

CITY OF BLANCHARD
MCCLAIN/GRADY COUNTY
SPECIAL AUDIT REPORT

JULY 1, 2002 THROUGH JULY 31, 2004

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

October 6, 2006

Petitioners
City of Blanchard
McClain/Grady County
Blanchard, Oklahoma 73010

Transmitted herewith is the Special Audit Report of the City of Blanchard, McClain/Grady County, Oklahoma. We performed our special audit in accordance with the requirements of **74 O.S. 2001, § 212(L)**.

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

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to 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 "Jeff A. McMahan".

JEFF A. McMAHAN, CFE
State Auditor and Inspector

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**CURRENT CITY COUNCILMEMBERS
AS OF AUGUST 2006**

Tom Sacchieri Mayor
Mike Ferencich Vice-Mayor
Greg Shupert Councilmember
Kenneth Riley Councilmember
Kenny Stevens Councilmember

CITY MANAGER

Bill Edwards

CITY CLERK

Camille Dowers

CITY TREASURER

Karen Meadows

CHIEF OF POLICE

Henry "Hank" Weber



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

Mr. Tom Sacchieri, Mayor
City of Blanchard
P.O. Box 480
Blanchard, Oklahoma 73010-0480

Dear Mr. Sacchieri:

Pursuant to a citizens' petition and in accordance with the requirements of **74 O.S. 2001, § 212(L)**, we performed a special audit with respect to the City of Blanchard, McClain/Grady County, for the period July 1, 2002 through July 31, 2004.

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 City of Blanchard for the period July 1, 2002 through July 31, 2004. Further, due to the test nature and other inherent limitations of a special audit report, together with the inherent limitations of any internal control structure, there is an unavoidable risk that some material misstatements may remain undiscovered. This report relates only to the accounts and items specified above and do not extend to any financial statements of the City taken as a whole.

This report is intended solely for the information and use of the City of Blanchard 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,

Handwritten signature of Jeff A. McMahan in blue ink.
JEFF A. McMAHAN, CFE
State Auditor and Inspector

September 7, 2006

**CITY OF BLANCHARD
McCLAIN/GRADY COUNTY
SPECIAL AUDIT REPORT
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INTRODUCTION

The City of Blanchard, McClain/Grady County, Oklahoma, was incorporated in 1907, and is a Non-Charter City which operates on a Council-Manager form of government as prescribed by **11 O.S. § 10-101 et. seq.** Day to day operations of the City are conducted by the City Manager in accordance with guidance from the elected, five person Council.

11 O.S. § 10-101 states:

“The form of government provided by Sections 10-101 through 10-121 of this title shall be known as the statutory council-manager form of city government. Cities governed under the statutory council-manager form shall have all the powers, functions, rights, privileges, franchises and immunities granted, or which may be granted, to cities. Such powers shall be exercised as provided by law applicable to cities under the statutory council-manager form, or if the manner is not thus prescribed, then in such manner as the council may prescribe.”

The City is audited annually by private independent auditors, and the audit report for fiscal year 2004-05 was available for our review. The City’s daily financial records for the period covered by our investigation were also made available for our inspection and use.

The State Auditor and Inspector conducted a special audit of the records of the City of Blanchard, primarily those records relating to the concerns of the petitioners and Councilmembers listed in the “index of specific concerns” noted in the table of contents. The results of the special audit are in the following report.

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CONCERNS, FINDINGS AND RECOMMENDATIONS

I. CONCERN: *Possible irregularities in certain purchases.*

BACKGROUND: On or about October 11, 2004, a petition signed by 25 petitioners was given to the City of Blanchard in the form of a Taxpayer Written Demand (Demand) alleging that a number of purchase orders (P.O.'s) issued by the City of Blanchard during the period of July 1, 2002, and June 30, 2004, were illegally issued. The Demand was made to recover City funds from current and former Council Members that the taxpayers felt were for payments that were made in violation of State Statutes and Blanchard City Ordinances. Approximately 105 P.O.'s were listed in the Demand. The Demand alleges that the P.O.'s were illegal because the City failed to require a Anti-Collusion Affidavit; did not have an internal control structure; payments sometimes exceeded approved fund balances; did not have a receiving report or an invoice attached; did not have an encumbrance officer's signature; were not approved by an officer or department head; failed to follow City bidding requirements; and the City illegally entered into contracts with City employees.

The City in response to the Demand filed suit against the vendors named by the Demand as having illegally received payment from the City. The City attorney deposed all persons who had signed the Demand (we reviewed the depositions) and in summary 12 of the Taxpayers stated they had been misled on the purpose of the Demand, all signers stated they were unaware of any City officer or employee having: a) received money illegally from a vendor, b) performed any act of fraud or collusion, or of any vendor who did not perform the services or provide the goods for which they were paid. The lawsuit was filed in District Court of McClain County, Oklahoma, on April 14, 2005, - Case No. CV-04-526.

In open Court, the Honorable District Judge Candice L. Blalock..."ORDERED, ADJUDGED AND DECREED all payments to Vendors listed in the Taxpayer Written Demand, are hereby ordered lawful and legal. The allegations of the Taxpayer Written Demand are hereby dismissed."

FINDINGS: We obtained the P.O.'s selected in the Taxpayer's Demand from the City Treasurer and the bank statements for the time period of the Demand schedule. We reviewed the P.O.'s selected in the Taxpayer's Demand, including the supporting documentation, together with cancelled checks made in payment of the P.O.'s; we reviewed the City's internal control system over P.O.'s; and we prepared a schedule of the P.O.'s (excluding duplicates and erroneous selections) that enabled us to determine compliance with State Statutes. All exceptions noted were listed and those P.O.'s for which we found no exceptions. The following items summarize those issues noted in the Taxpayers' Demand as problems with the City's financial accounting system which we included in our review:

- Failure to obtain non-collusion affidavits;
- Failure to establish an internal control system;
- Exceeding fund balances of the budget;
- No receiving or delivery documentation;
- Proper purchase order approval;
- Failure to comply with city bidding requirements; and
- Entering into contracts and approving claims with City officers and employees.

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Our review of the P.O.'s noted above, provide the following information:

1. There were 30 P.O.'s with no discrepancies – including non-collusion affidavits.
2. There were 15 P.O.'s without a non-collusion affidavit in accordance with City ordinance.
3. There were 40 P.O.'s that had a post-activity non-collusion affidavit in accordance with City ordinance included with the P.O. These were generally dated in the timeframe the Taxpayers Written Demand was received.
4. There were five P.O.'s that had supporting documentation, however they appeared to lack the proper documentation and/or the documentation was not in compliance with State Statutes.
5. There was one P.O. that failed to note receipt by purchasing officer, and one P.O. that had an incorrect check number on the P.O.

Most of the allegations made in the Demand appear to be unsubstantiated. For example, the allegations relating to P.O. payments exceeding fund balances, delivery of merchandise not having receipt of goods noted, P.O.'s not having proper approval, and the City entering into illegal contracts with employees were not supported.

The person who selected the P.O.'s included in the Taxpayer's Demand stated under oath that she did not find anything improper in the records [the P.O.'s in the Demand petition] of the City of Blanchard other than some of the purchase orders did not have non-collusion affidavits. We also noted a lack of non-collusion affidavits and the actions by the City to obtain post purchase non-collusion affidavits. Prior to July 1, 2002, the State of Oklahoma required municipalities to obtain a non-collusion affidavit on certain purchases of \$1,000 or more.

62 O.S. § 310.9(A) states in part:

"Except as provided in subsections B and C of this section, on every invoice submitted to any county or political subdivision of the state, for payment of an architect, contractor, engineer or supplier of materials of One Thousand Dollars (\$1,000.00) or more, the sworn statement required by Section 3109 of Title 74 of the Oklahoma Statutes shall be required."

By City ordinance, this requirement was also established. However, on July 1, 2002, the State raised the requirement limit from \$1,000 to \$25,000 but the City did not change the amount in its ordinance until October 29, 2004. Because of the delay in the City's actions, it appears they were in violation of their City ordinance but not of State Statute.

Relating to a lack of internal control structures (Taxpayer's Written Demand); we obtained copies of City Ordinances that detail the internal control procedures. We also discussed the implementation of these controls with the City Treasurer and Manager. Based on the controls and their implementation, the controls in place are adequate to protect the City's financial assets and comply with State Statutes.

We also examined the City's bidding procedures, as required by City ordinance, and the P.O.'s that would have required bids to be submitted. The City ordinance in effect during the period covered by the Taxpayer's Demand established a minimum purchasing limit of \$7,500 for which bids must be solicited. There were eleven P.O.'s in our review that exceeded the \$7,500. An examination of P.O. support documents indicated that bids had been obtained or the items/services were exempt from bid solicitation per ordinance.

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RECOMMENDATION: No recommendation necessary.

OTHER CONCERNS EXPRESSED BY PETITIONERS AND COUNCILMEMBERS

II. CONCERN: *Misuse of City owned vehicle by City Manager.*

FINDINGS: We were advised by one of the petitioners that he had evidence the Blanchard City Manager had taken the City's pickup to South Dakota on a pheasant hunt. We found no evidence to support the allegation.

RECOMMENDATION: No recommendation necessary.

III. CONCERN: *Failure of City to reimburse County for work done on FEMA grant.*

FINDING: In December 2000, due to an ice storm, the City of Blanchard received a grant from the Federal Emergency Management Agency (FEMA) to repair damage caused by the storm. Part of the work was performed by McClain County District #3 work crews involving repairing MacArthur Road.

The allegation was made by a City Council Member that he could not find any evidence the City had ever paid the County for the work they performed. He said he had inquired at the County and they did not show any record of having received payment from the City. We obtained the FEMA grant file from the City Treasurer and our review of this file determined the City had issued P.O. No. 6578 to McClain County District #3 on August 31, 2001. A check in the amount of \$11,385.95 was issued in payment of the P.O. and appeared in the bank statement as paid. We reviewed the supporting documentation submitted by the County in support of the claim and did not note any exceptions.

It appears the City did reimburse the County from the FEMA grant monies received for the storm damage.

RECOMMENDATION: No recommendation is necessary.

IV. CONCERN: *The City is using the petty cash fund as a "slush fund".*

FINDINGS: We reviewed the petty cash funds at the City Hall and the Police Department and obtained a written explanation of how the petty cash funds are controlled. We then reviewed the petty cash payouts for the prior six month period.

The controls over petty cash appear adequate. The funds expended from the petty cash do not exceed State guidelines and appear to be justifiable expense reimbursements. We noted some expenditures for refreshments for Council meetings (cookies) and the purchase of hamburgers for city employees who were working on street repairs.

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The **Constitution of Oklahoma, Article X, § 15(A)** states in part:

"Except as provided by this section, the credit of the State shall not be given, pledged, or loaned to any individual ... municipality, or political subdivision of the State, nor shall the State become an owner or stockholder in, nor make donation by gift, subscription to stock, by tax, or otherwise, to any company, association, or corporation.

RECOMMENDATION: No recommendation necessary.

V. CONCERN: *The City is joining an organization "Character First" which may not be legal as it is not a budgeted item and may have religious overtones.*

FINDING: We learned that the organization "Character First" is a motivational organization that uses character building processes to improve results of employees and managers. The documents we reviewed did not reveal any religious bias but appears to be a self-help program using guided steps to achieve the purpose of developing better attitudes.

We could not find any evidence the City had given any money to "Character First" but if the Council approved payment – and if funds were available – we could not find any reason the City could not join the organization.

RECOMMENDATION: No recommendation necessary.

VI. CONCERN: *The City reimbursed the Police Chaplain illegally.*

FINDING: The City hired a Police Chaplain on February 14, 2006. In March and April 2006, the City sent him to Broken Arrow to the Chaplain's Academy. The City reimbursed the Chaplain for the cost of the course and his per diem expenses. As the training was directly related to his employment or appointment as a Police Chaplain, and as he is considered to be an employee, the reimbursement was in accordance with City Ordinances. We could not locate a State Statute that prohibited reimbursement of these expenses.

RECOMMENDATION: No recommendation necessary.

VII. CONCERN: *The City Manager does not reside within the city limits of Blanchard.*

FINDING: In accordance with **11 O.S., 2001, § 10-112** as cited in part below:

"...At the time of appointment, the city manager need not be a resident of the city or state; but during the tenure of holding office the city manager shall reside within the city."

We were told by a petitioner and a city councilmember that the City Manager did not reside in Blanchard but lived in Moore. We discussed the allegation with the City Manager and he advised us he does own a house in Moore and his wife resides in Moore. However, he said the persons who advised me he does not live in Blanchard and drives to Moore every night are mistaken. He said he owns property within Blanchard city limits and spends five to six nights a week in Blanchard; he goes to Moore only on weekends. Secondly, he is a registered voter in Blanchard which can be verified at the Court House in Purcell. And, finally he considers himself to be a certified resident of the City of Blanchard and of no other city in Oklahoma. Based on the information given to us by the City Manager, we believe his credentials as a resident of Blanchard would be difficult to disprove.

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RECOMMENDATION: We recommend the City Council discuss this matter in open council meeting to resolve the residency question. We recommend the Council contact the City Attorney to determine what legal requirements are to establish residing as referred to by the aforementioned statute.