



CITY OF CLAREMORE

Special Audit Report

March 6, 2023

Cindy Byrd, CPA
State Auditor & Inspector

CITY OF CLAREMORE
SPECIAL AUDIT REPORT

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TO THE CITY COUNCIL OF THE CITY OF CLAREMORE, OKLAHOMA

Presented herein is the special audit report of the City of Claremore. 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 this engagement.

This report is a public document pursuant to the Open Records Act, 51 O.S. §§ 24A.1, *et seq.* and is available 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



EXECUTIVE SUMMARY

WHY WE CONDUCTED THIS AUDIT

After two failed attempts by the citizens of the City of Claremore to gather sufficient legal signatures to compel a citizen petition audit of Claremore, and with a third effort to collect signatures about to begin, the Claremore City Council, pursuant to 74 O.S. § 227.8, requested that the State Auditor & Inspector conduct an audit of Claremore to help “clear the air” with the citizens.

Claremore provided a copy of the circulated petition with their audit request and asked that the petition items be addressed as the audit objectives.

WHAT WE FOUND

The review of possible irregularities in the City’s budget, including its apparent dependence on utility revenue to maintain municipal operations, revealed that Claremore was more reliant on revenues generated by their Public Works Authority than other comparable sized municipalities. However, there is nothing improper or illegal about this funding process. (Pg. 2)

Claremore has a 9.3% sales tax, with 3% going to the City, 4.5% going to the State, and 1.8% going to the County. The 3% retained by the City was properly approved as per ordinance and properly allocated into six corresponding funds. Expenditures from these funds were appropriate. An immaterial number of supporting invoices, \$500 of \$1.9 million, could not be located, and goods and services related to four of 49 invoices totaling \$176,743, were received prior to a corresponding purchase order being approved. In summary, sales taxes collected were distributed properly and expended for appropriate purposes. (Pgs. 3-5)

Special payout accounts exist and were properly used in accordance with their design. Some minor record keeping issues were identified. (Pgs. 5-6)

High utility bills were by far the number one complaint lodged by the citizens. The City’s utility rates were properly approved by ordinance and corresponded to the rates billed to customers. However, it was determined that electric rates in Claremore were 15% higher than in neighboring municipalities and 22% higher than neighboring non-municipal electric providers. (Pgs. 6-8)



**EXECUTIVE
SUMMARY -
continued**

Claremore used utility revenue as loan collateral, which is authorized by the Oklahoma Constitution and Oklahoma Statute. (Pgs. 8-9)

The City was not delinquent in making smart meter payments to General Electric. (Pgs. 9-10)

The City has not been delinquent with utility payments to the Grand River Dam Authority. (Pg. 10)

The construction of two water treatment plants, one in 1999-2000 and one in 2015-2018, was reviewed. The first plant was not functional, but, due to the amount of time that has passed since construction, records were no longer available for a full determination of the issues. The second plant's construction was properly bid, funding was properly obtained, and payments were properly approved. (Pgs. 11-12)

The city manager was compensated in accordance with his contracts. He did not have a personal expense account at his disposal; however, he received a departmental budget, accessed through the use of a P-card. These expenditures were to be approved and monitored by the City Council. One month's P-card statement was not properly approved by the Council prior to payment. (Pgs. 12-14)

Expenditures made on the city manager's P-card were to be *reasonable, necessary, and appropriate* on behalf of the City. A small number of unallowable costs, \$375, were noted for expenses that were not for a public purpose. There was also evidence that other expenditures made by the city manager, totaling more than \$1,400, were not reasonable and could be considered excessive. More than \$3,400 of purchases were paid without a properly itemized receipt, with a large portion of these costs being local area meals. Without documentation, it could not be determined if these meals were for an appropriate public purpose. (Pgs. 15-17)

Introduction

The City of Claremore (the City) is a charter city that operates under a council-manager form of government as outlined in 11 O.S. §§ 10-101, *et. seq.* The City is heavily reliant upon the Claremore Public Works Authority (CPWA) which is a public trust created under 60 O.S. §§ 176 *et. seq.* The City Council serves as the governing body for the CPWA. The City and the CPWA provide services to the citizens, including street maintenance, public safety, sanitation, water and sewer, and general administration.

The City Council approved Resolution 2018-11, requesting the State Auditor and Inspector (SA&I) to conduct an audit to address concerns that had been included in a recently failed citizen petition. The Council wanted to “clear the air” on the issues being circulated by the citizens. The requested audit objectives included the following for the period of July 1, 2013, through June 30, 2017:

1. Review possible irregularities in the City’s budget including its apparent dependence on utility revenue to maintain municipal operations, the expenditure of the City’s 9.3% sales tax¹ revenue, and the existence and purpose of special payout accounts.
2. Review possible misappropriation of utility revenue, examine purported excessive residential rates, and the appropriateness of using utility revenue as collateral for millions of dollars in loans.
3. Determine if there was a delinquency in payment of a \$9.86 million contract for smart electric and water meters paid by residential customers.
4. Determine if there was a delinquency of payments to the Grand River Dam Authority as the City’s electricity provider.
5. Determine the possible misuse, mismanagement and/or waste of grant funds and other funds in constructing a new water treatment plant.
6. Review the city manager’s contract, compensation, benefits (expense account, credit card, vehicle) to verify appropriate use as legitimate city expenditures.

¹ The 9.3% sales tax collected by the City includes 3% going to the City, 4.5% going to the State, and 1.8% going to the County.

OBJECTIVE 1

Review possible irregularities in the City's budget including its apparent dependence on utility revenue to maintain municipal operations (1.1), the expenditure of the City's 9.3% sales tax revenue (1.2), and the existence and purpose of special payout accounts (1.3).

Objective 1.1 Review possible irregularities in the City's budget including its apparent dependence on utility revenue to maintain municipal operations.

Utility revenue is generated and managed by the CPWA. Monetary transfers from the CPWA to the City's General Fund were quantified and reviewed for FY² June 30, 2014, through FY June 30, 2019. An average of \$9.4 million dollars per year was transferred from the CPWA to the City's General Fund. These transfers accounted for approximately 50% of General Fund resources during this timeframe.

The CPWA is a public trust created under 60 O.S. § 176(A), which establishes the authority to:

*...provide funds for the furtherance and accomplishment of any authorized and proper public function or purpose of the...**municipality** or any and all combinations thereof, in real or personal property, or either or both, or in any estate or interest in either or both, with the... municipality or any and all combinations thereof, as the beneficiary thereof... [emphasis added]*

The CPWA Trust Indenture provides for the furtherance, convenience, and welfare of the beneficiary, the City of Claremore. Section III(f) of the trust document gives authority to the CPWA to expend funds to the beneficiary city for authorized and approved purposes.

BENEFICIARY
The term "Beneficiary", as used in this instrument, shall denote the incorporated
CITY OF CLAREMORE

The transfers of funds from the CPWA to the City were approved by the City Council and the trustees of the CPWA as part of the budget and were documented in the applicable board minutes.

In Summary

As openly acknowledged by the City, the City's General Fund is significantly reliant on transfers from the CPWA. ***The use of utility revenue by the City is allowed under the law and was properly budgeted for and approved.***

Independent audit reports for other cities in Oklahoma with comparable populations to Claremore were reviewed to determine the percentage of funds transferred from their Public Works Authorities to their General Funds. These percentages ranged

² FY – Fiscal Year Ending

between 11% and 45%, reflecting that the operational budgets of other cities are also greatly reliant on Public Works Authority revenue.

Objective 1.2 Review the expenditure of the City's 9.3% sales tax revenue.

The combined sales tax for Claremore totals 9.3%. As per Oklahoma Tax Commission records, the 9.3% consists of the state tax rate of 4.5%, the county tax rate of 1.8%, and the city tax rate of 3%. The City's 3% sales tax was established through three ordinances, some of which have been renewed or amended through the years, as follows:

1. A 1% sales tax was approved by the voters and established by City Ordinance 96-6 and has remained in effect since November 1996 through continued amended ordinances and resolutions, the latest being Resolution 2019-23, calling for continued approval of the 1% tax through June 30, 2030.

Do you approve collecting a one percent (1%) temporary sales tax, commencing at the expiration of the 2014 temporary sales tax on June 30, 2020, and continuing until June 30, 2030, with the revenue from the tax being used as follows: 1) 40% to be used for the building, repair or maintaining of capital improvements; 2) 20% to be used for the operation/maintenance of the police department; 3) 20% to be used for operation/maintenance of the fire department; and 4) 20% to be used for the building, repair, operation and/or maintaining of parks and recreational facilities of the City, in accordance with Ordinance No. 2007-11 as amended by Ordinance No. 2013-21, and as amended by Ordinance 2019-19?

2. City Ordinance 95-1, which established a 1% sales tax in January 1995, was approved by the voters and continued through Ordinance 2003-39, which did not change the purpose of the original tax and extended the levy of the tax to March 31, 2034.

SECTION 7. PURPOSE OF REVENUES. It is hereby declared to be the purpose of this Ordinance to provide revenue for the purposes of acquiring, constructing, equipping, operating and/or maintaining exposition, park and recreational facility capital improvements, waste water treatment facilities and capital improvements and/or to be applied or pledged toward the payment of principal and interest on any legal indebtedness, including refunding indebtedness, incurred by or on behalf of the City for such purposes. The term "capital improvements" as used herein shall mean all items and articles, either new, existing or replacements, not consumed with use but only diminished in value with prolonged use, including but not limited to exposition, park and recreation facilities, roads and streets, drainage improvements, water and sewer improvements, machinery, equipment, furniture and fixtures, all real property, all construction or reconstruction of buildings, appurtenances and improvements to real property, the cost and expenses related thereto of rights of way or other real property, engineering, architectural or legal fees.

3. City Ordinance 2010-10 amended City Ordinance 489, originally adopted October 27, 1969, and approved by the voters, which established the following 1% sales tax:

"SECTION 7. PURPOSE OF REVENUES. It is hereby declared to be the purpose of this Ordinance to provide funds for building, rebuilding, operation, and repair of streets, alleys, curbs, gutters, waterlines, sanitary sewer lines, electric distribution system, water treatment facilities, wastewater treatment facilities, and drainage system of the City of Claremore, Oklahoma, and/or for the payment of principal and interest on any indebtedness, including refunding indebtedness, incurred by or on behalf of the City of Claremore, Oklahoma for such purposes."

The following funds were established to account for the City's 3% sales tax:

- Fund 56 - Capital Improvement Fund – .4%
- Fund 15 - Sales Tax Park Fund – .2%
- Fund 18 - Sales Tax Police Fund – .2%
- Fund 19 - Sales Tax Fire Fund – .2%
- Fund 45 - Expo/Recreation Center & Wastewater Plant Sales Tax Fund – 1%
- Fund 11 - Sales Tax Street Fund – 1%

Sales tax revenue received by the City was confirmed through the Oklahoma Tax Commission, reconciled to the bank statements, and compared to revenue posted to the funds listed above. *Between FY 2015 and FY 2017,³ the City's 3% sales tax revenue was properly allocated as directed by city ordinances.*

Expenditures

A total of 49 expenditures from the dedicated sales tax funds noted above were reviewed for proper purpose, adequate supporting documentation, and timely encumbrance.

Finding ***Supporting documentation for two of 49 expenditures, totaling \$509.91, could not be provided. These two expenditures were an immaterial amount of the \$1,929,295 tested.***

Per statute, 51 O.S. § 24A.4, city officials are required to keep and maintain records of the receipt and expenditures of public funds:

In addition to other records which are kept or maintained, every public body and public official has a specific duty to keep and maintain complete records of the receipt and expenditure of any public funds reflecting all financial and business transactions relating thereto, except that such records may be disposed of as provided by law.

Title 11 O.S. § 22-131 requires warrants, claims, checks, vouchers, and purchase orders to be maintained for a period of five years.

City staff should work to ensure that records for all expenditures are maintained the appropriate amount of time.

³ There was an immaterial difference of \$990 in FY 2017.

Finding *In four of the 49 invoices examined, the City received goods and services prior to a properly authorized purchase order being approved, a total of \$176,743 or 9% of the dollar amount of expenditures tested.*

State law⁴ requires that all funds be properly encumbered prior to a purchase being made, and the City's purchasing policy states:

o Funding for the line items must be encumbered by a properly authorized purchase order prior to obtaining any goods or services.

In Summary

With the exception of the procedural findings noted above, the expenditures tested were made in accordance with defined fund purposes.

Objective 1.3 *Review the existence and purpose of special payout accounts.*

Special payout accounts are used to track employment perks such as car, phone, and uniform allowances; certification payments; and payments for education and training. Four primary special payout accounts, which were further subdivided within each department, existed for the following funds:

- 01 – General Fund
- 11 – Street & Alley Fund
- 27 – Expo Center Fund
- 40 – Enterprise Fund

Between July 2013 and June 2017,⁵ special payout expenditures totaled \$848,210, an average of \$212,053 per fiscal year. Thirty-one special payout expenditures were reviewed to determine whether they were properly authorized by collective-bargaining agreements, conditional terms of employment, contracts, or other supportive sources and expended in accordance with applicable policy and law.

Documentation was not available for two payouts; both were for individuals who were no longer employed by the City. The related payroll files were not maintained, resulting in the inability to validate the payments. Documentation was verified for the additional 29 payouts reviewed.

Finding *Five of thirty-one Payroll Change Notice forms for special payouts did not contain two signatures as required by policy.*

⁴ 62 O.S. §§ 310.1 – 310.9

⁵ The audit period noted in the citizen petition.

All Payroll Change Notices defining a special payout require two signatures, “Recommended By” and “Authorized By.” Five of the Notices reviewed did not contain both required signatures; three only had signatures on the “Recommended By” line and two only had signatures on the “Authorized By” line. The remaining 26 Notices included both required signatures and were properly approved.

In Summary

Except as noted above, payments reviewed from the special payout accounts were properly authorized and documented and were for allowable costs.

OBJECTIVE 2

Review possible misappropriation of utility revenue (2.1), examine purported excessive residential rates (2.2), and the appropriateness of using utility revenue as collateral for millions of dollars in loans (2.3).

Objective 2.1 Review possible misappropriation of utility revenue.

Billing Process Review

Since no specific allegations were presented by petitioners concerning utility revenue misappropriation, a review of the billing process and a detailed analysis of two days collections was performed to evaluate the overall process of utility collections.

The City’s monthly electric usage billing process starts when the City receives the Grand River Dam Authority’s (GRDA) invoice for the power provided to the City. The City’s electric supervisor then calculates any rate or power cost adjustments, which the city manager approves. Subsequently, the Utility Department supervisor enters any adjustments into the utility billing software. TPI Billing Solutions, a third-party billing company, then bills city utility customers.

TPI Billing Solutions transfers all electronic payments directly into the CPWA bank account. Three clerks, each with their own cash box, processes over-the-counter and mail-in receipts. City employees enter documentation of the payment into the accounting software and prints a receipt for each payment.

At the end of each day, each clerk reconciles their utility receipts against the daily collection software report. City employees then prepare a daily reconciliation report that indicates any over/under amount collected. The Utility Department supervisor estimated that reconciliation differences occurred less than ten times per year. When adjustments are needed, only two employees, the Utility Department supervisor and assistant supervisor, are authorized to make write-offs or adjusting entries to customer accounts.

The collections for May 1, 2017, and June 1, 2017, were analyzed in detail to determine the effectiveness of the utility process. The total amount collected for each of these days was appropriately reconciled, without exception. Additionally, the total public works related cash collected was reconciled to deposit slips and to “cash in” tickets provided by the bank with no exceptions noted.

Utility Account Adjustments

Claremore provided a list of nine council members, the five highest paid city employees and two senior employees in the utility department for FY 2017. The names of these individuals were compared against utility account adjustments.

No Finding *None of the city councilors, senior city officials, or utility department employees received account adjustments or write offs to their utility billing accounts in the year tested.*

Objective 2.2 *Examine purported excessive residential rates.*

Section III of the Declaration of Trust for the CPWA provides the following as a defined purpose of the trust:

The purposes of this Trust, for and on behalf of the Beneficiary as hereinafter described, are:

(a) To furnish and supply to the inhabitants, owners and occupants of property, and to industrial, commercial and mercantile establishments and enterprises within the corporate limits of the Beneficiary and in territory in reasonably convenient proximity thereto, and to the Beneficiary and any other governmental agencies or endeavors, utility services and facilities for all purposes that the same be authorized or proper as a function of the Beneficiary; and to fix, demand and collect charges, rates and fees for said services and facilities to the same extent as the Beneficiary itself might do: PROVIDED, that the furnishing of any services or facilities to any person delinquent in the payment of any indebtedness whatsoever to the Trust may be discontinued at any time;

Additionally, Section 2.12(4) of the City Charter authorizes the City Council to “regulate the rate charged for its services by a public utility” as long as the approval of utility rates is done by ordinance.

There are no guidelines or laws that define at what amounts utility rates can be set. The only requirement is that rates are to be set by ordinance as defined in the Charter and that ordinances are to be properly presented and approved by the City Council.

No Finding *Utility rates were properly set by ordinance, and the rates charged to the customers corresponded to the rates approved by the City Council.*

Ordinances setting utility rates were obtained and reviewed. Ordinances were properly approved by the City Council. Additionally, a sample of residential bills sent to customers between 2013 and 2017 were reviewed to determine whether the utility rates charged corresponded to the rates approved by ordinance. In all instances, rates charged to the customers matched the rates approved by ordinance.

Finding *Claremore electric rates were 15% higher than neighboring municipalities and 22% higher than neighboring non-municipal electric providers.*

Billing rates, including a per-kilowatt-hour basis, were determined for three municipalities near Claremore. These municipalities provide similar services as Claremore (i.e., fire, police, streets). The rates of three non-municipal electric providers which do not provide any additional services, were also compared.

Multiple discussions were had with city officials concerning the calculation of these rates. It was agreed that total bill rate at any given time could be shifted and adjusted numerous ways resulting in varying percentage differences in rates among communities and providers.

However, to provide a perspective for citizens regarding utility rates, the City's rates were compared to a sample of neighboring municipalities and non-municipal electric providers for July 2020.

The total bill rate⁶ for Claremore was \$0.1265. The rate for the other six entities were:

Municipalities

Pryor – \$0.0942

Skiatook – \$0.1154

Miami – \$0.1201

Non-Municipal Electric Providers

Public Service Company of Oklahoma – \$0.0991

Verdigris Valley Electric Cooperative – \$0.0969

Northeast Oklahoma Electric Cooperative – \$0.1138

In Summary

Based on this analysis in July 2020, Claremore's electric billing rates were, on average, 15% higher than neighboring municipalities and 22% higher than neighboring non-municipal electric providers. **However, the utility rates set by**

⁶ Which includes kilowatt per hour rate of .1067, consumer charge, fuel cost adjustment, taxes, and franchise fee if applicable.

Claremore were done so within the City Council's legal authority and through properly approved ordinances.

Management respectfully disagreed that Claremore's rates were higher than surrounding communities and non-municipal providers representing that rates were closer to 10% higher vs. other communities. They also stated:

The setting of utility rates by the lawfully elected City Council is done so with several factors considered and was done so properly by the standards set forth in OK Statute pertaining to ordinance establishment... the City of Claremore has done its due diligence in making sure that rates have been established that would cover the cost(s) of core services expected by municipal government and said rates take into account future infrastructure maintenance and expansion as our community and system continue to grow.

Objective 2.3 Examine the appropriateness of using utility revenue as collateral for millions of dollars in loans.

The City's utility revenue (electric, water, and sewer) and sales tax revenue have been pledged as collateral for revenue bonds and notes. The bonds and notes were used to fund a variety of projects ranging from the water plant to wastewater treatment facilities to improvements to the electric system.

The use of utility revenue as collateral is addressed by the Oklahoma Constitution, statute, and the CPWA trust indenture.

Art. X, § 27B of the Constitution allows a municipality to borrow money or issue indebtedness for the purpose of financing the purchase, construction, or improvement of any public utility, using the revenues from the utility involved as a pledge for payment.

Title 11 O.S. § 22-153 was established for the purpose of implementing Section 27B of Article X and states,

Any municipality may issue its obligations in the manner set out in the Oklahoma Municipal Utility Revenue Bond Act in order to finance, or to refinance, all or a part of the cost of the acquisition, purchase or construction of, or the making of improvements to any public utility owned or to be owned exclusively by said municipality, and said obligations shall be payable from and secured by the revenues resulting from the operation of the municipality's revenue-producing public utilities or any part thereof. [Emphasis added]

Section VII of the CPWA Declaration of Trust also describes the powers and duties of the trustees to include the authority to collect and receive all money and income

belonging to or due the Trust and to use it for the purposes and the furtherance of the purposes of the City.

The City is allowed to utilize utility revenues as collateral for municipal bonded indebtedness. In addition, the CPWA Trust is authorized to pledge income as collateral.

OBJECTIVE 3

Objective 3 *Determine if there was a delinquency in payment of a \$9.86 million contract for smart electric and water meters paid by residential customers.*

The CPWA entered into a contractual agreement with GE Energy Management Services for the installation of 17,971 smart electric and water meters. The original purchase contract was signed on December 23, 2013, and amended on August 26, 2014, and June 18, 2018. The last contract amendment stated the monthly charges would commence beginning July 2018.

After all adjustments and amendments, the total project costs were as follows:

System Purchase Price	\$	5,190,000.00
Monthly Service Fee (10 year total)	\$	8,665,246.80
10 year software maintenance	\$	598,910.00
Total	\$	14,454,156.80

No Finding *GE Energy Management Services confirmed that the City’s payments for smart meters were not considered delinquent.*

All monthly payments to GE Energy between July 2018 and July 2020 were reviewed to determine whether invoices were paid timely. Invoices were obtained directly from GE Energy Management Services, and each payment due date was compared against the payment date.

Payments for five of the 25 invoices were made after the due date. According to the City’s electric supervisor, three of the invoices were paid late because there were issues with applying proper discounts, one invoice was paid late because it was not received, and one was simply paid seven days late.

GE Energy was contacted directly to determine if they considered any of the City’s late payments problematic, if the reasons given by city personnel were regarded as legitimate, and if all payments were deemed satisfactory. An e-mail, received directly from GE Energy, stated:

We can confirm that we have no records of late payment from Claremore.

In Summary

The City began the smart meter project in 2013, but, per the amended contract, did not receive its first invoice until July 2018. Five of 25 payments were paid after the due date. However, GE Energy did not record the payments as “late,” nor, according to invoices, was the City ever assessed a late fee.

OBJECTIVE 4

Objective 4 Determine if there was a delinquency of payments to the Grand River Dam Authority as the City’s electricity provider.

No Finding The CPWA has not been delinquent on utility payments to the Grand River Dam Authority.

Invoices provided by the Grand River Dam Authority (GRDA) were reconciled to payments made by the CPWA. All invoices for *power usage* were made timely.

We also obtained a statement directly from the Chief Executive Officer of the GRDA, stating:

GRDA has verified that, at least since 2012, the city has not missed, nor been delinquent, in any of its payments to GRDA. The city utilizes an electronic funds transfer that is efficient and timely for the type of payment in question.

OBJECTIVE 5

Objective 5 Determine the possible misuse, mismanagement and/or waste of grant funds and other funds in constructing a new water treatment plant.

City residents voiced concerns regarding funds expended for a water treatment plant built in 1999-2000 that was not operable upon completion. Due to the passage of time, documentation related to the 1999-2000 water treatment plant project was virtually non-existent, leaving no audit trail to review.

A report of the City’s water system written by *24/7 Wall St*⁷ reinforced the concerns of the citizens, stating that Claremore’s water system had historically failed to work properly.

⁷ <https://247wallst.com/special-report/2017/08/29/counties-with-the-most-contaminated-water/3/>

14. Rogers County, Oklahoma
> Water system: Claremore
> Number of max. contaminant level violations since 1980: 65
> Population served by water system: 15,873
> Most recent violation: May 19, 2017

The EPA has issued 65 water quality violations since 1989 to the Claremore water system in Rogers County, more than nearly any other U.S. municipal water system. In the past several years, all of the violations the district received have been for high levels of trihalomethanes, a group of chemicals often formed as a byproduct of the water disinfection process. At high concentrations, total trihalomethanes can increase the risk of cancer and certain birth defects. While the City of Claremore completed construction on a new \$3 million water treatment plant in 2000, the facility failed to work properly and has sat idle for the past decade.

In 2013, the City began a two-year water study to determine potential needs of the City and what system would be required to fulfill the potential water demand. These discussions were consistently documented in the CPWA board meetings. The City subsequently constructed a new water treatment facility, with work beginning in 2015 and completed in 2018. Records were reviewed to determine if the new water treatment plant’s construction was properly bid, funding was properly obtained, and associated transactions were properly approved.

On March 2, 2015, the CPWA properly approved CPWA Resolution #2015-2, authorizing the issuance of a Utility System and Sales Tax Revenue Note, in the amount of \$21,000,000 to pay for the construction of the water system.

For this project, the CPWA contracted with two entities, Garver LLC, which conducted the water study and design of the new water treatment plant, and UCI, which was awarded the lowest bid and constructed the water treatment plant. Garver received \$2,558,816.66, and UCI received \$16,927,076.09.

The City of Claremore OKLAHOMA Bid/RFP/RFQ Tabulation
 Date: 6-2-2015

Bid/RFP/RFQ Number: SB-2015-7-WTP

Department: Expo Type: Sealed Bid On-line Bid RFP RFQ

Vendor	Archer Western	BRB	Crossland	UCI	Walters Morgan
Comments					
Delivery Time					
Payment Terms					
Warranty Information					
Item Description					
Total Lump Sum Base Bid	\$ 17,346,125.00	\$ 20,590,000.00	\$ 18,968,625.00	\$ 17,257,375.00	\$ 17,730,250.00

Number of Bids/RFPs/RFQs Received: 5
 Late Bids/RFPs/RFQs: 0
 Authorized Personnel Signed: *Nicole Hays* Date: 6-2-2015

Approximately 25% of the total dollar amount paid to each contractor was reviewed to determine whether the payments were council approved and in accordance with the terms of the contract, and whether costs were necessary for the completion of the water treatment plant.

In Summary

The contract for the new water treatment plant was properly bid and funding was lawfully obtained. The contract invoices were reviewed by the Council prior to payment and were properly approved. Selected purchases were verified as being in accordance with the contracts and appeared reasonable and necessary for completion of the water treatment plant.

OBJECTIVE 6

Objective 6 ***Review the city manager's contract, compensation, benefits (expense account, credit card, vehicle) to verify appropriate use as legitimate city expenditures.***

Contract

No Finding ***The city manager's compensation was paid in accordance with his contracts and policy.***

All compensation, including salary, phone, car allowance, and sale of vacation time, authorized as per contracts, was compared to the actual amounts paid to city manager Jim Thomas for FY's 2014, 2015, 2016, and 2017. In addition to these items, Thomas also received longevity pay and a one-time \$1,000 stipend. The salary paid to Thomas for FY's 2014, 2015, and 2016 was confirmed paid as per his contracts without exception.

In FY 2017, all salaried city employees received compensation exceeding their contractually authorized amounts. The dollar value varied based on each employee's annual salary and equated to one paycheck. The payments occurred because the City's accounting software could not readily process the extra pay period occurring in 2017.⁸ Payroll is normally processed every two weeks, so in a typical year, there are 26 payroll periods. In FY 2017, a leap year, there were 27 payroll periods.

⁸ The payroll system currently in use can process 27 pay periods properly.

The inability to readily process 27 payroll payments in a calendar year was a known issue and was presented as part of the FY 2017 budget report, which was approved by the City Council. The extra payroll payment for all salaried employees totaled an extra \$455,000. In Thomas’ case, the extra payroll check was for \$5,088.89.

New for FY 2017 as relates to personnel expenses:	
Leap year	\$455,000
Health Insurance Increase	\$129,208
Market Salary Adjustments	\$111,691
One time stipends	+\$176,546
TOTAL	\$872,445

Thomas’ longevity pay amounts were verified as per the employee handbook without exception. In FY 2017 all non-union employees received an approved, one-time \$1,000 stipend. All phone and car allowance payments and sales of vacation time were also verified per the contract with no exceptions.

Vehicle

No Finding *The city manager received a vehicle allowance as part of his contract and did not use a city vehicle for city business.*

Thomas received a \$400-per-month vehicle allowance. He used his personal vehicle for conducting city business and received the monthly allowance to offset expenses. This was part of his contract and was allowable.

Personal Expense Account

No Finding *The city manager did not have a personal expense account. He was authorized a departmental budget that was approved by the City Council.*

Thomas was not provided a personal expense account. He was authorized a budget for his department (Department 010 - Managerial). Line items within the departmental budget included all payroll and benefits as well as telephone reimbursement, special payout, office supplies, business meeting expenses, dues and memberships, travel expenses, community relations, and training and professional development for Thomas and one to two additional employees. Thomas was provided a purchasing card or “P-card” to use in making purchases within his department’s budget.

As with all departmental budgets, after the budget was approved by the City Council, the head of the department had the ability to reallocate funds between line items as long as the total departmental budget remained within the approved budget amount. It appears that the funds in Department 010 – Managerial were controlled by, and primarily for use by, Thomas.

Between FY 2014 and FY 2017, the Department 010 – Managerial account was budgeted for and incurred actual expenditures on average of \$289,000 per year. Actual expenditures exceeded budgeted amounts in 2014 due to the hiring of an employee after the budget was submitted.

	Original Budget	Current Budget	Actual Expenditures
FY 2014	293,522.00	303,600.00	345,247.55
FY 2015	311,433.00	321,432.00	299,385.43
FY 2016	295,093.00	295,093.00	272,589.00
FY 2017	255,281.00	255,281.00	242,519.58
	1,155,329.00	1,175,406.00	1,159,741.56
Average	288,832.25	293,851.50	289,935.39

Per his contracts, Thomas was to be reimbursed for reasonable, necessary, and appropriate expenses and provide adequate and appropriate receipts and documentation for these expenses. Paragraph 11 of his contract stated:

11. **Reimbursement of Expenses.** City Manager shall be entitled to reimbursement for his reasonable and necessary travel expenses and other necessary and appropriate expenditures on behalf of the City pursuant to Oklahoma law and City policy. City Manager shall provide adequate and appropriate receipts and documentation of expenses for which City Manager seeks reimbursement.

Purchasing Card (P-card)

Thomas was provided a P-card for making departmental expenditures. Costs incurred by Thomas, or the employees whom he supervised, were to be presented each month for approval by the City Council.

Finding *The May 2016 P-card statement, totaling \$90,973.39, was not presented to the City Council for approval as required.*

P-card statements are approved by the City Council. Council members have the opportunity to view supporting documentation for any line item on the statements, but, officially, all P-card expenditures are reviewed only as one invoice and submitted as part of the monthly consent agenda. The May 2016 P-card statement was not part of that month’s consent agenda approval.

Over a period of three years, FY 2015 through FY 2017, Thomas’ P-card expenses totaled \$50,737.93 as follows:

TYPE OF EXPENSE	AMOUNT
Out-of-state Travel	\$28,486.03
Conferences and Memberships	\$12,556.99
Local Area Food	\$5,095.90
In-state Travel	\$3,672.16
Other	\$926.85
Total	\$50,797.93

Finding *Thomas did not follow the City’s travel policy, even though his contract stated he would be reimbursed “pursuant to Oklahoma law and City policy.”*

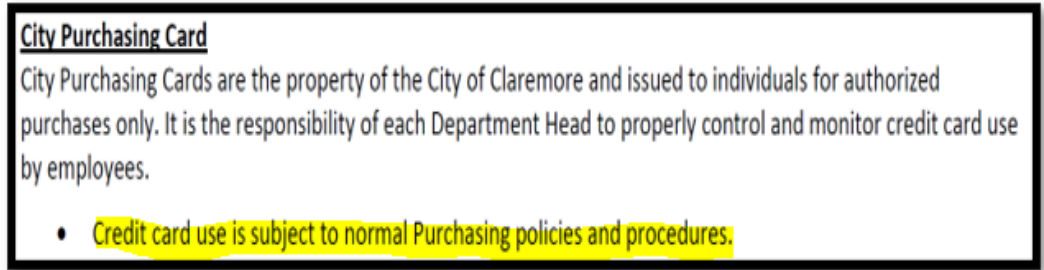
According to the City’s executive manager of budget and finance, Thomas did not receive per diem while in travel status; instead, he was authorized to use his P-card for expenses with no set limits other than having to remain within his overall departmental budget. Thomas’ travel expenses did not require prior approval, and his expenditures were only reviewed and approved by the City Council after incurred.

Our review of P-card expenditures confirmed that the City’s travel policy was not followed by Thomas while in travel status.

Review of P-card Expenditures

P-card charges were analyzed for May 2015 through June 2017 to determine if purchases were legal and appropriate and whether supporting documentation provided sufficient information to verify if transactions were reasonable, necessary, and in accordance with city policy, *as required by Thomas’ contract.*

“City Purchasing Card” policy stated that credit card use was subject “to normal Purchasing policies and procedures.”



Additional city policies included:

- Travel expenses of a spouse or family member accompanying an employee are not reimbursable.
- *Itemized* expenses shall be accompanied by receipts to obtain reimbursement.
- In no instance shall the actual expense reimbursement for meals exceed the *per diem* rate.
- Lodging accommodations shall be at standard room, single occupancy rate.

Section 5-4 of the City Handbook also addressed the importance of expenses being “reasonable.” The Handbook stated, “Any reasonable expenses associated with trips or seminars may be reimbursed by the City.”

The City had no written guidance on the allowability for costs attributed specifically to local community relations and local business meetings (e.g., luncheons and breakfasts) paid with city funds.

Finding ***P-card purchases made by Thomas included \$375 of unallowable costs, more than \$1,400 of charges that were deemed unreasonable and/or excessive, and more than \$3,400 of purchases that were paid without itemized receipts.***

Unallowable Costs

Six purchases made by Thomas were considered unallowable. Two registration fees paid for Thomas' spouse when she attended a conference (\$235); three extra baggage charges paid for Thomas' spouse while traveling with her husband (\$75); and one meal expense for Thomas' spouse while traveling out-of-state along with her husband (\$65). Thomas was accompanied by his spouse on additional business trips. Receipts provided for these trips were not itemized, so it was not possible to ascertain if any other costs were also absorbed by the City when Thomas' spouse was present.

2016 ICMA 102nd Annual Conference Partner/Spouse Registration	2016ACPARTNER \$100.00 1
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Not Reasonable/Excessive

Thomas' contract and the City handbook both required charges to be "reasonable" to qualify for reimbursement or payment with public funds. Thomas incurred \$3,067.65 of charges that were considered not reasonable, or excessive.

- 1) Thomas rented a car service from Skyhawk Limousine while attending a trip in Washington, D.C. The limousine was used for six hours, transporting Thomas and two other city employees from their hotel to a meeting location, from the meeting to a lunch location, and then to the airport, a total of six hours service for a cost of \$653.40. A meal totaling \$320.00, for three guests, was charged to Thomas' P-card while the limousine waited.
- 2) A one-night hotel stay in Dallas, at a rate of \$445.88, was incurred by Thomas in November 2015 without any support that a conference was attended or that the hotel was a designated conference location.

No Itemized Receipts

More than 33% (74 of 221), or \$3,404.18, of the receipts submitted for support of expenditures by Thomas were not itemized and were considered inadequate to document whether the expenses incurred were reasonable, necessary, or appropriate.

Most of the documentation retained for support were credit card slips (as seen in these examples), not *itemized* receipts of the purchases as required by policy. A large majority of the inadequate receipts were food related and were for meals incurred in Claremore.

In Summary

Thomas was allowed to use his P-card without any direct council oversight, and he consistently submitted inadequate supporting documentation. As a result, expenditures were routinely made that could not be determined as appropriate, reasonable, or for a legitimate public purpose.



DISCLAIMER *In this report, there may be references to state statutes and legal authorities that appear to be potentially relevant to the issues reviewed by the State Auditor & Inspector's Office. This Office has no jurisdiction, authority, purpose, or intent by the issuance of this report to determine the guilt, innocence, culpability, or liability, if any, of any person or entity for any act, omission, or transaction reviewed. Such determinations are within the exclusive jurisdiction of regulatory, law enforcement, prosecutorial, and/or judicial authorities designated by law.*

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STATE AUDITOR & INSPECTOR



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