND DISBURSEMENTS BY COUNTY
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Below represents fiscal year 2022 disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for projects in District #7 totaling \$22,426,797. This amount includes funds budgeted during fiscal years 2016 through 2022 listed by beneficiary County.

CIRB Fund Disbursements by County



CIRB Fund Disbursements by County

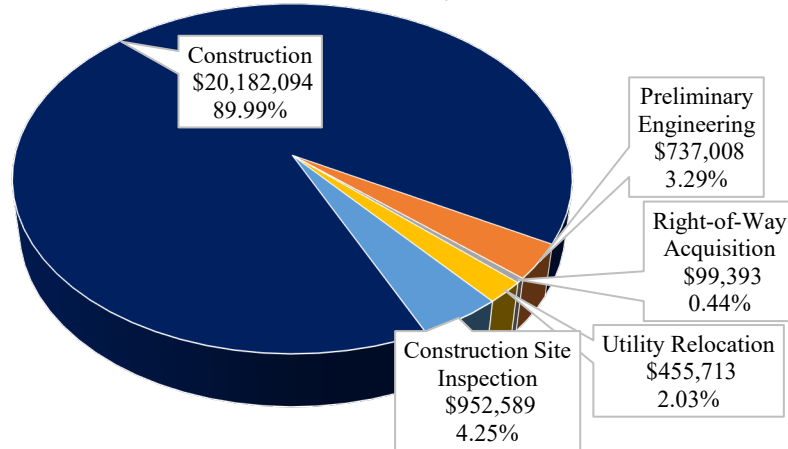


Source: Information provided from ODOT PFS report and the Statewide Accounting System – Summary of Receipts and Disbursement reports and Allotment Budget and Available Cash Reports (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #7
CIRB FUND DISBURSEMENTS BY JOB PHASE
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Below represents fiscal year 2022 disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for District #7 totaling \$22,426,797. This amount includes funds budgeted during fiscal years 2016 through 2022 listed by job phase.

CIRB Fund Disbursements by Job Phase



Preliminary Engineering (P.E.) – 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.

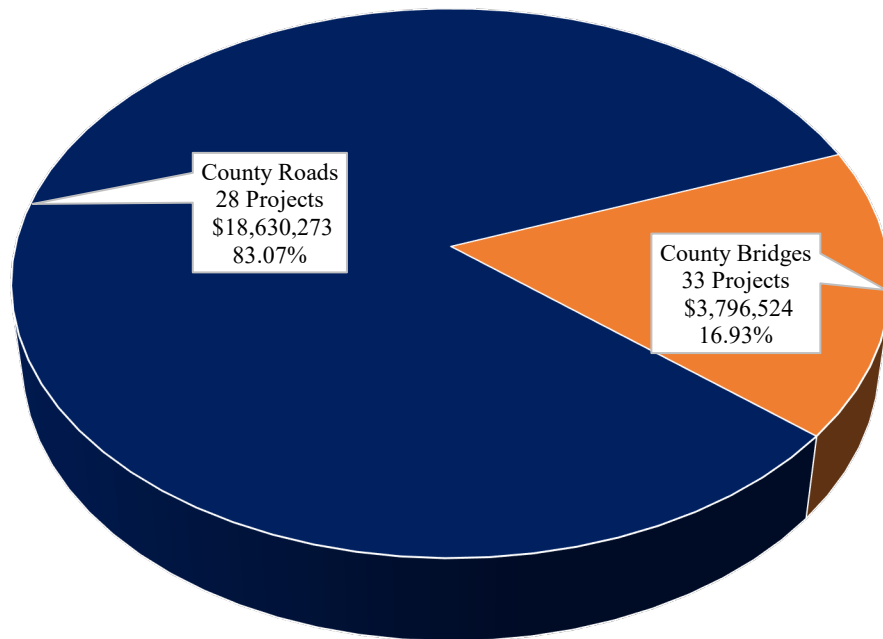
Construction Site Inspection – this job phase consists of oversight of the contractor to ensure the project is built in accordance with specifications, plans and estimates. These payments are disbursed to the District.

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 #7
CIRB FUND DISBURSEMENTS BY PROJECT TYPE
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Below represents the amount of disbursements made from the County Improvements for Roads and Bridges (CIRB) fund for District #7 totaling \$22,426,797. This amount includes funds budgeted during fiscal years 2016 through 2022 listed by project type. Title 69 O.S. § 507(B) defines the purpose of the five 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.”

CIRB Fund 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 #7
CIRB FUND DISBURSEMENTS BY YEAR ENCUMBERED
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

The following chart depicts the total \$22,426,797 disbursed for County Roads and County Bridge projects for District #7 during fiscal year 2022. The chart also reflects the year the funds were set aside by encumbrances that were later disbursed (paid) in fiscal year 2022.

Fiscal Year 2022 Disbursements by Year Encumbered

County	2016	2017	2018	2019	2020	2021	2022	Total
Beckham	\$ -	\$ -	\$ -	\$ 1,871	\$ 2,408	\$ 78,145	\$ 1,609,706	\$ 1,692,130
Blaine	-	-	-	15,480	2,500	514,704	4,909,149	\$ 5,441,833
Custer	2,400	-	-	-	11,078	180,349	134,549	\$ 328,376
Dewey	-	900	5,278	-	1,040	5,521,400	473,059	\$ 6,001,677
Greer	-	-	-	-	-	49,486	3,137,795	\$ 3,187,281
Harmon	-	-	154,940	-	2,162	3,789,178	194,331	\$ 4,140,611
Jackson	450	-	-	-	-	91,545	19,480	\$ 111,475
Kiowa	-	-	50,604	2,805	8,405	28,563	77,914	\$ 168,291
Roger Mills	-	23,855	-	-	-	-	2,400	\$ 26,255
Tillman	-	-	-	130	7,613	66,450	846,378	\$ 920,571
Washita	-	-	-	-	4,720	26,911	376,666	\$ 408,297
Total	\$ 2,850	\$ 24,755	\$ 210,822	\$ 20,286	\$ 39,926	\$ 10,346,731	\$ 11,781,427	\$ 22,426,797

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 #7
PROJECT HIGHLIGHTS
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Circuit Engineering District #7 (the District) was established in 1998 as a cooperative in order to provide efficiencies in grouping counties together to provide engineering and other services. Initially, federally mandated bridge safety inspection services were provided to the then ten (10) county District.

In 2000, the District hired a professional engineer and developed a drafting squad in order to provide in-house bridge and roadway design and other engineering services to their member counties. From 2001 through 2023, a total of 161 bridge projects have been designed and constructed in the 11 member counties utilizing federal bridge replacement funds, at a total construction cost of over \$85 million.

When HB 1176 was passed in 2006, the “County Improvement for Roads and Bridges” (CIRB) Program was implemented using this new funding source primarily to design and construct larger bridge and road projects that an individual county would not be able to fund with their own funding sources. At that time, Blaine County joined the District in order to facilitate the usage of CIRB funds, since those funds are allocated for each ODOT field district, and the addition of Blaine County to the District made the County District 7 Boundary of 11 counties match ODOT Field District 5’s boundary. From 2009 through 2023, a total of 35 projects have been designed and constructed in the 11 member counties utilizing CIRB funds, at a total construction cost of \$132 million.

The District has an ODOT certified construction inspection staff and an ODOT certified materials testing lab to support them. This staff monitors the contractors who construct projects within the District to ensure the projects are built according to the plans and the ODOT Standard Specifications.

The District operates a sign shop that produces traffic signs for our member counties and cities who have interlocal agreements with their counties. These entities can order traffic signs and have them produced in a timely and cost-effective manner.

The District also provides engineering advice to our member counties, in such matters as advising commissioners on what size of pipe or bridge he may need at a location to carry the appropriate flow, or what repairs he might want to perform on a bridge or road in order to keep it in service or prolong its life.

In FY 2023, the District prepared and let seven (7) federally funded bridge/road overlay projects and two (2) state CIRB funded bridge/roadway reconstruction projects, as follows:

Federally funded Bridge and Road projects:	Project Cost
Beckham County, West Elk Creek	\$1,011,262
Custer County, unnamed creek	690,544
Greer County, Sleepy John Creek	711,748
Kiowa County, Elk Creek	1,176,073
Tillman County, Curtis Creek	529,048
Washita County, unnamed creek	667,908
Greer County, Cottonwood Road overlay	1,265,744
TOTAL PROJECT COSTS	\$6,052,327

Source: Information provided by Circuit Engineering District # 7 (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #7
PROJECT HIGHLIGHTS
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

State funded CIRB Bridge and Road projects:	Project Cost
Custer County, Lawter Road reconstruction	\$7,597,950
Roger Mills County, Canadian River bridge & approaches	4,099,607
TOTAL PROJECT COSTS	\$11,697,557

For FY 2024, projects currently designed and either let, placed on an ODOT letting or tentatively scheduled for letting pending completion of right-of-way acquisition and availability of funds, include eleven (11) federally funded bridge replacement projects and four (4) state funded CIRB bridge/roadway reconstruction projects:

Federally funded Bridge and Road projects:	Project Cost Estimate
Beckham Co. Indian Creek, Spring 2024 letting	\$700,000
Blaine Co. unnamed creek, October 2023 letting	808,500
Custer Co. Barnitz Creek, Spring 2024 letting	1,575,000
Dewey Co. Teepee Creek, February 2024 letting	703,750
Greer Co. unnamed creek, Spring 2024 letting	600,000
Jackson Co. Cottonwood Creek, October 2023 letting	764,000
Jackson Co. Altus-Lugert Irrigation Canal, Spring 2024 letting	800,000
Kiowa Co. Pecan Cr., Spring 2024 letting	800,000
Tillman Co. Deep Red Cr., Spring 2024 letting	800,000
Washita Co. Coffee Cr., Spring 2024 letting	800,000
Tillman Co. overlay Co. Roads EW-183/NS-244, Spring 2024 letting	1,100,000
TOTAL PROJECT COSTS	\$9,451,250

State funded CIRB Bridge and Road projects:	Project Cost Estimate
Custer County, Soldier Creek., Crosstown Beam project, Spring 2023 letting	\$700,000
Custer County, Crooked Creek, Crosstown Beam project, Spring 2023 letting	700,000
Jackson County, Ridgecrest Road and retention pond, Spring 2024 letting	3,500,000
Kiowa Co. Iris Street, Spring 2024 letting	5,800,000
TOTAL PROJECT COSTS	\$10.7 Million

Source: Information provided by Circuit Engineering District # 7 (presented for informational purposes).

**CIRCUIT ENGINEERING DISTRICT #7
PRESENTATION OF REVENUES, EXPENDITURES,
AND CASH BALANCES OF DISTRICT FUND
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Presentation of District #7 Fund for the Period of July 1, 2021 through June 30, 2022

	General Fund
Beginning Cash Balance, July 1	\$ 1,808,105
Revenues:	
ODOT Professional Service:	
Bridge Inspection	258,700
Engineering Service	879,773
Construction Inspection	907,457
Program Management	40,250
County and Local Enterprise Activities:	
ROW Acquisition	2,400
Sign Shop	40,386
OCCEDB:	
CED Revolving	532,423
Auction Proceeds	29,201
Interest Income	16,251
Sale of Assets	72,000
Total Revenues	2,778,841
Expenditures:	
Sign Shop Expense	30,114
ODOT Professional Services:	
ROW Acquisiton	54,845
Engineering Consulting Fees	44,606
Licenses and Permits	2,914
Lab Expenses	7,412
Subcontractors:	
Environmental	19,383
Drafting	9,500
GeoTech	62,082
Survey	66,880
Utility & Design	12,455

continued on next page

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

**CIRCUIT ENGINEERING DISTRICT #7
PRESENTATION OF REVENUES, EXPENDITURES,
AND CASH BALANCES OF DISTRICT FUND
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

	General Fund
continued from previous page	
Maintenance & Operation:	
Automobile Expense	\$ 57,398
Liability Insurance	22,297
Office Expenses	47,469
Building Repairs	8,296
Computer Repairs	6,758
Equipment Repairs	60
Telephone	10,114
Utilities	10,745
Professional Fees:	
Accounting	13,025
Legal Fees	50,242
Personal Services:	
Company Retirement Contribution	154,953
Employee Insurance Expense	124,105
Workers' Comp. Insurance	6,123
Payroll Expenses - Salaries & Benefits	1,154,185
Life Insurance	19,241
Travel & Entertainment:	
Board Members Travel	1,674
Meals	2,290
Employee Travel	1,127
Training	609
Capital Outlay:	
Equipment Purchases	14,369
Total Expenditures	2,015,271
Ending Cash Balance, June 30	\$ 2,571,675 *

**** As of June 30, 2022, the District is owed \$3,626,833 due to capital investments and loans from taxpayer funds to the CED #7 County Energy District Authority (the Authority)/7 Oil Joint Venture Oil Plant (7Oil). The receivable is from a joint-venture project between the two entities in which they sold road emulsion.***

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

**CIRCUIT ENGINEERING DISTRICT #7
DESCRIPTION OF THE DISTRICT'S FUND
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Description of the District's Fund

The District uses funds to report on revenues, expenditures, and cash 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 description of the district fund within the Presentation of Revenues, Expenditures, and Cash Balances of District Funds:

Circuit Engineering District #7 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.

Receivable from the District's Joint Venture

The District created the Authority and subsequently these entities jointly created 7Oil. The District was not allowed by law to enter into the joint venture agreement. Once it did, though, the District then commingled monies with the Authority and violated the agreement by not creating a third entity to oversee the project and by paying more money into the project than the specified 50/50. Some District officials accomplished this latter violation by not fully informing most board members and by having the board approve payments and transfers by way of consent agendas instead of stand-alone agenda items in meetings. This led to some of the now-former District officials being charged with embezzlement and conspiracy and pleading guilty to lesser charges. Additionally, the District did not terminate the joint-venture agreement by the date that the agreement itself required but, instead, continued selling emulsion. Due to the legality of this venture, the 7Oil emulsion plant was to cease operation and be liquidated in accordance with directives provided. The liquidation process of the 7Oil emulsion plant has not been finalized. The District likely will never recover the full \$3.6 million of taxpayer funds.

**CIRCUIT ENGINEERING DISTRICT #7
PURPOSE, SCOPE, GENERAL METHODOLOGY
AND INTERNAL CONTROL CONSIDERATIONS
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

**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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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, 2021 through June 30, 2022.

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 objective. 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 the 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 #7
PURPOSE, SCOPE, GENERAL METHODOLOGY
AND INTERNAL CONTROL CONSIDERATIONS
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

identified the aspects of internal control components and underlying principles significant to the audit objective in this engagement.

Any internal control deficiencies are documented in the findings included under the objective in this report. Because our audit was limited to the internal control components and underlying principles deemed significant to our audit objective, 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 #7
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Objective 1: To determine the District's billed and recorded revenues are accurately supported in the District's records for the period.

Conclusion: The District's billed and recorded revenues are not accurately supported in the District's records. Additionally, we noted some deficiencies in internal controls regarding the District's billed revenue.

Objective 1 Methodology: To accomplish objective 1, we performed the following:

- Documented our understanding of the District's billed and recorded revenue process through discussions with management and review of documentation. Evaluated the process and identified significant internal controls related to the District's revenues.
- Compared the process to governmental internal control standards outlined in the *GAO Standards for Internal Control*.
- Confirmed \$2,753,873 in monies (99.10% of total monies) received from the Oklahoma Cooperative Circuit Engineering Districts Board (OCCEDB), Oklahoma Department of Transportation (ODOT), and County and Local Governments. Monies were determined to be entered into the accounting ledgers in the proper amount and approved by the District Board.
- Reviewed a random sample of twenty-nine (29) invoices totaling \$223,083 representing 10.14% of revenues billed in the population tested.

FINDINGS AND RECOMMENDATIONS

Finding 2022-001 – Internal Controls and Noncompliance Over the District's Billed Revenue

Condition: Upon inquiry, observation, and review of documents, internal control deficiencies in the billing process were noted as follows:

- The District provides various professional services billed using rates that were previously established by a CPA firm; however, the District is unable provide any supporting documentation regarding the calculation of these rates.
- The District has not established a policy for determining sign shop billing rates.
- Invoices to ODOT for professional services providing Preliminary Engineering, Bridge Inspection, and Program Management, do not specify the dates of work performed or supporting documents related to employee timesheets.

Further, it was noted that of the two hundred twenty-eight (228) payments remitted by ODOT during FY 2022 totaling \$1,946,047, sixty-three (63) payments totaling \$507,022 had work performed and billed outside of the agreement expiration date.

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Additionally, nine (9) invoices totaling \$137,917 lacked information specifying the dates of work, as a result we were unable to determine if the work was performed within the agreement term. A comparison of service period dates input into the ODOT system by the District to the corresponding employees' timesheets resulted in discrepancy in hours billed. Discussion with District administration disclosed that the service period dates may not be accurate.

The above billings were submitted, reviewed, and approved for payment by ODOT. Some of these billings that were approved in fiscal year 2022 date back to an agreement that expired on January 10, 2016. ODOT contracts currently in place require that certain percentages of completion be achieved, documented, and verified before a project invoice will be paid. Prior agreements do not require documentation to ensure projects progress prior to approving payment. The below table represents invoices paid to the District on expired contracts in fiscal year 2022:

Agreement				
Number	Begin	End	Amount	Unable to Determine
1434C	01/10/2013	01/10/2016	\$ 89,998	\$ -
1747C	03/04/2016	03/04/2018	5,278	-
2002C	03/14/2018	03/14/2020	45,609	-
2173	03/04/2020	03/04/2022	366,139	117,458
2348	03/24/2022	03/24/2024	-	20,459
Totals			\$ 507,022	\$ 137,917

Also noted, routine bridge inspections are to be billed at an hourly rate as stipulated by the Task Order. The District's invoices submitted to ODOT for routine bridge inspections did not bill for actual hours. The District calculated a flat per bridge amount of \$200 per bridge. The hours charged on the Consultant Invoices are reverse figured to arrive at the per bridge amount. These invoices also include an item listed as travel. Discussion with District administration disclosed the item billed as travel is for overhead expense. Travel overhead expenses are not allowable under the Task Order.

Invoice 06-2021 totaling \$46,400 was submitted, reviewed, and approved for payment by ODOT. A review of Invoice 06-2021 verified to the actual time records of the District reflected the following variances:

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Routine Bridge Inspection Invoice 06-2021				Dated 8/17/2021	
Classification of Personnel	Hours Invoiced	Hours Verified	Hours Over Billed	Hourly Rate	Amount Over Billed
Professional Engineer	116.00	52.50	63.50	\$ 80	\$ 5,080
Team Leader	290.00	234.00	56.00	38	2,128
Team Leader	290.00	252.50	37.50	38	1,425
Unknown "Travel"	232.00	-	232.00	65	15,080
Total of Unsubstantiated Charges					\$23,713

Finally, testwork was performed on a random sample of twenty-nine (29) invoices and the following exceptions were noted:

- Five (5) invoices for various Professional Services were incorrectly billed, totaling \$3,371 due to inaccurate hours and rates charged.
- Two (2) invoices for Bridge Inspection totaling \$800 could not be verified to employees' timesheets and included a \$65 per bridge charge for travel overhead which is not allowed according to the Task Order.
- One (1) invoice for the Sign Shop was incorrectly billed according to the District's price list totaling \$75.

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

- The District establish standardized charges for goods and services.
- Invoices are supported by adequate documentation.
- Invoices for goods and services are accurately billed in compliance with contractual agreements and District policies.
- The District's billed revenues are reviewed and approved by management and the Board.

Effect of Condition: These conditions resulted in noncompliance with contractual agreements and inaccurate charges billed. Further, these conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends management design and implement policies and procedures to strengthen internal controls over the District's billed revenue process. Implementation of a system of internal controls over billed revenue would include:

- The District should document the review and approval of all charges for goods and services by management and/or the Board to ensure goods and services are accurately billed in compliance with contractual agreements and District policies including standardized charges.

Management Response:

CED Board Chairman:

- The Circuit Engineering District will work with the Oklahoma Department of Transportation (ODOT) to determine how best to deal with design task orders where work extends beyond the

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

two-year agreement period, to ensure we are in compliance with the agreement when billing for such work.

- The Circuit Engineering District will work with ODOT regarding billing for routine bridge inspection on a per-bridge basis rather than an hourly basis.
- Supporting documentation for hourly rates charged for professional services will be developed.
- The Circuit Engineering District will develop a pricing policy for our Sign Shop.
- The Circuit Engineering District will work to implement policies and controls for timekeeping and billing designed to prevent these conditions in the future, including but not limited to, an independent review by a separate party from the creator of those invoices to ensure they are accurate, properly documented, and complete.

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. The common control activity categories listed in figure 6 are meant only to illustrate the range and variety of control activities that may be useful to management. The list is not all inclusive and may not include particular control activities that an entity may need.

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.

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Further, GAO Standards – Principle 11 – Design Activities for the Information System - 11.01 states:

Management should design the entity’s information system and related control activities to achieve objectives and respond to risks.

Additionally, GAO Standards – Principle 12 – Implement Control Activities - 12.02 through 12.04 states:

Documentation of Responsibilities through Policies

Management documents in policies the internal control responsibilities of the organization. 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 Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

Furthermore, ODOT Agreements outline the requirements for documentation, record retention, and effective dates.

Other Item(s) Noted:

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

FINDINGS AND RECOMMENDATIONS

Finding 2022-002 – Internal Controls and Noncompliance Over the District’s CIRB Management Services

Condition: While reviewing invoices billed to ODOT, an invoice for CIRB Management was not adequately supported by timesheets. Upon further review of documentation and staff interviews, we determined that \$58,510 of the billed charges submitted for payment were not properly supported.

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

The invoices reviewed, approved, and paid by ODOT lacked adequate supporting documentation to justify the payment. During the audit, timesheets were requested to support the invoices submitted for payment of Task Order 1; invoices 124680 and 129034. Timesheets provided to auditors included employees that were not listed as allowable staff on the task order. In addition, documentation included timesheets that were prior to the origination of the Task order. Further, the clerical/secretary timesheet is not maintained in enough detail to support hours billed for CIRB Management versus other duties.

Contract 2173 Task Order 1 Invoices 124680 & 129034						
Task Order Classification	Time			Dollars		
	Billed	Verified	Variance	Rate	Unsupported	Billed
Executive Director	128.00	11.50	(113.50)	\$ 140	\$ (15,890)	\$ 17,920
Professional Engineer II	329.00	99.00	(230.00)	150	(34,500)	49,350
Clerical/Secretary	154.00	-	(154.00)	50	(7,700)	7,700
Totals	611.00	113.50	(497.50)		\$ (58,090)	\$ 74,970

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the District maintains proper supporting documentation for all billings and is in compliance with contractual agreements.

Effect of Condition: These conditions resulted in noncompliance with contractual agreements and inaccurate charges billed. Further, these conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends management design and implement policies and procedures to strengthen internal controls over the District’s billed revenue process for professional services, which includes CIRB Management. Implementation of a system of internal controls over billed revenue would include:

- The District should document the review and approval of all charges for services by management and/or the Board to ensure services are accurately billed in compliance with contractual agreements and District policies.
- The District should maintain records in sufficient detail to support services billed and/or invoiced.

Management Response:

CED Board Chairman: The Circuit Engineering District will implement controls to ensure that, when billing for CIRB Management services, those invoices are accurate and complete. Controls will include, but not be limited to, an independent review by a separate party from the creator of those invoice to ensure they are accurate, properly documented, and complete.

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

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.

GAO Standards – Principle 10 – Design Control Activities - 10.03 states in part:

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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.

Further, GAO Standards – Principle 11 – Design Activities for the Information System - 11.01 states:

Management should design the entity’s information system and related control activities to achieve objectives and respond to risks.

Additionally, GAO Standards – Principle 12 – Implement Control Activities - 12.02 through 12.04 states:

Documentation of Responsibilities through Policies

Management documents in policies the internal control responsibilities of the organization. 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

**CIRCUIT ENGINEERING DISTRICT #7
OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

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 Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

ODOT Agreement 2173 Section 13.1 states “The CED and any sub-consultants, if applicable, agrees that all project records in support of all costs incurred and expenditures kept by the CED are to be maintained in accordance with procedures prescribed by the U.S. Department of Transportation and the DEPARTMENT. The records shall be open to inspection by the State Auditor and Inspector, the DEPARTMENT and federal government...”

ODOT Agreement 2173 Section 1.1 states “...The purpose of the Request for Task Order Approval is to establish specifically and in a detailed format the services to be provided, technical standards, schedule, compensation, and other parameters under which the work is to be completed.”

ODOT Agreement 2173 Section 1.1.1.5 states “Man-hour detail including an anticipated list of tasks to be accomplished, personnel classifications, and hourly rates, overhead, other direct expenses, and fees.

**CIRCUIT ENGINEERING DISTRICT #7
APPENDIX A: CIRB FIVE YEAR CONSTRUCTION WORK PLAN
STATUS OF PROJECTS FY 2021
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2022**

Appendix A: Status of Projects for Fiscal Year 2021

Appendix A details the status of project phases approved by the Circuit Engineering District #7 Board for completion during fiscal year (FY) 2021. These phases were approved as part of the Five Year Construction Work Plan FY-2021 through FY-2025.

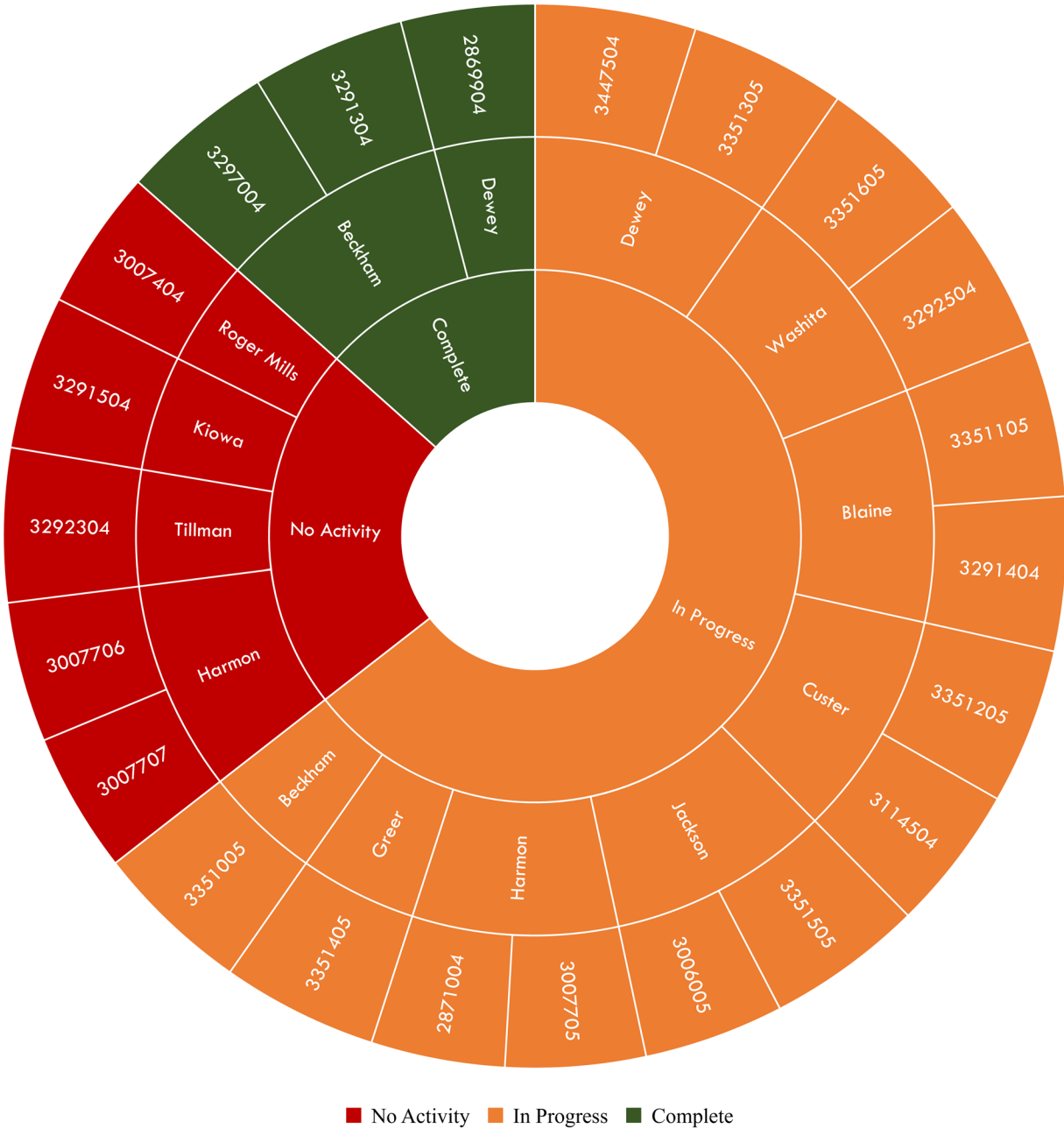
The charts detail the status of each construction phase at June 30, 2022, as to the following:

- Completed
- Work in Progress
- Encumbered
- No Activity

Projects in the encumbered stage indicate funds have been set aside but no work has been commenced.

**CIRCUIT ENGINEERING DISTRICT #7
 APPENDIX A: CIRB FIVE YEAR CONSTRUCTION WORK PLAN
 STATUS OF PROJECTS FY 2021
 FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2022**

Status of Projects FY 2021



Source: Information provided from [5 Year Construction Work Plan SFY2021 through SFY2025 Oklahoma Department of Transportation CIRB Project Information report](#).

CIRCUIT ENGINEERING DISTRICT #7
APPENDIX A: CIRB FIVE YEAR CONSTRUCTION WORK PLAN
STATUS OF PROJECTS FY 2021
FOR THE PERIOD OF JULY 1, 2020 THROUGH JUNE 30, 2022

FY 2021 Plan Information					FY 2021 & FY 2022 Combined		
County	Job Piece	Job Phase	Description	Plan Budget	Encumbered	Disbursed	Job Status
Beckham	3291304	Bridge & Approaches	EW-119 over Little Turkey Creek	\$ 437,500	\$ 735,039	\$ 726,820	Complete
	3297004	Resurface	New Liberty Road from SH-6/152 to NS-183	1,071,000	927,784	901,049	Complete
	3351005	Contract P.E.	Elk Creek on EW-113	50,000	80,983	63,342	In Progress
Blaine	3291404	Bridge & Approaches	EW-068 over Salt Creek	437,500	587,352	554,226	In Progress
	3351105	Contract P.E.	Unnamed Creek on NS-268	50,000	69,483	47,816	In Progress
Custer	3114504	Bridge & Approaches	EW-088 over West Barnitz	437,500	982,059	51,969	In Progress
	3351205	Contract P.E.	Unnamed Creek on NW-238	50,000	46,883	34,591	In Progress
Dewey	2869904	Grade, Drain & Surface	EW-60 from SU-60/281 to Indian Road	8,824,000	8,647,722	8,542,341	Complete
	3351305	Contract P.E.	Bull Creek on EW-723	50,000	69,483	50,368	In Progress
	3447504	Bridge & Approaches	NS-229 over Unnamed Creek	437,500	466,778	448,804	In Progress
Greer	3351405	Contract P.E.	Sleepy John on EW-144	50,000	67,133	50,041	In Progress
Harmon	2871004	Grade, Drain & Surface	EW-169 from SH-5 to NS-174	6,500,000	6,741,570	6,715,173	In Progress
	3007705	Contract P.E.	EW-155 from SH-30 to NS-179	180,000	311,220	186,630	In Progress
	3007706	Right of Way	EW-155 from SH-30 to NS-179	200,000	-	-	No Activity
	3007707	Utilities	EW-155 from SH-30 to NS-179	50,000	-	-	No Activity
Jackson	3006005	Contract P.E.	N-210 from E-157 to E-160	150,000	153,220	101,942	In Progress
	3351505	Contract P.E.	Cottonwook Creek on EW-163	50,000	59,188	46,475	In Progress
Kiowa	3291504	Bridge & Approaches	EW-136 over Elk Creek	437,500	-	-	No Activity
Roger Mills	3007404	Bridge & Approaches	NS-171.5 over Canadian River	2,000,000	-	-	No Activity
Tillman	3292304	Bridge & Approaches	EW-196 over Curtis Creek	437,500	-	-	No Activity
Washita	3292504	Bridge & Approaches	EW-125 over Unnamed Creek	437,500	483,316	374,467	In Progress
	3351605	Contract P.E.	Unnamed Creek on NS-207	50,000	69,483	31,416	In Progress
Total				\$ 22,387,500	\$ 20,498,696	\$ 18,927,470	

Source: Information provided from [5 Year Construction Work Plan SFY2021 through SFY2025](#)
Oklahoma Department of Transportation CIRB Project Information report.

**CIRCUIT ENGINEERING DISTRICT #7
APPENDIX B: CIRB FIVE YEAR CONSTRUCTION WORK PLAN
STATUS OF PROJECTS FY 2022
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Appendix B: Status of Projects for Fiscal Year 2022

Appendix B details the status of project phases approved by the Circuit Engineering District #7 Board for completion during fiscal year (FY) 2022. These phases were approved as part of the Five Year Construction Work Plan FY-2022 through FY-2026.

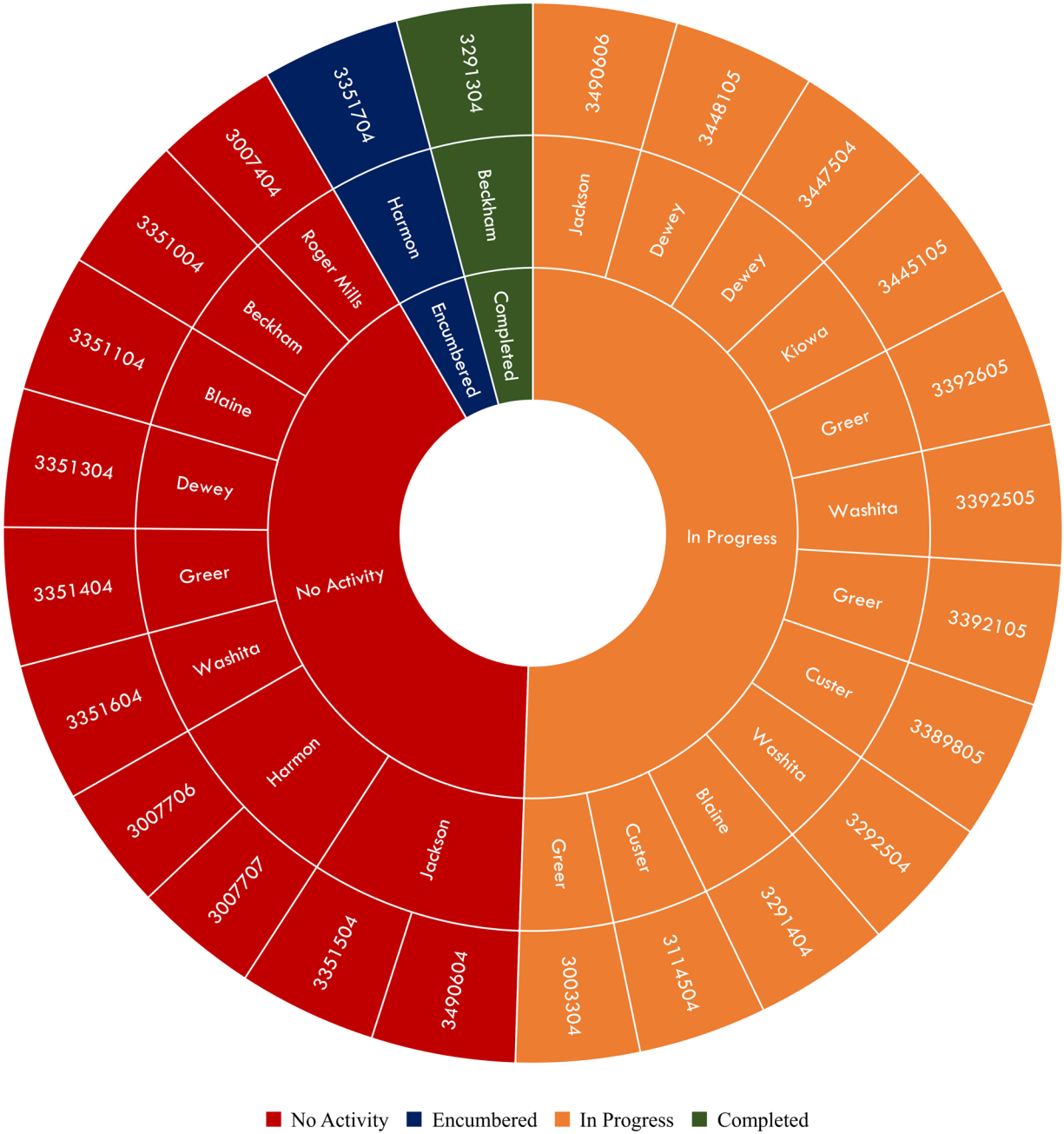
The charts detail the status of each construction phase at June 30, 2022, as to the following:

- Completed
- Work in Progress
- Encumbered
- No Activity

Projects in the encumbered stage indicate funds have been set aside but no work has been commenced.

**CIRCUIT ENGINEERING DISTRICT #7
 APPENDIX B: CIRB FIVE YEAR CONSTRUCTION WORK PLAN
 STATUS OF PROJECTS FY 2022
 FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022**

Status of Projects FY 2022



Source: Information provided from [5 Year Construction Work Plan SFY-2022 through SFY-2026](#) and Oklahoma Department of Transportation CIRB Project Information report.

CIRCUIT ENGINEERING DISTRICT #7
APPENDIX B: CIRB FIVE YEAR CONSTRUCTION WORK PLAN
STATUS OF PROJECTS FY 2022
FOR THE PERIOD OF JULY 1, 2021 THROUGH JUNE 30, 2022

FY 2022 Plan Information					FY 2022		
County	Job Piece	Job Phase	Description	Plan Budget	Encumbered	Disbursed	Job Status
Beckham	3291304	Bridge & Approaches	EW-119 Over Little Turkey Creek	\$ 507,812	\$ 743,147	\$ 726,820	Completed
	3351004	Bridge & Approaches	Elk Cr on EW-113	625,000	-	-	No Activity
Blaine	3291404	Bridge & Approaches	EW-068 Over Salt Creek	612,113	587,352	554,226	In Progress
	3351104	Bridge & Approaches	Unnamed CR on NS-268	625,000	-	-	No Activity
Custer	3114504	Bridge & Approaches	EW-088 Over West Barnitz	625,000	982,059	51,969	In Progress
	3389805	Contract P.E.	Barnitz CR on EW-102	60,000	66,388	13,420	In Progress
Dewey	3351304	Bridge & Approaches	Teepee CR on D0705	437,500	-	-	No Activity
	3447504	Bridge & Approaches	NS-229 Over Unnamed Creek	442,011	466,778	448,804	In Progress
	3448105	Contract P.E.	Trail Creek on EW-73	60,000	68,013	19,950	In Progress
Greer	3003304	Grade, Drain & Surface	EW-135	4,441,605	4,082,254	3,076,491	In Progress
	3351404	Bridge & Approaches	Sleepy John CR on EW-144	625,000	-	-	No Activity
	3392105	Contract P.E.	Unnamed CR on NS-200	60,000	61,388	12,100	In Progress
	3392605	Contract P.E.	EW-135	45,000	41,990	17,464	In Progress
Harmon	3007706	Right of Way	EW-155	200,000	-	-	No Activity
	3007707	Utilities	EW-155	50,000	-	-	No Activity
	3351704	Resurface	EW-155	1,071,000	955,204	-	Encumbered
Jackson	3351504	Bridge & Approaches	Coottonwood CR on EW-163	625,000	-	-	No Activity
	3490604	Storm Water Quality	Detention Pond for Ridgecrest Rd	650,000	-	-	No Activity
	3490606	Right of Way	Detention Pond for Ridgecrest Rd	120,000	75,000	19,480	In Progress
Kiowa	3445105	Contract P.E.	Pecan Creek on EW-144	60,000	61,388	12,750	In Progress
Roger Mills	3007404	Bridge & Approaches	NS-171.5 Over Canadian River	2,000,000	-	-	No Activity
Washita	3292504	Bridge & Approaches	EW-125 Over Unnamed Creek	688,129	483,316	374,466	In Progress
	3351604	Bridge & Approaches	Unnamed CR on NS-207	437,500	-	-	No Activity
	3392505	Contract P.E.	Coffee CR on EW-112	60,000	61,388	2,200	In Progress
Total				\$ 15,127,670	\$ 8,735,665	\$ 5,330,140	

Source: Information provided from [5 Year Construction Work Plan SFY-2022 through SFY-2026](#) and Oklahoma Department of Transportation CIRB Project Information report.

O·K·L·A·H·O·M·A
S·A·I
STATE AUDITOR & INSPECTOR



Cindy Byrd, CPA | State Auditor & Inspector

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