

OKLAHOMA COOPERATIVE CIRCUIT ENGINEERING DISTRICTS BOARD

FOR THE PERIOD
JULY 1, 2008 THROUGH
JUNE 30, 2009

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

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

**For the Period
July 1, 2008 through June 30, 2009**

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

July 26, 2010

**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, 2008 through June 30, 2009. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

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

Sincerely,

A handwritten signature in blue ink, reading 'Steve Burrage', is positioned above the printed name.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Oklahoma Cooperative Circuit Engineering Districts Board Operational Audit

Background

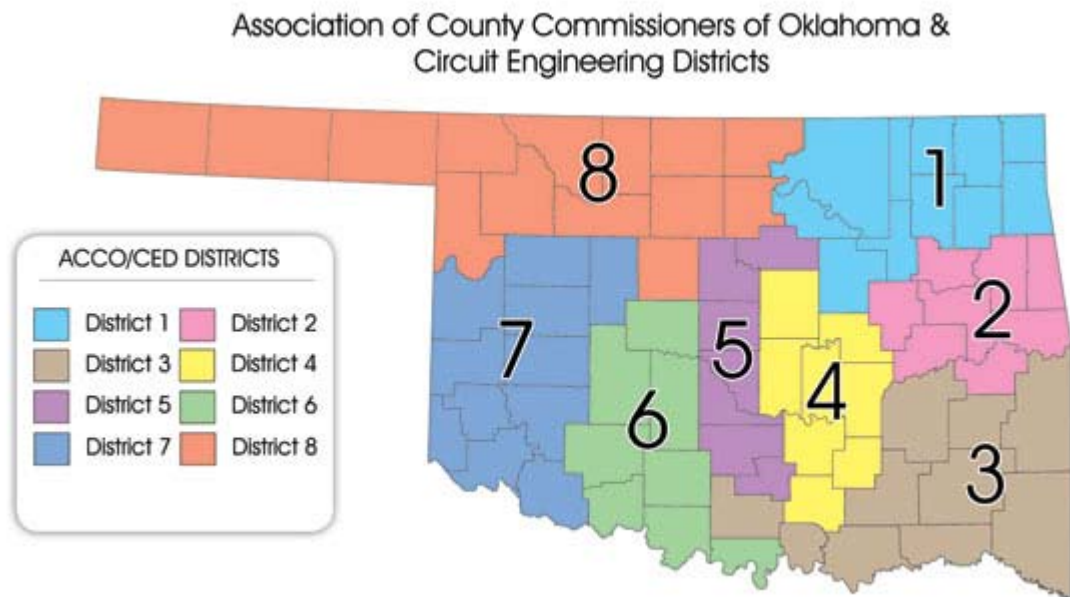
The Oklahoma Cooperative Circuit Engineering Districts Board (the Board or OCCEDB) is responsible for managing both the Statewide Circuit Engineering District Revolving Fund (the CED Fund) and the Emergency and Transportation Revolving Fund (the ETR Fund).

Board members are:

James Gee - Washita County, CED #7President (through December 2008)
Carlos Squires – Caddo County, CED #6President (as of January 2009)
Gary Starns – Pontotoc County, CED #4.....Vice President
Rory Alford – Latimer County, CED #3Secretary/Treasurer
Gary Deckard – Washington County, CED #1 Member
Bobby Botts – Cherokee County, CED #2 Member
Kenneth Holden – Garvin County, CED #5 Member
Dale Dunn – Jackson County, CED #7 Member (as of January 2009)
Dee Schieber – Kay County, CED #8..... Member

CED Fund

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



Each CED submits a budget to the Board for approval, and then equal allocations were made to the CEDs not to exceed their budgeted portion. A budget is also approved for administrative expenses. The Oklahoma State Treasurer's Office paid \$2,970,129 to OCCEDB during the audit period. In addition, the fund received \$20,688 in interest, which was divided equally among the eight CEDs. The table below identifies how the funds were distributed among the different areas:

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	Budget Amount	Expended as of 06/30/09
CED #1	448,212	326,446.75
CED #2	414,522	401,094.48
CED #3	642,820	616,076.16
CED #4	400,000	327,063.61
CED #5	600,400	560,217.01
CED #6 ¹	-	-
CED #7	451,000	326,473.11
CED #8	394,004	346,232.54
Admin/Staff	360,500	272,360.00

Source: OCCEDB's accounting system, MIP (unaudited)

The objectives of this fund are outlined in 69 O.S. § 687.1, which states in part:

- “1. To allow county governments to make the most efficient use of their powers by enabling them to cooperate with each other and other units of government on a basis of mutual advantage and thereby to provide services and facilities in a manner and pursuant to forms of governmental organization that will accord best with geographic, economic, population and other factors influencing the needs and development of county government;
2. To provide research and research support to county government;
3. To provide assistance to county governments in performing the functions delegated by law including, but not limited to, the operation of road maintenance, construction, inspection, and equipment purchases and management;
4. To conduct public discussion groups, forums, panels, lectures, and other similar programs;
5. To present courses of instruction and education;
6. To obtain, develop and present scientific and all other types of information relative to the operation of the public transportation system in this state;
7. For long-range planning and growth of the transportation system within the circuit engineering district and other circuit engineering districts within this state; and
8. To provide services to counties in a coordinated manner that will improve the quality of the transportation system and be cost effective...”

The CEDs also auction surplus county equipment twice a year. Proceeds from these auctions were deposited into the CED Fund and distributed to the applicable CEDs based

¹ CED #6 did not submit their FY 2009 budget for approval until July 2010. The July 2010 board minutes indicate the budget was approved and payment for the full amount was also approved. Because this did not occur until after our audit period, no amounts appear in the table presented above.

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on the auction sales reports and Board approved formula. OCCEDB records indicate \$171,486 was received and paid to the CEDs for auctions.

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 may be supported by donations, deposits designated by law, or appropriations, as well as interest earned on monies in the fund. Pursuant to House Bill 2381, \$25,000,000 was transferred into the ETR Fund from the State Highway Construction and Maintenance Fund in October 2008. Funds may be budgeted and expended by any qualified county or counties pursuant to the Board's ETR rules for the purpose of funding emergency or transportation projects of a county that are reimbursable.

ETR Fund Activity for FY 2009	
Total Transferred Into Fund	25,000,000.00
Total Approved for Counties	12,775,648.72
Total Reimbursed by Counties	1,188,321.20
Total Available at 06/30/09	13,412,672.48

Source: Office of State Finance records (unaudited)

Purpose, Scope, and Sample Methodology

This audit was conducted in response to 69 O.S. § 687.2, which states in part, "...The State Auditor and Inspector shall audit the Statewide Circuit Engineering District on a yearly basis..."

The audit period covered was July 1, 2008 through June 30, 2009.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Objective 1 - Determine whether the Board's internal controls provide reasonable assurance that revenues and expenditures related to the Statewide Circuit Engineering District Revolving fund were accurately reported in the accounting records.

Conclusion

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

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Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting and expenditure processes which included discussions with personnel, observation, and review of documents;
- Tested controls which included:
 - Reviewing the board minutes and board packets for three randomly selected months to ensure financial information (accounting software reports, invoices, checks, and bank statements) were provided to the Board and approved during the meetings;
 - Reviewing documentation to ensure a bank reconciliation was completed for each month in the audit period;
 - Reviewing the bank reconciliations for three randomly selected months to ensure they were reviewed by someone other than the preparer. This included reviewing the reconciliation for mathematical accuracy, amounts traced to supporting documentation, and reconciling items appeared reasonable (were not outstanding for more than 30 days); and
 - Reviewed board minutes to ensure the budgets for two randomly selected CEDs and the administrative budget were approved by the Board.

Objective 2 - Determine whether the Board followed the Emergency and Transportation Revolving (ETR) fund application process as outlined in the ETR rules.

Conclusion

The Board generally followed the ETR fund application process as outlined in the ETR rules. However, some areas could be strengthened.

Methodology

To accomplish our objective, we performed the following:

- Reviewed the Application Process section of the Emergency and Transportation Revolving Fund Program Rules, and determined that the following rules were significant to our objective:
 - Rule VII.B, which requires the county to submit all documentation regarding the project including, but not limited to, a description, location, agreements, applications, resolutions, before and after construction pictures and other project information;
 - Rule VII.E, which requires that the Board of County Commissioners enter into a contract with the OCCEDB; and
 - Rule VII.G, which requires that the Board submit a claim and a certificate stating that all the projects listed meet the requirements of state law and the rules adopted by the OCCEDB to the Office of State Finance (OSF) for payment.
- Documented internal controls related to the ETR fund application process, which included discussions with Board personnel, observation, and review of documents;
- Tested controls by reviewing the files for 25 randomly selected projects to determine whether:

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- A county application was approved by the CED, submitted to the Board and approved by the Board;
 - A contract was entered into between the Board of County Commissioners and OCCEDB and was signed by representatives of both parties; and
 - An invoice was signed by the program manager and sent to OSF for payment authorization.
- Tested the 25 files randomly selected during the previous step to determine whether:
 - Applications were received by the Board, approved by the relevant CED, and approved by the Board;
 - A contract was created between the Board of County Commissioners and the OCCEDB and signed by representatives of each party;
 - A certification letter was created stating that the project meets state law, and the letter was properly approved by the program manager and forwarded to the OSF;
 - The county had provided the description and location of the project and any relevant agreements, applications, or resolutions related to the project; and
 - The Board was provided with before-construction photos and, if the project was completed, after-construction photos of the project.
- Tested an additional 25 certification letters to ensure they were properly approved by the program manager and the project information and funding total were accurate.

Observation

Before and After Construction Photos Not Documented

ETR Application Process rule VII.B requires that both before-construction and after-construction photos be provided to the CED and to the Board by the county receiving funds.

In 20 of the 25 project files tested, no before-construction or after-construction photos were documented. Two of the 25 project files tested did contain after-construction photos, but no before-construction photos were included. These photos provide a record of physical progress at the project sites. Without them, the Board lacks physical confirmation that the construction was performed as described in the county's application.

Management appears not to have requested the photographs when they were not provided by the county or CED.

Recommendation

We recommend that OCCEDB exercise diligence in obtaining before-construction and after-construction photographs from the counties or their CEDs. This includes actively requesting the photos if they are not voluntarily provided by the county or CED.

Views of Responsible Officials

We will document our information request from both the CED and the County. We will notify the Board of our requests and the status thereof.

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Objective 3 - Determine whether sufficient information was provided to the Board to facilitate the repayment process requirements as outlined in the ETR rules.

Conclusion It appears sufficient information was not provided to the Board to facilitate the repayment process requirements as outlined in the ETR rules.

Methodology To accomplish our objective, we performed the following:

- Reviewed the Reimbursement of Funds and Application Process sections of the Emergency and Transportation Revolving Fund Program Rules, and determined that the following rules were significant to our objective:
 - Rule VII.I, which requires that upon completion of a project the CED verify that the project was constructed and completed according to an approved standard or method and notify the Board;
 - Rule VII.K, which requires that the county issue or cause to be issued repayment to the “State of Oklahoma ETR Fund” and send the warrant to the OSF; and
 - Rule VIII.F, which states that a county shall have one year from the construction start date to reimburse the ETR.
- Documented internal controls related to the ETR fund reimbursement process, which included discussions with Board personnel, observation, and review of documents;
- Tested controls, which included:
 - Reviewing the files for the five projects for which reimbursement was recorded by the Board during the audit period to determine whether the Board had received a copy of the repayment check(s) from OSF;
 - Reviewing 25 randomly selected files for which payment was made to the county during the audit period to determine whether the actual construction start date was documented, so that the Board had the ability to calculate the due date of the county’s repayment one year after that start date.
- Reviewed the files for the five projects for which reimbursement was recorded by the Board during the audit period to determine whether:
 - A copy of the reimbursement check(s) received by OSF was present from any county who reimbursed the Board during the audit period;
 - The actual construction end date was documented, signifying that the Board was notified by the CED that the project was completed; and
 - Repayment was made by the county within one year of the actual construction start date.
- Reviewed 25 randomly selected files to determine whether the actual construction start date was documented.

Observation

Construction Start Date Not Documented

ETR Reimbursement of Funds rule VIII.F states that counties have one year from the construction start date to reimburse the ETR.

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For 20 of the 25 project files tested and in two additional completed and reimbursed project files tested, the actual construction start date was not documented. The Board cannot compute the one-year repayment deadline without the actual start date.

Management appears not to have requested the construction start date when it was not provided by the CED.

Recommendation

We recommend OCCEDB exercise diligence in obtaining the actual construction start date for each project. This includes actively requesting this information if it is not voluntarily provided by the county or CED.

Views of Responsible Officials

We will document our information request from both the CED and the County. We will notify the Board of our requests and the status thereof.

Observation

Construction End Date Not Documented

ETR Application Process rule VII.I requires that upon completion of a project, the CED shall verify the project was constructed and completed according to an approved standard or method and notify the Board. At this time, no “approved standard or method” has been chosen by the Board. However, the CED is still required to notify the Board of project completion, which is documented by the recording of the actual construction end date in the Board’s documentation.

In all five of the five completed and reimbursed project files tested, the actual construction end date was not documented in the Board’s records. Without notification of construction completion, the Board cannot be sure that construction was completed as described in the county’s application.

Management appears not to have requested the construction end date when it was not provided by the CED.

Recommendation

We recommend OCCEDB exercise diligence in obtaining the actual construction end date for each project. This includes actively requesting this information if it is not voluntarily provided by the CED.

Views of Responsible Officials

We will document our information request from both the CED and the County. We will notify the Board of our requests and the status thereof.

Other Items Noted

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

Observation

Identity of the Board is Unclear – Repeat Finding

The state statutes creating the Board specify its objectives; however, they do not specify what type of entity the Board is (governmental or non-governmental). This distinction is important because governmental entities must follow state statutes in how they operate and how funds can be used. However, non-governmental entities have more flexibility in those areas. In addition, within government, different rules/statutes apply depending on how entities are defined. For example, state and county governments have separate

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purchasing rules/statutes that must be followed. Without an entity being properly defined, it is difficult for an independent body to determine what laws and regulations apply.

Recommendation

We recommend the Board consider seeking an Attorney General's opinion as to whether the Board is a governmental or non-governmental entity, or seek legislation to clarify its status.

Views of Responsible Officials

HB 2895 was passed this year and has an effective date of 11/1/2010. This bill defines a Circuit Engineering District as a political subdivision.

Observation

Board Should Consider Developing Performance Measures – Repeat Finding

State statutes outline specific objectives or purposes the CED funds are to be used for. Funds are paid to the individual CEDs for the purpose of achieving these objectives. However, there does not appear to be a mechanism in place to readily determine whether the objectives are being met. A tool generally used to assist in making this determination is performance measures.

The United States Government Accountability Office's publication titled *Performance Measurement and Evaluation* states in part,

Performance measurement is the ongoing monitoring and reporting of program accomplishments, particularly progress towards pre-established goals...performance measures may address the type...of program activities conducted (process), the direct product and services delivered by a program (outputs), or the results of those products and services (outcomes)...

Given the nature of the Board, the creation and monitoring of performance measures could be a valuable tool to the Board, public, and legislators as to the effectiveness of how taxpayer funds are being used.

Recommendation

Although not required by law, we recommend the Board create key performance measures for the CED program.

Views of Responsible Officials

OCCEDB will take this recommendation under consideration

Observation

Errors in Board ETR Data Spreadsheet

An effective internal control system provides for accurate and reliable recordkeeping.

During our documentation of internal controls and testwork, we noted the following errors on the Board's ETR data spreadsheet, which is prepared by the Board and used to track funded projects:

- The funding amounts for projects ETRCB8-24-1(03)09 (\$40,000) and ETRCB8-24-2(02)09 (\$70,000) for Garfield County were reversed in the Requested Amount column of the spreadsheet. This error led to the reimbursement checks for these projects being included in the wrong files, and to a \$70,000 project being listed on the spreadsheet as having been reimbursed at only \$40,000;
- The funding amount for project ETRCR7-71-1(02)09 for Tillman County was listed at \$40,000 in the Requested Amount column but was actually approved and funded at \$22,000.

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These errors appear to be clerical in nature. Without sufficient review of the ETR data spreadsheet, errors such as these could potentially lead to insufficient reimbursements being overlooked, as well as additional recordkeeping errors being made and not detected and corrected in a timely manner.

Recommendation

OCCEDB should reconcile independent reports of funds expended and reimbursed (such as those prepared by OSF) to its ETR data spreadsheet on a regular basis, in an effort to detect and correct any errors in the ETR data.

**Views of Responsible
Officials**

We will implement the above recommendations.



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

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