

OPERATIONAL AUDIT

OKLAHOMA COOPERATIVE CIRCUIT ENGINEERING DISTRICT BOARD

For the period July 1, 2011 through June 30, 2016



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



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

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

**For the Period
July 1, 2011 through June 30, 2016**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

April 19, 2017

TO THE OKLAHOMA COOPERATIVE CIRCUIT ENGINEERING DISTRICTS BOARD:

This is the audit report of the Oklahoma Cooperative Circuit Engineering Districts Board for the period July 1, 2011 through June 30, 2016. 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 "Gary A. Jones". The signature is written in a cursive style with a large initial "G" and "J".

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

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Background

The Oklahoma Cooperative Circuit Engineering Districts Board (the Board or OCCEDB) is responsible for managing both the Statewide Circuit Engineering District Revolving Fund (the CED Fund) and the Emergency and Transportation Revolving Fund (the ETR Fund). OCCEDB was established by 69 O.S. § 687.1(H). In accordance with the statute, the Board consists of eight members elected by members of the circuit engineering districts, which are further made up of county commissioners.

The statute authorizes the board to:

1. Have the power to conduct business, including the development of policies and procedures, incur expenses, and contract for services so long as such business furthers the provisions of [the County Road Improvement Act];
2. Coordinate activities between circuit engineering districts;
3. Administer the Statewide Circuit Engineering District Revolving Fund (69 O.S. 687.2); and
4. Have authority to promulgate rules to carry out the provisions of this act.

CED Revolving Fund

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

- 0.328% gasoline excise tax (per 68 O.S. § 500.6.A.8)
- 0.48% of the \$0.13 per gallon diesel fuel tax (beginning July 1, 2010, per 68 O.S. § 500.7)
- 0.00125% of \$0.005 of the \$0.025 per gallon special fuel excise tax (beginning July 1, 2010, per 68 O.S. § 707.1)
- 0.535% of 7% gross production tax on oil (68 O.S. § 1004.B.6.i)
- Interest earned by any investment of ETR Fund monies

The CED Fund is used to pay for OCCEDB expenses with the majority of funds apportioned between the districts. Each district decides how and where to spend the CED funds and submits a budget to the Board for approval. A budget is also approved for OCCEDB administrative expenses.

ETR Fund

The Board is also responsible for managing the ETR Fund, created by 69 O.S. § 687.3 on July 1, 2008. The fund consists of monies received by any donations, deposits designed by law, or appropriations. OCCEDB is responsible for approving CED projects requesting reimbursement from this fund. Funds may be budgeted and expended by any qualified county or counties, pursuant to the Board's rules for the purpose of funding emergency or transportation projects of a county that are reimbursable.

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The OCCEDB offices with and contracts with the Association of County Commissioners of Oklahoma (ACCO) each year for services to be provided to the OCCEDB, with expenses reimbursed to ACCO. OCCEDB also provides limited paid services to ACCO, governed by the same contract.

Nature of the Entity

There is no specific statutory language identifying OCCEDB as a state agency or as having any other stand-alone organizational structure. However, as illustrated previously, the OCCEDB receives taxpayer funds from the Oklahoma Tax Commission. It also receives a small portion of its revenues from county equipment auction proceeds and interest earned on these monies.

Overall it appears all funds handled and expended by OCCEDB represent public dollars, and therefore has a duty to the public to function effectively and efficiently, ensuring funds are safeguarded and expenditures are neither excessive nor extravagant. We will therefore hold the organization to the same general standard as a state agency in our examination of controls and expectations of reasonableness.

Board Members

Board members as of February 2017 are:

- Joe Don Dickey, District 7 Commissioner President
- Russell Earls, District 1 Commissioner. Vice-President
- Tony Simmons, District 3 Commissioner. Secretary/Treasurer
- Sam Chandler, District 2 Commissioner. Member
- Justin Roberts, District 4 Commissioner..... Member
- Zach Cavett, District 5 Commissioner Member
- David McCarley, District 6 Commissioner. Member
- Max Hess, District 8 Commissioner Member

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Scope and Methodology

Our audit was conducted in response to 69 O.S. § 687.2, which states, “The State Auditor and Inspector shall audit the Statewide Circuit Engineering District on a yearly basis and the Statewide Circuit Engineering District will be responsible for the cost of the audit.”

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, 2011 through June 30, 2016.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Cooperative Circuit Engineering Board 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 and when appropriate, we projected our results to the population.

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.

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OBJECTIVE I

Determine whether the Agency's internal controls provide reasonable assurance that expenditures (both miscellaneous and payroll), and inventory related to the Statewide Circuit Engineering Revolving Fund were accurately reported in the accounting records, and whether financial operations complied with certain provisions of the agreement between the Board and the Association of County Commissioners of Oklahoma.

Conclusion

The entity's internal controls provide reasonable assurance that expenditures, both miscellaneous and payroll, were accurately reported in the accounting records. However, internal controls do not provide reasonable assurance that inventory was accurately reported.

Financial operations generally complied with the OCCEDB contract with ACCO, and did not exceed the threshold set forth in the contract. However, a small volume of standard office supplies appear to have been reimbursed, which is prohibited by the contract, and four purchases were reimbursed multiple times. In addition, OCCEDB did not comply with its own meal and lodging policy requirements for documentation, and concerns were identified with reimbursements, including missing receipts, receipts lacking detail, and potentially questionable and excessive expenditures.

FINDINGS AND RECOMMENDATIONS

Inadequate Controls over Inventory

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (2014 Revision)¹, provides that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. In addition, the Standards also provide that in order to safeguard vulnerable assets, such assets should be periodically counted and compared to control records.

OCCEDB has not adequately segregated key duties related to inventory. The accountant has the duties of ordering, receiving and recording items, maintaining custody of some inventory, and removing items from the inventory records. In addition, it appears that a regular physical inventory count was not performed during the audit period.

¹ Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

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This arrangement of duties and failure to perform regular inventory counts provides the opportunity for the inventory to be misstated or misappropriated without detection. Ideally inventory duties would be segregated as outlined in the criteria at the beginning of this finding; however, other mitigating reviews can be used to decrease risk more realistically within the small staff size of OCCEDB. This is taken into account in our recommendation below.

Recommendation

We recommend the accountant perform annual inventory counts and the director (or another authority familiar with purchasing activity) review each year's count and compare it to the previous year's count, to ensure any deletions are valid and any relevant purchases are included in the records. Documentation of the count and the director's review should be retained.

Views of Responsible Officials

OCCEDB agrees with this recommendation and will do this at the end of each fiscal year.

Non-Compliance with Policy, Inadequate Review, and Deviation from Mission Result in Questionable Expenditures

The OCCEDB contracts with ACCO (Association of County Commissioners of Oklahoma) each year for services to be provided to the OCCEDB by ACCO, including pre-funding of necessary products and services, cooperation with SAI during audits, and ACCO accountant attendance at OCCEDB meetings. OCCEDB then reimburses ACCO for these services on a monthly basis with a yearly maximum. The contract further specifies that expenses will exclude any normal, ordinary office supplies and/or use of equipment. The reimbursement invoice and related support are reviewed and approved by OCCEDB members.

Contract and Policy Compliance

OCCEDB's Meal Policy allows meal purchases in a variety of travel and meeting circumstances and requires that documentation for those meals include the participants' names and state the reason for business discussed during the meal. Similarly, the Lodging Policy permits lodging expenses for approved parties within certain parameters, and requires that lodging receipts include the participants' names and state the reason for business.

For each month of the audit period, we reviewed the ACCO invoice and resulting reimbursement documentation reviewed and approved by the OCCEDB as reflected in their meeting minutes. We noted the following issues as a result of our procedures:

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- Payments Missing Receipt or Details of Transaction
 - 21 purchases, totaling \$735.99, were listed on the ACCO invoice but no supporting receipts were included with the documentation. (Note that missing receipts discussed in further sections of this finding are included in this total.)
 - 82 receipts, totaling \$7,101.95, lacked detail, in that they only included the total paid and no description or price breakdown of the items purchased, or were illegible.
- Meal and Lodging Receipts Missing Support Required by Policy
 - 78 meal receipts, totaling \$3,488.19, did not include the purpose of business for the meal and/or the names of the parties involved.
 - 11 lodging receipts, totaling \$3,867.10, did not include purpose of business for travel and/or names of parties involved.
 - 8 additional meal receipts and one additional lodging receipt, totaling \$295.48, were missing altogether and therefore also do not reflect the purpose of business or who was involved.
- Prohibited Purchases
 - Three purchases of what appeared to be normal office supplies, totaling \$207.67, were included in the reimbursements. The contract prohibits reimbursements for “normal, ordinary office supplies.”
- Receipts Reimbursed Multiple Times
 - Three receipts, totaling \$134.50, were reimbursed twice.

Missing receipts and receipts that do not detail the purchases made (or are illegible) make expenditure review difficult and may mask questionable purchases. Missing notations of participants’ names and the purpose of business on meal and lodging receipts (and missing receipts) constitute noncompliance with OCCEDB’s own meal and lodging policies. This also results in less detail provided for expenditure review by the board.

Questionable Purchases and Practices

OCCEDB was established by 69 O.S. § 687.1. According to this statute, the board of county commissioners of any county may create a circuit engineering district with any other county or counties, and the resulting circuit engineering districts (CEDs) then have the authority to form a statewide board made up of chairpersons elected by each district. The statewide board is authorized in part to conduct business, incur expenses, and contract for services so long as such business furthers the provisions of the County Road Improvement Act. The mission statement for OCCEDB is, “To improve the quality of the County Highway System for

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the citizens of Oklahoma by supporting and promoting local Circuit Engineering Districts.”

While the CEDs are defined as “political subdivisions of the state” by statute, OCCEDB is termed only a “statewide board” and does not appear to be a state agency or other defined pass-through entity. As such, it does not appear to be subject to state purchasing rules or similar state rules regulating financial activity. However, essentially all funds handled by the OCCEDB appear to represent public dollars: they receive taxpayer funds from the Oklahoma Tax Commission, including allocated percentages of gasoline, diesel, and special fuel tax revenue. These tax dollars are transferred to the CED Revolving fund within the state accounting system and distributed by OCCEDB.

As it is responsible for taxpayer dollars, the OCCEDB has duty to the public to function effectively and efficiently, ensuring funds are safeguarded and expenditures are neither excessive nor extravagant. We kept this standard in mind, and also relied upon the definition of abuse from Government Auditing Standards § 6.33, while assessing the reasonableness of OCCEDB expenditures reimbursed through the ACCO contract:

“Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements.”

We identified a number of purchases in the monthly reimbursement records that we believe responsible citizens may find questionable given the limited purpose and authority of OCCEDB and the fact that public funds were expended:

- Awards and prizes such as knives and jewelry, totaling \$691.26
- Board retreat supplies and gifts for board members that appeared potentially excessive (such as gift cards and over \$180 in Party Galaxy purchases), totaling \$ 522.20
- Beer purchased on two meal reimbursement receipts, totaling \$16.56
- Donation to the Oklahoma Department of Transportation of \$5,000 for 100 year anniversary

Given the number of missing and non-detailed receipts discussed above, other questionable purchases may have taken place that would not have been identifiable from the records.

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In making and approving these types of questionable expenditures, OCCEDB risks abusing or appearing to abuse taxpayer dollars, and eroding public trust in the Board and the CEDs involved. Due to the volume of questionable expenditures, it appears the entity has not only deviated from their mission but could potentially jeopardize its ability to satisfy that mission.

Quality of Board Review

An effective internal control system provides for independent review of expenditures, as well as for adequate retention of documentation of transactions and key reviews.

OCCEDB's accountant and director use ACCO credit cards to make the majority of the purchases for which the board later reimburses ACCO. It is therefore difficult for them to perform an independent review of the documentation supporting the ACCO invoice, as they have personally made the purchases. This increases the importance of the detailed, independent monthly review performed by the Board.

Because the board is involved in many meetings and meals, it appears they benefit from such purchases and therefore their review may not be completely independent. It appears the board approved expenditures without detailed support for the instances detailed above in which receipts were missing, lacked detail, or were illegible. It also approved invoices that we identified as having been reimbursed multiple times.

These issues indicate ineffective review and call into question the reliability of ACCO invoices. They also call into question the potential of abuse in that meals and events benefitting both staff and the board might be questioned by a "prudent person" in the context of "reasonable and necessary business practice" and possible "misuse of authority."

Additional Documentation Provided

After reviewing a draft of the report, OCCEDB staff provided us with additional documentation related to some of the issues previously discussed. Adjustments were made to our counts and totals in a few cases. However, support that was not produced during our procedures *and* was not included in a legible form in the documentation reviewed and approved by the board at the time of reimbursement is listed here:

- Payments Missing Receipt or Details of Transaction
 - Receipts were provided for 9 purchases, totaling \$332.87
 - Detailed receipts were provided for 29 receipts, totaling \$3,264.49
- Meal and Lodging Receipts Missing Support Required by Policy

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- 11 meal receipts including notations of the purpose of business for the meal and/or the names of the parties involved were provided, totaling \$914.76
- 3 lodging receipts including notations of the purpose of business for travel and/or names of parties involved were provided, totaling \$485.08
- 8 additional meal receipts and one additional lodging receipt, totaling \$206.14, were missing altogether and therefore also do not reflect the purpose of business or who was involved.
- Duplicate Receipt: Management provided evidence that one of the duplicate receipts reimbursed to ACCO was actually for two different purchases of the same amount in successive months. However, the same receipt was erroneously included in the board packet both months and was still paid by the board each time.

One newly provided receipt, for \$273.21 at Saltgrass Steak House, raised further questions. The receipt included purchases of alcoholic drinks and meals for some individuals' spouses; while OCCEDB appears to have reimbursed ACCO for only a portion of the meal, limited legibility of the receipt makes it difficult to determine how the cost was split. The other new documentation provided appeared to reflect reasonable purchases; however, its absence from the board packets does nothing to lessen our concerns about adequate board expenditure review practices.

Recommendation

OCCEDB should require adequate supporting documentation for all purchases reimbursed to ACCO, and ensure those purchases comply with the contract terms and internal meal and lodging policies. As OCCEDB staff is usually responsible for making the purchases using ACCO funds, they should retain detailed documentation of all expenditures, and notate the purpose of business and parties involved for all meal and lodging expenses.

In order to ensure taxpayer dollars are spent appropriately, and their review is not at risk of a lack of independence or the appearance thereof, the OCCEDB should ensure all expenditures are in line with OCCEDB's mission and statutory authority and represent sound use of public funds.

View of Responsible Officials

OCCEDB will verify all pertinent information/documentation as per our policy. We have received reimbursement of \$165.01 from ACCO per incorrect charges.

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Auditor Response

As detailed in this finding, compliance with internal policies is only one concern arising from our procedures. OCCEDB should take steps to ensure its expenditures comply with applicable contract terms, support the entity's statutory purpose, and are overall reasonable uses of public funds.

OBJECTIVE II

Determine whether the Board complied with the Emergency and Transportation Revolving (ETR) fund application reimbursement rules.

Conclusion

OCCEDB generally complied with the ETR fund rules, but two rules were not effectively enforced.

FINDINGS AND RECOMMENDATIONS

Project Documentation Missing Required Photos, and Notification Requirement Not Enforced

Repeat Finding

ETR Fund Rule VII.B states: "Along with the application and contract the County shall submit to the CED and OCCEDB all documentation regarding the project including, but not limited to . . . before and after construction pictures and other project information."

For four of the thirty randomly selected projects reviewed for which reimbursement had been received, no after-construction photos were documented.

We also noted that rule VII.H, which requires that the CED shall verify that the project was constructed and completed according to an approved standard or method and notify OCCEDB, is not being enforced.

Failure to enforce or appropriately update these rules places OCCEDB out of compliance with its own guidelines. As both issues were noted in our previous audit correspondence, it appears OCCEDB chose not to correct them during the audit period.

Recommendation

OCCEDB should require that after-construction photos be provided in order for a project to be considered completed. They should also implement policies and procedures to ensure compliance with rule VII.H, or change or remove the rule if they do not believe its enforcement is necessary.

Views of Responsible Officials

Management will take this under advisement from the Board and possibly recommend a policy change.



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV