

**CITY OF MADILL**  
**MARSHALL COUNTY**  
**SPECIAL AUDIT REPORT**  
**JANUARY 1, 2002 THROUGH NOVEMBER 30, 2003**

---

This publication is printed and issued by the State Auditor and Inspector as authorized by 74 O.S. § 212. Pursuant to 74 O.S. § 3105(B), 35 copies have been prepared and distributed at a cost of \$39.00. 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

March 8, 2005

Citizens and Petitioners  
City of Madill, Oklahoma

Transmitted herewith is the Special Audit Report of the City of Madill, Marshall 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 cursive script that reads "Jeff A. McMahan".

JEFF A. McMAHAN, CFE  
State Auditor and Inspector

**table of contents**

	<b>page</b>
Council Members .....	4
State Auditor and Inspector's Report .....	5
Introduction .....	6
Concerns, Findings and Recommendations .....	7

**index of specific concerns**

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

<b>I.</b>	<b>CONCERN:</b> <i>Possible irregularities in the sale of surplus, unclaimed, and/or forfeited property</i> .....	7
<b>II.</b>	<b>CONCERN:</b> <i>Possible irregularities in annexation of land into the City limits</i> .....	8
<b>III.</b>	<b>CONCERN:</b> <i>Possible conflict of interest</i> .....	8
<b>IV.</b>	<b>CONCERN:</b> <i>Possible irregularities in budget and financial transactions</i> .....	9
<b>V.</b>	<b>CONCERN:</b> <i>Possible irregularities in inter-local agreements</i> .....	10
<b>VI.</b>	<b>CONCERN:</b> <i>Possible violation of Open Meeting Act</i> .....	10
<b>VII.</b>	<b>CONCERN:</b> <i>Possible irregularities in bid procedures</i> .....	11

**GOVERNING BOARD  
AS OF NOVEMBER 30, 200**

Neil Duncan ..... Mayor  
Leesa Stanley ..... Vice-Mayor  
Jodi Minter ..... Member  
Robert Lowe..... Member  
Lonny Holdeman..... Member

**CITY MANAGER**

Robert Watts

**CITY CLERK**

Judy Peterson

**CITY TREASURER**

Sandra Lee



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan  
State Auditor and Inspector

Ms. Leesa Stanley, Mayor  
City of Madill  
201 E. Overton  
Madill, Oklahoma 73446

Dear Ms. Stanley:

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 Madill, Marshall County, for the period January 1, 2002 through November 30, 2003.

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 Madill for the period January 1, 2002 through November 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 City taken as a whole.

This report is intended to provide information to the Petitioners, Council Members and Administration of the City. This restriction is not intended to limit the distribution of the report, which is a matter of public record when released.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMahan".

JEFF A. McMAHAN, CFE  
State Auditor and Inspector

February 22, 2005

## INTRODUCTION

The City of Madill (the City) was incorporated as a city in Marshall County, Oklahoma. The City has a municipal Charter in accordance with **11 O.S. 2001, § 13-109**, which established a council-manager form of government. The Mayor and Council serve *ex officio* as the Chairman and Trustees of the Madill Public Works Authority.

Under a council-manager form of government, the City Manager is the Chief Executive Officer and head of the administrative branch of the City government. The City provides the following services: public safety, highways and streets, public improvements, planning and zoning, and general administrative services. The City is responsible for its debts and is entitled to its surpluses. The elected City Council is exclusively responsible for all public decisions and accountable for the decisions it makes. The Council appoints a City Manager who hires other members of City management, including accounting and bookkeeping personnel. The activities under the purview of management are within the scope of this reporting entity and management is accountable to the Council for the activities being managed. The City Council has the statutory authority to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over assets, signing contracts, and developing the programs to be provided to the public. The responsibility and accountability over all funds is vested in the City Manager.

**CONCERNS, FINDINGS AND RECOMMENDATIONS**

**I. CONCERN:** *Possible irregularities in the sale of surplus, unclaimed, and/or forfeited property.*

**FINDING:** On April 9, 2002, the City Council approved a list of items to be surplused, this list included twenty-eight (28) long guns and pistols, which were to be sold at a public auction. The City published an ad in the local newspaper for two (2) consecutive weeks, June 13<sup>th</sup> and 20<sup>th</sup>, advertising a City auction to be held on June 22, 2002. The ad did not list the guns separately, but noted rifles and pistols to be sold.

We obtained miscellaneous receipts reflecting guns sold to three (3) individuals, prior to the June 22 auction. The guns were sold to these individuals by the City Manager. The following schedule lists the receipt number, date, description of gun, and purchase price.

DATE	RECEIPT NO.	ITEM	PURCHASE PRICE
06/10/02	24124	Glock 17 9mm pistol	\$150.00
		Walther P38 38 cal. pistol	75.00
		Smith & Wesson Model 10 38 cal. pistol	75.00
		Ruger P89 9mm pistol	125.00
		Colt Mark IV Series 80 45 cal. pistol	100.00
		Ruger Mark 2 22 cal rifle	50.00
		Ruger 22 cal. pistol	<u>50.00</u>
		<b>TOTAL</b>	
06/12/02	24136	Derringer 22 magnum and Davis D-32 derringer	<b>\$ 50.00</b>
06/12/02	24139	SKS 7.62 rifle	<b>\$ 50.00</b>
06/12/02	24140	SKS 7.62 rifle	<b>\$ 50.00</b>

Also, two (2) Remington 870 Express shotguns were sold to the Kingston police department on April 24, 2002 for \$100.00 each.

Based on the City ordinances, it appears the City Manager can sell surplus or obsolete supplies, materials, or equipment whose total value does not exceed \$7,500.00 in a single transaction.

There was no documentation to verify the source of the guns sold to the individuals and at the public auction, therefore; we could not determine whether the sales of the guns violated **11 O.S. 2001, § 34-104** or **22 O.S. 2001, § 1327**. Also, the receipts issued at the auction did not list each specific item sold therefore; we were unable to verify all guns on the surplus list were sold.

The City Manager stated that the guns sold at the City auction were sold through a Federally-licensed gun dealer, but he did not think the guns sold by him to individuals were sold through a licensed dealer. Also, we confirmed that the individuals who purchased the guns did not have an active Federal firearm license. Based on the information, it appears the City Manager sold firearms to individuals without complying with Federal regulations.

**RECOMMENDATION:** We recommend the proper authorities review this finding to determine any further action.

**II. CONCERN:** *Possible irregularities in annexation of land into the City limits.*

**FINDING:** The City received a petition from an individual requesting the annexation of her property; there was no date on the petition. We obtained a copy of the proof of publication which documents the petition was published in the local newspaper on July 26 and August 2, 2001. At a special meeting held August 3, 2001, with three (3) council members present Ordinance No. 742 was approved annexing the individual's property into the municipalities' corporate limits. Subsequently, at the October 16, 2001 regular meeting, the Council approved Ordinance No. 744, which excludes 1.2 acres from the above annexed property that did not belong to the individual. The City Manager stated that the individual petitioned to have her property annexed into the City limits because her husband wanted to remain on the City Council. Also, we obtained a copy of a warranty deed, July 27, 2001, reflecting the sale of property, within the City limits, that was owned by the former Councilman/husband.

We obtained a map (Exhibit A) reflecting Madill and Oakland's City limits and the property annexed into City limits by Ordinance No. 744, appears to be located on the northwest side of Oakland's City limits. There is no property within Madill City limits adjoining this property.

Based on the documentation, it appears the property annexed into City limits by Ordinance No. 744 did not comply with the requirements of **11 O.S. 2001, § 21-101**, which states:

"The municipal governing body by ordinance may add to the municipality territory adjacent or contiguous to its corporate limits ... as the governing body deems desirable for the benefit of the municipality."

The minutes of the regular City Council meeting held May 14, 2002 reflects the following:

"8. Discussion & action on de-annexing property owned by Tammy Morris which were annexed into the City of Madill on the 3<sup>rd</sup> day of August 2001:

Mr. Parrish made a comment in regards to the annexation of his property. He stated that he and his wife want to stay annexed. Mr. Minter made the motion to table this item and Mr. Flickinger seconded the motion. Vote: Aye – all. Nay –none."

**RECOMMENDATION:** We recommend the proper authorities review this finding to determine any necessary action.

**III. CONCERN:** *Possible conflict of interest.*

**FINDING NO. 1:** The City and Public Works Authority purchased the Council and employee surety bonds from an insurance agency that a former Councilman owned more than twenty-five percent (25%) of the company during the time he served on the Council.

The purchase of the Council and City employees surety bond from this company appears to be a violation of **11 O.S. 2001, § 8-113** and **Section 4-6** of the **City Charter**.

**FINDING NO. 2:** The City Manager had a City employee contact the former Councilman to obtain the date that he had purchased a 1991 Ford Crown Victoria automobile from the City. After talking to the employee, the City Manager stated that the former Councilman had a copy of his

cancelled check where he had purchased the vehicle for \$250.00 on November 16, 1999. The City Manager stated that the former Councilman was not on City Council at the time he purchased the automobile. The former Councilman provided us with a copy of his cancelled check used to purchase the vehicle. We obtained copies of the November and December, 1999 City Council meetings that reflected the individual was a Council Member.

The documentation obtained shows the former City Councilman purchased the automobile from the City at the time he was on the Council. The sale of the automobile to the Councilman appears to be a violation of **11 O.S. 2001, § 8-113** and **Section 4-6** of the **City Charter**.

**RECOMMENDATION:** We recommend the proper authorities review these findings to determine any necessary action.

**IV. CONCERN:** *Possible irregularities in budget and financial transactions.*

**FINDING NO. 1:** The budget for the year ending June 30, 2003 reflects the Public Works Authority has certificates of deposit totaling \$225,000 for the projected actual balance at June 30, 2002 and the budget for the year ending June 30, 2004 reflects certificates of deposit totaling \$100,000 for the projected actual balance at June 30, 2003. Also, the independent auditor reported transfers from the Public Works Authority to the general fund in the amount of \$69,000 and \$25,000 to 1 cent sales tax for a total of \$94,000. The petitioner's were concerned as to where the money from the reduction of the certificates of deposit was transferred. In reviewing the budget and the independent auditor's report, it appears the reduction in the certificates of deposit would be due to the increase in expenditures and the transfer of funds. Therefore, the funds invested in certificates of deposit would be reduced and money used to pay expenses.

The Public Works Authority's budget summary for the year ending June 30, 2004 reflects revenue sources for other income and transfers from other funds in the amounts of \$15,000 and \$50,000, respectively, for a total of \$65,000. The source of the money for other income was estimated revenues from water taps, sale of water to oil companies and the railroad, and other miscellaneous revenues and the transfer from other funds is from the sales tax revenue for salaries.

The City's departmental budget detail for the year ending 2004 reflects other charges and services for attorney fees - \$4,800, professional services - \$25,000 and accounting and audit fees - \$15,000. The \$4,800 attorney fee is budgeted for retainer fee for the City Attorney, \$25,000 in professional fees is budgeted for additional attorney fees or any other type of professional fees, and the \$15,000 is budgeted for the yearly financial statements and independent audit report and other accounting services.

**FINDING NO. 2:** The City receives approximately \$60,000 per year from the Chickasaw Nation that is recorded as franchise tax account revenue in the budget. The City Manager stated that the City receives this money from the Chickasaw Nation with no stipulations how it is to be spent. There was no type of contract or agreement available. He stated that he thought this was a type of "in lieu of sales tax or franchise tax" due to the sale of tobacco products.

**RECOMMENDATION:** No recommendation required.

**V. CONCERN:** *Possible irregularities in inter-local agreements.*

**FINDING:** During our audit period, we noted that the City received reimbursements from the Madill Public Schools for work performed by the City on School property. The City Manager stated that he supported education and helped the school when possible. He stated that the City would usually purchase the material because they could get a better price and the school would reimburse the City for the materials. He also stated that the City did not charge the School for labor and equipment. The reimbursements included the materials and supplies for installation of lights at the baseball field and water and sewer lines at the early childhood center.

The City Manager obtained, from the School district their purchase order and supporting documentation for the payment to the City for reimbursement of supplies and materials for the work done for the baseball field lights and the water and sewer project. We reviewed the City's receipt books to verify the reimbursement from the school. The following receipts were noted:

RECEIPT			
DATE	NO.	AMOUNT	REIMBURSED FOR
09/16/03	25468	\$ 1,949.08	rock and hauling for parking lot
10/21/02	24457	149.20	loading and unloading signs
09/10/02	24366	155.60	signs and post
08/18/02	24321	15,067.28	water and sewer project
06/04/02	24102	20,480.22	water and sewer project
06/03/02	24097	16,074.54	lights for baseball field

There was no agreement between the City and School district for the projects nor was there documentation in the City Council minutes verifying the Council had approved the work to be performed for the school.

**Recommendation:** We recommend that the City Manager obtain Council approval prior to performing any projects with other governmental agencies. Also, we recommend that the Council enter into a written agreement with any agency they are doing work for to assure all terms are met.

**VI. CONCERN:** *Possible violation of Open Meeting Act.*

**FINDING No. 1:** On September 16, 2003 at 11:45 am, the City Clerk received a letter of resignation from a former Councilman stating that he had relocated his residence outside of the City limits and at the October 14, 2003 meeting the Council accepted his resignation. The minutes of the November 17, 2003 City Council meeting reflects the Council appointed the former Councilman to place no. 3 and that the City Attorney administered the oath of office. The minutes reflect the oath of office was given at the meeting, but the list of individuals attending the meeting does not show the former Councilman in attendance. Also, we obtained the audio recording of the meeting that states the former Councilman was unable to attend the meeting. At the December 9, 2003 meeting, the Council approved the minutes of the November 17, 2003 meeting. Further, the minutes were signed by the former Mayor and Minutes Clerk.

During an interview with the former Councilman, he stated that he was unable to attend the meeting for some reason and that the City Attorney and a Councilman came to his place of business that evening where he was administered the oath of office.

The approved minutes of the November 17, 2003 reflects that the oath of office for the former Councilman was done at the meeting, but documentation confirming that it was not appears to establish a violation of **25 O.S. 2001, § 312**.

Further, the former Councilman had relocated his residence outside the City limits on or prior to September 16, 2003 at which time, according to **11 O.S. 2001, § 8-101**, he ceased being an elected official of the municipality. Therefore, it appears the Council seat became vacant on September 16, 2003 and was filled sixty-two (62) days later on November 17, 2003.

**FINDING NO. 2:** The City Attorney administered the oath of office to the former Councilman, which appears to be a violation of **11 O.S. 2001, § 8-104**, which states:

“All officers authorized by state law, the mayor, the municipal clerk, the city manager, the municipal judge or judges and such other officers as the municipal governing body may authorize, may administer oaths and affirmations in any matter pertaining to the affairs and government of the municipality.”

**RECOMMENDATION:** We recommend the proper authorities review this finding to determine any action necessary.

**VII. CONCERN:** *Possible irregularities in bid procedures.*

**FINDING NO. 1:** Invitation to bid for a tractor loader backhoe was published in the local newspaper on June 20 and June 27, 2002 to be awarded July 9, 2002. The minutes of the July 9, 2002 Council meeting reflects three (3) bids as follows:

“The first bid is for a 90 hp backhoe from Future Equipment (Case) for \$58,269.97 @ 5% interest. The second bid is for an 84 hp backhoe from Warren Cat for \$61,394.00 @ 4.75% interest. The third bid is for an 84 hp backhoe from C.L. Boyd (John Deere) \$55,230.00. Mr. Bishop made the motion to approve the case backhoe from Future Equipment for \$58,269.97 @ 5% interest and Mr. Flickinger seconded the motion. Vote: Aye-all. Nay-none.”

The bid was not awarded to the lowest bidder and the minutes do not reflect the reason that the lowest bid was not accepted, which appears to be a violation of **60 O.S. 2001, § 176(H)**.

**FINDING NO. 2:** We noted an invitation to bid for a “Ford Police Interceptor Lease Plan, Equipped” published August 19 & 26, 2004. The bid specs for the purchase state in part:

“We are looking for a price bid for a new police unit. We want to lease one new police car on a four year lease plan. We would like the price to be a turnkey price. We need the total price and also the annual payments through Ford Municipal Lease/Purchase Plan. The following is the specs. we are looking for.

2005 FORD CROWN VICTORIA POLICE INTERCEPTOR....”

On September 24, 2004, the City Council awarded the bid to Wood Motor Company. Writing the bid specs for a particular brand and model vehicle does not allow all vendors to participate in the competitive bid process, which appears to be a violation of the City’s competitive bid ordinance.

**RECOMMENDATION:** We recommend that the proper authorities review these findings to determine any action necessary. Also, we recommend that the Council adhere to state bid procedures and City ordinances.

Exhibit A

