

**WAGONER  
PUBLIC  
SCHOOLS**

**AUGUST 1, 2005 THROUGH  
APRIL 30, 2009**



**SPECIAL  
AUDIT**



Oklahoma State Auditor  
& Inspector

**WAGONER PUBLIC SCHOOLS**  
**WAGONER COUNTY, OKLAHOMA**  
**SPECIAL AUDIT REPORT**  
**AUGUST 1, 2005 THROUGH APRIL 30, 2009**

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This publication is printed and issued by the State Auditor and Inspector as authorized by 74 O.S. 2001, § 227.8. Pursuant to 74 O.S. § 3105(B), 25 copies have been prepared and distributed at a cost of \$58.77. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

# STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA  
State Auditor

MICHELLE R. DAY, ESQ.  
Chief Deputy



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April 7, 2010

Mr. Vernon Sullivan, Board President  
Wagoner Public Schools  
PO Box 508  
Wagoner, Oklahoma 74477

Transmitted herewith is the Special Audit Report of the Wagoner Public Schools, Wagoner, Oklahoma. We performed our special audit in accordance with the requirements of **74 O.S. 2001, § 227.8**.

A report of this type tends to be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

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 insure 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,

A handwritten signature in blue ink that reads "Steve Burrage".

STEVE BURRAGE, CPA  
STATE AUDITOR & INSPECTOR

**WAGONER PUBLIC SCHOOLS  
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Sonny Bates

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Board of Education  
Wagoner Public Schools  
PO Box 508  
Wagoner, Oklahoma 74477

Dear Members:

Pursuant to the Board's request and in accordance with the requirements of **74 O.S. 2001, § 227.8**, we performed a special audit with respect to the Wagoner Public Schools, for the period August 1, 2005 through April 30, 2009.

The objectives of our special audit primarily included, but were not limited to, the areas noted in the Board's request. 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 Wagoner Public Schools for the period August 1, 2005 through April 30, 2009. 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 does not extend to any financial statements of the Wagoner Public Schools taken as a whole.

This report is intended solely for the information and use of the Wagoner Public Schools Board of Education and its Administration 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. 2001, § 24A.1 et seq.)**, and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Steve Burrage". The signature is written in a cursive, flowing style.

STEVE BURRAGE, CPA  
STATE AUDITOR & INSPECTOR

April 7, 2010

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**INTRODUCTION**

The School District No. 731019, Wagoner County, Oklahoma (Wagoner Public Schools) 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 Wagoner Public School District (“the 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 elected members and the Wagoner School District are subject to the provisions of the **Oklahoma School Code** contained in **Title 70** of the **Oklahoma Statutes**.

Private independent auditors audit the Wagoner Public School District annually, and such audit reports were available for our review. 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 Office of the State Auditor and Inspector conducted a special audit of the records of the District, primarily those records relating to concerns expressed by the Board of Education in their request. The results of the special audit are in the following report.

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**PRIOR EVENTS**

On April 7, 2009 the former food service director, Mary Gaylor, was suspended from the District as a result of a Child Nutrition Audit performed by the State Department of Education.

Based on the findings of the Child Nutrition Audit, the District requested the school's independent auditor to perform tests of the Child Nutrition Fund's billing, receipting, and depositing procedures for the period July 1, 2008 to April 15, 2009.

As a result, the school's auditor disclosed a significant shortage between site collections and actual deposits. Subsequently, Mary Gaylor tendered her resignation which was unanimously approved by the Board on June 2, 2009.

**I. OBJECTIVE**

Determine if there has been a misappropriation of Child Nutrition Program funds.

**BACKGROUND**

The District operates six sites serving breakfast and lunch. The six sites include the high school; middle school; Central Intermediate School; Teague, Ellington, and Lincoln Elementary Schools.

The District collects funds for the breakfast and lunches by both a pre-payment system as well as direct payments for meals at the time they are served. At the end of the day, the site managers prepare a "daily report" reflecting the amount of money collected.

The site managers reconcile the daily reports to a computer system used by the District. The site managers, using a bank deposit book, then create a deposit slip reflecting the amount of money to be deposited into the District's Child Nutrition bank account.

Once the deposit slip was created, the site managers place the entire deposit slip book, the cash, the daily report, and the checks collected into a deposit bag which was then turned over to Gaylor on a daily basis.

The site managers stated that when they filled out the last deposit slip in the deposit book, they placed the deposit book in the deposit bag as they ordinarily would. When the deposit bag was returned, the bag would contain a new deposit book.



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**CONDITION**

Ordinarily when performing an audit of this nature, we would compare the deposit slips and daily reports created by the site managers to the bank deposits to determine any variances in the amount of money collected to the amount of money deposited.

In this case, the majority of the deposit slips created by the site managers and turned over to Gaylor are now missing. Based on the records available to us, it appears Gaylor did not use the deposit slips prepared by the site managers to deposit the money into the Child Nutrition bank account. Instead, Gaylor created new deposit slips.

We might expect a new deposit slip to be created if the individual site deposits were being combined into a single deposit. In this case, however, the newly created deposit slips were not being created as a combined deposit; and Gaylor appears to have been holding back funds for significant periods of time. For example:

- In April 2006, although money was collected on 18 separate days, only two deposits were made, one on the 11<sup>th</sup> and one on the 25<sup>th</sup>.
- Site reports indicate the collection of \$95.20 during June, 2007 and \$0.00 during July, 2007. On July 3, 2007 \$8,613.42 was deposited.
- Site reports indicate no money was collected during June, 2008. On July 1, 2008 \$5,545.25 was deposited.

Because the deposit slips created by the site managers are now missing, we relied on the daily reports from which the deposit slips would have been made to determine the amount of money that had been collected by the sites and that should have been deposited.

Because of the missing deposit slips and due to the daily reports having only total amounts collected and not having a breakdown of the cash and check composition, we were only able to report on the total amount of money that now appears to be missing.

**VARIANCES**

For the period August 1, 2005 through March 31, 2009, the records from the individual sites reflect the collection of \$675,081.78. During the same period bank records reflect \$404,048.47 was deposited.

Based on those records \$271,033.31 was collected, not deposited, and is now missing. The tables that follow reflect the collections, deposits, and variances for each year.

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<b>Fiscal Year 2005-2006</b>			
<b>Month</b>	<b>Site Collections</b>	<b>Bank Deposits</b>	<b>Variance</b>
August	\$21,602.40	\$11,019.64	(\$10,582.76)
September	\$21,515.20	\$12,600.52	(\$8,914.68)
October	\$20,378.65	\$12,488.36	(\$7,890.29)
November	\$20,552.25	\$12,046.31	(\$8,505.94)
December	\$11,001.80	\$9,766.40	(\$1,235.40)
January	\$22,060.35	\$9,759.21	(\$12,301.14)
February	\$19,928.10	\$13,692.70	(\$6,235.40)
March	\$19,627.05	\$12,866.70	(\$6,760.35)
April	\$18,328.60	\$7,077.10	(\$11,251.50)
May	\$23,592.10	\$6,570.90	(\$17,021.20)
June	\$0.00	\$9,751.80	\$9,751.80
<b>Totals</b>	<b>\$198,586.50</b>	<b>\$117,639.64</b>	<b>(\$80,946.86)</b>

<b>Fiscal Year 2006-2007</b>			
<b>Month</b>	<b>Site Collections</b>	<b>Bank Deposits</b>	<b>Variance</b>
August	\$19,225.65	\$8,683.45	(\$10,542.20)
September	\$18,334.26	\$11,280.23	(\$7,054.03)
October	\$18,144.20	\$12,300.22	(\$5,843.98)
November	\$15,407.94	\$4,761.59	(\$10,646.35)
December	\$9,048.44	\$6,101.45	(\$2,946.99)
January	\$18,065.57	\$15,448.39	(\$2,617.18)
February	\$17,744.85	\$12,368.30	(\$5,376.55)
March	\$15,743.24	\$8,258.15	(\$7,485.09)
April	\$21,521.85	\$10,196.05	(\$11,325.80)
May	\$21,701.31	\$13,519.87	(\$8,181.44)
June	\$95.20	\$0.00	(\$95.20)
July	\$0.00	\$8,613.42	\$8,613.42
<b>Totals</b>	<b>\$175,032.51</b>	<b>\$111,531.12</b>	<b>(\$63,501.39)</b>

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<b>Fiscal Year 2007-2008</b>			
<b>Month</b>	<b>Site Collections</b>	<b>Bank Deposits</b>	<b>Variance</b>
August	\$21,495.24	\$10,592.04	(\$10,903.20)
September	\$16,537.51	\$0.00	(\$16,537.51)
October	\$20,358.10	\$17,602.35	(\$2,755.75)
November	\$16,039.00	\$10,735.60	(\$5,303.40)
December	\$11,902.15	\$3,763.00	(\$8,139.15)
January	\$19,584.75	\$14,054.47	(\$5,530.28)
February	\$18,187.90	\$15,375.26	(\$2,812.64)
March	\$14,500.75	\$4,313.20	(\$10,187.55)
April	\$20,552.96	\$6,929.95	(\$13,623.01)
May	\$17,776.17	\$19,884.52	\$2,108.35
June	\$0.00	\$0.00	\$0.00
July	\$0.00	\$5,545.25	\$5,545.25
<b>Totals</b>	<b>\$176,934.53</b>	<b>\$108,795.64</b>	<b>(\$68,138.89)</b>

<b>Fiscal Year 2008-2009</b>			
<b>Month</b>	<b>Site Collections</b>	<b>Bank Deposits</b>	<b>Variance</b>
August	\$15,848.90	\$0.00	(\$15,848.90)
September	\$16,831.29	\$11,550.34	(\$5,280.95)
October	\$20,511.35	\$16,040.98	(\$4,470.37)
November	\$15,225.70	\$9,498.80	(\$5,726.90)
December	\$10,661.05	\$8,432.35	(\$2,228.70)
January	\$13,718.70	\$9,134.65	(\$4,584.05)
February	\$16,517.10	\$3,922.40	(\$12,594.70)
March	\$15,214.15	\$7,502.55	(\$7,711.60)
<b>Totals</b>	<b>\$124,528.24</b>	<b>\$66,082.07</b>	<b>(\$58,446.17)</b>

The first month of our report audit period, August, 2005, included a deposit variance of over \$10,000.00. Typically, we would expand our audit period to go back further in time in an attempt to determine when the deposit shortages actually began. In this case, we were unable to do so due to a lack of records being maintained by the District.

It should also be noted that during the first year we examined, 2005, the high school operated a snack bar. Based on the daily reports, the snack bar average cash sales were \$173.00 per day, which generated about \$30,000.00 in annual sales.

We interviewed the site managers and asked if Gaylor had ever questioned them about discrepancies in their deposits or in the funds being turned over for deposit.

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The site managers all stated they had never been questioned about their daily reports, deposit slips, or money that had been placed in the deposit bags and turned over to Gaylor.

We also asked District officials how long Gaylor had been in the position of Food Service Director and were told she had held the position for about 15 years.

**SUBSEQUENT  
CASH DEPOSITS**

Because the school's records only included total collection amounts with no indication of the amount of cash and amount of checks collected, we were unable to determine how much of the missing \$271,033.31 was in the form of cash.

We did, however, obtain bank records, including "cash in" reports from the bank for the time period August, 2008 through April 6, 2009 in order to determine the actual amount of cash deposited during the last year Gaylor was employed with the District.

From the bank "cash in" records, we found the total monthly deposits of cash ranged from \$0.00 in August to a high amount of \$630.75 deposited during the first week of April, 2009. Overall a total of \$3,800.68 in cash had been deposited in the eight month and one week period, as shown in the table at right.

Month	Cash Deposited
August 08	\$0.00
September	\$232.29
October	\$586.79
November	\$583.50
December	\$312.85
January 09	\$601.25
February	\$478.00
March	\$375.25
April 1- April 6	\$630.75
<b>Totals</b>	<b>\$3,800.68</b>

Gaylor was suspended in April, 2009. We examined the bank records for the next two months after Gaylor's departure from the school and found the amount of cash deposits increased substantially.

During the remaining three weeks of April, 2009 a total of \$5,010.36 in cash was deposited. The following May another \$6,955.35 was deposited for an average of about \$1,700.00 per week or \$6,800.00 per month.

**CONTRIBUTING  
FACTORS LEADING  
TO THE INABILITY  
TO IDENTIFY A  
LONG DURATION  
FRAUD**

We identified several factors that may have contributed to the District's inability to detect an apparent misappropriation in excess of \$67,000.00 per year for at least four years and, potentially, an even longer period for which the school did not maintain records.

One of the first contributing factors was the lack of appropriate internal controls. There was no clearly defined policy concerning the receipting and depositing of funds received by the school, and there was a failure to properly segregate duties related to the handling of money.

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Although there was some initial segregation of duties specifically related to the creation of reports and deposit being maintained by the site managers, the entire deposit books were given to Gaylor along with the money. Those deposit books and deposit slips, which were the only documents apparently reflecting the actual amounts of cash being collected, are now missing.

Moreover, once the money and records came into Gaylor's custody and control, it does not appear there was any reconciliation or oversight process in place to ensure all of the funds received were being deposited.

A second contributing factor may have been because the school used the child nutrition account as nothing more than a holding account.

When we reviewed the child nutrition account bank records, we found the only activity in this account was deposits. No expenditures were being made from the account until the end of the year when a payment was being written from the child nutrition account to the general fund.

In essence, the child nutrition account was nothing more than a pass-through account. According to the OCAS<sup>1</sup> reports for 2008, the District expended \$1.2 million on child nutrition. These expenditures were apparently being made from the general fund rather than the child nutrition fund.

The misappropriation may have been detected much sooner had the child nutrition account not been used merely as a holding account while child nutrition expenses were being paid from the general fund. The \$50,000.00 - \$80,000.00 annual loss was, apparently, not as readily detectable in the much larger \$18 million general fund account.

Another factor that may have contributed to the District's failure to identify the loss lies in the District's inflated numbers concerning free and reduced lunches.

According to Superintendent Sonny Bates, officials from the State Department of Education came to the District to perform an audit of the Child Nutrition Program. Subsequently, questionable documents were found suggesting the number of free and reduced lunches had been inflated. According to the Superintendent, the inflated numbers existed between the numbers reported by the sites and the numbers reported to the State Department of Education.

Increasing the amount of free and reduced lunches would cause a comparable increase in the federal reimbursements being paid to the District for the Child

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<sup>1</sup> Oklahoma Cost Accounting System.

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Nutrition Program. Although an audit of the Child Nutrition Free and Reduced Lunch Program is outside the scope of this audit, we did review the amount of child nutrition federal reimbursements being made to the school during the same period the school's child nutrition funds were misappropriated.

OCAS reports for 2005 reflect the school received \$827,589.00 in federal funds for the Child Nutrition Program. In 2006, the federal reimbursement increased to \$894,447.41. In 2007 and 2008, the federal reimbursements increased to \$981,595.38 and \$1,018,713.04, respectively.

So, for the same time period we found \$271,000.00 in child nutrition funds had not been deposited, we also found the federal reimbursements to the Child Nutrition Program increased by \$191,000.00. The increase in federal funding, possibly due to the inflated numbers, may have helped to conceal the misappropriation.

**RECOMMENDATION** During our audit, we became aware the District had begun taking steps to implement internal controls over the Child Nutrition Program funds. An outline of the internal controls being implemented is described below:

- Steps are taken to ensure records are properly maintained.
- When site deposits are turned into the current food service director, a count is performed verifying the deposit. A receipt is then issued for the amount turned in and signed by both the site manager and the director.
- Bank deposits are made on a daily basis.
- Daily reports breakdown the amount of cash and checks collected.
- Bank statements are reconciled monthly.

We recommend the District follow through with the development and implementation of the internal controls as outlined in their proposed changes.

We have provided a copy of this report to the District Attorney for his review to determine what additional action may be necessary.

**DISCLAIMER** 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.



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