



# Boley Public School Okfuskee County Special Audit Report July 1, 2005-June 30, 2006

## Audit Summary:

- ✓ There has been inadequate internal control: improperly recorded encumbrances and insufficient listing of encumbrances. **Pgs. 7-8**
- ✓ General fund appropriations were exceeded during the 2003-04, 2004-05 and 2005-06 school years. **Pg 10-11**
- ✓ The board did not have knowledge that the school had exceeded appropriations during the 2003-04 and 2004-05 school years until the end of the 2005-06 school year. **Pg 10**
- ✓ The school began with a general fund balance of negative \$1,300.00. **Pgs 9 and 11**
- ✓ The board did not have knowledge that they had exceeded 2005-06 appropriations at a time when they were approving encumbrances and payment of warrants. However, the board was aware that the school was operating with negative cash balances. During December 2005 the school was operating with a general fund negative cash balance of \$119,000.00. **Pgs 11-12**
- ✓ During the 2005-06 school year the general fund appropriations were exceeded by approximately \$17,000.00. **Pg 9**
- ✓ There was a lack of knowledge and understanding on the part of the encumbrance clerk and the treasurer regarding their statutory duties of ensuring that encumbrances and warrants not exceed approved appropriations. Due to this, neither of these persons were aware that they had exceeded appropriations during 2003-04 and 2004-05 until the end of the 2005-06 school year. **Pgs 11-12**
- ✓ The school was unable to pay June and July salaries. The employees filed a Petition for Judgment against the school district for the payment of unpaid salaries of approximately \$51,000.00 plus any employee benefits and the employers' payroll costs. The case is pending in the District Court of Okfuskee County. **Pgs 10 and 12**
- ✓ The school ended the 2005-06 school year with non-payable warrants held at the bank in the amount of \$44,990.00 principal and \$379.00 in interest plus interest accruing at 8% per annum. **Pgs 10 and 13**
- ✓ A petition for a friendly lawsuit will be filed against the school in order to pay the non-payable warrants plus interest. **Pg 16**
- ✓ The school ended the 2005-06 school year with approximately \$14,000.00 of outstanding general fund bills. The school is in communication with the local school foundation to determine if the foundation is in a position to assist the school in paying a portion of these bills. **Pg 16**

To view a copy of the entire report, please visit our website at: [www.sai.state.ok.us](http://www.sai.state.ok.us).  
If you have questions or would like to contact our office, please call (405) 521-3495.

**JEFF A. McMAHAN, CFE**  
OKLAHOMA OFFICE  
OF THE  
STATE AUDITOR & INSPECTOR

## Why the audit was performed

The Boley Public School was audited pursuant to a request by the State Board of Education in accordance with  
**74 O.S. § 213(C).**

**BOLEY PUBLIC SCHOOL DISTRICT No. 54I013**  
**OKFUSKEE COUNTY, OKLAHOMA**  
**SPECIAL AUDIT REPORT**  
**JULY 1, 2005 THROUGH JUNE 30, 2006**

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This publication is printed and issued by the State Auditor and Inspector as authorized by 74 O.S. 2001, § 213(C). Pursuant to 74 O.S. 2001, § 3105(B), 35 copies have been prepared and distributed at a cost of \$78.00. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan  
State Auditor and Inspector

September 28, 2006

Honorable Sandy Garrett, Chairperson  
Oklahoma State Department of Education  
2500 North Lincoln Blvd.  
Oklahoma City, Oklahoma 73105-4599

Dear Ms. Garrett:

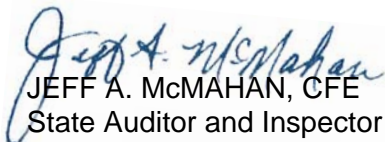
Transmitted herewith is the Special Audit Report for the Boley Public School District No. 54I013 Okfuskee County, Oklahoma. We performed our special audit pursuant to a request from the State Board of Education under the requirements of **74 O.S. § 213(C)**.

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 Boley Public School District No. 54I013, Okfuskee County, Oklahoma.

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, which is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our Office during the course of our special audit.

Sincerely,

  
JEFF A. McMAHAN, CFE  
State Auditor and Inspector

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**index of specific concerns**

The following concerns are presented in their entirety in italics as they were communicated to us:

- I. CONCERN:** *Possible irregularities in purchasing procedures and the payment of expenditures..... 7*
- II. CONCERN:** *Possibility that the school exceeded appropriations ..... 9*

**BOARD OF EDUCATION**

Henrietta Hicks ..... President  
(served on the Board since 1996)

Deborah Roseburr ..... Vice-President  
(served on the Board since April 2004)

Cathy Martin..... Clerk  
(served on the Board since 2005)

Elmer LuGrand ..... Deputy Clerk  
(served on the Board since 2002)

Clara Breaux ..... Member  
(served on the Board since 2005)

**SUPERINTENDENT**

Gretana Gonzales-Hall  
(August 2005-present)

**TREASURER**

Betty Lee  
(September 2000-June 30, 2006)

**ENCUMBRANCE CLERK**

Addie Miller a/k/a Richardson  
(July 1986 through present)



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan  
State Auditor and Inspector

Ms. Gretana Gonzales-Hall  
Boley Public School District No. 541013  
124 North Oak Street  
Boley, Oklahoma 74829

Dear Ms. Gonzales-Hall:


Pursuant to a request by the State Board of Education and in accordance with the requirements of **74 O.S. § 213(C)**, we performed a special audit with respect to the Boley Public School District No. 541013, Okfuskee County, for the period July 1, 2005 through June 30, 2006.

The objectives of our special audit primarily included, but were not limited to, the areas noted in the "index of specific concerns" and are presented in their entirety in italics as they were communicated to us. 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 Boley Public School District No. 541013 for the period July 1, 2005 through June 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 District taken as a whole.

This report is intended solely for the information and use of State Board of Education, Boley Board of Education and Administration of the District and should not be used for any other purpose. This report is also a public document pursuant to the **Oklahoma Open Records Act (51O.S. 2001, § 24A.1 et seq.)**, and shall be open to any person for inspection and copying.

Sincerely,

  
JEFF A. McMAHAN, CFE  
State Auditor and Inspector

August 14, 2006

## INTRODUCTION

The Independent District No. 541013, Okfuskee County, Oklahoma, (Boley Public School) is an integral part of the Oklahoma State System of Public Education as described in **70 O.S. 2001, § 1-101 et seq.**, the **Oklahoma School Code**. The Board of Education of the Boley Public School District is responsible for the supervision, management and control of the District as provided by **70 O.S. 2001, § 5-117**. Both the Board of Education, composed of five (5) elected members and the Boley Public School District are subject to the provisions of the **Oklahoma School Code**.

The student body consists of Pre-K through grade 12. The District had a student enrollment of 59 and employed 9 teachers, 1 counselor and 6 support staff. The appointed superintendent is the executive officer of the District.

The Boley Public School District No. 541013 is audited annually by private independent auditors, and such audit reports for the 2003-04 and the 2004-05 school years were available for our review. However, the 2005-06 financial audit has not been prepared. The District Board of Education prepares an annual financial statement, presenting the financial position of the District as of the close of the previous fiscal year in accordance with the requirements of **68 O.S. 2001, § 3002**. The financial information presented was prepared from the District's records provided to us by the District Administration.

The State Auditor and Inspector conducted a special audit of the records of the Boley Public School District, primarily those records relating to the State Board of Education's concerns listed in the "index of specific concerns" noted in the table of contents. The results of the special audit are in the following report.

## CONCERNS, FINDINGS AND RECOMMENDATIONS

**I. CONCERN:** *Possible irregularities in purchasing procedures and the payment of expenditures.*

### **General Fund 2005-06**

We reviewed 2003-04 and 2004-05 financial audits, the 2005-06 temporary appropriations, the estimate of needs, supplemental appropriations, treasurer's financial reports, encumbrance registers, warrant registers, expenditure reports, vendor reports, purchase orders and invoices; the local school board's agendas, meeting minutes and documents provided to the board during board meetings. We interviewed the encumbrance clerk, superintendent, treasurer, four of the five board members and the independent auditor who performed the 2004-05 financial audit.

#### **Summary of Findings:**

- **Inadequate internal control**
- **Improperly recorded encumbrances**
- **Insufficient listing of encumbrances**

Encumbrance numbers 1-138 were issued during the 2005-06 school year. After reviewing the encumbrance procedures, encumbrance reports, purchase orders and those invoices that were available for review, we noted that of the 138 encumbrances, 68 or 49% of the total were in error as follows: in 40 instances the purchase orders were completed after obligations had been incurred; in 2 instances the purchase order numbers were duplicated (different vendors were assigned the same purchase order number); and in 14 instances there was no purchase order or invoice in the file and in 12 instances the superintendent's signature was initially signed by the encumbrance clerk and then later signed by the superintendent.

The ADPC computer program used by the school is designed to issue the next numbered purchase order. However, it is possible to override this control. That made it possible to issue duplicate purchase orders. There did not appear to be any internal control in place for verifying the number of purchase orders issued, voided or outstanding.

During board meetings, the board was provided with a list of purchase order numbers, vendors and amounts. However, some of the lists provided to the board showed a skip in the numerical sequence of the purchase order numbers. After a review of the expenditures for these skipped encumbrances, it appears that the encumbrances, and the payments associated with them, were for school operating expenses.

**70 O.S. Supp. 2005, § 5-135** states in part:

“\* \* \*

B. The encumbrance clerk and treasurer of the school district shall each enter the authorized amounts in the various appropriation accounts of the funds to which this system is applied. The authorized amounts of appropriations shall be the general fund and building fund appropriations approved by the county excise board and such additional amounts as may be applied in the manner provided by law, the amount received for deposit in a special cash fund where such special cash fund is authorized by law or required by the person or agency providing such funds, or the amount of the net proceeds realized from the sale of bonds of the school district and any other income due such fund.

\* \* \*



D. Prior to the issuance of a purchase order, the encumbrance clerk must first determine that the encumbrance will not exceed the balance of the appropriation to be charged. The encumbrance clerk shall charge the appropriate appropriation accounts and credit the affected encumbrances outstanding accounts with the encumbrances. Encumbrances must be submitted to the board of education in the order of their issuance on a monthly basis, subject to a monthly business cycle cut-off date determined by the board of education. Approved encumbrances shall be listed in the minutes by the minute clerk.

E. Before any purchase is completed, a purchase order or encumbrance must be issued. No bill shall be paid unless it is supported by an itemized invoice clearly describing the items purchased, the quantity of each item, its unit price, its total cost and proof of receipt of such goods or services. The bill and/or invoice shall be filed in the encumbrance clerk's official records.

F. The encumbrance clerk shall debit the encumbrances outstanding account and credit the accounts payable account for the amount of the approved bill. The board of education shall determine the extent such costs may fluctuate without additional board action. Minor adjustments not requiring additional board approval shall be referenced to the original encumbrance.

G. An approved bill may be paid by issuing a warrant or check against the designated fund only after ascertaining that proper accounting of the purchase has been made and that the files contain the required information to justify the expenditure of public funds, except as otherwise provided in subsection I of this section. The warrants or checks so issued shall be recorded in an orderly numerical system established by the district. The encumbrance clerk shall charge the warrant or checks against the accounts payable account and credit it to the warrants or checks issued account. Provided, if payment is to be made immediately and the board of education deems it advisable, the postings to the accounts payable account may be omitted and the payment of the approved bill may be credited directly to the warrants or checks issued account. The warrant or check shall show on its face the name of the school district, the date of issue, the payee, the amount, the expenditure classification code, and such other information as may be necessary or desirable. The president and clerk of the board of education shall each sign the warrant or check, or approved facsimile thereby denoting to the public that the warrant or check is for the purpose and within the amount of the appropriation charged.

H. The treasurer shall register the warrant or check in the warrant or check register, charging the appropriation account and crediting the warrants or checks outstanding account of the designated fund. Provided, no warrant or check shall be registered in excess of the appropriation account's balance. All warrants or checks shall be registered in the order of their issuance."

**RECOMMENDATION:** We recommend the school board implement procedures that establish internal controls to ensure that state law is followed. We recommend that the school board prescribe, administer and regularly review appropriate internal controls regarding the purchasing procedures.

The encumbrance clerk has already implemented a new procedure for reporting encumbrances to the board.

**II. CONCERN:** *Possibility that the school exceeded appropriations*

**Summary of Findings:**

- There have been six different superintendents in six years.
- The school began the year with a negative cash balance.
- There was a lack of knowledge by the treasurer and encumbrance clerk regarding their statutory duties.
- The school exceeded appropriations.
- The school was unable to pay contractual salary obligations for 2005-06.
- The school was unable to pay May and June operating bills.
- The school ended the year with a negative cash balance and non-payable warrants held at the bank.
- Almost three years passed before the board was made aware that they had exceeded appropriations during a prior fiscal year.

We extended our audit period to include activity that occurred after June 30, 2006 because there were subsequent events that affected the 2005-06 general fund. The following is a summary of general fund activity:

- July 1, 2005, the school began the year with a general fund balance of a **negative \$1,300.00**.
- August 19, 2005, the school encumbered yearly payroll obligations for employees who were hired at the beginning of the school year (this did not include two employees who were hired in October 2005). After these encumbrances, the school had encumbered **\$513,007.00** for the fiscal year.
- August 30, 2005, the Board of Education filed its estimate of needs with the Okfuskee County Excise Board. It provided for a general fund appropriation of **\$543,010.56**.
- August 31, 2005 the encumbrance register reflected that the total general funds encumbered were **\$557,268.54**. This amount included encumbrances for blanket purchase orders for yearly recurring expenditures (utility bills, phone bills, etc.) and miscellaneous operating expenses to date. After these encumbrances were entered, the school had encumbered **obligations in an amount that exceeded the approved general fund appropriation by \$14,259.00**.
- December 31, 2005, the treasurer's report provided to the school board at the January 2006 board meeting indicated that the school had a **negative cash balance of \$119,000.00**.
- May 12, 2006, warrants were issued that included the 1<sup>st</sup> payment of the 10<sup>th</sup> month of teacher's salaries. After the issuance of these warrants, the total amount of **warrants issued was \$560,377.13, which exceeded the approved appropriation by \$17,367.00**.
- May 17, 2006, warrants were issued that included the 2<sup>nd</sup> payment of the 10<sup>th</sup> month of teachers' salaries. After the issuance of these warrants, the total amount of warrants issued was **\$585,160.38, which exceeded approved appropriation by \$42,150.00**.
- May 21, 2006, the total of warrants issued was **\$599,008.15**. The general fund appropriation was exceeded by **\$55,997.60**.
- June 6, 2006, the local district Board of Education voted to increase (supplement) the general fund appropriation to **\$581,500**.

- June 8, 2006, the encumbrance clerk advised the administration that they were unable to make payroll.
- June 21, 2006, the Okfuskee County Clerk added the above-referenced increase in funds to the appropriation and after this amount was added, the total encumbrances still exceeded the general fund supplemented appropriation by **\$17,600.00**.
- June 27, 2006, the board president advised the board that the district was unable to make payroll.
- June 2006 and July 2006, the teachers' final two month's payroll and the June 2006 support staff and superintendent's payroll was not issued because of a lack of funds, and due to the school administration realizing that they had issued warrants in excess of their approved appropriation.
- June 30, 2006, the total revenue collected during the 2005-06 school year was reported as **\$559,541.60**.
- June 30, 2006, the total amount of the warrants issued to revenue collected was a **negative \$39,466.55**
- July 8, 2006, a petition was filed in the District Court of Okfuskee County by the employees of the Boley School against the Independent School District of Boley Public Schools for unpaid wages and benefits, estimated at approximately **\$51,000.00 plus the employer's costs**.
- August 8, 2006, the total amount of non-payable warrants held at the bank was **\$44,990.53** principal plus **\$379.87** interest with interest accruing at 8% per annum.
- August 8, 2006, the unpaid bills for May and June 2006 totaled **\$14,655.46**.

After reviewing agendas, meeting minutes and financial statements presented to the board, audit reports, encumbrance clerk's records, encumbrance reports, expenditures, revenue reports and warrants issued reports, and interviewing school personnel and board members, it appears that numerous factors contributed to the current financial condition of the school.

The independent financial audit for 2004-05 reflected that the school exceeded general fund appropriations and noted that 2003-04 appropriations had also been exceeded. After reviewing the 2003-04 financial audit report, we noted that there was no written finding stating that the school had exceeded appropriations. However, we noted that this was reflected in the financial statements. For someone to find this in the 2003-04 financial statements of the audit report one would have to know what to look for, because it would not be obvious to the ordinary person.

We asked about this 2003-04 audit finding mentioned in the 2004-05 audit report. The independent auditor stated that when he reviewed the 2003-04 audit report (prepared by the school's previous auditor) he noted that the general fund appropriation had been exceeded. He also stated that this was not written as a reportable finding in 2003-04 audit report. He felt that it was important to advise the board that this had occurred in 2003-04 and included it in his 2004-05 financial audit report. He presented his report to the board in May 2006 (at the end of the 2005-06 school year).

In addition to having exceeded general fund appropriation in the 2003-04 fiscal year, the school ended the 2004-05 fiscal year with a negative cash balance of approximately \$1,300.00. This negative cash balance was rolled into the 2005-06 school year. The 2004-2005 negative cash balance was the result of receiving Federal reimbursements in the subsequent fiscal year. In addition to the school beginning with a negative cash balance, we noted that the school had another turnover of superintendents.

The 2005-06 school year began with the school's sixth superintendent in six years. This was the most recent superintendent's first year serving as a superintendent. The Boley School District did not have an assistant superintendent, any principals or any other administrators. The superintendent is the sole administrator of the school.

When the superintendent began employment, she was faced with remedying accreditation deficiencies, working on curriculum issues, and addressing maintenance of the school bus and the physical plant of the school.

The superintendent relied heavily on the encumbrance clerk and treasurer for the financial operations of the school. She inquired throughout the school year concerning the financial condition of the school. She stated that she was advised that negative cash balances were due to the timing of claiming and receiving funds. She stated she did not know until May 2006, when the independent auditor presented the 2004-05 financial audit report to the board, that the school had exceeded its general fund appropriations for the prior two years. After she became aware of this, the superintendent and the board inquired as to the current financial status of the school. The superintendent reviewed the warrant registers and encumbrance registers and noted that both registers listed printed warnings that indicated that the general fund appropriation had been exceeded.

It appears that neither the encumbrance clerk nor the treasurer were aware that they were required to track the appropriation approved by the County Excise Board. The encumbrance clerk stated that she had been employed as the encumbrance clerk for approximately 20 years. She entered encumbrances into the ADPC computer program, printed purchase orders, prepared the list of encumbrances for the board to review, requested via modem that ADPC print the warrants that were later presented for Board approval and signatures. After the board approved and signed the warrants, the warrants were presented to the treasurer to affix her signature and process the warrants.

The encumbrance clerk stated she had always entered the budgeted funds on the appropriation ledger by using estimated revenue. She stated that there were occasions during the year when ADPC personnel would contact her and advise her that the school needed to add additional funds to the budget. She stated that as she was notified that they needed to enter additional funds, she made an entry into the computer system to increase the amount of budgeted funds. She stated she based the amount she entered in the computer on anticipated revenue.

She stated she did not know that she was supposed to budget funds and track expenditures against the amount in the estimate of needs approved by the County Excise Board. She stated she had operated like this for years and was never advised that she was handling this incorrectly. She did not advise the board, the superintendent or the treasurer that the school had exceeded its appropriation because she did not know the appropriation had been exceeded until the May 2006. That was when the school's most recent independent financial auditor advised the school that the 2003-04 and 2004-05 general fund appropriations had been exceeded.

Although she received monthly reports from ADPC that showed repeated warnings that stated "warrants exceeded appropriations" and "encumbrances exceeded appropriations", she stated she had never noticed those warnings because she did not use the reports on a daily basis. She stated she filed those reports away in a binder and used the "detail transaction report" that did not have the warnings.

She stated she did not notice those warnings until the superintendent and board president brought it to her attention at the end of May 2006. After these printed warnings were brought to her attention, she contacted ADPC and was advised by them that she was supposed to be using the estimate of needs for her budget.

After she received a copy of the estimate of needs (budget) and compared it to the warrants issued through May 2006, she realized the school had issued warrants in excess of its approved appropriation for the 2005-06 school year. She realized she could not pay the May and June operating bills, June support staff and superintendent's payroll, and the June and July payroll for teachers.

The treasurer had previously retired as a business manager from another local state agency (not related to school finance) prior to going to the Boley School as their treasurer. She served as the treasurer for approximately five years. She resigned effective June 30, 2006. However, she continued to volunteer her time after this date and is currently volunteering to perform the treasurer's duties.

As treasurer she prepared reports on estimated revenue, receipted revenue, deposited revenue, signed warrants, picked up warrants at the bank, provided monthly financial reports to the board and reconciled bank statements. She stated she did not know, and was never asked by administrators to track appropriations according to the estimate of needs. She relied on the encumbrance clerk to track the expenditures and stated that she tracked revenue and the balances of all the funds. She did not advise the board that they had exceeded appropriations because she did not know that the school had exceeded appropriations in past years. She stated she only discovered this when the most recent independent auditor advised the school of this in May 2006. She did not know the school had exceeded appropriations during the 2005-06 school year until the encumbrance clerk advised her that this had occurred.

The treasurer provided the board with monthly reports showing cash balances, receipts, payments of warrants and total monies available. The monthly reports that she provided to the board indicated that the school was operating with a negative cash balance in the general fund during most of the school year. In January 2006 the board was provided with the December 31, 2005 treasurer's report that reflected a negative cash balance of \$119,000.00 in the general fund.

There is no indication that any of the board members were aware that they had exceeded 2003-04 and 2004-05 appropriations until they received the 2004-05 independent audit report that was presented to them in May 2006.

The board was not provided with any information or documentation that made it apparent that the general fund had been exceeded during the 2005-06 school year. The board members were advised at the June 27, 2006 board meeting that payroll could not be paid.

The treasurer's reports, provided to the board on a monthly basis, indicate that the board was informed that they were operating with a negative cash balance. The interviews with the board members indicated that this had been the past operating procedure. However, by the end of the previous years, the school received adequate revenue to cover any negative cash balance.

Bank records indicate that the local bank assisted the school with cash management when the school experienced cash flow problems. According to the records, which had been prepared by the bank, the school did not have any outstanding non-payable warrants held at the bank at the end of the 2004-05 school year. However, the bank began carrying non-payable warrants after the first warrant was issued during the 2005-06 school year.

In addition to the above factors, it appears that the school's state aid was reduced by approximately \$27,785.00 due to declining student enrollment. The school also hired additional employees during the 2005-06 in an effort to correct accreditation deficiencies. It also appears that the total general fund revenue was approximately \$12,000.00 less than the prior year and the school did not receive their e-rate credits. The e-rate application is currently being appealed.

**70 O.S. Supp. 2003, § 1-117(A)** states in part:

"The general fund of any school district is hereby defined as a current expense fund and shall consist of all revenue or monies that can legally be expended within a certain specified fiscal year[.]"

**70 O.S. Supp. 2004, § 5-184** states in part:

"Any school district officer willfully or knowingly contracting, incurring, acknowledging, authorizing, allowing, or approving any indebtedness or any officer issuing, drawing, or attesting any check, warrant or certificate of indebtedness in excess of the estimate made and approved by the excise board for such purpose for the current fiscal year or in excess of the specific amount authorized for such purpose by a bond issue, shall be deemed guilty of a misdemeanor and, upon conviction, shall be punished by a fine of not less than One Thousand Dollars (\$1,000.00) or by imprisonment in the county jail for not to exceed one (1) year or by both the fine and imprisonment, and shall forfeit and be removed from office pursuant to state law."

The **Constitution of Oklahoma, Article 10 § 26(a)** states in part:

"Except as herein otherwise provided, no ... school district, or other ... subdivision of the state, shall be allowed to become indebted, in any manner, or for any purpose, to an amount exceeding, in any year, the income and revenue provided for such year without the assent of three-fifths of the voters thereof[.]"

**70 O.S. Supp. 2005, § 5-135** states in part:

"\* \* \*

B. The encumbrance clerk and treasurer of the school district shall each enter the authorized amounts in the various appropriation accounts of the funds to which this system is applied. The authorized amounts of appropriations shall be the general fund and building fund appropriations approved by the county excise board and such additional amounts as may be applied in the manner provided by law, the amount received for deposit in a special cash fund where such special cash fund is authorized by law or required by the person or agency providing such funds, or the amount of the net proceeds realized from the sale of bonds of the school district and any other income due such fund.

\* \* \*

D. Prior to the issuance of a purchase order, the encumbrance clerk must first determine that the encumbrance will not exceed the balance of the appropriation to be charged. The

encumbrance clerk shall charge the appropriate appropriation accounts and credit the affected encumbrances outstanding accounts with the encumbrances. Encumbrances must be submitted to the board of education in the order of their issuance on a monthly basis, subject to a monthly business cycle cut-off date determined by the board of education. Approved encumbrances shall be listed in the minutes by the minute clerk.

H. The treasurer shall register the warrant or check in the warrant or check register, charging the appropriation account and crediting the warrants or checks outstanding account of the designated fund. Provided, no warrant or check shall be registered in excess of the appropriation account's balance. All warrants or checks shall be registered in the order of their issuance."

**Title 70 O.S. § 5-157** states in part:

"A. No expenditure may be authorized or made by any officer or employee of a school district which exceeds the appropriation for any fund of the budget as adopted or amended. Any balance remaining in a fund at the end of the budget year shall be carried forward to the credit of the fund for the next budget year pursuant to law.

B. It shall be unlawful for any officer or employee of the school district in any budget year:

1. To create or authorize creation of a deficit in any fund; or
2. To authorize, make or incur expenditures or encumbrances in excess of one hundred percent (100%) of the appropriation for any fund of the budget as adopted or amended until revenues in an amount equal to at least one hundred percent (100%) of the appropriation for the fund have been collected. Any fund balance which is included in the appropriation for the fund is considered revenue in the budget year for which it is appropriated. Expenditures may then be made and authorized so long as any expenditure does not exceed any fund balance.

C. Any obligation that is contracted or authorized by any officer or employee in violation of this act<sup>1</sup> shall become the obligation of the officer or employee himself and shall not be valid or enforceable against the school district. Any officer or employee who violates this act shall forfeit his office or position and shall be subject to such civil and criminal punishments as are provided by law. Any obligation, authorization for expenditure made in violation of this act shall be illegal and void."

**70 O.S. Supp. 2005, § 5-190** states:

"A. Before July 1, 2007, every school district treasurer shall complete at least twelve (12) hours of instruction on school finance laws of this state, accounting, ethics, and the duties and responsibilities of a school district treasurer.

B. Before July 1, 2007, every school district encumbrance clerk shall complete at least twelve (12) hours of instruction on school finance laws of this state, accounting, ethics, and the duties and responsibilities of a school district encumbrance clerk.

C. Every school district treasurer and encumbrance clerk employed after July 1, 2007, shall be required, within nine (9) months after employment in the position by a school district, to complete the instruction required pursuant to subsections A and B of this section.

D. Every school district treasurer and encumbrance clerk shall be required to complete a minimum of twelve (12) hours of continuing education every three (3) years, in addition to the requirements of subsections A and B of this section."

**Title 68 O.S. § 3003 B** states in part:

“...The unappropriated cash balance on hand may be appropriated as needed upon the request of the governing board of the recipient government and approval by the county excise board, provided, if the governing board of the recipient government determines the need to do so, it may estimate the amount remaining to be collected from its entitlement from federal funds during the remainder of its fiscal year and include such estimate in its request for appropriations. The estimate shall not exceed the amount of the entitlement which is to be received during the remainder of the recipient government’s fiscal year or, if the amount of the entitlement has not been certified, ninety percent (90%) of such funds received during a corresponding period of the previous fiscal year; provided that if the entitlement is less than that estimated or if the entitlement to be collected during the recipient government’s fiscal year, in addition to the unappropriated cash balance, is reduced below the amount appropriated for the fiscal year, the governing board of the recipient government shall request the county excise board for an adequate reduction of appropriations in the fund.”

**68 O.S. § 3021** states in part:

“Whenever the public welfare or the needs of any county, city, town, or school district shall require, the excise board may, on call of the chairman, convene at any time for the purpose of making supplemental or additional appropriations for current expense purposes; provided, that all such appropriations authorizing the creation of an indebtedness shall come within the limitations of Section 26, Article X, Oklahoma Constitution. No supplemental or additional appropriation shall be made for any county, city, town or school district in excess of the income and revenue provided or accumulated for the year. As to such proposed appropriations the following procedure shall be followed:

First: The proper officers of the ...school district shall make and file with the excise board a financial statement showing its true fiscal condition as at the close of the month next preceding or as of May 15 or June 20, or both said dates, preceding the date of filing, and shall submit therewith a statement of the amount and purpose for which each proposed supplemental appropriation is to be used. The financial statement shall show, as to current expense or general fund, the amount of cash in the treasury; the amount of taxes in process of collection as to which the date of ...the surplus or deficit in revenue, if any, in each fund.

Second: If the financial statement herein required shall correctly reflect a surplus in revenue in any fund available for current expenses, and the excise board shall so affirmatively find, it may make supplemental appropriations to an amount not exceeding the aggregate of such surplus.

Third: If the surplus of revenue, as found and determined by the excise board, shall be insufficient for the additional needs and requirements of the ...municipal subdivision, the excise board shall have the power and authority to revoke and cancel in whole or in part, any appropriation or appropriations, or parts thereof, previously made ... as to counties, cities and school districts, the financial statement and request for supplemental appropriations herein required to be filed with the excise board shall be published at least one time in some newspaper of general circulation in the county or city for which made. Said publication shall be made at least three (3) days prior to the date on which the excise board shall consider the proposed supplemental or additional appropriations. No appropriations shall be made and considered by the excise board in the absence of the financial statement herein required to be filed.”

**RECOMMENDATION:** We recommend the encumbrance clerk, the treasurer, the superintendent, and the school board members attend training specific to their statutorily prescribed duties. We



recommend management review the fiscal operations of the school on a regular basis. We also recommend the State Board of Education review these findings and proceed with further action if deemed appropriate. In addition, we recommend the District Attorney review these findings and proceed with further action if deemed appropriate.

**Subsequent Events:**

The school is working with its attorney to prepare a judgment for the amount of the June and July salaries and payroll-related obligations. In addition, the school has been in contact with the local foundation with the possibility that they will assist the school in paying a portion of the 2005-06 outstanding bills. A petition will be filed against the school in order to pay the non-payable warrants plus interest.

The school is currently operating on a temporary approved 2006-07 general fund appropriation of \$543,000.00. The school anticipates that their yearly general fund payroll costs will be approximately \$447,306.28. This is approximately 82% of their general fund budget. They are currently operating with four fewer employees than the 2005-06 school year. They have currently encumbered payroll, related costs and recurring monthly obligations (utility bills, phone bills, etc.) It has a remaining unencumbered general fund balance of approximately \$32,000.00.

The superintendent is in the process of arranging financial training for herself and the support staff provided by ADPC personnel and SDE personnel. The school is also looking into the possibility of having the county treasurer serve as the school treasurer. The superintendent has implemented internal controls with regards to purchasing procedures, tracking expenditures and tracking revenue. The encumbrance clerk has a copy of the 2006-07 temporary appropriations, has entered the correct amount into the ADPC ledger and has been advised that encumbrances should not exceed this amount unless the board has previously approved a supplemental appropriation based on additional revenue. The treasurer, who is volunteering her time, is aware that warrants should not be issued in excess of appropriations.

The school has not had a 2005-06 independent financial audit.

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Throughout this report there are numerous references to state statutes and legal authorities, which appear to be potentially relevant to issues raised and 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 Boley Public School District No. 541013 or any of the individuals named in this report or acting on behalf of the District 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 the District 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.