



# City of Snyder Snyder Public Works Authority Special Audit Report July 1, 2004 – September 30, 2006

**JEFF A. McMAHAN, CFE**

OKLAHOMA OFFICE  
OF THE  
STATE AUDITOR & INSPECTOR

## Why the audit was performed

The City of Snyder audit was performed pursuant to the District Attorney's request in accordance with 74 O.S. 2001, § 212(H).

## Audit Summary:

### Final Pay for Former Police Chief

- ✓ Under the criteria established by FLSA, the former police chief would not be an exempt employee. **Pg 8**
- ✓ The time reporting records of the former police chief were incomplete and questionable as to their validity and accuracy. **Pg 9**
- ✓ Based upon the records available for our review, assuming their validity and accuracy, we believe the final payroll check to the former police chief was substantially overpaid, in the amount of approximately \$9,800. **Pg 10**

### Purchases of Vehicles and Telephone System

- ✓ Under current statutes and the City's bid ordinance, the recent purchases of vehicles and a telephone system did not require a formal bid process. **Pg 11 & 12**
- ✓ Board approval for one of the police vehicle purchases and of the telephone system appeared to be in violation of provisions of the city code and the **Oklahoma Open Meeting Act. Pg 12 & 13**
- ✓ Financing arrangements for the City's lease purchases of the vehicles and the telephone system did not appear to comply with state constitutional and statutory restrictions. **Pg 14**

### Other Findings

- ✓ There appeared to be substantial errors in the agreed upon procedures report obtained for the City's fiscal year ended June 30, 2005. **Pg 14 & 15**
- ✓ The former mayor's recent attempt to reorganize the City's departments and finances for FY2007 has further complicated an already confusing accounting system. **Pg 15 & 16**
- ✓ The SPWA has certain bank accounts and C.D.'s related to the debt service for their Series 2005 bonds and FmHA loan that appear unnecessary or over funded. **Pg 16**
- ✓ Our review of the status of findings and recommendations from our prior report, dated February 17, 2005, indicated some modest improvement for some findings, but little or no improvement for most findings. **Pgs 17-26**

**CITY OF SNYDER  
SNYDER PUBLIC WORKS AUTHORITY  
KIOWA COUNTY  
SPECIAL AUDIT REPORT  
JULY 1, 2004 TO SEPTEMBER 30, 2006**

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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan  
State Auditor and Inspector

December 6, 2006

John M. Wampler, District Attorney  
3<sup>rd</sup> Judicial District  
Jackson County Courthouse  
Altus, Oklahoma 73521

Transmitted herewith is the Special Audit Report of the City of Snyder, Kiowa County, Oklahoma, and the Snyder Public Works Authority. We performed our special audit in accordance with the requirements of **74 O.S. 2001, § 212 (H)**.

A report of this type is critical in nature; however, we do not intend to imply that our report failed to disclose commendable features in the present accounting and operating procedures of the City.

The Office of the State Auditor and Inspector is committed to serve 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.

Sincerely,

A handwritten signature in blue ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN  
State Auditor and Inspector

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CITY OFFICIALS

Dale Moore. .... (resigned September, 2006) Mayor  
Allen Ford..... (acting mayor) Vice-mayor  
Samuel Gettens ..... Council member  
Clifford Barnard..... (resigned September, 2006) Council member  
Buster Spurlin ..... (resigned May, 2006) Council member  
Faye Dwyer ..... City Clerk-Treasurer  
Tod Ozmun ..... (resigned September, 2006) Police Chief



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan  
State Auditor and Inspector

Honorable Allen Ford, (acting) Mayor  
Snyder City Council  
City of Snyder  
721 E Street  
Snyder, OK 73566

Pursuant to the request of the District Attorney, 3<sup>rd</sup> Judicial District, and in accordance with the requirements of **74 O. S. 2001, § 212(H)**, we conducted a special audit with respect to the City of Snyder, Kiowa County, Oklahoma, and the Snyder Public Works Authority, for the period July 1, 2004 through September 30, 2006.

The objectives of our special audit were limited to reviewing (1) the severance pay of the former police chief following his resignation in September 2006, (2) the lack of bids for certain specified purchases of equipment in 2005 and 2006 and (3) a review of any changes in policies and procedures resulting from the findings and recommendations of the State Auditor's report dated February 17, 2005. Our findings and recommendations related to these procedures are presented in the accompanying report.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the City of Snyder or the Snyder Public Works Authority (SPWA) for the period July 1, 2004 through September 30, 2006.

Further, due to the test nature and other inherent limitations of a special audit report, together with the inherent limitations of any internal control structure, there is an unavoidable risk that some material misstatements may remain undiscovered. This report relates only to the accounts and items specified above, and do not extend to any financial statements of the City of Snyder or the Snyder Public Works Authority taken as a whole.

This report is intended solely for the information and use of the District Attorney, citizens, Mayor, City Council and Administration of the City of Snyder and the Snyder Public Works Authority and should not be used for any other purpose. This report is also 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,

  
JEFF A. MCMAHAN  
State Auditor and Inspector

November 28, 2006

## INTRODUCTION

The City of Snyder, Oklahoma is organized as a statutory strong mayor-council form of government, as outlined in **11 O.S. 2001, § 11-101, et seq.**, which states:

“The form of government provided by Sections 11-101 through 11-125 of this title shall be known as the statutory strong mayor-council form of government. Cities governed under the statutory strong mayor-council form shall have all the powers, functions, rights, privileges, franchises and immunities granted, or which may be granted, to cities. Such powers shall be exercised as provided by law applicable to cities under the strong mayor-council form, or if the manner is not thus prescribed, then in such manner as the council may prescribe.”

The City of Snyder operates its water, sewer and trash utility services through the Snyder Public Works Authority (SPWA), a public trust established in accordance with **60 O.S. 2001, § 176, et seq.** The mayor and city council serve ex officio as the chairman and board of trustees for the SPWA.

Under **11 O.S. 2001, § 17-105**, as amended in 2005, the City is required to have an audit or an agreed-upon-procedures engagement done whenever General Fund revenues equal or exceed \$25,000. An agreed-upon-procedures engagement report was filed for the City of Snyder for the fiscal year ended June 30, 2005, and was available for our review. The agreed-upon-procedures engagement for the fiscal year ended June 30, 2006, has been ordered, but was not yet filed with the State Auditor and Inspector.

In accordance with **60 O.S. 2001, § 180.2**, as amended in 2005, an agreed-upon-procedures engagement report was filed for the Snyder Public Works Authority for the fiscal year ended June 30, 2005, and was available for our review. The agreed-upon-procedures engagement for the fiscal year ended June 30, 2006, has been ordered, but was not yet filed with the State Auditor and Inspector.

The State Auditor and Inspector conducted a special audit of the records of the City of Snyder and Snyder Public Works Authority, primarily those records relating to the issues listed in the State Auditor and Inspector’s Report, page 5. The results of the special audit are in the following report.

## FINDINGS AND RECOMMENDATIONS

### Background to Findings #1-2006, #2-2006 and #3-2006:

The Federal Fair Labor Standards Act (FLSA) governs certain minimum wage and overtime rules and regulations promulgated by the U.S. Department of Labor. In its most basic application, the FLSA requires most employees to be paid at time and one-half the regular rate of pay for all hours worked over 40 hours in a workweek. However, there are certain exemptions provided for executive, administrative, professional and certain computer employees, including some variations to hours per pay period for public safety employees, such as police and fire.

Due to limited police personnel, the City has had prior problems with police officers and police chiefs submitting claims for “overtime” worked and/or on call hours. At the time of our prior audit in the fall of 2004, the (then) new mayor, now former mayor, was attempting to find a workable solution to address the policy of the City Council to have “24/7” police protection, while avoiding the resulting overtime and compensatory time that had periodically accumulated.

The former mayor’s initial effort to correct the problem was to purchase a time card system and require all City/SPWA employees to clock in and out in order to better document and record time on the job. At the time of our fieldwork in November/December 2004, the former mayor believed the time card system was helping with the overtime issue. The former mayor was also trying to obtain more information from the Oklahoma Municipal League and others on how small cities and towns in Oklahoma were handling FLSA/overtime issues for police departments.

In November 2005, the City of Snyder was investigated by the U.S. Department of Labor for the time period of September 2003 to January 2005. The City of Snyder was directed to pay \$4,718.41 in overtime wages to 8 former and present employees of the City/SPWA. The 8 employees included a previous former police chief and the present former police chief (Ozmun), whose large severance check was paid in September 2006. In late December 2004, the former police chief (Ozmun) had just started to work as a police officer for the City and had already accrued some overtime by the January 15, 2005, ending date of the period covered by the USDOL investigation.

According to interviews, at one point the City Council voted to put city employees on a “salary basis” in order to eliminate the overtime issue. The FLSA has a specific definition for salary based compensation, and the functions, work schedules and duties of City/SPWA employees do not fit the criteria for the FLSA exemption based on “salary” pay. The City Council cannot simply vote to put employees on a “salary basis” in an effort to avoid compliance with FLSA overtime regulations. Unless the circumstances meet the FLSA criteria, it does not matter whether the City/SPWA employees are paid “hourly” or by “salary”.

FLSA allows for a somewhat longer workweek for law enforcement and fire personnel. Instead of a 40-hour workweek, law enforcement entities may use schedules such as 171 hours over a 4-week pay period or 86 hours over a 2-week pay period. The City of Snyder operates with a 2-week pay period, so SPD officers would not accrue overtime until they had worked more than 86 hours during a normal biweekly pay period.

Another feature of FLSA is that the overtime calculations must be based on actual time worked. If a workweek or work period for an employee included an 8-hour holiday or 16 hours of vacation or sick



time, those hours of leave time taken for holiday, vacation or sickness would not be counted towards the 40 hour limitation or, in the case of the Snyder Police Department, the biweekly 86 hour limitation. For example, if an SPD officer reports 90 hours for a 2-week pay period, but the 90 hours included 8 hours holiday leave, then there would be no "overtime" under FLSA. The officer would be paid for the 82 hours actually worked plus the 8 hours of holiday pay at the regular pay rate. The four hours above the FLSA limit would not be paid at "time and a half".

The FLSA also has other qualifiers and exemptions, including a specific fire and law enforcement exemption for public agency departments with four or fewer full and/or part-time positions. This exemption allows a very small public agency police or fire department to avoid "time and a half" pay for hours worked in excess of FLSA limitations. The employees would still be paid for all hours worked, but only at the regular pay rate. The City utilized this exemption for a time during the first half of calendar year 2005.

This background information is necessary to understand the first three findings in this report.

**FINDING #1-2006:** Under the criteria established by FLSA, the former police chief would not be an exempt employee under the executive or administrative exemptions.

If the position of Snyder Police Chief were exempt, then overtime regulations would not have applied to the former police chief. No matter how many hours were claimed on time cards and time sheets, no overtime or compensatory time would have accrued. Briefly, the following are the criteria established by FLSA for an executive or administrative exemption.

To qualify for the executive employee exemption, ALL of the following tests must be met:

1. The employee must be compensated on a salary basis (as defined in the regulations) at a rate not less than \$455 per week;
2. The employee's primary duty must be managing the enterprise, or managing a customarily recognized department or subdivision of the enterprise;
3. The employee must customarily and regularly direct the work of at least two more other full-time employees or their equivalent;
4. The employee must have the authority to hire or fire other employees, or the employee's suggestions and recommendations as to the hiring, firing, advancement, promotion or any other change of status of other employees must be given particular weight.

To qualify for the administrative employee exemption, ALL of the following tests must be met:

1. The employee must be compensated on a salary basis (as defined in the regulations) at a rate not less than \$455 per week;
2. The employee's primary duty must be the performance of office or non-manual work directly related to the management or general business operations of the employer or the employer's customer; and
3. The employee's primary duty includes the exercise of discretion and independent judgment with respect to matters of significance.

At \$10 per hour, the former police chief was borderline for the \$455 per week criteria, but once his pay scale was increased to \$15 per hour (as of the biweekly pay period ended May 2, 2005), he would have qualified on the minimum weekly salary and some other aspects of the executive or administrative exemption. However, FLSA, § 541.700(a) defines “primary duty” as “the principal, main, major or most important duty that the employee performs”, but also further defines “primary duty” as what is done “more than 50 percent of their time”.

A small department police chief is expected to have some administrative duties. However, the burden of proof would be on the City to claim that the Snyder Police Chief position involved executive or administrative duties (as opposed to ordinary patrol/investigative duties) that required “more than 50 percent of their (his) time”. Based on the above, it appears that the Snyder Police Chief position did NOT qualify for exemption from the Fair Labor Standards Act. This was also the finding of the USDOL investigation, since it had directed payment for overtime hours for an earlier former police chief, as well as at least one other city department head.

**RECOMMENDATION:** Since FLSA regulations apply, we recommend the acting mayor and present police chief evaluate the scheduling of SPD officers to minimize the amount of overtime accrued wherever possible, without risking public safety or the safety of SPD officers.

**FINDING #2-2006:** The time reporting records of the former police chief were incomplete and questionable as to their validity and accuracy.

According to interviews, the time card system implemented by the former mayor was in use during the first months of Ozmun’s employment. City employees were required to clock in and out to document time on the job. The times stamped on the cards were then transferred to biweekly timesheets that totaled the number of hours and minutes worked during each biweekly pay period. These biweekly timesheets had a line for the signature of the employee and a line for the signature of a supervisor.

During the second pay period in May 2005, the former mayor discontinued the time card system, apparently at the urging of Ozmun, who was complaining about having to clock in on those occasions of being called out at odd hours. Following the discontinuance of time cards, the biweekly timesheet continued to be used until November 1, 2005, at which time Ozmun implemented a weekly timesheet form for the police department. Other City/SPWA employees continued to use the biweekly form.

The police department weekly timesheet form included a section for “Absence Reporting”. Absences (sick, vacation, holiday, unpaid leave, comp time) were not reported on the biweekly timesheets, except as extra notations in the “Comments” column. These weekly timesheets had a line for the signature of the employee and a line for the signature of a supervisor.

For the 45 biweekly pay periods that occurred from 12/28/04 to 9/08/06 (the date of resignation), the City Clerk-Treasurer provided us with copies of 21 biweekly timesheets through 10/31/05, and 39 weekly timesheets for the period 11/01/05 through 9/08/06. There should have been 22 biweekly timesheets and 45 weekly timesheets in all.

No biweekly timesheet for the initial pay period 12/28/04 to 1/10/05 could be located. The City Clerk Treasurer indicated she was off during that pay period and was not sure whether a timesheet had ever been filed. She could not locate the time card for that pay period. The City Clerk-Treasurer also could not provide copies of six weekly timesheets for the pay periods 4/04/06 to 4/17/06, 5/02/06 to 5/15/06, the first week of 8/15/06 to 8/28/06, and the last week of 8/29/06 to 9/12/06. We found one computer file for the weekly timesheet for 8/15/06 to 8/21/06 on the laptop assigned to the former police chief. This timesheet information was included in our calculations. However, we had no way of verifying whether this computer file was the final version.

In interviews with the City Clerk-Treasurer, she could not be certain whether she had the missing timesheets at the time she calculated the final paychecks for the former police chief. During the controversy precipitating Ozmun's resignation, tensions were running high. She indicated she felt pressured by the former mayor to calculate and print the final check and was unaware that the mayor would tender his resignation shortly afterward. Consequently, due to the stress, she could not be sure now whether the timesheets were present in September, and have since been misfiled, or whether they were missing and not used in her calculation of 884 overtime hours payable to Ozmun.

In addition to the missing timesheets, we noted that out of the 21 biweekly and 39 weekly timesheets provided, only three had the signature of an actual supervisor. One timesheet had the signature of the acting police chief at the time Ozmun started as a police officer, and two weekly timesheets had the former mayor's signature as supervisor. Of the remaining 57 timesheets, 52 had only Ozmun's signature, on the employee or the supervisor signature line, and five had no signatures at all.

We observed the weekly timesheets included the following notation, "NOTE: All overtime must be pre-approved by your manager." If this quote was ever contemplated as an actual policy, it apparently was never enforced on Ozmun.

**CONCLUSION:** Following the termination of the time card requirement, and with almost no indication of supervisory review, it appeared there was minimal documented control or supervision over the amount of time Ozmun was permitted to report. The records were insufficient to verify the validity and/or accuracy of the time reported by the former police chief.

**RECOMMENDATION:** The City should review its records retention procedures to ensure that all payroll records are retained for a sufficient time period, in compliance with **11 § 22-131(3)** which requires payroll records be retained for at least five (5) years.

**RECOMMENDATION:** We recommend supervisory review be implemented and consistently applied, with appropriate department heads signing as supervisors of employees and the mayor signing the supervisory approval for all department heads.

**FINDING #3-2006:** Based upon the records available for our review, assuming their validity and accuracy, we believe the final payroll check to the former police chief was substantially overpaid.

We utilized the records available, with some assumptions for records that were not available, and calculated our estimate for the final overtime and other hours paid in September. Our calculations

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indicated an estimated overpayment that amounted to approximately \$9,800:

Final Check #1877, September 8, 2006:	Hours			
Pay Period: 9/05/06 to 9/18/06:	80	Reg Rate	\$ 15.75	1,260.00
Vacation Leave Due:	80	Reg Rate	\$ 15.75	1,260.00
Initial Calculation of Overtime Due	884	OT Rate	\$ 23.63	20,888.92
<b>Total Gross Pay on Final Check:</b>				<b>\$ 23,408.92</b>
Total Comp Time/OT Hours, according to FLSA criteria:			1,192.06	
Comp Time/OT Used Prior to Resignation:			(276.50)	
Comp Time/OT Paid at Regular Rate, January to May 2005, (FLSA Exempt)			(484.02)	
Adjusted Comp Time/OT Hours Due at Resignation:			431.54	
Recalculation of Final Check:				
Adjusted Comp Time/OT Hours Due:	431.54	OT Rate	\$ 23.63	10,197.29
Dollar Adjustment for OT Hours Paid at Regular Rate:	276.50	Half Time	\$ 7.88	2,178.82
Vacation Leave Due:	80.00	Reg Rate	\$ 15.75	1,260.00
<b>Adjusted Gross Pay Due on Final Check:</b>				<b>\$ 13,636.11</b>
<b>Estimated Overpayment on Final Check (gross pay basis):</b>				<b>\$ (9,772.81)</b>

The above estimated overpayment is based on the assumption of 40 hours per week for those pay periods for which no timesheets were available. It also assumes that all time reported was in fact valid and reported accurately, which may not be the case, due to the lack of effective supervision.

For example, the timesheet for the week of 8/22/06 to 8/28/06 did not indicate any sick leave or comp leave taken, even though the police chief was off some days due to a diving board injury. The City Clerk-Treasurer was aware of the injury and substituted 32 hours sick leave for 4 days of work claimed on the timesheet. If additional records or information becomes available that confirm some reported overtime was not legitimate, or if the missing timesheets are located and indicate additional overtime was accrued, then other adjustments will need to be made.

**RECOMMENDATION:** We recommend action be taken to negotiate a corrected final settlement that results in recovery of the estimated overpayment.

**FINDING #4-2006:** During the audit period, neither the current city bid ordinance nor current bid statutes for municipalities and municipal public trusts required a formal bid process for the vehicles and the phone system that were purchased.

The current situation for formal competitive bidding was discussed at length in our report, dated February 17, 2005, under **FINDING #7-2005**. Briefly, under City Code Section 1-51, as amended in 1994, the City of Snyder is only required to formally bid "public construction contracts" in excess of \$7,500. Title **61 O.S. 2001, § 101 et seq.** requires a municipality to bid "public construction contracts" in excess of \$25,000. Under Title **60 O.S. 2001, § 176**, the Snyder Public Works

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Authority is required to bid “contracts for construction, labor, equipment, material and repairs” in excess of \$25,000.

During the audit period, there were five lease-purchase situations: two police vehicles, a pickup purchased for the water department, a pickup purchased for the sewer department and a new telephone system purchased for the City Hall/Police Department building. According to the finance agreements with the local bank, the cost of the vehicles and telephone system were as follows:

Item Purchased	Date Financed	Amount Financed
2002 Chevrolet Impala (police dept)	May-05-05	\$11,569
2005 Ford F150 Pickup (water dept)	Jun-02-05	\$16,709
3Com Telephone System (city hall)	Jul-06-05	\$16,867
2003 Dodge Durango (police dept)	Jan-27-06	\$8,040
1999 Dodge Dakota Pickup (sewer dept)	Jan-27-06	\$8,040

Based on the above, none of the items purchased would have required a formal bid process. There was no violation of city ordinance or applicable statute. Since the City’s bid process continues to be an issue, there appears to be a public expectation that needs to be addressed by the City Council. We did note some other issues with these purchases, which are covered in **FINDINGS #5-2006** through **#7-2006**.

**RECOMMENDATION:** We recommended in our prior report, dated February 17, 2005, “the Mayor/Council (should) review current purchasing ordinances and policies to determine whether any additional clarification is warranted, or whether any ordinance needs revision.” Section 1-51 of the City Code, as amended in 1994, will need to be revised to require bids for anything other than “public construction contracts”.

**FINDING #5-2006:** The board approval for one of the vehicle purchases appeared to be in violation of both the city code and the **Oklahoma Open Meeting Act**.

March 2005 was a transition period between some council members going off the board and new council members taking office in April 2005. The city council minutes for the meeting of March 30, 2005, clearly indicate that only the former mayor and one council member was present at the special meeting called to purchase the 2002 Chevrolet Impala for the police department. The minutes also indicate that a third council member, now deceased, was contacted by telephone to obtain the approval of 3 council members (of a board of 5) to approve the purchase.

The Snyder City Code, Section 1-15 (5), both references and substantially quotes the **Oklahoma Open Meeting Act, 25 O.S. 2001, § 306**:

“No informal gatherings or any electronic or telephonic communications...shall be used to decide any action or to take any vote on any matter.”

The purchase of the police car was the only agenda item for the March 30 special meeting. The telephone vote cast by the third council member appears to have been a straightforward violation of the city code and the **Oklahoma Open Meeting Act**.

Title **25 O.S. 2001, § 313** states, “Action taken in willful violation of this act shall be invalid.” Title **25 O.S. 2001, § 314** indicates punishment for a “willful” violation to be a \$500 fine and/or imprisonment

in the county jail for up to one (1) year.

On April 18, 2005, the “outgoing” city council was scheduled for a meeting to finish up outstanding business and approve the minutes of the March 30, 2005, meeting. Only two members were present. Since there was no quorum, the meeting was adjourned. Apparently, the March 30 minutes were never formally approved.

**RECOMMENDATION:** We recommend further investigation by the appropriate legal authority to determine whether the action taken was “willful” and to determine the validity of the vehicle purchase approved on March 30, 2005.

**FINDING #6-2006:** The vote to approve the purchase of the phone system in April 2005 appeared to involve another violation of the **Oklahoma Open Meeting Act**.

City records indicated an Oklahoma City vendor proposed 3 different phone systems to replace the City’s previous phone system:

1. 3Com System, with a proposed cost of \$16,857;
2. Norstar System, with a proposed cost of \$17,938;
3. Voldavi STARPLUS STS, with a proposed cost of \$16,250.

In reviewing the agenda and minutes for the meeting, it appeared that the purchase of the phone system was in violation of **25 § 311 (B)(1)** of the **Oklahoma Open Meeting Act**, which states in part:

“All agendas...shall identify all items of business to be transacted by a public body...”

Item #20 on the agenda for April 18, 2005, states simply “Telephone services”. The wording of the agenda item did not appear to provide citizens or other potentially interested parties sufficient information to “identify” the purchase of a completely new telephone system (costing in excess of \$16,000), as the potential action or item of business to be transacted by the city council during that meeting.

The city council minutes indicate the motion “to install new telephone services...for \$15,000” was an amount less than any of the three proposals submitted by SilverStarr Technologies and less than the lease purchase amount financed by the local bank. City records did not indicate the reason for a cost higher than what was approved in the motion. Three new city council members (their very first meeting) and the former mayor voted in favor of the motion. The vice-mayor, now acting mayor, abstained from this vote.

Title **25 § 313** states, “Action taken in willful violation of this act shall be invalid.” Title **25 § 314** indicates punishment for a “willful” violation to be a \$500 fine and/or imprisonment in the county jail for up to one (1) year.

The agenda and minutes for the May 2, 2005, meeting indicated that the telephone system purchase was again considered and approved by the same vote, except that the vice-mayor was absent from this meeting, instead of abstaining. Once again, the agenda only indicated that

“Telephone System” was the action to be considered. It appeared that the only difference between this motion and the one approved in April was an increase in the approved amount to “\$16,000”. Even with the increase, the newly approved \$16,000 amount was still less than any of the three proposals or quotes on file with the City Clerk-Treasurer.

**RECOMMENDATION:** We recommend further investigation by the appropriate legal authority to determine whether the action taken was “willful” and to determine the validity of the phone system purchase approved on April 18, 2005 and again on May 2, 2005.

**RECOMMENDATION:** We recommend that any agenda item include a description that is both specific and sufficient enough to reasonably “identify all items of business to be transacted” by the City Council and/or SPWA Board of Trustees, in accordance with **25 § 312(B)(1)**.

**FINDING #7-2006:** Standard promissory notes and commercial lease agreements, rather than restricted lease purchase agreements, were used to fund the purchases of City/SPWA vehicles and the telephone system.

Generally, under **Article 10, §§ 26 and 27 of the Oklahoma Constitution**, political subdivisions of the state (i.e. county, city, town, township, school district, etc.) are prohibited from becoming “indebted, in any manner, for any purpose” without a vote of the citizens. This general prohibition has been modified by other constitutional sections passed by the approval of certain state questions and by the lease purchase statute at **62 O.S. 2001, § 430.1**. These prohibitions would not necessarily apply to the two pickups purchased for the SPWA, which is a public trust authority, not a political subdivision.

All five purchases of equipment listed in **FINDING #4-2006** were financed through the local bank in Snyder. The finance arrangements were documented with what appeared to be standard promissory notes and ordinary commercial lease agreements that do not contain the statutorily required lessee’s option to renew for each fiscal year.

Also, the lease agreements were ambiguous as to the title of the equipment. One paragraph states, “The certificate of title shall be issued in the name of the lessee.” On the other hand, the agreements require “All personal property taxes of the lessor...shall be paid by the lessee...(and)...the title of the leased vehicle is retained by the lessor.” With lease-purchase agreements for local governments, title should not pass until the final payment, and the lessor is required to pay all applicable taxes during the term of the lease.

The city attorney office had been vacant for some time. The acting mayor has recently contracted with an attorney to fill the position. The new city attorney has indicated he was already reviewing the lease agreements and working with the local bank to make the needed corrections.

**RECOMMENDATION:** We recommend the use of SAI form 120-B for local government lease-purchases. The form is written to comply with statutory and state constitutional requirements. A copy can be obtained from the Kiowa County Clerk, or the form can be downloaded from the State Auditor and Inspector’s website.

**FINDING #8-2006:** There appeared to be substantial errors in the agreed upon procedures report obtained for the City’s fiscal year ended June 30, 2005.

In 2005, audit statutes in **Title 11** and **Title 60** were modified to allow a report for “an agreed-upon-procedures engagement”, rather than “an annual financial statement audit”, for municipalities with populations of less than 2,500. The purpose for the statute revisions was to reduce potential audit costs for smaller municipalities while continuing to require some measures of accountability and review by an independent licensed public accountant or certified public accountant.

The format for the agreed-upon-procedures engagement was new for the fiscal year ended June 30, 2005, and there can be some errors associated with any new statute, policy or procedure. However, we noted certain errors in the City of Snyder agreed-upon-procedures engagement report that appeared to be substantial.

One of the agreed-upon-procedures required by the new statute is the determination of whether there were any “fund balance deficits” that are prohibited by statute. Although the “Procedures and Findings” section of the report indicated, “no instances of creating fund balance deficits as prohibited by statute”, the Summary of Changes in Fund Balances schedule reported a year-end fund balance deficit of (\$471,644) for the Snyder Public Works Authority.

A second procedure required by the new statute is the determination of whether there were any expenditures and encumbrances exceeding the “legal level of appropriations” for the General Fund or other significant funds. Although the “Procedures and Findings” section of the report indicated “no instances of actual expenditures and encumbrances exceeding the appropriate limitations”, the budgetary comparison schedule for the General Fund reported actual expenditures in excess of the final budget total by the amount of (\$106,803), a negative variance of more than (24%).

Besides the two errors above, there appeared to be additional spreadsheet formula errors in the amounts of the variances, subtotals and totals reported in the budgetary schedule for the General Fund.

**RECOMMENDATION:** The Mayor, City Council and City Clerk-Treasurer are ultimately responsible for the amounts reported in the agreed-upon-procedures report. However, we recommend contacting the audit firm preparing the FY2005 Agreed-Upon-Procedures Report and requesting them to review and possibly revise the report, as necessary. Any revision should be filed with the State Auditor and Inspector and clearly marked as being a “revised” report.

**FINDING #9-2006:** The former mayor’s recent attempt to reorganize all the City departments into “profit centers” for FY2007 has further complicated an already confusing fund/bank account/QuickBooks category structure that we attempted to address at length in our previous report.

For the present fiscal year ending June 30, 2007, the former mayor directed the City Clerk-Treasurer to set up additional separate funds and bank accounts for General Fund departments, such as police, parks, swimming pool, etc. There already was a separate fund and bank account for the fire department, which we found little justification for in our previous report. According to interviews, the intent of the reorganization and creation of the new bank accounts was to administer General Fund departments that produced fees, fines or other revenues as “profit centers” that would eventually generate the cash flow to pay for themselves.



There are some situations in government that resemble a private sector “for profit” activity or function. For example, the Snyder Public Works Authority administers the utility services for the City of Snyder. Utility rates are established by the SPWA Board of Trustees to cover the costs of maintenance, replace capital equipment and infrastructure, and pay the debt service costs for revenue bonds or notes incurred to build or replace infrastructure and improvements. Situations such as these are in fact accounted for as “enterprise” funds, and the SPWA water and sewer operating account is just such a fund.

Other government activities are funded through general taxes, such as income taxes, property taxes, sales taxes and fuel taxes. The government services, such as education, public safety, roads and highways, etc., supported by these general taxes have been deemed necessary public services and good public policy. However, these services usually cannot “pay for themselves” in any way that is directly related to what they do, hence the need for “general” taxes. “General” taxes and “general” governmental services are better accounted for in a “General Fund” with budget plans that balance the governmental services with the general tax revenues.

The attempt to separate General Fund revenues into individual departmental bank accounts in pay-as-you-go profit centers was an ill-advised initiative on the face of it. It needlessly complicated the City’s system of bookkeeping/accounting and appeared to create more problems than the revenue shortfall issues the former mayor was attempting to address.

**RECOMMENDATIONS:**

- We recommend the City Clerk-Treasurer close the departmental bank accounts and transfer those funds back into the City’s General Fund bank account. The only CITY funds or bank accounts that are indicated by statute are the General Fund and the Street & Alley Fund.
- If the QuickBooks accounting is set up appropriately, periodic spreadsheet comparisons of fees and revenues generated by departments compared with the departments’ actual versus budgeted expenditures could be compiled to provide the City administration with some feedback concerning the “profitability” of the various General Fund departments.
- See also our status review and additional current recommendation for Finding #5-2005.

**FINDING #10-2006:** The SPWA has certain bank accounts and C.D.’s related to the debt service for their Series 2005 bonds and FHA loans that are either unnecessary or over funded.

Two accounts listed in the treasurer’s monthly report are the MPMCD Debt Service Fund bank account and MPMCD Debt Service Fund bank C.D. MPMCD is an acronym for Mountain Park Master Conservancy District. The two accounts have a total of approximately \$128,500, as of September 30, 2006. Review of the new contract for administration of the Series 2005 debt service did not indicate a need or requirement for a local “debt service” fund or account. The SPWA makes monthly payments to the Series 2005 paying agent bank (formerly J. P. Morgan, now Bank of Oklahoma), in the amount of \$4,644.14. A telephone interview with an MPMCD official indicated that, as long as the SPWA stayed current with its monthly payment, it was meeting its debt service

obligations.

Two accounts listed in the treasurer's monthly report are the FHA Debt Service Reserve Fund bank account and the FHA Debt Service Reserve Fund bank C.D. FHA (actually FmHA) is an acronym for Farmers Home Administration. The two accounts have a total of approximately \$51,500, as of September 30, 2006. A telephone interview with the FmHA office confirmed there IS a requirement for a debt service reserve of one year's payments (12 X \$3,335, or \$40,020).

Based on the above interviews, the MPMCD debt service accounts are not necessary. The FmHA Debt Service Reserve was over-funded. The SPWA's water system is in need of improvements, and plans for those improvements are in the process of being developed. The SPWA has established a bank account and fund titled "Water Plant" that was intended by the SPWA Board of Trustees to be a set aside for future water system expansion or water plant replacement or major maintenance.

**RECOMMENDATION:** Except for a C.D. in an amount necessary for the FmHA Debt Service Reserve, we recommend the SPWA Board of Trustees consider consolidating these accounts into a single fund titled the SPWA Capital Improvements Fund. The interest from these deposits, including the interest from the FmHA Debt Service Reserve, can be deposited to the new capital improvements fund and/or the SWPA water and sewer operating fund.

This recommended consolidation would simplify the funds, bank accounts and accounting system for the SPWA and organize the SPWA's cash deposits and investments into a more streamlined structure to address the SPWA's future needs.

{Review of Findings and Recommendations from the February 17, 2005 Report}

Included in this section are excerpts of our findings and recommendations from our special audit report, dated February 17, 2005 and covering the period July 1, 2000 to June 30, 2004. The full report is available on the State Auditor and Inspector website.

**FINDING #1-2005:** The City was and continues to be in noncompliance with municipal budget laws.

**RECOMMENDATION:** We recommend the Mayor and City Council take steps to file a lawfully compliant budget, in accordance with either of the budget options provided for municipalities under **Title 11** or **Title 68**.

*STATUS: Unchanged. Our 2005 report indicated the FY2003 budget filed with the State Auditor and Inspector was an incomplete filing. As of the date of fieldwork, no budget documents have been filed with our office for FY2004, FY2005 or FY2006. In the Agreed-Upon-Procedures Report filed for FY2005, the procedures and findings paragraph #2, page 2, indicated the "budget did not conform to the format specified in the **Municipal Budget Act (11 O.S. 2001, §§17-101 to 17-216)**".*

*A budget summary for FY2007 was published in the local newspaper in June 2006, but no budget has been filed with the State Auditor and Inspector. The deadline for filing the FY2007 budget with the State Auditor and Inspector was July 31, 2006. No appropriation is valid until that filing occurs, and our office can verify that the budget document meets the requirements of **11 O.S. 2001, § 17-201, et seq. or 68 O.S. 2001, § 3001, et seq.***

**CURRENT RECOMMENDATION:** We recommend the City Council retain the services of an independent public accountant or CPA firm to file a FY2007 City budget with the County Excise Board under **Title 68** provisions. The **Title 68** process is a simpler, more established procedure and does not have to be completed and filed until August 27 of each year, a date that allows for more time to compile and review any proposed budget.

**FINDING #2-2005:** According to the City's regular FY2004 audit report, the City's general fund expenditures exceeded its appropriation by approximately \$13,000.

**RECOMMENDATION:** We recommend the City review its budgeting/appropriation/expenditure reporting procedures and make appropriate changes to insure that expenditures do not exceed legal appropriations for its General Fund and Street and Alley Fund.

*STATUS: The situation has worsened, as noted in Finding #8-2006. In the fiscal year ending June 30, 2005, the agreed-upon-procedures engagement report indicated a General Fund budget of \$440,705, and actual expenditures of \$547,508. FY2005 General Fund expenditures appear to have exceeded the General Fund reported budget by \$106,803. The reason for the excessive expenditures is largely the practice of paying SPWA employees through the General Fund, then making large monthly cash transfers to cover the payroll costs of the SPWA. See our current recommendation for Finding #5-2005 for a possible method to correct this problem.*

**FINDING #3-2005:** Review of the accounting software used for the City financial system indicated there is a budgeting module included, but it is not being utilized.

**RECOMMENDATION:** We recommend the City review the accounting software's budgeting program and consider whether this capability could be more beneficial than the computer spreadsheets. Additional training in the accounting software is available from local technology centers, and/or some computer vendors also offer training in these popular programs.

*STATUS: No change. The City Clerk-Treasurer has not received any additional training to fully utilize her QuickBooks software. The tracking of the budget(s) for FY2007 was further complicated by changes in the City's fund and bank account structure, as described in Finding #9-2006 of this report.*

**FINDING #4-2005:** The decline in the City's General Fund cash balance was not as large as indicated in the initial concerns of council members. This finding specifically related to the time period prior to June 30, 2004. No status review was performed.

**FINDING #5-2005:** The chart of accounts for the City and SPWA is a confusing mixture of commingled revenues, expenditures and operating transfers in need of some reorganization.

**RECOMMENDATIONS:**

- We recommend the chart of accounts for both the City of Snyder and the SPWA be

departmentalized, standardized and simplified to present a clear and consistent structure that only varies from department to department by accounts that are significant and unique to the individual department.

- Rather than using cash transfers to reimburse the General Fund for payroll costs of the SPWA, we recommend these costs, as much as possible, be directly allocated to the various departments of the SPWA and paid directly by the SPWA.
- We recommend use of the “item list” to promote quicker, more standardized and reliable data entry that would also allow for greater flexibility with more detail in the reporting capabilities of the accounting software. Additional training in the accounting software is available from local technology centers and/or some computer vendors also offer training in these popular programs.
- We recommend interest revenue from the Meter Deposit Fund be transferred to the SPWA “water and sewer” operating account, not the City General Fund, in order to comply with **11 O.S. 2001, § 35-102.1**.

*STATUS: The situation has worsened. The City Clerk-Treasurer made an attempt to departmentalize some of the City/SPWA expenditures. However, as noted previously in Finding #9-2006, overall, the fund structure, the number of bank accounts and the QuickBooks list of categories are presently even more complex and confusing than before.*

*Our recommendation concerning the Meter Deposit Fund interest was misunderstood. The depositing of interest to the General Fund was discontinued, but the interest was left in the Meter Deposit Fund, rather than being transferred to the SPWA “water and sewer” operating account.*

*The necessity of making large transfers from the SPWA to the General Fund to cover the payroll of water and sewer employees and to help with the payroll for General Fund employees continues to cause problems in the budgeting and accounting for both the General Fund and the SPWA.*

**CURRENT RECOMMENDATION:** Create an imprest payroll bank account for handling the payroll transactions of BOTH the City General Fund and the SPWA. Allocate the costs of payroll directly to the General Fund and the SPWA using the purchase order/check process to deposit the total gross payroll and additional employer costs (FICA, health insurance, etc) into the “CITY/SPWA Payroll Account”. Write all net payroll checks, payment of tax withholdings, payments for health insurance, garnishments, etc. on the new payroll account. If the system is operating correctly, at least monthly or quarterly, the account should “zero out” after all payroll related items have been paid and any outstanding checks cleared.

Many governmental and private sector entities use this type of payroll account to centrally manage their payroll and yet correctly allocate their payroll costs to various funds, grants, departments or divisions, etc. The City Clerk-Treasurer may contact our office with questions or requests for assistance in setting up this type of payroll system.

**FINDING #6-2005:** The City Clerk-Treasurer’s monthly treasurer’s report was outdated and in need of revision.

**RECOMMENDATIONS:**

- We recommend the computer spreadsheet template, or some version of it, be used instead of the outdated manual treasurer's report currently in use. As the City's circumstances and/or fund structure changes over time, the computer spreadsheet report will be easier to revise and keep up-to-date.
- We recommend a variety of the accounting software financial reports be printed and presented as examples to the Mayor and Council for their review and recommendation as to which reports they would prefer to see on a monthly or other periodic basis, if any. This recommendation would be more beneficial following the reorganization and departmentalization of the City/SPWA's chart accounts discussed in Appendix B (of the report dated February 17, 2005).

*STATUS: The City Clerk-Treasurer has adopted the recommended computer spreadsheet for her monthly report, and some improvement has been noted. The first section is the main section of the monthly report, which reports beginning and ending bank account balances, deposits and disbursements. The second section of the report titled "TREASURER'S COLLECTIONS" is not reporting all collections in a manner that reconciles to the first section of the monthly reports.*

**FINDING #7-2005:** Amendments to the City Code have resulted in some confusion regarding purchasing procedures and bid requirements.

**RECOMMENDATIONS:**

- We recommend the Mayor/Council review current purchasing ordinances and policies to determine whether any additional clarification is warranted or whether any ordinance needs revision.
- We recommend the Mayor/Council consider whether some of the unwritten rules and directives that are scattered through months and years of the Council minutes, motions and resolutions should be compiled into a policy and procedures manual. A policy and procedure manual would be easier than the City Code to review for consistency, and to amend and update.

*STATUS: There has been no change or revision to the City ordinances to clarify purchasing and bid procedures, which is partially responsible for the controversy over the purchase of vehicles and telephone equipment reported in Finding #4-2006.*

**FINDING #8-2005:** The City Council appears to have violated its own bid ordinance in awarding two contracts for the re-roofing of the community building and library. This finding specifically related to the time period prior to June 30, 2004. No status review was performed.

**FINDING #9-2005:** There can be some confusion caused by the use of one check to pay multiple purchase orders to the same vendor.

**RECOMMENDATION:** We recommend the Mayor and Council consider the use of blanket purchase orders as a means of implementing the FY2004 audit report's recommendation.

*STATUS: There have been some improvements made to implement the FY2004 audit report recommendation. Review of recent purchase orders indicated that individual P.O.'s are being paid by individual checks.*

**FINDING #10-2005:** Many vendor invoices or tickets were not signed by any city official or employee acknowledging receipt of the goods or services purchased, as required by **62 O.S. 2001, § 310.1a**.

**RECOMMENDATION:** We recommend the Council implement a policy requiring the appropriate official, department head or employee with personal knowledge of the transaction to review and sign any invoice, statement or ticket, thereby acknowledging the City's receipt of the goods and/or services.

*STATUS: There has been some marginal improvement. Review of recent purchase orders indicated that more tickets and invoices had the initials or signatures of some employee or official acknowledging receipt of the goods and/or services than before. We noted there were still a large number of invoices and tickets that did not have initials or signatures in the recent 3 months we reviewed.*

**FINDING #11-2005:** The petty cash fund has been used frequently for travel reimbursements.

**RECOMMENDATIONS:**

- We recommend that petty cash be used for small purchases, according to common business practice. Using petty cash to reimburse travel expenses should be avoided.
- We recommend a travel voucher or purchase order be used for travel reimbursements. The travel form should document (describe) the nature of the travel in relation to City business.
- We recommend the policy and procedures for petty cash and travel reimbursement be reviewed and considered for inclusion in a policy and procedure manual.

*STATUS: Some improvement has been noted. A travel claim form has been implemented, and travel expenses are now reimbursed by checks issued on the appropriate fund. Petty cash is no longer being used for travel.*

**FINDING #12-2005:** Reimbursements to replenish the petty cash fund did not charge the correct funds and accounts that incurred the expenditure.

**RECOMMENDATIONS:**

- Reimbursements to petty cash should properly allocate the petty cash expenditures to every City and SPWA fund and department utilizing the petty cash fund.
- If there are petty cash charges to multiple funds, such as the City General Fund and the SPWA operating fund, we recommend purchase orders to replenish petty cash be issued from each fund.

*STATUS: The City Clerk-Treasurer has made improvements in this area. Purchase orders to reimburse petty cash are now being allocated and paid from the appropriate funds and accounts.*

**FINDING #13-2005:** “White-out” was used to cover up parts of purchase orders and new information was recorded on the altered purchase orders.

**RECOMMENDATIONS:**

- If a purchase order is to be altered, we recommend the incorrect information be “lined out”, rather than covered up entirely. If a different vendor is going to be used, it is a better procedure to void the original form and issue a new purchase order.
- We recommend the City administration consider the purchasing module capability of the accounting software for use in its overall budgeting/purchasing/accounting procedures.

*STATUS: The City Clerk-Treasurer has made improvements in this area. Our review of recent purchase orders indicated “white out” is not being used. No additional efforts have been made to more fully utilize the purchasing module capability of the Quickbooks accounting software.*

**FINDING #14-2005:** Expenditures for the Oklahoma Department of Corrections contract likely increased due to inadequate planning, rather than misappropriation.

**RECOMMENDATIONS:**

- If the City should renew its contract with ODOC, we recommend a careful review of the contract provisions, more careful planning for the use of the inmates and limiting the number of inmates utilized to no more than two, due to the small number of City/SPWA employees available for “close” supervision of inmates.
- We also recommend utilizing the normal procedures, including paying ODOC for the transportation of inmates and operating on a normal work schedule that allows ODOC to provide the breakfasts and sack lunches.

*STATUS: The City has renewed its contract for the use of ODOC inmates. Contrary to our recommendation, the City has contracted for more than two inmates. According to the City Clerk-Treasurer, the City is following the normal procedures, including a normal work schedule that allows the ODOC to provide*

*breakfasts and sack lunches for inmates.*

**FINDING #15-2005:** Inadequate segregation of duties.

**RECOMMENDATIONS:**

- We recommend having the bank statements mailed directly to the Mayor or other board member by the bank. The Mayor or other board member would open the bank statements and review the check/EFT transactions for any unusual amounts or vendors. The bank statements could then be delivered to the City Clerk-Treasurer for performing the bank reconciliations.
- Since the City has two office employees, we recommend some cross training and the occasional rotation of some job duties to help with this issue.

*STATUS: The City added a third office position, which has recently been cut back from a full-time to a part-time position, due to funding issues. The additional position provided some improvement, but inadequate segregation of duties will always be an issue in a small office with so few positions. The City Clerk-Treasurer also indicated the she and the other two employees are cross training as time permits.*

**FINDING #16-2005:** The ordinance to create a city administrator position appears to conflict with statutes for administering the city's form of government.

**RECOMMENDATION:** We recommend the City's legal counsel review the validity of the ordinance creating the city administrator position, and the City take action accordingly.

*STATUS: No change. During most of the period of January 2005 to September 2006, the City has been without a city attorney. The ordinance creating the city administrator position has not been rescinded.*

**FINDING #17-2005:** Some police department equipment items are missing.

**RECOMMENDATIONS:**

- We recommend the Council consider creating some formal policy and procedures for fixed asset/equipment inventory and including such in a policy and procedure manual.
- Following the implementation of the policy, we recommend department heads or other designated officials or employees perform periodic (semi-annual or annual) inventories to verify the equipment for which they are responsible. The equipment inventories should be documented, dated and filed with the City-Clerk Treasurer.
- We recommend the administration evaluate the use of the accounting software program instead of the computer spreadsheets currently used for recording, tracking and reporting



City assets. As noted previously, additional training in the accounting software program is available from local technology centers, and/or some computer vendors also offer training in these popular programs.

*STATUS: No formal policy or procedures for fixed asset/equipment inventory have been implemented. The QuickBooks module for recording and reporting assets has not been used. The City Clerk-Treasurer has implemented a manual record book for recording equipment purchases and has been trying to maintain up-to-date records in that manner.*

**FINDING #18-2005:** There were some errors and some abuse in the timesheet reporting for city employees.

**RECOMMENDATIONS:**

- We recommend the City include a chapter or chapters for personnel policies and procedures in a policy manual or handbook.
- We recommend a newly constituted personnel board be implemented to assist the Mayor in developing and maintaining reasonable and up-to-date personnel policies and procedures.

*STATUS: As reported in Finding #2-2006, whatever improvements the former mayor instituted in 2004 were discontinued not long after the former police chief was promoted to that position in early 2005. The present acting mayor has reinstated the time card system and is enforcing a time clock policy again.*

**FINDING #19-2005:** The land lease contract for the sewer lagoon and water plant properties did not appear unreasonable when compared with school lands leased in 2004.

This finding was addressed in our report, dated February 17, 2005. No status review was performed.

**FINDING #20-2005:** We found nothing unusual or illegitimate concerning a maintenance contract with Pureline Treatment Systems, LLC.

This finding was addressed in our report, dated February 17, 2005. No status review was performed.

**FINDING #21-2005:** There appears to be a cash balance in the Meter Deposit Fund in excess of the total meter deposits indicated for active accounts.

**RECOMMENDATIONS:**

- Following the complete implementation of the new utility billing software system, we recommend the City Clerk-Treasurer and Deputy Clerk review the status of all active and inactive accounts and attempt to verify an accurate amount of service deposits that should be on deposit in the bank. Comparisons should be done between the service deposit receipt copies and the meter deposit report.
- If possible, we recommend former billing clerks and former City Clerks be interviewed to determine how the excess cash balance may have developed.
- Once an accurate amount of service deposits has been determined, we recommend refunds be made to any customers that can be confirmed as being owed refunds. Any remaining excess balance in the Meter Deposit Fund may be forfeited and transferred to the SPWA operating account by following procedures outlined at **11 O.S. 2001, § 35-107**.
- After the disposition of the excess cash, we recommend the Meter Deposit Fund balance in the bank be periodically compared and reconciled to the amount of meter deposits recorded in the utility billing system. Any variance should be investigated and corrected promptly.

*STATUS: No action has been taken to identify the correct amount of meter deposits and transfer or refund the excess cash on hand in accordance with 11 O.S. 2001, § 35-107.*

*While our auditors were present, we reviewed the new billing software and instructed the utility billing clerk in how to begin posting the old meter deposits. By the end of fieldwork, the billing clerk had posted all the receipts that she had on file. The deposit report indicated 645 active accounts/deposits with a total of \$29,015. The monthly treasurer's report indicated a total in the Meter Deposit Fund (bank account and C.D.) of over \$49,000, as of September 30, 2006.*

**FINDING # 22-2005:** Receipts for utility service (meter) deposits were a printed form with a blank line for the receipt number.

**RECOMMENDATION:** The receipt form for utility service deposits should be revised to be pre-numbered.

*STATUS: No change. The old form for meter deposit receipts continues to be used. There is no printed, sequential control number for meter deposit receipts, just a blank line for the manual recording of a receipt number.*

**CURRENT RECOMMENDATION:** To increase controls in this area, purchase a standard, pre-numbered duplicate or triplicate receipt book from an office supply store and use that receipt book for the SPWA meter deposit receipts. Staple any original voided receipts in the receipt book at the appropriate position. Periodically review the receipt book to ensure that all receipt numbers are accounted for, i.e. there are no unexplained receipt numbers or pages missing.

**FINDING #23-2005:** Cash composition was not being reported on SPWA and General Fund bank deposit slips due to the commingled collection of a “fire department fee” for the General Fund.

**RECOMMENDATIONS:**

- We recommend all collections from utility bills be deposited in the SPWA operating account. This eliminates the need to separately allocate the fire department fee on deposit slips to the General Fund bank account.
- We recommend the amounts for “cash” and “checks” recorded on the SPWA daily bank deposit slips be reconciled and agreed to all utility and SPWA miscellaneous receipts from each day’s business.
- At the end of the month, we recommend the total fire department fees be manually calculated and transferred by a bank debit transaction or by check to the General Fund bank account.
- Following the completed implementation of the new utility billing system, we recommend the fire department fee and the other General Fund charges described in **FINDING #5** be billed as separate line items on SPWA customer bills. At the end of the month, the City Clerk-Treasurer should be able to obtain the collections for these fees from the utility billing reports and make the transfer to the General Fund.
- Since the original purpose for the \$1.00 fee was to fund fire department equipment purchases, we recommend the City Council consider whether this fee should be segregated in a separate special revenue fund for the fire department. If not, perhaps it should just be titled a “General Fund” fee along with the other General Fund charges described in **FINDING #5**.

*STATUS: The first and second recommendations have been implemented. The City Clerk-Treasurer made some changes and appears to be accurately recording cash and check composition on the SPWA deposit slip. Transfers are done to deposit the fire department fee, and now other General Fund fees, to other City bank accounts.*

*The overall situation has worsened due to the additional bank accounts created for FY2007, as described previously in our Finding #9-2006.*

**FINDING # 24-2005:** Inadequate segregation of duties for the utility billing/collections.

**RECOMMENDATION:**

- We recommend the City Council consider a “lock box” arrangement for payments on the City’s utility bills. Even a partial lock box that results in a significant number (but not necessarily all) of the utility payments being collected somewhere other than the City office would be a major strengthening of internal controls for the utility revenue collections.
- Since the City has two office employees, we recommend some cross training and the occasional rotation of some job duties to help with this issue.

*STATUS: The City added a third office position, which has recently been cut back from a full-time to a part-time position, due to funding issues. The additional position provided some improvement, but inadequate segregation of duties will always be an issue in a small office with so few positions. The City Clerk-Treasurer also indicated the she and the other two employees are cross training as time permits.*

**FINDING #25-2005:** There was no policy or procedure for writing off unpaid utility bills. The prior utility billing clerk was allowed to write off unpaid final bills without any supervisory review or approval.

**RECOMMENDATIONS:**

- We recommend the City Council establish a policy for unpaid final bills. Periodically, in accordance with the policy, all unpaid final bills should be reported to the Mayor and/or to the full City Council, reviewed and approved for write off.
- We recommend the approval should be documented with a signature or signatures and dated. Uncollected bills should be filed and reviewed from time to time to see if any of the bills are from customers who may have returned to town.
- We recommend the policy and procedures for processing final bills are included in a policy and procedure manual.

*STATUS: A formal policy to address the write-off of unpaid utility bills has not been implemented. The billing clerk is reviewing "new" deposits/accounts, attempting to collect unpaid balances from individuals moving back into town. No progress has been made concerning a policy and procedure manual.*

Throughout this report there are references to state statutes and legal authorities that appear to be potentially relevant to issues reviewed by this Office. The State Auditor and Inspector 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 and such determinations are within the exclusive jurisdiction of regulatory law enforcement, and judicial authorities designated by law.

The inclusion of cites to specific statutes or other authorities within this report does not, and is not intended to, constitute a determination or finding by the State Auditor and Inspector that the City or any of the individuals named in this report or acting on behalf of the City have violated any statutory requirement or prohibition imposed by law.

All cites and/or references to specific legal provisions are included within this report for the sole purpose of enabling the Administration and other interested parties to review and consider the cited provisions, independently ascertain whether or not City policies, procedures or practices should be modified or discontinued, and to independently evaluate whether or not the recommendations made by this Office should be implemented.