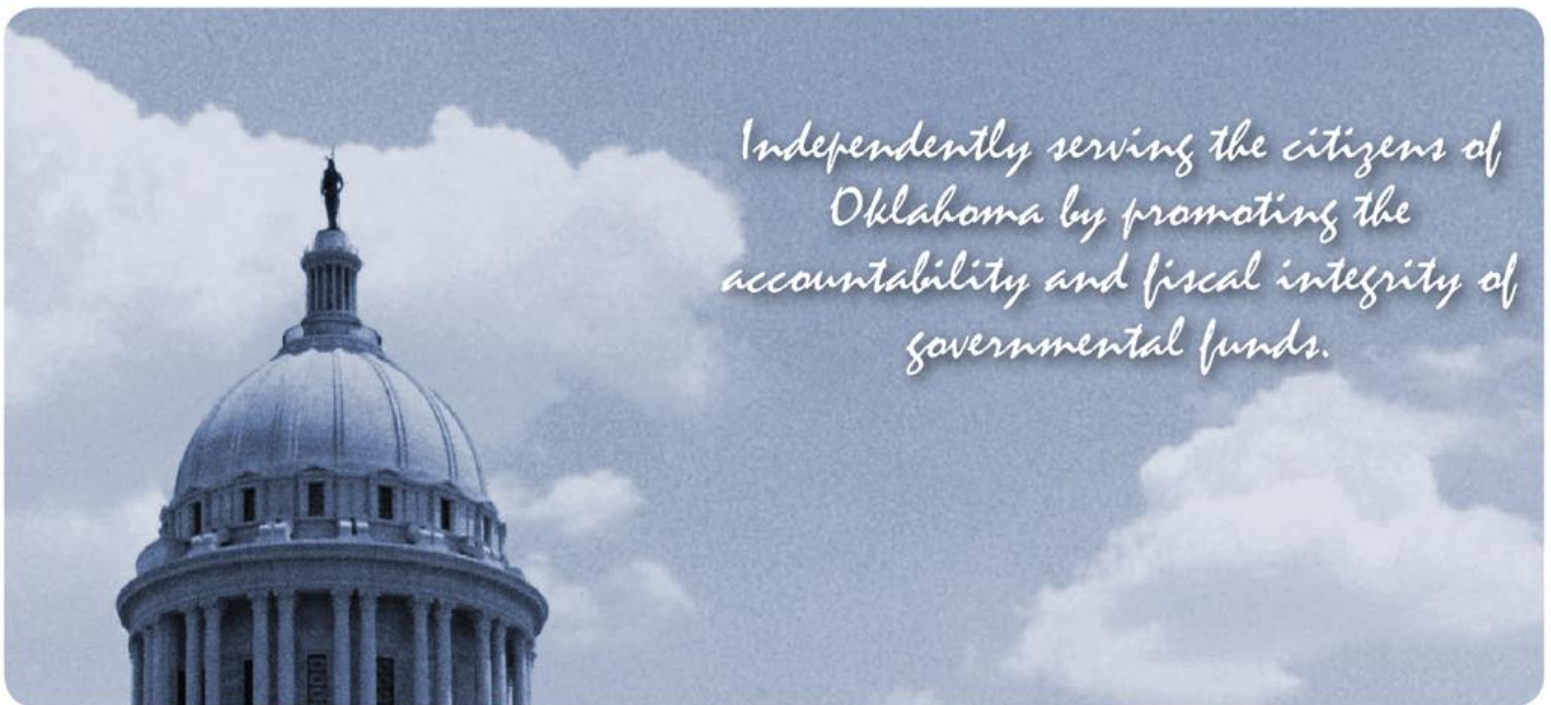


INVESTIGATIVE REPORT

CITY OF SPENCER

July 1, 2010 through December 31, 2011



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

CITY OF SPENCER

INVESTIGATIVE REPORT

JULY 1, 2010 THROUGH DECEMBER 31, 2011

This publication, issued by the Oklahoma State Auditor and Inspector's office, as authorized by 74 O.S. § 212(H), has not been printed, but is available on our agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B. This report has been released for publication by the District Attorney, District #7.



Oklahoma State Auditor & Inspector

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October 10, 2013

District Attorney David Prater
Office of the District Attorney, District #7
320 Robert S Kerr, Room 505
Oklahoma City, OK 73102

Transmitted herewith is our Investigative Report of the City of Spencer.

Pursuant to your request and in accordance with the requirements of **74 O.S. 2001, § 212(H)**, we performed an investigation with respect to the City of Spencer for the period July 1, 2010 through December 31, 2011.

The objectives of our investigation primarily included, but were not limited to, the areas noted in your request. Our findings and recommendations related to those objectives are presented in the accompanying report.

Because investigative 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 Spencer for the period July 1, 2010 to December 31, 2011.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance. We also wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our investigation.

This report is addressed to and intended solely for the information and use of the Oklahoma County District Attorney, and should not be used for any other purpose. Consequently, this document is *not* a public document, but is part of the investigation and/or litigation files of the District Attorney. Until its release by the District Attorney's office, it may be kept confidential pursuant to the **Oklahoma Open Records Act**, in accordance with **51 O.S. 2011, § 24A.12**.

Sincerely,

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

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CITY OFFICIALS

(referenced in this report)

Earnest Ware.....(current) Mayor
Nicole Mukes (current) City Manager
Shenice L. Huff..... (former) City Clerk
Andrew P. Thompson (former) Deputy Clerk
Lakeita Barbee(current) Utilities Clerk

EXECUTIVE SUMMARY

We performed a special audit/investigation, pursuant to the District Attorney's request, and in accordance with the requirements of **74 O.S. 2001, § 212(H)**. This report addresses issues concerning the City of Spencer for the period July 1, 2010 through December 31, 2011.

We identified occurrences in which employees received unexplained additional compensation and irregularities in billing involving a utility clerk. Invoices submitted by vendors were not paid; deposits were not consistently made to police and fire pension systems; and child support payments withheld from employee payroll were delayed and not consistently submitted to the Department of Human Services.

We also determined that the delays in payments were not a result of the City's inability to pay obligations due to a shortage or absence of funds, but rather appeared more to relate to insufficient knowledge of the most fundamental accounting concepts of those responsible for making the payments and the generally ineffective organization and chaotic environment of the deputy clerk's office.

Overall, we found the City's records to be poorly maintained, vague, inaccurate, and, in some cases, contradictory and/or missing. The condition of the records is not unusual in entities where a misappropriation is probable. We also noted that key decisions regarding utility billing adjustments and termination of customer services were not based on board policy, but rather appeared to be at the discretion of city employees.

Introduction

The municipal government of the City of Spencer (“City”) is organized under the statutory council-manager form of city government, as outlined in **11 O.S. § 10-101, et. seq.** Section 10-101 states:

The form of government provided by Sections 11-10-101 through 11-10-121 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 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 subject to the provisions of other sections of Title 11 (Cities and Towns) of the Oklahoma Statutes.

The Spencer Utilities Authority (SUA) is a public trust established by **60 O.S. § 176**. The SUA operates a utility service that provides water, sewer and trash service to the residents of Spencer. As provided by the SUA trust indenture, the members of the City Council serve *ex officio* as the trustees of the SUA.

A private independent audit firm audits the City and the Authority. Audit reports were made available for our review.

The Office of the State Auditor and Inspector (OSAI) conducted an investigation of the City of Spencer, primarily related to the objectives noted on the Table of Contents page of this report. The results of our investigation are contained in the following report.

OBJECTIVE I: Determine if there were irregularities related to city officials' compensation.

Finding

Because city ordinances were not followed, there appeared to be no oversight of the payroll process.

We obtained city ordinances to determine the guidelines and requirements for authorizing and issuing payments. We did not verify whether the City is complying with every financial or payroll ordinance. However, we noted that the City did not appear to be following its ordinances pertaining to the payroll approval process.

According to Ordinance 7-105, sections C and E:

C. Upon verification of the work record, a payroll statement or register including the amount of gross pay, authorized deductions, and net pay shall be prepared and submitted to the city's chief executive officer, (city manager) for review and written approval.

E. The checks shall be presented to the city clerk-treasurer along with the approved payroll statement or register. The city clerk-treasurer shall compare the checks to the payroll statement or register and verify their accuracy. Upon verification, the city clerk-treasurer and mayor, or their designees (deputy clerk-treasurer and vice mayor) shall sign the checks and prepare them for distribution. In addition, the city clerk-treasurer shall prepare or cause to be prepared a check register.

City ordinances do not require approval by the governing board for payroll as indicated by Ordinance 7-105 (H):

H. A copy of the payroll statement, register or payroll check register may be provided to the governing body for informational purposes; however governing body approval is not required prior to the payment of payroll related costs if incurred and paid in accordance with the provisions above.

As there is no ordinance requirement for approval by the governing board, any oversight and/or authorization for payroll appeared to be the responsibility of the city manager. However, in an interview with auditors, the city manager confirmed that she did not review payroll related reports.

City ordinances also require the city clerk to compare checks to the payroll statement or register when presented for payment. Former City Clerk Shenice Huff stated in an interview with auditors that former Deputy Clerk Thompson would typically provide a stack of checks that she signed without noting the payee or reviewing supporting documentation.

Furthermore, facsimile stamps for the mayor and vice mayor were maintained at city hall until approximately April 2012. There appeared to be some confusion with regard to who at city hall had access to these stamps. Former Deputy Clerk Thompson indicated that former City Clerk Huff maintained the stamps and that he did not have access. Huff implied that Thompson not only had access to the stamps but would have used the stamps, as he handled accounts payable and payroll. Huff added that the stamps were not maintained in a secure location. Also in an interview, Mayor Ware expressed his concern that, at one point, Thompson had access to his stamp and he (Mayor Ware) had requested to change this arrangement.

Former Deputy Clerk Thompson was also responsible for generating payroll checks as well as reports. One of the most fundamental procedures would have been an independent reconciliation of the payroll payments. Reconciliations should have been performed by the city clerk. When asked, former City Clerk Shenice Huff stated she was not performing reconciliations, telling us “how was I supposed to know.”

The payroll process was not in compliance with city ordinances and payroll practices demonstrated a gross lack of internal controls:

- It appeared payroll was not submitted to the governing board for approval as it was assumed the city manager was reviewing payroll related reports. However, the city manager was not reviewing any payroll related reports and was not approving the actual amounts paid to employees per City Ordinance 7-105(C.).
- The city clerk was not comparing any type of payroll register to the checks submitted to her for approval. The city clerk admitted that her only involvement in accounts payable and payroll was signing the checks without identifying the payee and without reviewing the supporting documentation.
- Board facsimile stamps were unsecured and maintained at city hall.
- All payroll reports and payroll checks were generated and controlled by the former deputy clerk under negligible oversight and inadequate or non-existent independent reconciliations.

To further illustrate the gross lack of internal controls, we were shown two blank checks containing board member signatures found in former Deputy Clerk Thompson’s office. When questioning Thompson and former City Clerk Huff concerning the checks, Thompson claimed he didn’t have access to the facsimile stamps, so Huff left the signed blank checks in case she was unavailable and a vendor needed to be paid. Huff denied affixing signatures to blank checks and claimed Thompson had access to the facsimile stamps. Upon discovery of the checks, the city manager had the checks voided.

Inadequate or non-existent internal controls pertaining to the City’s payroll process could lead to undetected clerical errors, improper payments, irregularities in payments, and fraud.

Background

Due to the lack of payroll oversight, we reviewed compensation for administrative staff, including the city manager, city clerk and deputy city clerk for the period July 1, 2010 to December 31, 2011.

Finding

Former Deputy Clerk Andrew Thompson received \$3,881.85 in additional unexplained and unsupported payroll checks.

Thompson appeared to have received checks totaling \$3,881.85 that were in addition to his regular payroll checks. These payments could not be traced to payroll records, and we found no documentation to either support or explain the additional payments. Thompson, no longer employed with the City, did not respond to our repeated attempts to speak with him.

The table to the right shows that Thompson received two paychecks dated March 10, 2011. Moreover, although City employees received paychecks dated June 2, June 15, and June 30, Thompson received five paychecks in June 2011, with these dates as well as checks dated June 15 and June 18. Thompson also received two paychecks dated August 11, 2011. The unexplained and undocumented payments are shown in bold.

Check Number	Check Date	Amount	Date Cleared
54562	3/10/2011	877.23	3/11/2011
54614	3/24/2011	865.19	3/25/2011
54720	3/10/2011	865.19	5/5/2011
54751	6/2/2011	893.26	6/3/2011
54779	6/15/2011	1,009.56	6/16/2011
54837	6/18/2011	1,009.56	6/20/2011
54842	6/30/2011	768.96	7/1/2011
54943	6/15/2011	1,009.56	8/9/2011
54946	8/11/2011	985.50	8/15/2011
55011	8/25/2011	931.36	8/26/2011
54972	8/11/2011	985.50	9/9/2011

Finding **Former Deputy Clerk Thompson was paid \$4,428.00 for undocumented overtime.**

While reviewing payroll records, we noted Thompson was consistently paid for overtime hours. We obtained Thompson’s timesheets to determine if the overtime was documented and approved. Only two timesheets were located which were dated January 14, 2012 and March 24, 2012. Neither timesheet was approved. Only one was signed by Thompson.

Check No.	Check Date	Overtime	Amount
54346	12/3/2010	28	504.00
54458	1/13/2011	17	306.00
54562	3/10/2011	8	144.00
54614	3/24/2011	8	144.00
54641	4/7/2011	12	216.00
54667	4/20/2011	15	270.00
54694	5/4/2011	5	90.00
54723	5/19/2011	12	216.00
54779	6/15/2011	20	360.00
54872	7/14/2011	20	360.00
54946	8/11/2011	18	324.00
55011	8/26/2011	13.5	243.00
55083	9/9/2011	15	270.00
55139	9/22/2011	9	162.00
55142	10/6/2011	17	306.00
55172	10/21/2011	10	180.00
55202	11/4/2011	18.5	333.00

City Manager Mukes pointed out that department heads were responsible for approving overtime and employee timesheets. We interviewed Thompson’s past department head, former City Clerk Shenice Huff, who resigned in December 2011. According to Huff, it was common practice for employees, including Thompson, to work overtime, but she was unaware of any procedure to approve overtime. Huff could not recall signing Thompson’s time sheets or if overtime had been paid. The current city clerk, who started in April 2012, said that she had made several unsuccessful attempts to obtain Thompson’s time sheets.

City Ordinance 7-105 (B) provides in relevant part:

- B. For each pay period, a documented record of time worked and leave taken shall be prepared in the form of time sheets or cards or logs for each employee [...]

Although city ordinances require some type of documented time records, only two time sheets could be provided for Thompson. Thompson appeared to consistently be paid in the absence of any time keeping documentation; however, this may have been a result of his apparent complete control of the payroll process.

Finding

Former Deputy Clerk Thompson was compensated \$828.00 for undocumented overtime related to holidays in addition to his 80 hour work schedule.

The City uses a bi-weekly pay period (26 pay periods per year). When a pay period included a holiday, employees showed 72 hours regular pay and 8 hours holiday pay for an 80 hour pay period. However, we found three payroll periods for which Thompson was compensated 8 holiday hours above his 80 hours regular pay. In two of these instances, Thompson was also paid overtime.

On February 3, 2011, check number 54537 included compensation for 8 hours holiday pay in addition to the 80 hour bi-weekly work schedule. The additional 8 hours pay added \$96.00 to his regular compensation.

Thompson, Andrew P				
Pay Type	Rate	Qty	Today	YTD
Holiday	12.0000	8	96.00	768.00
Hourly	12.0000	80	960.00	23616.00

On June 3, 2011, check number 54751 included 8 hours of holiday pay plus five hours of overtime in addition to the 80 hour bi-weekly work schedule. There were no time records documenting overtime. The additional hours and overtime pay added \$186.00 to his regular compensation.

Thompson, Andrew P				
Pay Type	Rate	Qty	Today	YTD
Holiday	12.0000	8	96.00	768.00
Hourly	12.0000	80	960.00	23616.00
Overtime	18.0000	5	90.00	6066.00

On July 27, 2011, check number 54915 included 8 hours holiday pay plus 25 hours of overtime in addition to the 80 hour bi-weekly work schedule. Thompson had previously been compensated for the regularly scheduled Independence Day holiday for the July 17, 2011 payroll period. The extra hours and overtime pay added \$546.00 to his regular compensation.

Thompson, Andrew P				
Pay Type	Rate	Qty	Today	YTD
Holiday	12.0000	8	96.00	768.00
Hourly	12.0000	80	960.00	23616.00
Overtime	18.0000	25	450.00	6066.00

Finding

Former City Clerk Shenice Huff received \$2,395.94 in undocumented and unexplained payments in addition to regular compensation.

Huff received a regular payroll check, dated March 10, 2011, as well as a second payroll check for the same amount on the same day. The month of June 2011 was a three pay-period month. However, Huff was issued a fourth payroll check dated June 18, 2011. The unexplained payments totaled \$2395.94 and are highlighted in bold. We noted one of the extra checks, check number 54835, was processed by the bank on June 17, 2011, although the check was dated June 18, 2011.

Check No.	Check Date	Amount	Cleared
54560	3/10/2011	1,125.01	3/10/2011
54612	3/24/2011	1,086.76	3/24/2011
54718	3/10/2011	1,125.01	5/5/2011
54749	6/2/2011	1,270.93	6/2/2011
54777	6/15/2011	1,270.93	6/16/2011
54835	6/18/2011	1,270.93	6/17/2011
54840	6/30/2011	1,270.93	7/5/2011

We could not trace the unexplained payments to any payroll records or other documentation. When asked, Huff could not provide an explanation for the additional payments.

Finding

City Manager Nicole Mukes received compensation that was not included in her employment contract. The city manager's employment contract was neither dated nor signed and contained errors.

Upon requesting City Manager Muke's employment contract, we were provided an unsigned and undated contract. We requested a signed and completed contract, however one could not be provided.

In May 2011, City Manager Mukes began receiving \$110.00 a month for mobile and internet service which was not included in her employment contract. We received an email from the vice mayor indicating she may have authorized the allowance. Although at least one council member was aware of the compensation, we found no documentation that the Board authorized the mobile and internet service allowance.

We also identified a contract addendum which was neither signed nor dated. The addendum provided \$367.00 for health insurance coverage for each pay period. However, City Manager Mukes confirmed the contract amount should have been \$367.00 *per month* rather than for each bi-weekly pay period. Also, the contract stipulates \$367.00 in compensation rather than the \$376.00 that City Manager Mukes was receiving, an apparent *transposition* error of the last two digits.

Finding **City Manager Mukes received an extra insurance payment and was inadvertently reimbursed for a medical deductible.**

Check # 62398, dated November 3, 2011, in the amount of \$886.00 included a \$400.00 medical deductible reimbursement, the erroneous medical insurance allowance of \$376.00 and the \$110.00 mobile/internet service allowance. City Manager Mukes was inadvertently paid the medical deductible reimbursement. Following the discovery of the error, Mukes reimbursed the City \$400.00. We were provided documentation showing that Mukes' personal check #1999, dated November 7, 2011, was issued to reimburse the City.

Also included in the \$886.00 payment was \$376.00 for medical insurance; however, Mukes received a separate \$376.00 payment on November 30, 2011, for the same medical insurance allowance. After the duplicate payment was brought to her attention by SAI staff, Mukes reimbursed the City.

Finding **Payroll checks issued could not be traced to payroll records.**

While comparing payroll records to the actual payroll checks, we noted several inconsistencies. For example, payroll checks that had cleared the bank did not appear on the payroll records including:

- Check #54110, dated July 30, 2010, issued to Cheryl Beeler in the amount of \$3,896.03;
- Check #54244, dated October 8, 2010, issued to Karen Anderson in the amount of \$1,321.22.

From our review of the payroll records, these payments appeared to be the final payroll payments issued for these two employees. As such, the payments may have been payments for accrued leave. However, as the City was unable to provide records related to these payments, we could not confirm the purpose of the payments.

Finding **Payroll records reflected check numbers for payroll checks apparently issued but which had not cleared.**

We noted another inconsistency in payroll records that showed payments for which no checks had been processed by the bank.

- Payroll records for the July 30, 2011 to August 12, 2011 period, reflected two payments to Eric Myers: July 11, 2011 for \$623.91 and July 12, 2011, for \$699.21;
- Payroll records for the July 30, 2011 to August 12, 2011 period, showed a payment to Ronald Benford in the amount of \$442.63;
- Payroll records for the September 24, 2011 to October 7, 2011 period, reflected a payment to Danell Reeves in the amount of \$793.98.

As of the date of fieldwork, none of the above checks listed in the payroll reports had cleared the bank.

Finding

Discrepancies were identified between payroll records and the corresponding payroll check amounts.

We identified inconsistencies in the amount reflected in payroll records and the amount of the corresponding checks.

- Check #54341, dated November 18, 2010 and issued to Jeffery Hale in the amount of \$1,018.66, was reflected in payroll records as \$1,213.14;
- Check #54564, dated March 10, 2011, and issued to Kenneth Griffith in the amount of \$960.40 was reflected in payroll records as \$897.48.

OBJECTIVE II: Determine whether there were delayed deposits of fire and police pension contributions.

Background

The concern was raised that although pension contributions were withheld from police and fire employee payroll checks, deposits were not made to the respective pension systems in a timely manner. Although our objective was to address the timeliness of deposits to these pension systems, we identified additional problematic issues related to pension contribution payments.

State statutes for fire and police pensions require contributions of 8% of the actual paid gross salary for employees and 13% of the gross salary for employers. For firefighters, **11 O.S. § 49-122** provides:

- A. Each municipality having a paid member of a fire department shall deduct monthly from the salary of each member of the fire department of such municipality an amount equal to eight percent (8%) of the actual paid gross salary of each member of the fire department...The treasurer of the municipality shall deposit within 10 days from each ending payroll date in the System the amount deducted from the salary of each member of the fire department. Amounts deducted from the salary of a member and not paid to the System after thirty (30) days from each ending payroll date shall be subject to a monthly late charge of one and one-half percent (1 1/2%) of the unpaid balance to be paid by the municipality to the System.
- B. Each municipality having a paid member of a fire department shall deposit monthly with the State Board and amount equal to the following:
 - 7. Beginning July 1, 1996, thirteen percent (13%) of the total actual paid gross salaries of the members of the fire department.

The requirement for police employee pension contributions is set forth in **11 O.S. § 50-110**:

- A. Each member in the System shall contribute to the System a minimum of eight percent (8%) of the member's actual paid base salary.

...The sums contributed shall be paid to the System as provided in this article within ten (10) days following the

payroll period on which the contributions are based. Amounts deducted from the salary of a member and not paid to the System after thirty (30) days from each ending payroll date shall be subject to a monthly late charge of one and one-half percent (1 1/2%) of the unpaid balance to be paid by the municipality to the System. All funds received by a participating municipality for police retirement purposes shall be forwarded to the State Board for credit to the Fund.

11 O.S. § 50-109 provides the pension contribution requirement for police employers:

Any municipality participating in the System shall appropriate funds, for the use and benefit of the System, as provided in the following schedule:

- 7. Beginning July 1, 1996, a minimum of (13%) of the actual paid base salary of each member of the System employed by the municipality.

The City pays employees on a bi-weekly basis (26 pay periods per year). For each pay period, the City is required to withhold 8% of the base salary from fire and police department employee payroll checks and remit this amount, as well as the City's required contribution rate of 13%, to the respective pension systems.

The pension system designated for fire department employees is the Oklahoma Firefighter's Pension and Retirement System (OFPRS) and the system designated for police is the Oklahoma Police Pension and Retirement System (OPPRS).

Finding

The City did not deposit funds to either the firefighters or the police pension systems in a timely manner.

To determine whether the City was making timely deposits, we obtained schedules directly from OFPRS and OPPRS showing when payments were received for each payroll period. In addition, we obtained payroll records to verify that 8% of the actual paid base salary was withheld from employee compensation.

Payroll records showed that pension contributions were withheld from the employee compensation for each payroll period. However, records also reflected that the employee's and the employer's contributions were not deposited with OFPRS and OPPRS in a timely manner.

The table to the right shows when OFPRS received the deposits for each payroll period from July 1, 2010 through December 31, 2011.

Title 11 O.S. § 49-122 requires municipalities to deposit in the “System” within 10 days of each payroll period. Of the 40 payroll periods, the City deposited funds for one payroll, or 2.5% of the payrolls, within the statutorily required 10 day period.

Title 11 O.S. § 49-122, also stipulates that deposits not made to the “System” after 30 days are considered delinquent and subject to a late charge of 1 ½ percent of the unpaid balance. An OFPRS representative stated that the City had not been charged late fees. If late fees had been assessed, the City would have sustained unnecessary additional costs.

Pay Period Ending	City Portion	Employee Portion	Date Received	#of Days
7/2/10	\$707.29	\$435.26	8/25/10	54
7/16/10	\$766.43	\$471.66	8/25/10	40
7/30/10	\$768.86	\$473.15	8/25/10	26
8/13/10	\$798.20	\$491.20	8/25/10	12
8/27/10	\$811.37	\$499.30	10/21/10	55
9/10/10	\$926.86	\$570.37	2/8/11	151
9/19/10	\$822.69	\$506.27	2/11/11	145
10/8/10	\$905.65	\$557.32	1/17/12	466
10/22/10	\$837.13	\$438.15	1/17/12	452
11/5/10	\$880.50	\$541.88	2/11/11	98
11/19/10	\$976.82	\$601.12	2/11/11	84
12/3/10	\$871.76	\$536.47	1/17/12	410
12/17/10	\$887.75	\$546.31	1/17/12	396
12/31/10	\$822.69	\$506.27	1/17/12	382
1/14/11	\$697.72	\$429.36	1/19/12	370
1/28/11	\$697.72	\$429.36	1/19/12	356
2/11/11	\$889.63	\$547.46	3/7/11	24
2/25/11	\$777.61	\$478.53	3/1/11	4
3/11/11	\$782.70	\$481.66	1/19/12	314
3/25/11	\$782.70	\$481.66	1/19/12	300
4/18/11	\$782.70	\$481.66	1/19/12	276
4/22/11	\$782.70	\$481.66	1/19/12	272
5/6/11	\$782.70	\$481.66	1/19/12	258
5/20/11	\$782.70	\$481.66	1/19/12	244
6/3/11	\$698.11	\$429.60	1/19/12	230
6/17/11	\$698.11	\$429.60	1/19/12	216
7/1/11	\$698.11	\$429.60	1/19/12	202
7/15/11	\$821.72	\$505.67	12/15/11	153
7/29/11	\$730.17	\$449.34	12/15/11	139
8/12/11	\$769.61	\$473.61	12/15/11	125
8/26/11	\$898.21	\$552.74	12/15/11	111
9/9/11	\$1042.66	\$641.64	12/15/11	97
9/23/11	\$750.71	\$461.97	12/15/11	83
10/7/11	\$896.32	\$551.58	12/15/11	69
10/21/11	\$891.39	\$548.55	12/15/11	55
11/4/11	\$782.70	\$481.66	1/19/12	76
11/18/11	\$949.23	\$584.14	12/15/11	27
12/2/11	\$882.08	\$542.82	12/15/11	13
12/16/11	\$782.70	\$481.66	1/19/12	34
12/30/11	\$782.70	\$481.66	1/19/12	20

The City was delinquent in making OFPRS deposits over 30 days for 33 of the 40 payroll periods, or 82% of the time. We also identified 6 deposits that were not made to OFPRS for more than a year after the ending payroll date.

Additionally, we found no discernible pattern to the lack of consistency in which payments were made. For example, the October 22, 2010, firefighter contributions were received by the system 452 days from the ending payroll date, on January 17, 2012; however, the contributions for the subsequent payroll period, November 5, 2010, were received on February 11, 2011, approximately 11 months prior to receiving the October 22, 2010 deposit. The contributions for the November 4, 2011, ending payroll were received on January 19, 2012, while the payments for the subsequent payroll period ending November 18, 2011, and were received on December 15, 2011.

As with the firefighters system, OPPRS requires deposits within 10 days of each payroll period as defined in **11 O.S. § 50-110**. In accordance with **11 O.S. § 50-110**, deposits are considered delinquent after 30 days. Of the 40 payroll periods, the City made five deposits within the ten day statutory required period, or 12.5% of the time. The City made deposits over the 30 day limit 23 times, or 57% of the time. Unlike the fire department, no police pension deposits took longer than a year, and only two were in excess of 100 days.

Likewise, there was no discernible pattern for payments for OPPRS contributions. For example, the deposit for the October 22, 2010, payroll was received by the police pension system on March 10, 2011, and the November 5, 2010, deposit was received on February 10, 2011, a month earlier.

Finding

The failure to make timely deposits into the fire and police pension systems was not due to a lack of funds.

Delays in payments to vendors may indicate that a fraud or embezzlement is occurring or has occurred and that the organization does not possess sufficient funds to pay legitimate obligations or expenses as a result of the fraud or embezzlement. As such, our primary audit concern involved not only the determination of any delay in payments, but the reason(s) for any such delays. Although we found significant delays in payments, these delays did not appear to result from the City's inability to pay due to a shortage of funds. In most cases, the average bank balance for the City was over \$1 million on the ending payroll days.

The delays in deposits appeared to be due to an inadequate or insufficient knowledge of the most fundamental accounting concepts on the part of city officials responsible for making these payments. For the majority of the audit period, former Deputy Clerk Thompson was in charge of payroll. He was responsible for withholding pension contributions for fire and

police personnel and remitting these amounts, as well as the City's required contribution, to the respective retirement systems. Based on our observations, former Deputy City Clerk Thompson appeared to lack essential organizational skills and maintained a disorderly office, which outwardly fostered a chaotic work environment and chaotic recordkeeping.

The apparent inadequate or insufficient knowledge of fundamental accounting concepts, along with the disorganized workplace likely contributed to the deposit delays and inconsistencies in deposit patterns.

Finding

Payroll records could not be reconciled with pension system deposits.

We made four attempts to obtain payroll records to reconcile to the amounts that had been deposited with the pension systems. On three occasions, we were provided with payroll records that did not contain all the required information. On the fourth attempt, we were provided with what was purported to be the payroll record used to prepare the pension remittance.

OFPRS and OPPRS require a report be submitted with the payments made by the City. The reports show each member's base salary, the 8% employee contribution and the 13% employer contribution. We compared the employee and employer contributions reported and paid to OFPRS and OPPRS to the contributions based on the City's payroll records.

Although, the City's software has the capability to automatically generate the reports submitted to the pensions, former Deputy Clerk Thompson developed his own report. Based on this modified report, we noted that for both fire and police employees, the amounts submitted to the pensions were based on salary totals that included compensation for overtime. Statutory provisions require the percentage contribution rates to be calculated using employee base salary exclusive of any overtime.

Firefighter payroll records reflected that \$20,554.98 was withheld from employee payroll checks and that \$19,962.80 was submitted to the firefighter's pension system, for a difference of \$592.18. The employer's share, based on the payroll records, was \$33,177.64 and the amount submitted to the pension totaled \$32,439.61, for a difference of \$738.03. As previously noted, the percentages were improperly calculated inclusive of overtime amounts.

Police payroll records reflected that \$23,380.05 was withheld from employee payroll checks and that \$24,063.92 was submitted to police

pension system, for a difference of \$683.87. The employer's share, based on the payroll records, was \$37,992.53 and the amount submitted to the pension totaled \$39,317.57, for a difference of \$1,325.04. As with the OFPRS deposits, the police pension payments were also improperly calculated inclusive of overtime amounts.

Although variances between payroll records and amounts submitted to the pensions existed, we cannot definitively determine the proper amounts that should have been deposited with OFPRS and OPPRS. Because of the inaccuracy and unreliability of City records, we did not further attempt to determine the reasons for these variances.

We also encountered the following issues when comparing payroll records with the amounts submitted to the pension systems:

- For the July 29, 2011 payroll period, there was a separate payroll run for one firefighter with the remaining five firefighters on another run. The amount remitted to the pension was based on the payroll for the five firefighters and did not include the one firefighter.
- There was a report submitted to firefighter pension system which was initially dated September 10, 2010, that was later changed to September 19, 2010; however, there was no September 19, 2010 payroll period. Since there was not a report submitted to the pension for the September 24, 2010 payroll period, we attributed this report to the September 24, 2010 period.
- For the September 24, 2010 payroll ending period, the amount submitted to police pension did not include the employer contribution for one employee.
- The amount remitted to the police pension for the November 4, 2011, payroll ending period included an employee who was not on payroll records.
- The amount provided to police pension for the payroll period ending December 2, 2011, was for \$838.90 more than what payroll records showed.

Finding

The City remitted two payments to OFPRS for the same payroll period on two separate occasions.

Documentation obtained from OFPRS showed that a payment of \$1,437.09 was received on March 7, 2011, for the February 11, 2011 payroll period. A second payment of \$1,127.08 was received for the same

February 11, 2011 payroll period, on January 19, 2012. We traced the \$1,437.09 payment back to payroll records; however, we found no records supporting the second \$1,127.08 payment.

OFPRS records also showed that the City issued a payment of \$1,256.14 for the February 25, 2011 payroll period, which was received on March 3, 2011. A second payment of \$966.33 for the same February 25, 2011, payroll period was received on January 19, 2012.

We traced the initial payments for both the February 11, 2011 and the February 25, 2011, payroll periods; however the second payments that were both received on January 19, 2012, could not be traced to any payroll records. For both pay periods, the amounts reflected on the reports submitted with the first and second payments were inconsistent. The submission of a second report and second payment did not appear to be a case in which a *duplicate* payment was sent, as the amounts were different.

An overall conclusion for payroll, expenditures and record keeping is provided under Objective VI.

OBJECTIVE III: Review payments for other payroll related matters.

Background As with the police and firefighter's pensions, concerns were raised that the City was in arrears on other payroll related obligations. We were informed that there were additional problems involving payroll deductions and payments that were not remitted to the appropriate entities.

Finding **Required quarterly reports and payments were not submitted to Oklahoma Employment Securities Commission (OESC). City officials did not provide records requested by OESC.**

OESC is a state agency responsible for collecting unemployment insurance taxes from Oklahoma employers to fund unemployment benefits for jobless workers. The City is required to submit reports and a payment for the amount owed to OESC on a quarterly basis.

On May 27, 2011, OESC received 14 checks from the City with no records or reports supporting the payments or any documentation referencing the purpose of the payments. According to OESC officials, the agency applied the payments to the best of their ability. Even after the receipt of the 14 payments, the City was still in arrears.

Based on an interview with OESC officials, former Deputy City Clerk Thompson was contacted by OESC on July 6, 2011 to inform him of an impending OESC audit and to have the necessary records available. According to an OESC official, the reason for the audit was the City's failure to submit reports and payments to OESC. The OESC official arrived at city hall on August 3, 2011. Although notified of the audit in advance, the requested records were not ready for inspection. OESC was unsuccessful, despite several attempts, to get the necessary records they needed to perform their audit. At one point an OESC official even offered to prepare the reports for the City.

OESC subsequently subpoenaed the City for the records, and in May 2012, the City remitted \$7,902.97 for the 2nd, 3rd, and 4th quarters of 2011. The payment included \$991.18 in penalties and \$440.04 in interest.

Finding **Employer and employee payroll taxes were not remitted to the IRS since May 2011.**

We were provided documentation showing the City issued payments to the IRS that cleared the bank on July 2, 2012, for payroll taxes that had not been paid since May 2011.

Finding **Child support payments were withheld from employee's salaries, however, the payments were not remitted to DHS in a timely manner.**

In some cases child support payments may be withheld from employee's salaries and forwarded to the Department of Human Services (DHS) to be administered and paid to the appropriate parent or guardian. DHS administers the child support payments and ensures the funds are forwarded to the appropriate parent.

Through interviews, we were informed that the City failed to consistently remit payments to DHS on behalf of employees, even though funds were withheld from their salaries. Although we interviewed only two employees concerning issues with child support, it is not our intention to suggest that problems with child support payments were isolated to these two employees. There were indications that child support payment problems existed for several former and current employees.

One employee told us, for example, that in October 2010, he began receiving notices from DHS that the child support payments withheld from his paycheck were either not forwarded to DHS or were not forwarded in a timely manner. The employee stated he continued to receive notices even after he was assured by the former deputy clerk and former city clerk that the matter was resolved.

The employee also mentioned that he received one notice to appear in court because he was held in contempt for failure to comply with the child support order concerning the child support payments.

Another employee received a March 2012 order to appear in court, because his child support payments were significantly behind. Both employees indicated they received a threat of suspension of their driver's license for delinquent payments.

We verified child support was withheld for the two employees from the bi-weekly payroll periods for the period of our investigation. Since DHS administered the child support payment for these two employees, we also obtained the accounts payable records that reflected the payments to DHS.

The accounts payable records for the DHS payments identified the employee by a vendor number. Rather than mentioning the employee by name, we used the same vendor number when referring to an employee.

The child support amount for vendor number #893 was \$180.04 and vendor #646 was shared by two employees with child support amounts of \$230.05 for one and \$93.69 for the other totaling \$323.74.

We scheduled payments to DHS for the three employees to determine the timeliness and consistency of the child support payments remitted to DHS.

The table to the right is an example of payments to DHS for vendor/employee #893. The table illustrates the number of days that elapsed between the ending payroll date and the date the check was processed by the bank.

Payroll Period Ending Date	Amount	Check Number	Date Cleared	Days Elapsed
9/10/10	\$180.04	61055	11/18/10	69
9/19/10	\$180.04	61095	11/18/10	60
2/11/11	\$180.04	61553	6/23/11	132
2/25/11	\$180.04	61590	6/23/11	118
7/15/11 & 7/29/11	\$360.08	62097	10/17/11	80
8/12/11	\$180.04	62296	10/17/11	66

The table to the right is an example of payments to DHS for two employees (vendor #646). The table illustrates the number of days that elapsed between the ending payroll date and the date the check was processed by the bank. In each case, child support payments were not remitted to DHS in a timely manner.

Payroll Period Ending Date	Amount	Check Number	Date Cleared	Days Elapsed
9/10/10	\$323.74	61051	11/12/10	63
9/19/10	\$323.74	61090	11/12/10	54
11/5/10	\$323.74	61237	1/4/11	60
11/19/10	\$323.74	61277	1/4/11	46
10/21/11	\$323.74	62515	12/13/11	53

In addition to noting the elapsed time between the end of the payroll period and the date the checks had been processed by the bank, we discovered a number of checks that appeared to be issued, but were never mailed.

The table to the right shows the checks that had not been processed by the bank for vendor/employee #893. These checks were subsequently voided by the current city clerk.

Payroll Period Ending Date	Amount	Check Number	Date
10/22/10	\$180.04	61215	10/21/10
3/11/11 & 4/22/11 & 5/6/11	\$540.12	62055	7/26/11
7/1/11	\$180.04	62001	7/1/11
8/25/11	\$180.04	61285	8/30/11
12/16/11	\$180.04	62557	12/15/11

The table to the right shows the checks that had not been processed by the bank for the two employees sharing vendor #646. These checks were subsequently voided by the current city clerk. Checks, #61587, #61650, and #61706 were payments for one employee, while the other included payments for both employees.

Payroll Period Ending Date	Amount	Check Number	Date
10/22/10	\$323.74	61213	10/21/10
2/25/11	\$230.05	61587	2/23/11
3/11/11	\$230.05	61650	3/11/11
12/3/10 & 3/11/11 & 4/22/11 & 5/6/11	\$783.84	62051	7/26/11
3/25/11	\$230.05	61706	3/25/11
7/1/11	\$323.74	61998	7/1/11
7/15/11 & 7/29/11	\$417.43	62094	8/4/11
8/12/11	\$323.74	62288	9/15/11
8/25/11	\$323.74	62182	8/30/11
12/16/11	\$323.74	62552	12/15/11

In an interview, vendor/employee #893 stated that the City’s failure to timely remit his child support payment to DHS resulted in an increase in payment from \$180.04 for each pay period to \$225.00. Payroll records confirmed the amount paid to DHS increased to \$225.00 beginning with the April 6, 2012, ending payroll period.

Because the child support was automatically withheld from the employee’s salaries, the timely remittance of their child support obligations was the responsibility of those city officials given charge of administering the payroll function.

The City’s failure to remit child support payments to DHS in a timely manner could cause legal issues for the employees who may be paying child support payments as part of a court ordered obligation.

Finding

Employees were reimbursed for insurance premiums withheld from payroll checks, but no insurance coverage was obtained.

While reviewing employee compensation, we noted payments to employees outside the normal payroll. The description for one of the payments was “Reimbursement to Employee for Canceled AFLAC Policy.” In an interview, former City Clerk Shenice Huff stated that premiums for AFLAC were withheld from her salary each month, but she later discovered she did not have a policy, so the premiums were refunded. This refunding of AFLAC premiums to employees was not isolated to Huff, but applied to other employees as well.

Finding The City paid dental insurance premiums for former employees.

We were provided documentation that showed the City continued to pay for dental insurance for former City employees. The Delta Dental invoice, dated May 5, 2012, indicated that the City paid premiums for several months following the termination date of employees. One of these individuals had not been employed by the City for approximately one year.

On June 5, 2012, the city manager issued a letter to Delta Dental to have the employees removed from the dental plan and requested the City be credited for the premiums.

Finding The City apparently inadvertently paid over \$17,000 in medical premiums after the city manager opted out of the City's insurance.

During our investigation, City Manager Mukes informed us that she discovered that the City continued to pay her medical insurance after she opted out of the City's insurance plan. According to Mukes, she is provided an allowance to obtain her own insurance coverage. Mukes indicated Deputy Clerk Thompson failed to drop her coverage from the City's insurance policy after she obtained her own insurance. We obtained the city manager's employment contract to confirm that a provision for obtaining separate insurance existed.

A contract addendum reads:

The City of Spencer, will convey \$367.00 to the City Manager, Nicole Mukes, consistent with each pay period beginning February 25 th , 2011 and ending June 30 th , 2011. The purpose of which is to maintain health insurance coverage for the city manager in accordance with current contract terms. The City Manager will provide proof of coverage upon request.
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The City obtained the health insurance from United Healthcare. We asked for the United Healthcare invoices to verify whether or not they included premiums for City Manager Mukes.

The City located the invoice, dated May 21, 2012, which included an insurance premium of \$1,145.84 for City Manager Mukes. Based on the amount of this premium, the City may have inadvertently paid approximately 15 months of health insurance premiums for Mukes, which totaled \$17,187.60. The City later attempted to recover the city manager's premiums paid to United Healthcare without success.

Finding

Federal and State income taxes were not consistently withheld from employee's payroll checks.

While inspecting payroll records, we noted there were instances in which federal and/or state taxes were not withheld from some of the employees' payroll checks.

An overall conclusion for payroll, expenditures and recordkeeping is provided under Objective VI.

OBJECTIVE IV: Determine whether vendors were paid in a timely manner.

Background

We were informed that vendors were reluctant to conduct business with the City because of concerns they would not be paid in a timely manner or not paid at all. As previously mentioned, delays in making payments can be an indication of fraud or embezzlement, if the organization does not have sufficient funds to pay legitimate obligations.

A step toward determining the reason for the delay in vendor payments is to establish the point in the purchasing process that the delay or breakdown occurs. We selected 40 payments for review of supporting documentation to determine if the delay was occurring prior to or subsequent to approval of the payment.

Purchasing procedures were established by city ordinances. The ordinance that establishes the purchasing procedures is City Ordinance 7-104.

According to City Ordinance 7-104:

- A. The city designates the city manager, the city clerk, and department directors as the only purchasing officers empowered to purchase or contract against budget appropriation accounts.
- B. For all purchases of goods, services or capital, excluding payroll and debt service related, a requisition form, purchase order or contract shall be prepared and approved in writing by a designated purchasing officer prior to the time the purchase commitment is made.
- C. For all purchases or contracts for goods, services or capital over five thousand dollars (\$5,000.00), excluding standard operational purchases, governing body approval shall be obtained prior to the time the commitment is made, and such approval shall be recorded in the minutes of the governing body.
- D. For all purchases of goods, services and capital, the approved requisition, purchase order or contract shall be forwarded to an officer or employee charged with the appropriation and expenditure records who shall determine that there exists available appropriation in accounts to be charged. Upon such determination, the officer or employee shall attest to that fact in writing.

Finding **Vendor files were in disarray and files and/or documentation were missing.**

We found vendor files to be in disarray with no organizational system. Vendor files were located in several areas of the former deputy clerk's office, including in a file drawer, on a shelf, on the desk, in a desk drawer, on a chair, and on the floor. In some cases, vendor files could not be located.

During our attempt to review vendor files, we noted:

- Files were missing, including a file for Comdata Corporation, the credit card vendor for fuel purchases. During the period of our investigation, there were expenditures in excess of \$30,000 based on statements we obtained from this vendor;
- Only a few of the files contained purchase orders;
- Invoices were missing in some files. Some files contained only loose invoices in which invoice amounts did not correspond to the payment amounts, while others contained a statement with no invoices;
- Some vendor files contained invoices for an unrelated vendor.

From the 40 expenditures we attempted to trace to invoices, only four expenditures (10%) were supported by a dated and signed purchase order and a corresponding invoice.

Complete and accurate records should be maintained in accordance with **51 O.S. § 24.A**, which requires:

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 or accurate records of the receipt and expenditure of public funds reflecting all financial and business transactions related thereto, except that such records may be disposed of as provided by law.

Because of the poor condition of the vendor files, we could not determine when the majority of the invoices were approved, or if invoices were approved at all and, in many cases, whether or not the invoice(s) in the vendor file were paid.

Finding

We confirmed that vendors were not paid in a timely manner, based on records we were able to locate.

In spite of limited documentation and the disorderly files, we were able to verify that vendors were not paid in a timely manner based on past due notices and statements showing past due amounts:

- The vendor file for Casco Industries contained one statement, dated May 5, 2011, that showed \$26,933 was over 90 days past due;
- A statement from American Waterworks Supply, Inc., dated December 2, 2011, showed \$1,051.67 was 61-90 days past due;
- The vendor file for Comp Source Oklahoma, the worker's compensation insurance carrier, contained invoices showing previous balances. Also, in the file was a notification of an impending cancellation, dated April 21, 2011.
- Other invoices showed past due amounts indicating that previous charges had not been paid.

On May 9, 2011, City Manager Mukes issued a memo to former Deputy Clerk Thompson requesting that vendors be paid every 30 days. The memo is provided below in relevant part:

Sometime ago we spoke of developing a check list that spells out what vendors must be paid every thirty days. This keeps our account in good standing and prevents any embarrassing situations with loss of items such as utilities; lights, electricity, gas, phone service, and internet access. All these services are extremely important to our operations. To be without them is simply unspeakable. We have to be as responsible with our utilities as we expect our citizens to be with the ones we provide.

I am requesting that you ensure that these vendors are **PAID EVERY THIRTY (30) DAYS and no more than that.** Use this list as a guide. Check it before the last day of the month. If we have issued a check, we know we are in good standing. If not, we need to find the bill and see about issuing a check as soon as possible.

The directive issued to Thompson appeared to be of no consequence, because issues with vendor payment delays continued. For example, the following statement from Law Enforcement Systems, Inc. showed a balance of \$424.00 that was 60 days past due. When the check was processed by the bank on November 16, 2011, the amount was for \$418.00.

10/21/2011 73084		10/21/2011 73084				
SPENCER POLICE DEPARTMENT PO BOX 660 SPENCER OK 73084-0660						
DATE PAID _____		CHECK NO. _____				
AMOUNT _____		AMOUNT ENCLOSED \$ _____				
TRANSACTION DATE	INVOICE NO.	DESCRIPTION	AMOUNT	BALANCE	INVOICE NO.	AMOUNT DUE
7/20/2011	171684	Forms PO# CALL BACK	424.00	424.00	171684	424.00
Over to Doug						

Another example included a September 19, 2011, statement from Intrust bank, which showed a previous balance of \$1,947.24 and incurred late fees of \$39.

Finding

In some cases, the amount paid did not correspond to the amount owed.

The vendor file for Hudiburg Auto Group was missing, so we obtained the invoices directly from the vendor. On two separate occasions, the City overpaid the amount of the invoices. On one occasion, the invoice showed a balance due of \$7,049; however, check #62363 was issued in the amount of \$7,850, or an overpayment of \$801. On another occasion, the City issued check #62388 for the purchase of three vehicles. Although the invoices for the three vehicles totaled \$21,744, the amount paid was \$23,742, or an overpayment of \$1,988. The vendor subsequently issued refunds for the overpayments, which were deposited in the City’s bank account.

We also obtained the invoice for Xtreme Lube directly from the vendor, as the file for this vendor was also missing. Although the invoice amount was \$2,693.22, check #62337, dated September 30, 2011, was issued for \$2,703.69.

On August 31, 2010, check #60988 was issued to Pool & Vincent for \$4,944.50; however, the invoice obtained from the vendor totaled \$4,999.50. There was a notation on the invoice that read “Pd & Posted 9/3/10 *NOTE: Spencer only paid \$4944.50-shorted us \$55.”

Check #62131, dated September 18, 2011, was issued to Pioneer Supply in the amount of \$1,450; however, the total for the June 18, 2011, invoice was \$1,192.50. The vendor informed us that the City of Spencer has a \$257.50 credit balance as a result of the overpayment.

In the vendor file for Remittance Processing Services, we located multiple notices indicating the amount that had been paid did not match the amount due. An example of one of these notices is shown in the image below:

Dear Account Administrator:

Thank you for your recent payment in the amount of \$1,306.52 on the account listed above. Unfortunately, the amount we received does not match the premium amount due for the referenced invoice.

Since we have been unable to reach you by phone, please mail any adjustments or to expedite your request you may fax your adjustments to 706-660-7177 or e-mail us at GroupChanges@aflac.com, within 15 days of the date you receive this notice, to avoid a refund. Be sure to include your Aflac account number listed above on all correspondence.

Finding

The city attorney was paid thirteen monthly installments in a twelve month period.

The City paid the city attorney \$666.63 on a monthly basis. These payments appeared to be monthly installments toward an annual fee of \$8,000 for his services. The \$8,000 annual fee divided by 12 months would equal monthly payments of \$666.67; however, the City paid \$666.63 per month. The City issued two \$666.63 payments, dated November 16, 2010, for thirteen payments in a one-year period.

Finding

The City paid the same invoice twice.

An August 23, 2011, statement from AT&T showed a balance due of \$2,179.56. The City issued checks #62201 and #62194, both dated August 31, 2011, and both for the invoice amount of \$2,179.56. The September 23, 2011, statement from AT&T reflected a \$2,179.56 credit balance for the additional payment.

OBJECTIVE V: Note any other reportable conditions.

Finding The City has insufficient documentation to support credit card payments.

The use of credit cards was not an original concern; however, because credit card usage is subject to abuse, we typically review the expenditures for any improper charges. The City used credit cards for Wal-Mart, Office Depot, Comdata cards for fuel purchases, and an Intrust Bank card for emergency weekend repairs.

As previously noted, no documentation could be found for over \$30,000 in Comdata card charges. The City maintained only credit card statements (no receipts) to support expenditures on the Wal-Mart, Office Depot, and Intrust cards.

The statements reflect date and amount of the charges being made, but they do not reflect the items being purchased. Likewise, the fuel purchases made with the Comdata card do not identify the employee making the purchase or the purpose of the fuel purchase.

The August 3, 2011, Wal-Mart credit card statement showed two questionable charges, a \$50 shopping card and a \$100 charge for “merchandise/consumables.”

The September 19, 2011, Intrust Bank credit card statement showed a questionable charge to Walgreens in the amount of \$274.99. When asked about the charge, City Manager Mukes stated that medication was purchased for an employee due to a lapse in city-provided health insurance resulting from nonpayment of premiums:

Transaction Date	Posting Date	Description of Transaction or Credit	Amount
09/16	09/16	NICOLE MUKES WALGREENS #3645 MIDWEST CITY OK	274.99

Credit card statements are insufficient to document the expenditure of public funds.

We also noted the credit card payments were not paid in a timely manner and balances were not paid in full. As a result, the City incurred unnecessary finance charges and late fees.

Finding **City vehicles were purchased totaling \$23,647 without Board approval.**

City Ordinance 7-104, requires Board approval for purchases over \$5,000.

The City issued check number #62388 in the amount of \$23,742 for the purchase of three vehicles:

Purchase Date	Description	Amount Due
10/11/11	Black 2005 Ford F-150	\$6,349.00
10/11/11	Blue 2004 Chevrolet Silverado 1500	\$8,199.00
10/28/11	White 2006 Chevrolet Silverado 1500	\$7,196.00
	Total	\$21,744.00

We found no indication that the Board actually approved the \$23,742 payment.

As noted previously, the payment was also for an incorrect amount, resulting in an overpayment of \$1,988.

Finding **No supporting documentation was found for two travel reimbursements paid to the Mayor.**

Checks #61243 and #61244, both dated November 12, 2010, were issued to Mayor Ware for \$65.00 each. We inquired about the payments to determine if the mayor received duplicate reimbursements. We were provided a computer screen shot which read “Mileage Reimbursement-Black Mayors Conference Meeting in R.” The mayor said that he thought the conference was in Red Oak, but was not certain.

Travel reimbursements should be supported by a claim reflecting the destination, miles driven, and purpose of the official travel. The City was unable to locate any documentation related to the \$130 reimbursement.

Finding **Checks lacked required signatures. Some checks had been processed and paid without any signatures.**

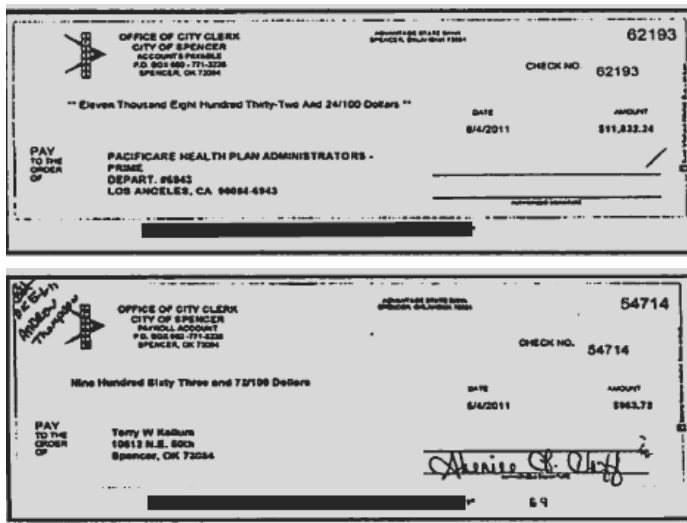
City ordinances require accounts payable and payroll checks be signed by the clerk-treasurer or deputy clerk-treasurer and mayor or vice mayor.

Accounts payable signature requirements are set forth in Ordinance 7-104, section F, paragraph 2:

The treasurer shall compare the checks or other payment documents to the invoice or claim listing and verify their accuracy. Upon verification, the city clerk-treasurer and the mayor, or their designees (deputy clerk-treasurer and vice mayor), shall sign the checks or other documents and prepare them for distribution. In addition, the city clerk-treasurer shall prepare or cause to be prepared a check register.

Ordinance 7-105, section E, paragraph 1, establishes the payroll check signature requirement:

E. The checks shall be presented to the city clerk-treasurer along with the approved payroll statement or register. The city clerk-treasurer shall compare the checks to the payroll statement or register and verify their accuracy. Upon verification, the city clerk-treasurer and mayor, or their designees (deputy clerk-treasurer and vice mayor) shall sign the checks and prepare them for distribution. In addition, the city clerk-treasurer shall prepare or cause to be prepared a check register.



From our review of checks issued, and processed by the bank, from July 1, 2010 through December 31, 2011, we noted several checks that did not contain the required signatures. We found five checks that were not signed at all, one check signed by the vice-mayor only, two checks signed by only the mayor and eleven containing only the city clerk's signature.

Finding The bank repeatedly discovered basic mathematical errors in the City's deposit records.

When reviewing bank statements, we noted on several occasions the bank had discovered errors in deposit amounts and made corrections to the City's records because of those errors.

Following are examples of the bank corrected deposits:

CHECKING ADVISE OF CREDIT <small>ADVISE BANK FROM</small>		ADVANTAGE BANK SPENCER, OK MEMBER FDIC	ACCOUNT NUMBER [REDACTED] 10
DATE 10-21-10	WE CREDIT YOUR ACCOUNT AS FOLLOWS		AMOUNT
APPROVED BY DStrong	Deposit on 10-20-10 over 2120.92. Check for 5177.38 listed as total on deposit		2120.92
			↓ TOTAL AMOUNT ↓
City of Spencer		\$	2120.92
⑆5036⑉0033⑆			

CHECKING ADVISE OF CREDIT <small>ADVISE BANK FROM</small>		ADVANTAGE BANK SPENCER, OK MEMBER FDIC	ACCOUNT NUMBER [REDACTED] 10
DATE 10-21-10	WE CREDIT YOUR ACCOUNT AS FOLLOWS		AMOUNT
APPROVED BY DStrong	Deposit on 10-20-10 over 35.05 Addition Error		35.05
			↓ TOTAL AMOUNT ↓
City of Spencer		\$	35.05
⑆5036⑉0033⑆			

CHECKING ADVISE OF CREDIT <small>ADVISE BANK FROM</small>		ADVANTAGE BANK SPENCER, OK MEMBER FDIC	ACCOUNT NUMBER [REDACTED] 10
DATE 10-21-10	WE CREDIT YOUR ACCOUNT AS FOLLOWS		AMOUNT
APPROVED BY DStrong	Deposit on 10-20-10 over 996.88. Check for 426.00 listed as total on deposit		996.88
			↓ TOTAL AMOUNT ↓
City of Spencer		\$	996.88
⑆5036⑉0033⑆			

OBJECTIVE VI: Provide an overall conclusion for payroll, expenditures and record keeping.

Throughout our report, we have provided examples of disorganized records, incomplete or missing records, reports that were inconsistent with actual amounts paid, and examples of instances where vendors were paid incorrect amounts, resulting in refunds or vendor credits, as well the failure to pay vendors in a timely manner.

The delays in vendor payments were not a result of the City's inability to pay due to lack of funds, but rather appeared to be more the result of general organizational deficiencies and an insufficient knowledge of fundamental accounting concepts on the part of those city officials responsible for making such payments. Specifically, we found the payment delays appeared to be directly related to the disorder of the former deputy clerk's office which seemingly fostered a chaotic work environment, as well as the former deputy clerk's insufficient knowledge of his duties.

To further illustrate the extent of the City's ineffective recordkeeping, we were shown a box in the deputy clerk's office containing unopened mail dating back to December 2011. Additionally, the current city clerk discovered stacks of checks that had been printed but never mailed.

OBJECTIVE VII: Review utility funds for irregularities.

Background

The Spencer Utilities Authority provides water, sewer and trash services to the residents of Spencer. Approximately 1,500 customers are billed on a monthly basis. Payments are due by the 10th of each month. Because of bond issuance requirements, utility bills will increase five percent on an annual basis, until the bonds are retired.

All forms of utility payments are entered into the computer system, and at the end of the day, a “Cash Receipts End of Day Report” is printed. This report shows the total of cash and checks received on that day and should reflect the amounts in the cash drawer. An example follows:

Description	Operator ID	Amount
Utility Clerk		
Asystadmin		
Starting Cash Drawer Balance		\$100.00
Cash and Checks		
CHECK		\$150.00
CASH		\$993.35
Sub Total Cash and Checks		\$1,143.35
Ending Cash Drawer Balance		\$1,243.35
Total Receipts		\$1,143.35

Also at the end of the day, a “Cash Receipts Control Report” is generated including a detailed summary of the collections (checks and cash) for each customer. An example is shown below:

Receipt #	Date	Status	Payee	Type	Reference #	Total	Sub-System	Account	Item Amount
1	12/30/2010	A	Jennifer and Robert Hen	Cash		\$84.08	UB	884.3	\$84.08
2	12/30/2010	A	RICK TAYLOR	Check	tj	\$150.00	UB	1522	\$150.00
3	12/30/2010	A	WESLEY JACKSON	Cash	tj	\$96.44	UB	1558	\$96.44
4	12/30/2010	A	Angela Bray	Cash	tj	\$99.20	UB	788.3	\$99.20

The two reports were reportedly reconciled to the cash drawer. Two copies of the reports were printed; one copy of each report was placed in a bank bag with cash and checks, and the other copy was maintained in the utility department in a three ring binder. The bank bag was provided to the former city clerk, who prepared the deposit slip.

Finding

Utility records were inconsistent, incomplete, vague, unreliable, and in some cases missing completely.

Ordinarily, we would compare receipt records to deposit records to determine if there were any variances between collections and deposits. In this case, we would compare the “Cash Receipts Control Report,” (receipts) to the deposit slips and the bank statements.

We asked for the records specifically relating to the three-month period of October 2011 through December 2011. City officials were unable to find the daily collection reports. Moreover, city officials were unable to locate any of the daily collection reports prior to 2012, excepting for a few sporadic reports which were incomplete.

Because the original collection reports could not be located, the current city clerk reprinted the reports for 2011 from the computer system. We compared the newly printed reports to the few 2011 reports that were provided and found discrepancies between the original 2011 reports and the newly generated reports purporting to represent collections from 2011.

For example, the May 25, 2011 hardcopy report showed total receipts of \$5,155.15, while the newly printed report showed receipts of \$6,151.69.

Although we began to question the reliability of the records we were being provided, we still attempted to reconcile collections to deposits. It was at that point, we discovered the City had failed to make deposits on a daily basis, as required by law, and combined deposits from several separate days.

Further complicating matters, we discovered the deposit slips were vague and included entries such as “per list.” The City was unable to provide any additional documentation to support the “per list” notations on the deposit slips.

The City was unable to provide sufficient records for us to perform any kind of meaningful reconciliation of the collections and deposits.

Customer Accounts

Credit adjustments to utility accounts are a necessary function to correct errors, but are subject to abuse and can be used to mask an embezzlement or fraud. We judgmentally selected 25 utility customers from the credit adjustment report and obtained the account histories to review credit adjustments.

Finding

A utility clerk’s account showed unexplained credit adjustments, and the account was not charged for services for approximately 10 months.

In September 2010, Lakeita Barbee was hired as a utilities clerk for the City. Barbee also receives utility services from the City.

From December 2010 to July 2011, no payments had been posted to Barbee’s utility account. Instead, the account reflected a series of credit adjustments had been made to the account totaling \$206.23.

In July 2011, the billing calculations appeared to have stopped for the account, although the records reflected services were continuing to be provided. We determined the City’s computer software included a user selectable option “Don’t Calculate.”

When the “Don’t Calculate” option is used, the billing calculations for that account are essentially turned off. Starting in July 2011, and continuing through March 2012, Barbee’s account reflected \$0.00 for all services. An example of the account history monthly billing with the “Don’t Calculate” option is shown in the image below:

Transaction	Bill Number	Transaction Type	Number	Type	Cons/Ref#	Transaction Amount
7/31/2011		921 Stormwater Fee				\$0.00
7/31/2011		921 Sewer				\$0.00
7/31/2011		921 State Fee				\$0.00
7/31/2011		921 Garbage				\$0.00
7/31/2011		921 Water	2393	A	10410	\$0.00
7/31/2011		921 Sewer Surcharge				\$0.00

We interviewed Barbee in an effort to determine why the “Don’t Calculate” option had been selected for her account. Barbee alluded to a \$2,000 bill she received before she was a city employee, as a possible explanation as to why her account did not incur any charges. Barbee also claimed that she was unaware the calculations were turned off for her account.

Barbee’s account history reflected that in October 2006, a billing error resulted in a \$2,000 charge to the account. However, contemporaneous to that 2006 billing entry, we noted a \$2,000 credit adjustment had been made to the account. The \$2,000 billing error appeared to have been resolved in 2006, as reflected in the image below.

10/25/2006	186	Water	65386	X	0	\$2,096.61
10/25/2006	186	Capital Improvement				\$0.50
10/25/2006	186	Sewer				\$637.75
11/14/2006	194	Credit	39211	C		(\$2,721.30)

We reviewed the payment history for the period July 2009 through June 2010, prior to her employment as a utilities clerk. During that period, Barbee paid an average of \$79.48 for water, sewer, trash, and related charges.

We began our investigative fieldwork in April 2012. We noted the billing calculations for the Barbee account also resumed in April 2012.

Based on the average monthly payment of \$79.48, the account being designated in the software as “Don’t Calculate,” may have allowed Barbee to avoid paying \$715.32 for utility services between July 2011 and March 2012.

Finding

An account showed unexplained credit adjustments, and charges on the account were suspended without explanation.

(Account #170) receives water, sewer and garbage services from the Spencer Utilities Authority. Water charges ranged from a low of \$23.48 on December 29, 2010, to a high of \$114.00 on September 1, 2011.

The account history shows that payments were not made on a regular basis, and the account holder was consistently charged late fees and cut off charges. On August 25, 2011, a series of credit adjustments were made to the account totaling \$113.02. From September 30, 2011 through December 31, 2011, the account was not charged for any services.

After December 2011, other charges were reinstated; however, the customer was no longer charged for water even though meter readings showed water usage. As of August 15, 2012, the account holder owed a balance of \$215.80 and was not being charged for water usage.

We found no documentation indicating the reason for the \$113.02 in credit adjustments or any justification for this account to not incur charges.

Finding

Account histories were confusing and difficult to review.

The histories for customer accounts were often confusing and difficult to understand, because they were inundated with duplicate entries and credit adjustments. Some examples follow:

- The history for account #741.3 showed charges for services and late fees from March 31, 2011 through October 12, 2011. Beginning on October 21, 2011, a series of approximately eighty credit adjustments were made, including a deposit refund of \$120.

There were no payments reflected on the history after March 25, 2011. Although account histories were provided through December 2011, the history showed activity only through October 2011.

- The history for account #1347/04 showed charges for services and late fees beginning on July 13, 2010 to July 11, 2011. Over one hundred fees were charged on March 1, 2011. On July 26, 2011, there was a series of \$25 credit adjustments. Several subsequent months showed that only a \$25 cut off/nonpayment fee was charged. The account history through December 2011, showed a July 12, 2012, account balance of \$492.04.
- The history for account #1436/01 reflected transactions beginning March 31, 2011. On April 25, 2011, a series of credit adjustments were made followed by charges for services, late fee charges and credit adjustments beginning on April 29, 2011, through the end of our December 31, 2011 period. Other than credit adjustments, the history showed only one payment of \$55.68 on October 27, 2011. The balance as of July 10, 2012, was \$183.44.
- The history for account #643 showed charges for services and late fees beginning July 29, 2010. Over two hundred late fee charges were assessed on March 1, 2011 and March 11, 2011. These were followed by several pages of credit adjustments. The balance as of July 10, 2012, was \$493.25

Finding

Customers, including board members, were allowed to accumulate large utility account balances.

The board delegated the authority to terminate water services for nonpaying customers to the city clerk.

According to Section 17-106 (C) (2) of the board policies:

The city clerk is specifically authorized to terminate water service to the location, address, or dwelling unit in question for nonpayment...

Based on the board policies, the decision to terminate water services appeared to be solely at the city clerk's discretion. Therefore, the decision to terminate services was based on her judgment, rather than on city policy. Delegating the responsibility of service termination without adequate guidelines, such as a timeframe for termination for nonpayment, not only placed the city clerk in an uncertain position, but left policy matters to the discretion of the city clerk's subjective assessment.

Trusting the judgment of one employee, without appropriate policy guidelines, could contribute to inconsistent treatment of customers and give an appearance of favoritism.

We found, in some cases, customers were allowed to accumulate large balances without a disruption in services, and it appeared that the \$25 cut off/nonpayment fee was credited in some cases. Examples follow:

- The history for account #1067 showed no payments were received from April 2011 to December 2011, with an account balance on July 10, 2012, of \$334.04. On July 26, 2012, the account holder was provided five \$25 credit adjustments. No payments were posted to the account through December 2011.
- For the period July 2010 through December 2011, account #1461 showed a deposit refund of \$50 on July 14, 2010, and a payment of \$25 on August 12, 2010. The account showed no other payments were made through December 29, 2011. The balance on the account at July 10, 2012, was \$418.68.
- An extended history for account #191 showed the account holder went nine months without making a payment although there was an outstanding balance of \$678.82. The account holder was credited for \$30, and the deposit was refunded.
- Board Member Talley's account showed a balance of \$183.44 and Board Member Ware's account showed a balance of \$493.25.

Finding

Late charges were not applied to accounts on a consistent basis.

According to a utility clerk, utility bills are due on the 10th of each month, and all payments received after the 10th are assessed a late fee. In our review of customer accounts, we found inconsistencies in the application of late fees to customer accounts. For example:

- The history for account #496 showed late fees were not assessed for payments received on October 18, 2010 and November 15, 2010.
- The history for account #236 showed late fees were not assessed for a payment received on October 14, 2010.

Conclusion

We reviewed 25 of approximately 1,500 customer accounts. We found unexplained credit adjustments, suspended charges when services continued, minimum service charges regardless of the amount of water used, and inconsistencies in late fee assessments. Further, a one "click"

option on a menu item in the utility billing software allowed any customer to incur only the minimum charge for water, or no charge for any service. This practice apparently occurred in the absence of any board action.

Key decisions on charges and credit adjustments were made with negligible or no board oversight. The board appeared to take a passive role in overseeing the actions of the utility department and to delegate responsibility as an oversight body to the discretion of city employees. Additionally, board policies did not seem to require board approval for actions outside the scope of standard utility department activities.

Disclaimer

In this report, there may be references to state statutes and legal authorities that appear to be potentially relevant to the issues reviewed by the Office of State Auditor and Inspector. 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. Such determinations are within the exclusive jurisdiction of regulatory, law-enforcement, and judicial authorities designated by law.



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