

CANADIAN COUNTY PUBLIC FACILITIES AUTHORITY

SPECIAL AUDIT REPORT

JANUARY 1, 2002 THROUGH JUNE 30, 2003



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

December 11, 2003

Canadian County Public Facilities Authority
201 N. Choctaw
El Reno, Oklahoma 73036

Transmitted herewith is the Special Audit Report of the Canadian County Public Facilities Authority. We performed our special audit in accordance with the requirements of **74 O.S. 2001, § 227.8**.

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 Authority.

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,

JEFF A. McMAHAN
State Auditor and Inspector

table of contents

	page
BOARD OF TRUSTEES	4
STATE AUDITOR AND INSPECTOR'S REPORT	5
INTRODUCTION	6
CONCERNS, FINDINGS AND RECOMMENDATIONS	7
OTHER FINDINGS AND RECOMMENDATIONS	17

index of specific concerns

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

I. Concern: <i>Assisting Trustees in obtaining Trust records.</i>	7
II. Concern: <i>Determine whether reasonable fees were paid for the 2002 refinancing of the Juvenile Justice Center debt.</i>	8
III. Concern: <i>Were proper procedures followed for the 2002 refinancing of the Juvenile Justice Center? Did refunding the 2000 bonds save money?</i>	10
IV. Concern: <i>Review expenditure records from January 1, 2002 through June 30, 2003 for proper supporting documentation.</i>	13

BOARD OF TRUSTEES

Grant Hedrick Chairman
Phil Carson Secretary
Don Young Trustee



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

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State Auditor and Inspector

Canadian County Public Facilities Authority
Board of Trustees
201 N. Choctaw
El Reno, Oklahoma 73036

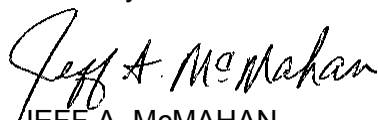
Pursuant to your request and in accordance with the requirements of **74 O.S. 2001, § 227.8**, we conducted a special audit with respect to the Canadian County Public Facilities Authority for the period January 1, 2002 through June 30, 2003.

The objectives of our special audit primarily included, but were not limited to, the areas outlined in the "index of specific concerns" noted in the table of contents. Our findings and recommendations 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 Canadian County Public Facilities Authority for the period January 1, 2002 through June 30, 2003. 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 Authority taken as a whole.

This report is intended to provide information to the Board of Trustees and Administration of the Authority. This restriction is not intended to limit the distribution of the report, which is a matter of public record when released.

Sincerely,


JEFF A. McMAHAN
State Auditor and Inspector

September 10, 2003

INTRODUCTION

The Canadian County Public Facilities Authority Trust (PFA) was created December 18, 1984 under the provisions of the Public Trust Law 60 O.S. 2001, §§ 176 et seq. The Trust was created to “plan, finance, acquire, construct, reconstruct, extend, lease, purchase, install, equip, maintain, repair, enlarge, remodel, and operate buildings, utilities and other facilities for use by the United States of America, or the State of Oklahoma, or for use by municipal or other political subdivisions and to do all things which are for the benefit of the County of Canadian, Oklahoma[.]”

The PFA is governed by a Board of Trustees which consists of three (3) members who are also the governing board of the beneficiary, Canadian County. Each successor in the office of County Commissioner of Canadian County automatically becomes a Trustee of the Trust.

The State Auditor and Inspector conducted a special audit of the records of the Canadian County Public Facilities Authority, primarily those records relating to the current Board of Trustees’ 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: *Assisting Trustees in obtaining Trust records.*

FINDING: 60 O.S. 2001, §178 (d) requires in part,

“...Records of the trust and minutes of the trust meetings of any public trust shall be written and kept in a place the location of which shall be recorded in the office of the county clerk of each county, wherein the trust instrument shall be recorded.”

Furthermore, **51 O.S. 2001, §24A.4** of the **Oklahoma Open Records Act** states,

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

In addition, Article IV (3) of the Declaration of Trust for the Canadian County Public Facilities Authority (PFA) states in pertinent part,

“The Trustees shall select a Secretary who may or may not be a Trustee. The Secretary shall keep minutes of all meetings of the Trustees and shall maintain complete and accurate records of all their financial transactions, all such minutes, books and records are to be on file in the office of the Trust.”

On September 22, 1998, the Board of Trustees adopted an Open Records Policy, authorizing the Chairman of the Board and legal counsel serving at that time to act as record custodians. Following that legal counsel's departure from the PFA in March 2003, the PFA had difficulty reclaiming PFA documents from his office. On August 12, 2003, the former legal counsel allowed our office to retrieve several boxes of documents, including original invoices, from his PFA files to complete our audit. With these documents and the PFA documents located at the Canadian County Commissioners office, we were able to fill most of the gaps in PFA records that were necessary for the PFA to comply with the state law.

The records were unorganized and we spent most of our fieldwork matching supporting documentation to expenditures. Some of the construction project's documentation had to be obtained from the construction management company. In addition, we found in the former legal counsel's files two checks issued to the PFA, dated in February and March 2003 totaling \$4,519.00 that were never deposited into PFA accounts.

Furthermore, it was noted that ledgers (i.e. general ledgers, revenue/expenditures ledgers, investment ledgers) had not been maintained since June 2002.

The PFA now maintains documentation and ledgers, and supports revenue and expenditures with original invoices, in a centralized accessible location as required by the Oklahoma Open Records Act and the PFA's Trust Indenture.

RECOMMENDATION: A recommendation is not necessary.

**CANADIAN COUNTY PUBLIC FACILITIES AUTHORITY
SPECIAL AUDIT REPORT
JANUARY 1, 2002 THROUGH JUNE 30, 2003**

II. CONCERN: *Determine whether reasonable fees were paid for the 2002 refinancing of the Juvenile Justice Center debt.*

HISTORY ON BONDS

On August 27, 1996 the citizen's of Canadian County voted on a .35 sales tax to be used for the construction, operation and maintenance of a juvenile detention and justice facility. On December 18, 1996, a Resolution was adopted authorizing the Authority to issue indebtedness for the purpose of constructing and operating of a juvenile detention facility. On December 24, 1996, a Promissory Note was executed in the amount of \$3,500,000 in which payment of the note was secured by the revenues collected from the sales tax. The fees paid for the initial financing of this project as listed in the Disbursement Order included the following:

ORIGINAL FINANCING PROMISSORY NOTE	
Bond Counsel	\$ 36,000.00
Bond Counsel	1,500.00
Authority Counsel	1,500.00
Authority Counsel and Consultant to Authority Counsel	1,500.00
Authority Counsel, Consultant to Counsel, Financial Advisor	5,000.00
Authority Counsel	33,500.00
Authority Counsel and Consultant to Authority Counsel	33,500.00
Authority Counsel (Expenses)	1,675.00
Bond Counsel (Expenses)	1,650.00
Total Fees	<u>\$115,850.00</u>

On March 11, 1997, a second Promissory Note was executed to refinance the December 24, 1996 Promissory Note. The fees associated with this project were not listed in the transcript. We decided not to investigate these fees because the records were in such disarray that the cost of such an investigation would be excessive.

On February 1, 2000 the Authority issued bonds in the amount of \$3,185,000, for the purpose of providing long term financing and to refund the \$3,500,000 Promissory Note issued March 11, 1997. The fees associated with the issuance of the 2000 bonds included the following:

SECOND REFINANCING 2000 REVENUE BONDS	
Bond Counsel	\$ 31,850.00
Law Firm (Expenses)	3,000.00
Authority Counsel (\$5000 to Consultant to Authority Counsel)	63,700.00
Authority Counsel Expenses	2,500.00
Financial Advisor	25,000.00
Financial Advisor Expenses	2,021.14
Trust Acceptance Fee	3,000.00
Trustee Counsel Fee	3,000.00
Mortgage Filing Fees	<u>3,190.00</u>

**CANADIAN COUNTY PUBLIC FACILITIES AUTHORITY
SPECIAL AUDIT REPORT
JANUARY 1, 2002 THROUGH JUNE 30, 2003**

Total Fees

\$137,261.14

On December 2, 2002 the PFA passed a Resolution authorizing the issuance of bonds, not to exceed \$7,500,000 for the purpose of refinancing the 2000 bonds and to provide new money to finance additional construction on the juvenile justice facility. On December 31, 2002 the Authority issued bonds in the amount of \$5,675,000 to refund the 2000 issue and provide financing for new construction of the juvenile justice facility. The fees associated with the third refinancing included the following:

**THIRD REFINANCING
2002 REVENUE BONDS**

Bond Counsel	\$ 45,000.00
Bond Counsel (Expenses)	3,500.00
Authority Counsel	45,000.00
Authority Counsel (Expenses)	2,500.00
Financial Advisor	45,000.00
Project Consultant (not to be paid until 1/5/05)	<u>45,000.00</u>
Total Fees	<u>\$186,000.00</u>

FINDING: We reviewed the costs associated with the December 2002 \$5,675,00 bond issue. The Authority counsel and two firms received a combined \$141,000.00 in fees. The project consultant will receive his fee of \$45,000 in 2005. The total of all the fees is \$186,000, which represents 87% of the \$212,695 issuance costs

The total Cost of Issuance for the December 2002 bond issue represents 3.7% of the \$5,695,000 bond proceeds. We consulted with the State Bond Advisor regarding the December 2002 issue. The State Bond Advisor indicated that the total Cost of Issuance associated with State revenue bond issues is usually around 1%, with 2% issuance costs being the high end.

The State Bond Advisor also indicated the state of Oklahoma is required by statute to competitively bid professional services associated with bond issues as a means of lowering the costs. In each of the financings involving the two promissory notes and both the 2000 and 2002 bond issues, competitive bidding was waived. Competitive bidding could have provided comparisons so that the Authority could have documented the estimated costs to complete the refinancing prior to approving the transaction and ensured that the professional fees were competitively priced.

The Authority used the same individuals and firms for all of the financings associated with the projects. Two of the individuals were on retainer with the Authority and based on interviews, their advice was instrumental in the Trustees' decision to issue the refunding bonds. In addition to the retainer they were paid for advising the Authority, they were also paid \$92,500.00 from the 2002 bonds for their services related to the issuance of those bonds. These fees were contingent upon the Authority issuing the 2002 bonds, which creates the appearance of a conflict of interest.

While we have not attempted to determine whether all of these professional services were necessary for all of the financings, the State Bond Advisor indicated that he is often involved with State transactions in which the legal fees are limited to the fees for the bond counsel.

RECOMMENDATION: Although not required by law, it is our recommendation that the Trustees of the PFA solicit bids, for all future bond issues including comparisons of the economic projections from

**CANADIAN COUNTY PUBLIC FACILITIES AUTHORITY
SPECIAL AUDIT REPORT
JANUARY 1, 2002 THROUGH JUNE 30, 2003**

the investment bankers/underwriters to ensure fees are competitive. Further, the Trustees should address whether the authority needs to hire counsel, financial advisor and project consultant for future bond issues. If an authority counsel or other consultant is deemed necessary for a future bond issue, then the Trustees should consider hiring separate legal counsel other than a firm on retainer.

III. CONCERN: *Were proper procedures followed for the 2002 refinancing of the Juvenile Justice Center? Did refunding the 2000 bonds save money?*

FINDING: In December 2002, the Authority issued bonds totaling \$5,675,000 for the purpose of refunding the 2000 bond issue and to provide additional funding of approximately \$2,500,000 to construct an addition to the juvenile justice facility. The 2000 bonds could not be refunded at the time of the 2002 issue because the bonds are not callable until February 2005. Therefore, an escrow account was established with a deposit of \$3,355,931 to refund the balance of the 2000 issue at that time.

Interviews and documentation indicated that the purpose of refinancing of the 2000 bonds was that it would result in a savings to the PFA because of the lower interest rates. Based on the procedures performed, it does not appear that the December 2002 bond refunding resulted in a savings. The following is a summary of our analysis which shows the cost from refunding the existing debt:

The increase in interest cost from applying the new principal payment and interest rate to the remaining existing debt.	\$153,035.64
The portion of the total Cost of Issuance (\$212,695) which applies to the refunded amount of \$3,032,147.	116,569.14
Authority funds used to fulfill refunding escrow requirements	326,817.00
An initial deposit from the Authority to meet Debt Service Reserve requirements.	137,004.00
The amount transferred from the prior Debt Service Reserve Fund, which otherwise would have been refunded to the Authority in 2015	245,001.00
The amount in the Debt Service Reserve will be refunded in 2027	<386,334.00>
This is the amount of accrued interest (\$20,796.00) which applies to the refunding	<11,397.41>
The estimated interest income from the Refunding Escrow account. We obtained the actual interest earned from January 2003 through August 2003. The highest monthly interest income amount of (\$2,279.24) was applied to the future months in determining future interest income. Interest income will be earned until the bonds can be called in February 2005.	<50,875.86>

CANADIAN COUNTY PUBLIC FACILITIES AUTHORITY
SPECIAL AUDIT REPORT
JANUARY 1, 2002 THROUGH JUNE 30, 2003

The estimated interest income from the construction escrow account. We obtained the actual interest earned from January 2003 through August 2003. The highest monthly interest income amount of (\$2,513.43) was applied to the future months in determining future interest income. Interviews indicated construction should begin by January 2004. We applied interest income until January 2005.

<55,961.37>

Net increase in principal, interest and expenses net of estimated Income earned on escrow deposits over bond issues.

\$473,858.14

The methodology used in determining the cost that resulted from refunding the existing debt is detailed as follows:

The following is a breakdown of the sources of the funds and how those funds were applied:

SOURCES:

Proceeds	\$5,675,000.00
Less: Underwriters Discount	-56,750.00
Less: Original Issue Discount	-85,718.00
Accrued Interest	20,796.00
Refunding Account Balances:	458,992.00
2000 Principal -138,903.08	
2000 Interest - 75,088.24	
2000 Debt Service Reserve 245,001	
Authority Contribution	<u>\$463,821.00</u>

TOTAL SOURCES \$6,476,141.00

USES:

Refunding Escrow for 2000 bonds	\$3,355,931.00
Deposit to Fund Interest Account	20,796.00
Deposit to Debt Service Reserve Account	386,334.00
For Construction Escrow	2,500,385.00
For Cost of Issuance	<u>212,695.00</u>

TOTAL USES \$6,476,141.00

For the 2002 issue, the Authority provided funds totaling \$922,813.00 for the purpose of paying the Cost of Issuance, and meeting the Debt Service Reserve and Escrow requirements. There was a total of \$458,992 transferred from the 2000 Principal, Interest, and Debt Service Reserve. At the December 31, 2002 closing, the Authority presented checks totaling \$463,821 (\$137,004 to fulfill debt service reserve requirements and \$326,817 to fulfill the escrow requirement of \$3,355,931). The net cost to the Authority at the December 31, 2002 closing was \$536,479. Although the Authority had to provide \$922,813 from trustee accounts and Authority accounts, the \$386,334 held by the trustee until 2027 will ultimately return to the Authority. For the purposes of our analysis, we considered the net of \$536,479 as the cost to the Authority at closing.

**CANADIAN COUNTY PUBLIC FACILITIES AUTHORITY
SPECIAL AUDIT REPORT
JANUARY 1, 2002 THROUGH JUNE 30, 2003**

From 2000 Accounts	\$458,992		
		\$212,695	Paid Cost of Issuance
		245,001	Transfer to Debt Service Reserve Fund
		1,296	Deposit to Refunding Escrow Account
Checks Issued at Closing	<u>463,821</u>		
		137,004	Increase the Debt Service Reserve
		326,817	To Meet Escrow Requirements
Total	\$922,813		
Less: Deposit to Debt Service reserve	<u>386,334</u>		This will be refunded back to the Authority in 2027
Total Cost at Closing	\$536,479		

At the time of the December 2002 bond issue, the outstanding principal of the remaining existing debt of the February 2000 bonds was \$2,915,000.00. If the bonds had not been refunded, the principal and interest for the remaining period would be \$4,238,856.25. See schedule at Appendix A.

We prepared an amortization schedule of the February 2000 bonds applying the December 2002 principal payments and interest rates. Since the term of the new issue is 25 years and the 2000 issue was 15 years the principal payments are lower. Therefore, it will take longer to payoff the remaining principal when applying the new principal payments. Consequently, more interest would be paid over the term. The total principal payments on this schedule are equal to the amount of bond proceeds deposited to the Escrow account. The total amount deposited in the Escrow account was \$3,355,931. Of the total amount deposited to the Escrow account, \$3,032,147 was bond proceeds and \$323,784 was Authority funds. We calculated principal and interest payments for the 2002 bond issue totaling \$4,391,891.89, which are assumed to relate to the 2000 bonds that were refunded. See schedule at Appendix B.

We compared the total principal and interest payments from (Appendix A) to the total principal and interest payments from Appendix B. Applying the current principal payments and interest rate to the existing debt resulted in an increase in interest cost of \$153,035.64. See schedule at Appendix C.

The schedule at Appendix D reflects the estimated increased cost as a result of refunding the February 2000 debt. As reflected in Appendix C, applying the current principal payments and interest rate to February 2000 outstanding principal resulted in an increase in interest cost of \$153,035.64. The total Cost of Issuance for the December 2002 bond issue was \$212,695. The

allocated Cost of Issuance that pertains to the old bonds is \$116,569. The Authority issued checks at closing totaling \$463,821 to increase the Debt Service Reserve and to fulfill escrow requirements. The total amount of <\$386,334> deposited with the Trustee for Debt Service Reserve will be refunded to the Authority in 2027. The allocated accrued interest total of \$20,796 that applies to the old bonds is <\$11,397.41>. The estimated interest income from the Refunding Escrow account is <\$50,875.86>. There was also another Escrow account established for the bond proceeds to be used for the expansion of the juvenile justice facility. The estimated interest income on the \$2,500,000 held for construction is <\$55,961.37>. The estimated increase in costs as a result of the refunding is **\$473,858.14**. See schedule at Appendix D.

Next, we applied the Net Present Value of the cost from refunding noted on the schedule on Appendix D. By factoring in the time value of money using a discount factor of 3%, the cost increase is **\$376,559.11**. See schedule at Appendix E.

In an interview, the State Bond Advisor indicated that in the current rate environment it is difficult to save money on an advance refunding, when an escrow is required, due to negative arbitrage and escrow. An advance refund is when bonds are refunded before the call date. Prior to the Resolution authorizing the 2002 bond issue, it appears no documentation was presented to the Trustees indicating the prudence of refinancing the existing debt. The financial advisor did issue a letter dated July 2, 2003, which provided calculations pertaining to the refunding. However, this letter was provided six months after the transaction. The interest rate was reduced from an approximate average of 6% to an approximate average of 3.97%; however, the cost to the Authority at the closing was \$536,479 (\$463,821 in checks plus \$458,992 from trust accounts less \$386,334 deposited to Debt Service Reserve). Further, the 2000 bonds are not callable until February 2005; therefore, an escrow account was required to be established. At the time of the refinancing, the outstanding principal of the 2000 debt was approximately \$2,915,000.00. The Authority was required to deposit \$3,355,931.25 into the escrow account to payoff the outstanding principal. The Authority did receive approximately \$2,500,000.00 from the bond proceeds to construct an addition to the juvenile justice center. We question the timing of the issue, since an interview indicated that construction is not expected to begin until around January 2004, one year after closing.

Because the project was financed at least a year before the funds were needed, this resulted in the Authority paying one year's interest on the bonds of at least \$75,000 ($\$2,500,000 \times 3\%$). This was not factored in the net loss to Authority for the refunding of the 2000 bonds. Further, if the bond refunding had not occurred, the \$463,821 in checks, issued by the Authority, at the closing could have been used for other purposes including reducing the debt.

RECOMMENDATION: The Board of Trustees should hire an independent expert to determine the prudence of any transactions, such as the refunding of the 2000 bonds, prior to passing a Resolution. The Trustees should assure themselves that they are fully informed prior to passing any Resolutions, which authorizes the issuance of debt.

IV. CONCERN: *Review expenditure records from January 1, 2002 through June 30, 2003 for proper supporting documentation.*

FINDING NO. 1: Once our office retrieved the files from the PFA's former legal counsel/records custodian, we traced every expenditure from the twenty (20) bank accounts maintained at Yukon National Bank to an "order to pay" for our audit period. From our review of approximately 63

expenditures, we noted 25 instances where there was not an itemized original invoice attached supporting the expenditure. In other instances, invoices were located, but they were not the originals, nor were they itemized, describing in detail the services performed.

The PFA now maintains documentation supporting expenditures with original invoices in a centralized location. The "order to pay" system is still utilized, however, "orders to pay" are not pre-numbered to insure sequential tracking.

RECOMMENDATION: We recommend the PFA initiate a sequentially numbered "order to pay" system. Given the number of accounts the PFA maintains, implementation of this internal control would insure proper accounting of all expenditures.

FINDING NO. 2: The PFA maintains a "project fund" account at the Bank of Union, which was established in October 2001 for the PFA's portion of the remodeling project of the Gold Bank Health Department and the remodeling of the new Election Board offices. We examined 100% of the expenditures and traced them to supporting documentation. We noted one (1) expenditure without an invoice. Also, instances were noted where invoices were not original or itemized.

The total cost of the Election Board remodeling project was \$71,007.19. Both **Title 60 O.S. § 176(h)** of the **Public Trust Act** and **Title 61 O.S. § 103** of the **Public Construction Act** required that all contracts over \$12,500.00 (now \$25 000.00) be competitively bid. All of the contracts for this project, except for one, were less than that amount and, therefore, did not have to be competitively bid.

The one contract over that amount was for \$35,304.11. Under it the PFA hired a construction manager to oversee this project. The former Chairman/County Commissioner informed us that a construction management contract was considered a "special service" contract and a bid was not required. However, we examined the invoices submitted for payment by the construction manager and discovered that in addition to construction management services, he provided labor on the project. Because the construction manager did not only act as the personal representative of the Trust by providing services which required his expertise in coordinating and managing the building process, but, in addition, actually provided labor involving construction of the project, the contract appears to have been one that should have been bid.

RECOMMENDATION: We recommend the PFA solicit bids for remodeling projects whether such projects are undertaken as a whole or in individual contracts. This will insure the PFA receives the "best and lowest" bid for services performed. We also recommend the proper authorities review this finding.

FINDING NO. 3: Prior to June 2000, all "orders to pay" (expenditures) were presented and approved by the Board of Trustees during a PFA meeting. In June 2000, the Board of Trustees approved the following:

"housekeeping", "administrative", and "executive" acts of the Chairman...including but not limited to execution of contracts, approval of acts of counsel in litigation, payment of fees and expenses of contractors, auditors, local counsel, bond counsel, financial consultants, financial advisors, appraisers, bookkeepers, and suppliers be approved."

**CANADIAN COUNTY PUBLIC FACILITIES AUTHORITY
SPECIAL AUDIT REPORT
JANUARY 1, 2002 THROUGH JUNE 30, 2003**

After the June 2000 meeting “orders to pay” were not presented to the Board of Trustees and were only signed by the Chairman and legal counsel without the whole Board’s approval in an open meeting. Based on minutes of the PFA meetings, it appears the above “housekeeping” resolution delegated the Chairman and legal counsel the authority to expend without being specific to the Board on actual expenses. Article IV (2) of the Canadian County Public Facilities Authority’s Declaration of Trust states in part,

“All actions by the Trustees pursuant to the provisions of this Declaration of Trust shall be approved by the affirmative vote of at least majority of the Trustees qualified to act a such under the provisions of this Declaration of Trust.”

The above practice was discontinued in April 2003. Though the Chairman may still act on behalf of the PFA, all “orders to pay” (expenditures) are presented to the Board for approval in an open meeting.

RECOMMENDATION: A recommendation is not necessary.

FINDING NO. 4: As required by **60 O.S. 2001, § 180.1**, the PFA must have an independent audit conducted on an annual basis. The PFA ‘s independent audit cost in total \$21,975.00 for FY00-01 and FY01-02. While we were reviewing the above accounts, we noted several payments to the former legal counsel/records custodian for *audit preparation*. The amounts paid are as follows:

PAYEE	DATE	AMOUNT	PURPOSE
Law Office	03-15-02	\$ 375.00	Audit Prep. FY00-01
Law Office	03-15-02	7,125.00	Audit Prep. FY00-01
Law Office	06-19-02	7,125.00	Audit Prep. FY02-03
Law Office	06-19-02	375.00	Audit Prep. FY02-03
Law Office	10-18-02	375.00	Audit Prep. FY01-02
Law Office	10-18-02	7,125.00	Audit Prep. FY01-02
Law Office	12-11-02	300.00	Audit Prep. FY02-03
Law Office	12-11-02	5,700.00	Audit Prep. FY02-03
	Total	\$ <u>28,500.00</u>	

The invoices submitted by the former legal counsel/records custodian were not itemized, detailing the hours and/or services performed for the above expenditures.

Though, the former legal counsel/records custodian was appointed by the Board of Trustees, the PFA also had a part-time bookkeeper to maintain monthly records. The part-time bookkeeper stated he was not paid for the PFA’s bookkeeping and considered it a donation.

The former legal counsel/records custodian stated the additional work for the mandatory audit was a result of missing invoices to support PFA expenditures for the independent auditor to review. He would have to contact the vendors and request a copy of their records. The bookkeeper also maintained that the former legal counsel/records custodian did spend some time gathering documentation for the audit.

The Open Records policy approving and appointing a record custodian does not entail the exact requirements of his duties. Nor could we locate the rate and/or agreement to pay additional fees for audit preparation beyond the mandatory independent audit.

**CANADIAN COUNTY PUBLIC FACILITIES AUTHORITY
SPECIAL AUDIT REPORT
JANUARY 1, 2002 THROUGH JUNE 30, 2003**

Additionally, a former consultant was also paid for the FY01-02 audit in the amount of \$2,000.00. His invoice indicates that it was for “continuing and additional work on and in relation mandatory annual compulsory audit....Pursuant to *agreement* and prior practice...”. Our office could not locate the agreement that was specified on the invoice for verification.

RECOMMENDATION: We recommend the PFA enter into contracts and/or agreements in writing, not verbally, and be approved in an open meeting, detailing specifically what services should be performed and the cost of said services. We further recommend the PFA retain all written contracts on file for verification in the PFA’s central office.

FINDING NO. 5: On August 27, 1996, Canadian County voters passed a sales tax levying a .35 of one cent sales tax on the gross receipts or proceeds on certain sales for an unlimited period. Furthermore, the ballots proposition states the monies purpose,

“...SUCH TAX TO BE USED FOR CONSTRUCTION, FINANCING AND EQUIPPING OF A JUVENILE DELINQUENTS DETENTION FACILITY AND JUVENILE JUSTICE FACILITIES IN CANADIAN COUNTY, INCLUDING DESIGN, CONSTRUCTION, EXPENSES, OPERATIONS, EQUIPMENT AND FURNISHINGS;”

While reviewing expenditures, we noted during our audit period that \$72,620.98 was paid for legal and trial services for the PFA vs. Town of Banner trial from the general claims account of the .35 of a one cent sales tax specified for Juvenile Detention services. The following schedule itemizes the expenditures:

PAYEE	DATE	AMOUNT	PURPOSE
Law Office	01-04-02	\$140.80	expenses
Emily Eakle	01-04-02	252.79	transcript
Phoenix Legal Services	01-04-02	300.00	legal services
John Truell	01-16-02	1,500.00	PFA vs Banner
Law Office	02-12-02	7,500.00	Trial Preparation
Crisp & Assoc.	03-15-02	261.62	Transcript of deposition
Law Office	04-08-02	2,400.00	completion of trial
Phillip Isett	04-08-02	2,500.00	expert opinion
Law Office	04-23-02	15,000.00	completion of trial
Dr. Kenny Franks	04-23-02	1,500.00	testimony services
Phoenix Legal Services	04-23-02	2,500.00	completion of trial
Law Office	05-10-02	2,500.00	research
Dr. James Caster	05-10-02	700.00	testimony services
Henricksen & Henricksen	05-10-02	629.50	transcript of trial
John Truell	05-10-02	500.00	trial observation
Phoenix Legal Services	05-10-02	3,886.27	trial preparation
Law Office	06-19-02	2,400.00	preparation of final journal entry
Emily Eakle	06-19-02	150.00	transcript
Law Office	07-02-02	1,500.00	PFA vs. Banner
Phoenix Legal Services	07-22-02	3,500.00	PFA vs. Banner
Law Office	08-22-02	<u>23,000.00</u>	PFA vs. Banner per contract
	Total	<u>\$72,620.98</u>	

RECOMMENDATION: We recommend the PFA seek an opinion with the Canadian County District Attorney's office to determine if expenditures for legal and trial services are allowable from the restricted sales tax accounts.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING: Based on a review of the minutes of the PFA meetings for the period January 2002 through June 30, 2003 we noted the following

- Prior to April 2003, the minutes were not filed with the county clerk in a timely manner. Minutes were not filed with the county clerk for up to eight (8) months after the meeting. Further, minutes for the period December 16, 2002 through March 17, 2003 have not been filed with the county clerk. These minutes were obtained from the Authority's former legal counsel. It appears the minutes of the meetings were not available for public inspection until they were filed with the county clerk.

This practice appears to be contrary to **60 O.S. 2001, § 178D**, which provides in relevant part:

"Minutes of trustees of all public trusts shall be open to the public to the same extent as is required by law for other public boards and commissions...Records of the trust and minutes of the trust meetings of any public trust shall be written and kept in a place, the location of which shall be recorded in the office of the county clerk of each county, wherein the trust instrument shall be recorded. Such records and minutes shall be available for inspection by any person during regular business hours."

- The minutes for the July 2002 meeting could not be located.
- Prior to April 2003, there were numerous instances in which minutes from the prior meeting were not available for approval by the Trustees for several months (i.e. the December 27, 2001 minutes were approved in the December 9, 2002 meeting).
- Prior to April 2003, the minutes are vague and it is sometimes difficult to ascertain what business has actually transpired. For example, the March 4, 2002 minutes reflect the awarding of bids for the Health Department remodeling project were postponed. The March 19, 2002 minutes indicate the bid for "tape & bed, texture and paint" were rejected without mentioning the reason. The bid for "VCT carpet and base" was accepted; however, we had to refer to the March 4th meeting to determine who submitted the bid and the amount. Another example is in the December 31, 2002 minutes, the Trustees ratified, accepted and approved in all respects "housekeeping and administrative acts of each of them, each respectively, of the CHAIRMAN of the Board of Trustees of PFA from January 1, 2002 through December 31, 2002."

According to **25 O.S. 2001, § 312A:**

"A. The proceedings of a public body shall be kept by a person so designated by such public body in the form of written minutes which shall be an official summary of the proceedings showing clearly those members present and absent, all matters considered by the public body, and all actions taken by such public body. The minutes of each meeting shall be open to public inspection and shall reflect the manner and time of notice required by this act."

RECOMMENDATION: We recommend the December 16, 2002 through March 17, 2003 minutes be open to the public and the location be recorded with the county clerk as required by **60 O.S. 2001,**

§178(D). Since April 2003 minutes are filed with the county clerk in a timely manner, available for approval at the next meeting, and minutes appear to adequately describe actions taken in the CCPFA meetings.

FINDING: From interviews performed it appears that when the PFA's "project funds" monies were depleted for the remodeling of the Election Board. It was agreed upon that Canadian County would complete the project. Though we could not locate the agreement, Canadian County spent \$14,232.86 for the balance of the project.

While examining the expenditures for the Election Board Project, we noted the above County monies were paid out of the Section Line account. The County's estimate of needs reflects this account as "other", previously called "Line Item Account" within the County General fund. The County Clerk's deputy has researched this unrestricted account and determined it has existed prior to 1973. The account appears to be used for "unexpected County-wide expenses" at the discretion of the Board of County Commissioners.

RECOMMENDATION: We recommend the County transfer monies from the Section Line account to the appropriate office and account for which the monies are to be utilized. This would ensure that expenditures are properly reflected within the account it was expended for.

FINDING: The Internal Revenue Service form 1099-MISC requires a 1099 be issued to vendors receiving \$600.00 or more in a calendar year. It was noted during our review of expenditures that it appears fees paid to vendors and/or individuals were not issued a 1099 for tax purposes.

RECOMMENDATION: We recommend the PFA seek legal counsel to advise them regarding these matters.

APPENDIX A

REMAINING EXISTING DEBT SERVICE

DATE	PRINCIPAL	RATE	SEMI ANNUAL INTEREST PAYMENT	INTEREST	PAYMENT
2/1/2003	\$150,000.00	5.75%		\$88,606.25	\$238,606.25
8/1/2003			\$4,312.50	84,293.75	84,293.75
2/1/2004	160,000.00	5.75%		84,293.75	244,293.75
8/1/2004			4,600.00	79,693.75	79,693.75
2/1/2005	170,000.00	5.75%		79,693.75	249,693.75
8/1/2005			4,887.50	74,806.25	74,806.25
2/1/2006	180,000.00	6.00%		74,806.25	254,806.25
8/1/2006			5,400.00	69,406.25	69,406.25
2/1/2007	195,000.00	6.00%		69,406.25	264,406.25
8/1/2007			5,850.00	63,556.25	63,556.25
2/1/2008	205,000.00	6.00%		63,556.25	268,556.25
8/1/2008			6,150.00	57,406.25	57,406.25
2/1/2009	220,000.00	6.00%		57,406.25	277,406.25
8/1/2009			6,600.00	50,806.25	50,806.25
2/1/2010	230,000.00	6.00%		50,806.25	280,806.25
8/1/2010			6,900.00	43,906.25	43,906.25
2/1/2011	245,000.00	6.25%		43,906.25	288,906.25
8/1/2011			7,656.25	36,250.00	36,250.00
2/1/2012	260,000.00	6.25%		36,250.00	296,250.00
8/1/2012			8,125.00	28,125.00	28,125.00
2/1/2013	280,000.00	6.25%		28,125.00	308,125.00
8/1/2013			8,750.00	19,375.00	19,375.00
2/1/2014	300,000.00	6.25%		19,375.00	319,375.00
8/1/2014			9,375.00	10,000.00	10,000.00
2/1/2015	320,000.00	6.25%	10,000.00	10,000.00	330,000.00
	\$2,915,000.00			\$1,323,856.25	\$4,238,856.25

APPENDIX BREMAINING EXISTING DEBT
(USING REFUNDING PRINCIPAL PAYMENTS AND INTEREST RATE)

DATE	PRINCIPAL	RATE	SEMI ANNUAL INTEREST PAYMENT	INTEREST	PAYMENT
6/1/2003				\$61,778.68	\$61,778.68
12/1/2003	130,000.00	3.000%		61,778.68	191,778.68
6/1/2004			1,950.00	59,828.68	59,828.68
12/1/2004	135,000.00	3.000%		59,828.68	194,828.68
6/1/2005			2,025.00	57,803.68	57,803.68
12/1/2005	135,000.00	3.000%		57,803.68	192,803.68
6/1/2006			2,025.00	55,778.68	55,778.68
12/1/2006	140,000.00	3.000%		55,778.68	195,778.68
6/1/2007			2,100.00	53,678.68	53,678.68
12/1/2007	145,000.00	3.250%		53,678.68	198,678.68
6/1/2008			2,356.25	51,322.43	51,322.43
12/1/2008	150,000.00	3.625%		51,322.43	201,322.43
6/1/2009			2,718.75	48,603.68	48,603.68
12/1/2009	155,000.00	3.500%		48,603.68	203,603.68
6/1/2010			2,712.50	45,891.18	45,891.18
12/1/2010	160,000.00	3.750%		45,891.18	205,891.18
6/1/2011			3,000.00	42,891.18	42,891.18
12/1/2011	165,000.00	4.000%		42,891.18	207,891.18
6/1/2012			3,300.00	39,591.18	39,591.18
12/1/2012	175,000.00	4.000%		39,591.18	214,591.18
6/1/2013			3,500.00	36,091.18	36,091.18
12/1/2013	180,000.00	4.500%		36,091.18	216,091.18
6/1/2014			4,050.00	32,041.18	32,041.18
12/1/2014	190,000.00	4.500%		32,041.18	222,041.18
6/1/2015			4,275.00	27,766.18	27,766.18
12/1/2015	195,000.00	4.500%		27,766.18	222,766.18

DATE	PRINCIPAL	RATE	SEMI ANNUAL INTEREST PAYMENT	INTEREST	PAYMENT
6/1/2016			4,387.50	23,378.68	23,378.68
12/1/2016	205,000.00	4.500%		23,378.68	228,378.68
6/1/2017			4,612.50	18,766.18	18,766.18
12/1/2017	215,000.00	4.500%		18,766.18	233,766.18
6/1/2018			4,837.50	13,928.68	13,928.68
12/8/2018	225,000.00	5.000%		13,928.68	238,928.68
6/1/2019			5,625.00	8,303.68	8,303.68
12/1/2019	235,000.00	5.000%		8,303.68	243,303.68
6/1/2020			5,875.00	2,428.68	2,428.68
12/1/2020	97,147.00	5.000%	2,428.68	2,428.68	99,575.68
	\$3,032,147.00			\$1,359,744.98	\$4,391,891.98

APPENDIX C

DEBT PAYMENTS COMPARISON

BOND YEAR	(2000 ISSUE) EXISTING	(2002 ISSUE) PROPOSED	DEBT PAYMENTS NET SAVINGS/(LOSS)
2003		\$61,778.68	\$61,778.68
2003	\$238,606.25	191,778.68	(46,827.58)
2004	84,293.75	59,828.68	(24,465.08)
2004	244,293.75	194,828.68	(49,465.07)
2005	79,693.75	57,803.68	(21,890.08)
2005	249,693.75	192,803.68	(56,890.07)
2006	74,806.25	55,778.68	(19,027.58)
2006	254,806.25	195,778.68	(59,027.57)
2007	69,406.25	53,678.68	(15,727.58)
2007	264,406.25	198,678.68	(65,727.57)
2008	63,556.25	51,322.43	(12,233.83)
2008	268,556.25	201,322.43	(67,233.82)
2009	57,406.25	48,603.68	(8,802.58)
2009	277,406.25	203,603.68	(73,802.57)
2010	50,806.25	45,891.18	(4,915.08)
2010	280,806.25	205,891.18	(74,915.07)
2011	43,906.25	42,891.18	(1,015.08)
2011	288,906.25	207,891.18	(81,015.07)
2012	36,250.00	39,591.18	3,341.18
2012	296,250.00	214,591.18	(81,658.82)
2013	28,125.00	36,091.18	7,966.18
2013	308,125.00	216,091.18	(92,033.82)
2014	19,375.00	32,041.18	12,666.18
2014	319,375.00	222,041.18	(97,333.82)
2015	10,000.00	27,766.18	17,766.18
2015	330,000.00	222,766.18	(107,233.82)
2016		23,378.68	23,378.68
2016		228,378.68	228,378.68

BOND YEAR	(2000 ISSUE) EXISTING	(2002 ISSUE) PROPOSED	DEBT PAYMENTS NET SAVINGS/(LOSS)
2017		18,766.18	18,766.18
2017		233,766.18	233,766.18
2018		13,928.68	13,928.68
2018		238,928.68	238,928.68
2019		8,303.68	8,303.68
2019		243,303.68	243,303.68
2020		2,428.68	2,428.68
2020		99,575.68	99,575.68
2027			
TOTALS	4,238,856.25	4,391,891.98	153,035.64

APPENDIX D

NET COST FROM REFUNDING

BOND YEAR	DEBT PAYMENTS NET SAVINGS/ LOSS	ISSUANCE COSTS	AUTHORITY FUNDS	DEBT SERVICE RESERVE	ACCRUED INTEREST	REFUNDING ESCROW INCOME		CONSTRUCT INCOME
2002		116,569.14	326,817.00	137,004.00	(11,397.41)	0.00		
2003	61,778.68							
2003	(46,827.58)					(21,245.74)		(23,286.78)
2004	(24,465.08)							
2004	(49,465.07)					(27,350.88)		(30,161.16)
2005	(21,890.08)					(2,279.24)		(2,513.43)
2005	(56,890.07)							
2006	(19,027.58)							
2006	(59,027.57)							
2007	(15,727.58)							
2007	(65,727.57)							
2008	(12,233.83)							
2008	(67,233.82)							
2009	(8,802.58)							
2009	(73,802.57)							
2010	(4,915.08)							
2010	(74,915.07)							
2011	(1,015.08)							
2011	(81,015.07)							
2012	3,341.18							
2012	(81,658.82)							
2013	7,966.18							
2013	(92,033.82)							
2014	12,666.18							
2014	(97,333.82)							
2015	17,766.18							
2015	(107,233.82)			245,001.00				
2016	23,378.68							
2016	228,378.68							
2017	18,766.18							
2017	233,766.18							
2018	13,928.68							
2018	238,928.68							
2019	8,303.68							

BOND YEAR	DEBT PAYMENTS NET SAVINGS/ LOSS	ISSUANCE COSTS	AUTHORITY FUNDS	DEBT SERVICE RESERVE	ACCRUED INTEREST	REFUNDING ESCROW INCOME		CONSTRUCT INCOME
2019	243,303.68							
2020	2,428.68							
2020	99,575.68							
2027				(386,334.00)				
TOTALS	153,035.64	116,569.14	326,817.00	(4,329.00)	(11,397.41)	(50,875.86)		(55,961.37)
Net Cost from refunding							529,819.51	
Net Cost from refunding when adding income from bonds for construction							473,858.14	

APPENDIX E

NET PRESENT VALUE CALCULATION

BOND YEAR	SAVINGS/LOSS COMPOUNDED SEMI-ANNUALLY	DISCOUNT FACTOR 1.0150 3% RATE	NET PRESENT VALUE
2002	565,959.73	1.0000%	565,959.73
2003	61,778.68	0.9852%	60,865.69
2003	(91,360.10)	0.9707%	(88,679.75)
2004	(24,465.08)	0.9563%	(23,396.37)
2004	(106,977.11)	0.9422%	(100,792.15)
2005	(26,682.75)	0.9283%	(24,768.53)
2005	(56,890.07)	0.9145%	(52,028.37)
2006	(19,027.58)	0.9010%	(17,144.35)
2006	(59,027.57)	0.8877%	(52,399.43)
2007	(15,727.58)	0.8746%	(13,755.22)
2007	(65,727.57)	0.8617%	(56,635.29)
2008	(12,233.83)	0.8489%	(10,385.70)
2008	(67,233.82)	0.8364%	(56,233.52)
2009	(8,802.58)	0.8240%	(7,253.56)
2009	(73,802.57)	0.8118%	(59,916.56)
2010	(4,915.08)	0.7999%	(3,931.33)
2010	(74,915.07)	0.7880%	(59,035.40)
2011	(1,015.08)	0.7764%	(788.09)
2011	(81,015.07)	0.7649%	(61,969.37)
2012	3,341.18	0.7536%	2,517.93
2012	(81,658.82)	0.7425%	(60,629.26)
2013	7,966.18	0.7315%	5,827.24
2013	(92,033.82)	0.7207%	(66,327.64)
2014	12,666.18	0.7100%	8,993.45
2014	(97,333.82)	0.6995%	(68,089.28)
2015	17,766.18	0.6892%	12,244.55
2015	137,767.18	0.6790%	93,546.74

BOND YEAR	SAVINGS/LOSS COMPOUNDED SEMI-ANNUALLY	DISCOUNT FACTOR 1.0150 3% RATE	NET PRESENT VALUE
2016	23,378.68	0.6690%	15,640.00
2016	228,378.68	0.6494%	148,299.72
2017	18,766.18	0.6494%	12,185.98
2017	233,766.18	0.6398%	149,554.82
2018	13,928.68	0.6303%	8,779.35
2018	238,928.68	0.6210%	148,373.02
2019	8,303.68	0.6118%	5,080.32
2019	243,303.68	0.6028%	146,657.15
2020	2,428.68	0.5939%	1,442.31
2020	99,575.68	0.5851%	58,260.71
2027	(386,334.00)	0.4750%	(183,510.46)
NPV	470,825.14		376,559.08