



Consolidated Rural Water District #1 Nowata and Rogers Counties Special Audit Report January 1, 2003 – August 31, 2004

Audit Summary:

- ✓ Not all funds received were receipted. Issuing non-sequential receipts and not entering source of funds in payment history. **Pgs 2 & 3**
- ✓ Deposits were not made daily as required by **62 O.S. § 517.3B**. **Pgs 3 & 4**
- ✓ Adjustments were made to customer accounts without prior approval of the Board. **Pgs 4 & 5**
- ✓ Free water was provided to employees and was not reported as income in accordance with IRS Circular E, "Wages Not Paid in Cash". **Pgs 5 & 6**
- ✓ Possible action during an executive session meeting. **Pgs 6 & 7**
- ✓ Questionable purchases/payments made without prior approval of the Board. **Pgs 7 & 8**
- ✓ Two instances wherein payments were made without supporting documentation. **Pg 9**
- ✓ Purchases made without prior approval of the Board, but later approved by the Board. **Pgs 9 & 10**
- ✓ Possible payment of mileage during same time period gasoline was charged. **Pg 11**
- ✓ Possible conflict of interest. **Pg 11**

JEFF A. McMAHAN, CFE

OKLAHOMA OFFICE

OF THE

STATE AUDITOR & INSPECTOR

Why the audit was performed

The Washington County

District Attorney

requested the audit pursuant to

74 O.S. 2001 § 212(H).

**CONSOLIDATED RURAL WATER DISTRICT No. 1
NOWATA AND ROGERS COUNTIES
SPECIAL AUDIT REPORT
JANUARY 1, 2003 THROUGH AUGUST 31, 2004**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

February 15, 2005

Honorable Rick Esser
District Attorney – District No.11
400 S Johnstone
Bartlesville, Oklahoma 74003

Transmitted herewith is the Special Audit Report for Consolidated Rural Water District No. 1, Nowata and Rogers Counties. We performed our special audit in accordance with the requirements of 74 O.S. 2001, § 212(H).

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 Consolidated Rural Water District No. 1, Nowata and Rogers Counties.

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 ensure 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

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BOARD OF DIRECTORS

Rocky Seals	Chairman 9/98 – 5/03	Member 5/03-8/04
Deborah Dobbs	Member 10/02-5/03	Chairman 5/03-9/04
Owen Reichert (replaced Greg Ritman)	Member 5/03-present	
Hugh Goins (replaced Greg Osten)	Member 5/04-present	
Kenneth Tatham	Member 10/02-9/04	Chairman 9/04-present
Mike Ross	Member Prior to 2002-present	
Eric McCoy	Member (Sec/Treasurer) Prior to 2002-present	

**CONSOLIDATED RURAL WATER DISTRICT No. 1
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INTRODUCTION

On August 10, 1982 the Nowata County Board of Commissioners and the Rogers County Board of Commissioners approved a proposal for the consolidation of Rural Water District No. 1 and Winganon Water District. The Water District became known as the Consolidated Rural Water District No. 1, Nowata and Rogers Counties.

The Consolidated Rural Water District No. 1 is currently located in Town of New Alluwe which is located 8 miles east of Nowata, Oklahoma and 6 miles south. The Consolidated Rural Water District No. 1 is operating under Bylaws that were adopted September 14, 1998. Pursuant to their bylaws the Board of Directors consists of seven members, all of whom are elected for a three-year term. The Board meets annually to elect officers for whose terms that have expired.



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

Mr. Kenneth Tatham, Chairman
Consolidated Rural Water District No. 1
Nowata & Rogers Counties
HC 62, Box 134-6
Nowata, Oklahoma 74048

Dear Mr. Tatham:

Pursuant to the District Attorney's request and in accordance with the requirements of 74 O.S. 2001, § 212(H), we performed a special audit with respect to Consolidated Rural Water District No. 1, Nowata & Rogers Counties, for the period January 1, 2003 through August 31, 2004.

The objectives of our special audit primarily included, but were not limited to, the areas noted in the index of specific concerns and are presented in their entirety in italics as they were communicated to us. Our findings and recommendations related to these procedures are presented in the accompanying report.

Because the 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 Consolidated Rural Water District No. 1, Nowata and Rogers Counties, for the period of January 1, 2003 through August 31, 2004. Further, due to the test nature and other inherent limitations of a special audit report, together with the inherent limitations of any internal control structure, there is an unavoidable risk that some material misstatements may remain undiscovered. This report relates only to the accounts and items specified above and does not extend to any financial statements of the water district taken as a whole.

This report is intended to provide information to the District Attorney and the Board of Directors of the Consolidated Rural Water District No. 1, Nowata and Rogers Counties. 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

January 18, 2005

**CONSOLIDATED RURAL WATER DISTRICT No. 1
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I. CONCERN: *Possible irregularity in receipts and deposits.*

PROCEDURE: We examined three (3) receipt books. Two (2) receipt books were in the possession of the Consolidated Rural Water District No. 1. One (1) receipt book was in the possession of a former Consolidated Rural Water District No. 1 employee. The employee stated the receipt book was her personal receipt book she used when she received rural water district payments at her residence. We compared the receipts from the two (2) receipt books from the Consolidated Rural Water District No. 1 to bank deposit slips and bank statements. In addition, we selected water accounts to review.

FINDING (1): Failure to receipt collected funds.

During testing, we examined source documentation for deposits made into the Arvest Bank Consolidated Rural Water District No. 1 account. The source documentation included duplicate bank deposit slips, bank statements and duplicate receipts, payment stubs and "post-it notes".

- January 2003 bank statement reflects a total of \$31,864.62 deposited. Receipts written for this time period total \$2,363.56
- February 2003 bank statement reflects a total of \$30,741.59 deposited. Receipts written for this time period total \$1,790.70.
- March 2003 bank statement reflects a total of \$33,177.50. Receipts written for this time period total \$1,897.54.
- April 2003 bank statement reflects a total of \$25,815.50 deposited. Receipts written for this time period total \$1,183.39.
- May 2003 bank statement reflects a total of \$25,514.88 deposited. Receipts written for this time period total \$1,172.41.
- June 2003 bank statement reflects a total of \$32,930.61 deposited. Receipts written for this time period total \$2,366.34.

Title **51 O.S. § 24A.4** states, in part:

"In addition to other records which are kept or maintained, every public body and public official has a specific duty to keep and maintain complete records of the receipt and expenditure of any public funds reflecting all financial and business transactions relating thereto[.]"

RECOMMENDATION: We recommend that all funds collected be properly receipted and deposited. Further, we recommend that procedures be implemented to reconcile receipts to deposits to assure that all funds collected are properly receipted by someone other than the person who prepares the receipts or the person who makes the deposit. In addition, we recommend that deposits should be done daily or not later than the next business day in compliance with **62 O.S. § 517.3B**.

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FINDING (2): Issuing non-sequential receipts and not entering source of funds in payment history.

It appears that three (3) receipts books were used to receipt funds collected for the Consolidated Rural Water District No. 1. We noted that more than one receipt book was being used during the same time period. As to the unnumbered receipt book provided by the former employee, it appeared that there were twenty (20) pages with writing on them. Eight (8) of the receipt pages that contained writing were partial pages with some of the receipts having been removed. In addition to this, we noted that there were forty-four (44) unused original and carbon sheets. It appears there are approximately sixty-one (61) pages (61 pages @ 4 receipts per page=244 receipts) missing from this book.

- One receipt book started with receipt number 603601 and was in use from 9-17-02 to 8-12-03 ended with receipt #603800.
- Another receipt book started with receipt number 518401 and was in use from 5-16-03 to 3-1-04 ended with receipt #518600.
- The third receipt book is a 500 duplicate, unnumbered receipt book with the first receipt being written on 7-9-2000 and the last receipt dated 3-15-2003.

Not all funds received were receipted so we were unable to test amount deposited to a corresponding receipt. In addition, the source of payment (cash, check or money order) was not reflected on the customers' accounts ledger.

RECOMMENDATION: We recommend that Consolidated Rural Water District No. 1 obtain and utilize receipts and receipt books that are sequentially numbered and that receipts are issued sequentially and that the sequence of such receipts are properly accounted for. In addition, we recommend that the rural water district enter source of payment (cash, check or money order) on customer account ledge.

FINDING (3): Failure to make daily deposits.

- During January 2003 there was a total of 7 deposits.
- During February 2003 there was a total of 7 deposits.
- During March 2003 there was a total of 8 deposits.
- During April 2003 there was a total of 7 deposits.
- During May 2003 there was a total of 7 deposits.
- During June 2003 there was a total of 8 deposits.

We examined the depositing practices used by the Consolidated Rural Water District No. 1 and there appeared to be no consistency between the time funds were received and the time they were deposited. A former employee of the water district stated that funds were deposited when "they got enough to deposit-anywhere between \$300 to \$800". In addition, the person stated that employees took the "money bag" home with them at night and then would bring the bag back in the morning. However, we noted that most deposits made between January 2003 and June 2003 exceeded \$3,000.00. During this time period one deposit exceeded \$10,000.00.

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The majority of the funds receipted were not deposited daily in accordance with **62 O.S. § 517.3B** which states, in part:

“B. The treasurer of every public entity shall deposit daily, not later than the immediately next banking day, all funds and monies of whatsoever kind[.]”

The following table is presented as an example of the retention period between the date funds were receipted and the date deposited:

January 2003 Receipt / Deposit Retention				
Receipt #	Rec. Date	Amount	Deposit Date	Retention Days
603688	1/9/2003	\$140.00	1/15/2003	6
603678	1/17/2003	\$41.00	1/23/2003	6
603675	1/15/2003	\$143.77	1/29/2003	14
603679	1/20/2003	\$60.00	1/29/2003	9
603680	1/21/2003	\$25.00	2/5/2003	15

February, March 2003 Receipt / Deposit Retention				
Receipt #	Rec. Date	Amount	Deposit Date	Retention Days
603685	2/5/2003	\$34.50	2/10/2003	5
603693	2/12/2003	\$65.85	2/18/2003	6
603698	2/20/2003	\$53.80	2/25/2003	5
603705	3/3/2003	\$45.00	3/10/2003	7

April, May & June 2003 Receipt / Deposit Retention				
Receipt #	Rec. Date	Amount	Deposit Date	Retention Days
603729	4/2/2003	\$246.02	4/9/2003	7
603745	4/30/2003	\$124.00	5/6/2003	6
603761	5/23/2003	\$92.00	6/2/2003	9
603771	6/5/2003	36.07	6/16/2003	11

RECOMMENDATION: We recommend that all funds collected be properly receipted and deposited. Further, procedures should be implemented to reconcile receipts to deposits to assure that all funds collected are properly receipted and deposited. Further, we recommend that deposits should be done daily or not later than the next business day in compliance with **62 O.S. § 517.3B**, previously cited.

FINDING (4): Adjustments to accounts without approval.

We reviewed the payment history of accounts and noted the following:

- (1) The policy of the rural water district is to assess a 10% late charge on outstanding balances. During test work of payment history, we noted that on one account, the late fee was manually removed. From 1/95 through 9/03 a total of \$396.17 of late fees appear to have been removed. In addition, this account history shows no entries of water usage or a tap fee (\$29.00 per month)

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for the months of August, September, October or November of 2001. This account appears to be that of a former employee of the water district.

(2) On 12-23-03 two (2) former water district employees' accounts were adjusted wherein the amount owed for the month was removed. The "adjustment report" stated the reason for the adjustment as "employee exempt". However, we noted on 1-31-04, the same amounts that had been removed had been added back to the amount due.

(3) In addition to adjustments referenced above, two (2) former water district employees' accounts were adjusted. On one account, it appears that from 9-27-98 through 2-16-00 the amount due each month was adjusted to show a zero balance due. The total amount adjusted out during this time period totals \$756.93. There is no account history listed from 2-16-00 until 1-31-04. It appears that no payments for water or the water tap were made on this account during this time period. We noted that during 2003, this account was coded on the billing register as "exclude" and the "year end report" for 2003 shows this account as having paid zero. It also appears that the account history began being entered again January 31, 2004, and payments to the account were made from January 31, 2004 through August, 2004. The other employee's account shows no account history from 5-14-03 through 8-31-04. During this time period, it appears that the employee was entered on the "billing register" and coded as "exclude" and that the employee received water and use of the water tap at no charge.

A former employee of the water district stated a prior Board approved free water for full-time employees. Meeting minutes dated September 10, 1998, state in part that "due to the lack of insurance coverage or any benefits for the employees" the Board approved "to supply water service for the employees, excluding temporary employees, at no charge up to a limit of 6,000 gallons per month". However, it appears in August 2004, the current Board members became aware of this and discontinued this practice.

According to the financial audit ending December 31, 2003, the district has four, 30-year mortgage notes with the Farmers Home Administration currently serviced by the Rural Development Administration. Pursuant to one of the Loan Resolutions for a loan that originated January 6, 1981, there is a condition that states in part, "...No free service or use of the facility will be permitted."

In addition, Article 6, Sections 1 and 6 of the water district bylaws state in part, "...each benefit unit shall carry with it the obligation of paying a minimum monthly meter charge from the time service is available...failure to pay the minimum monthly meter charge or failure to pay for water used through a meter shall constitute a forfeiture of the benefit unit..."

Also, in that the value of the free water was not reported as income, it may not be in compliance with the Internal Revenue Service, Section 5, "Wages Not Paid In Cash".

(4) It appears that an individual purchased a benefit unit. This benefit unit appears to have been transferred to another individual. There was no documentation in the account file authorizing the transfer. There appears to be no approval of this transfer by the Board. Article 6, Section 4 of the Bylaws state in part, "...no transfer in ownership of Benefit Units shall be permitted without the approval of the Board..."

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(5) On 2-17-03 the “meter reading worksheets” have no readings entered and are marked “est. due to weather”. It appears that during February 2003 meters were not read due to inclement weather. The amount entered as usage for February 2003 was based on January 2003, for most customers. However, it appears some customers’ estimated usage was entered as lower than other customers’ estimated usage amounts.

(6) On 1-8-2003 receipt no. 603666 was issued to a customer in the amount of \$50.00. The receipt was marked as cash being the form of payment. The corresponding deposit made on 1-8-03 had a notation on it that stated “cash was short \$3.71...” The entry on this customer’s account states “reverse payment” for \$3.71. Then \$3.71 was listed on the deposit ticket dated 1-16-03 and deposited with the bank on 1-17-03. There was no receipt written for the \$3.71 ;however, there was a “post-it note” with the notation No. 167 (name) \$3.71.

RECOMMENDATION: We recommend that adjustments to accounts be approved by the Board. We also recommend the District Attorney review this finding to determine necessary action to be taken.

II. CONCERN: *Possible irregularities concerning executive sessions, telephonic conferences, and possible quorum after meeting on August 12, 2004.*

PROCEDURE: We reviewed agendas, available meeting minutes and interviewed various Board members.

SUMMARY OF FINDINGS:

Executive Sessions

It appears that from January 2003 through August 27, 2004, the Consolidated Rural Water District No. 1 went into executive session a total of 11 times. It appears from the meeting minutes that a majority of the Board voted to go into executive session meetings. It also appears that meeting minutes were not taken during all executive session meetings. Executive session meeting minutes appear to have been taken during five (5) meetings. It also appears that during September 2004, one of the Board members delivered, to the interim operator/manager, two (2) sealed envelopes, purported to have been executive session meeting minutes. The interim operator/manager stated after he received the envelopes from the Board member, he placed the envelopes in a desk at the rural water district office located in New Alluwe. However, he stated that when he went back to get the meeting minutes, they were gone. The former chairman of the Board stated she has possession of meeting minutes taken during three (3) executive sessions. She stated she did not want to leave them in the office due to the other two (2) minutes being misplaced.

The meeting minutes dated February 19, 2004, stated that the Board went into executive session. They stated in part, “...the Board of Directors have taken disciplinary action against ...”. In addition to this, two (2) Board members concurred that during executive session, the Board gave the employee a reprimand letter.

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Title **25 O.S. § 307** states in part:

“...executive sessions of public bodies will be permitted only for the purpose of discussing the employment, hiring, appointment, promotion, demotion, disciplining or resignation of any individual...any vote or action on any item of business considered in an executive session shall be taken in public meeting with the vote of each member publicly cast and recorded...a willful violation of the provisions of this section shall cause the minutes and all other records of the executive session...to be immediately made public.”

Title **51 O.S. § 24A.7** states in part:

“A public body may keep personnel records confidential which relate to internal personnel investigations including examination and selection material for employment, hiring, appointment, promotion, demotion, discipline, or resignation...”

Title **25 O.S. § 312** states in part:

“..proceedings of a public body shall be kept by a person so designated by such public body in the form of written minutes which shall be an official summary of the proceedings showing clearly those members present and absent, all matters considered...”

Title **51 O.S. § 24.5** states in part:

“All records of public bodies and public officials shall be open...provided...records of what transpired during meetings of a public body lawfully closed to the public such as executive sessions authorized under the Oklahoma Open Meeting Act, Section 301 et seq. of Title 25 of the Oklahoma Statutes...”

Telephonic Conferences

It appears the chairperson contacted two (2) Board members and told them she had approved another Board member to order a second phone line and purchase internet payroll service on 6-25-04. The Board approved the second phone line and the internet service on 7-21-04.

August 12, 2004 Quorum

We were unable to determine if a quorum existed after the scheduled meeting on August 12, 2004.

RECOMMENDATION: We recommend that minutes be taken during all meetings, including executive session meetings. We also recommend the District Attorney review this finding to determine if the reprimand letter constituted “action” on the part of the Board.

III. CONCERN: *Possible irregularities in purchases made outside legally scheduled meetings and without proper approval by the Board.*

PROCEDURE: We reviewed available water district reports of expenditures paid, invoices, cleared checks and itemized claims for services, tangible items and travel reimbursement. In addition, we reviewed meeting minutes, daily office notes taken by employees, discussions with Board members, and reviewed processes for encumbrance, purchase and payment processes.

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FINDING (1): Questionable purchases/payments made without prior approval by the Board, where items had already been paid with pre-signed, blank checks and then presented to the Board as office related expenditures.

Items were purchased on several occasions without prior Board approval. Items were purchased with pre-signed, blank checks. The description of items listed on the treasurer's report and submitted to the Board were not indicative of all items paid.

- 1-7-03--the "treasurer's report" lists payment to vendor for "vacuum/phone/mi...warehouse & office". However, items purchased include "sugar wafers, cashew halves, nuts, Hershey kisses, ramen cup, crackers, midges, reeses mini, kit kat bars, snickers, coffee and soft drinks" totaling \$34.25.
- 1-16-03—the "treasurer's report" lists a payment made to an employee for reimbursement for "misc.expense". However, the payment to the employee included reimbursement of \$16.29 for "pepsi cola" and \$28.97 with no invoice supporting the expenditure.
- 1-30-03—the "treasurer's report" lists a payment to a vendor for a "calculator..office: misc.". However, the items purchased from the vendor included "raspberry zingers, ding dongs, coca, lays, chocolate, hershey hugs, chips, chicken cups, pepsi, salsa, con queso" totaling \$35.38.
- 3-26-03—"treasurer's report" lists a payment to a vendor for "office-misc. expense". However, items purchased included "ding dongs, pepsi cola, dr. pepper, pecan sandies, bread, oreos, and other food items which totaled \$32.94.
- 4-17-03 reimbursement to employee for "travel-mileage". The supporting documentation for this payment is for travel during March and April 2003. The payment for "travel-mileage" reimbursement included \$33.73 for "dr. pepper, mountain dew, pepsi cola, original gm., oatmeal pie, nutty bar, raspberry zinger, kraft miracle whip, ehrsh mlkch, e-hrsh pastel, ozarka, floral".
- 5-20-03—the "treasurer's report" lists a payment to a vendor for "office...misc. expense". However, items purchased included "ding dongs, crackers, bana twins, chocolate cake, mountain dew, pepsi" and other food items for a total of \$21.92.
- 9-3-03—the "treasurer's report" lists a payment to a vendor for "annual meeting...misc. expense". However, the receipt for this shows items purchased included "ding dongs, hostess cherry, apple and peach pies, Hawaii punch, pepsi cola, dr. pepper, cheezits, water" and various other food items totaling \$39.19.
- 9-3-03—the "treasurer's report" lists a payment to a vendor for "annual meeting...misc. expense". The receipt for this expenditure shows that "bottled water, mixed nuts, cashew halves, snickers, twix candy, fancy mix candy" totaling \$11.00 were purchased.

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- 10-15-03 reimbursement to employee for “payroll-gross” included \$29.60 for “air freshner, apple juice, soup, potting soil, flowers”.
- 10-28-03 instance wherein the “treasurer’s report” list payment to a vendor for “clock/bath&kitchen..office:misc”. However in addition to office supplies crackers, chips, popcorn, cashews, pepsi and water were purchased which totaled \$24.19.

From January 1, 2004-August 31, 2004, there did not appear to be any of this type of expenditures.

FINDING (2): Items purchased with no supporting documentation for expenditure.

- 1-16-03—the “treasurer’s report” lists a payment made to an employee for reimbursement for “misc.expense”. However, there does not appear to be an invoice supporting the payment to the employee for reimbursement of a claimed expense totaling \$28.97.
- 9-29-03—the “Treasurer’s Report” lists a reimbursement to an employee for “office:misc”. However, there does not appear to be an invoice supporting the payment to the employee totalling \$50.00.

From January 1, 2004-August 31, 2004, there did not appear to be any of this type of expenditures.

FINDING (3): Purchases made without prior approval, but later approved by the Board.

<u>ITEM</u>	<u>DATE PURCHASED</u>	<u>DATE APPROVED BY BOARD</u>	<u>APPROVED</u>
(1) Time Clock	11-20-03 (afternoon)	11-20-03(evening)	Meeting Minutes
(2) microcassette recorder	2-19-03	3-19-03	Listed on Bills to be Paid
(3)Attorney fees	*	*	*
(4) Internet Payroll Service	6-25-04	7-21-04 (internet service) 11-11-04(payment approved)	Meeting Minutes Meeting Minutes
(5) 2 nd Phone line for CRWD office	6-25-04	7-21-04	Meeting Minutes
(6) Computer program	4-26-04	4-16-04 & 5-20-04	Meeting Minutes

Item No. (1): The time clock was installed and is in use at the rural water district office. In addition, **Item No. (2)** referenced above was in a desk at the rural water district office.

***Item No. (3):** We reviewed four (4) invoices from two (2) different law firms. One invoice dated 3-1-03, totaled \$160.00 for services rendered on 1-15-03 and 2-11-03. The charge on 1-15-03 was for a phone conference with a rural water district employee regarding the sale of real and

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personal property owned by District and employee issues. We also reviewed daily office activity notes that reflected contact with an attorney on 1-15-03. However, there was nothing reflected in November or December 2002 meeting minutes regarding prior approval regarding legal services. And, we noted that on 1-16-03, the day after the contact with the attorney, the Board approved contact with this attorney.

The second invoice we reviewed totaled \$190.00 for legal services on 1-8-04, 1-9-04, and 1-19-04. The charge on 1-8-04 is for a telephonic conference with one of the Board members regarding rural water district employees. We did not see any prior approval of this discussion regarding attorney services. However, the 1-8-04 meeting minutes reflect that the same Board member stated "I contacted the attorney..." The services provided on 1-9-04 appear to be for the review of a fax from the same Board member. The service provided on 1-19-04 appears to be for a telephone conference with an employee of the rural water district.

The third invoice dated April 1, 2004, for attorney services, totaled \$343.15. The invoice reflected telephone conferences with a Board member.

The fourth invoice dated April 6, 2004, for attorney services totaled \$850.00. The invoice reflected telephone conferences with the chairperson of the Board.

It does not appear that any of the above-referenced contacts with attorneys was pre-approved by the Board. However, the Board approved payment of the first two invoices. And, we did note that the meeting minutes dated April 15, 2004, stated in part "that the use of attorneys needs to stop unless Board approved." Although legal services were rendered to two different Board members, the chairperson of the Board and an employee of the Board, prior to approval of the Board, the Board approved the payment of the services.

Item Nos. (4) & (5): The internet payroll service was ordered by and charged to a Board member's credit card on June 25, 2004. On July 21, 2004 the Board approved internet service, the payroll service and the second phone line. Then, on November 11, 2004, the Board approved the reimbursement to the Board member for the 6-25-04 charge made to his credit card for the internet payroll service. The Board member then in turn signed the reimbursement check back over to the Board, so there were no charges associated with internet payroll service on 6-25-04 that were paid by the rural water district.

Item No. (6): The meeting minutes (4-16-04) reflect approval of the purchase of Quick Books Pro. On 4-26-04, it appears the software was purchased and installed in Tulsa by the company, Image Solutions. The minutes (5-20-04) reflect the Board was advised the purchase was made from the company of a relative of a Board member and the Board approved payment of the purchase. In addition to the computer being removed from the office for the installation of this program, the computer was again removed from the office in August, 2004, by the chairperson of the Board. It appears that a USB port was installed on the computer and a zip drive was purchased. According to interim office staff, the CD writer used for backing up files was not working properly. It appears that the temporary operator/manager for the water district requested that a zip drive be purchased for backing up files. In order to use the zip drive, a USB port had to be installed. The computer was taken to Image Solutions where the USB port was installed. There was no payment from the water district associated with the zip drive purchase or the installation of the USB port.

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RECOMMENDATIONS: FINDINGS (1-3): We recommend the Board adopt and follow procedures for encumbering, purchasing and paying for items and services. In addition, we recommend that the Board stop signing blank checks and thoroughly review supporting documentation for expenditures prior to approval. We recommend that the District Attorney review these findings for necessary action to be taken.

FINDING (4): Possible payment for mileage during same time period gasoline was charged to the water district.

It appears that mileage reimbursement was paid during the same periods that gasoline was charged.

December 2002:	Employee charged mileage:	\$164.61
	Employee charged gasoline:	\$ 46.00 (\$26.00 of which was charged on a Sunday)
February 2003:	Employee charged mileage:	\$ 60.76
	Employee charged gasoline:	\$ 37.35
March & April 2003:	Employee charged mileage:	\$180.73
	Employee charged gasoline:	\$ 45.76
May 1-15, 2003:	Employee charged mileage:	\$ 69.13
	Employee charged gasoline:	\$ 17.00
May 15-July 31, 2003:	Employee charged mileage:	\$108.50
	Employee charged gasoline:	\$ 41.00
November 2003	Employee charged mileage:	\$ 9.30
	Employee charged gasoline:	\$ 18.00

RECOMMENDATION: FINDING (4): We recommend the District Attorney review this finding to determine the necessary action to be taken.

FINDING (5): Possible conflict of interest.

It appears that between March 2002 and October 2002, a relative of the Chairman of the Board earned \$8,922.00 working for the water district. During this time period, the Chairman of the Board signed off on the time sheets of the employee. In addition, it appears that during 2002, two (2) other persons earned wages from the water district. One of these individuals earned \$252.00 and the other individual earned \$1,761.00. These individuals worked for the water district while their relative was a member of the Board.

In addition to the hiring of Board members and Board members families', two (2) other individuals who appear to be relatives of the office clerk of the water district were paid by the water district in 2002. One individual earned \$1,074.00 and the other individual earned \$1,872.00. The office clerk signed as supervisor and approved the timesheets of one of these employees.

In addition, we noted that meeting minutes did not reflect the hiring of any of these individuals but the meeting minutes reflected discussion of "summer help" and the Board approved

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payment for wages. Also, meeting minutes reflect that the employees be supervised by the chairman of the Board.

The Consolidated Rural Water District No. 1 bylaws state in part that the Board of directors shall "...select and appoint all agents and employees of the District or remove such agents...and that...the Board may employ for the District, a Manager, who shall have charge of the business of the District under the general control, supervision and direction of the Board. No Director shall serve as manager..."

RECOMMENDATIONS: FINDING (5): We recommend that the rural water district follow the laws, bylaws and policies and procedures manual in hiring and supervising employees. We recommend that the District Attorney review this finding to determine the necessary action to be taken.

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Throughout this report there are numerous references to state statutes and legal authorities, which appear to be potentially relevant to issues raised and reviewed by this Office. The State Auditor and Inspector has no jurisdiction, authority, purpose or intent by the issuance of this report to determine the guilt, innocence, culpability or liability, if any, of any person or entity for any act, omission, or transaction reviewed and such determinations are within the exclusive jurisdiction of regulatory law enforcement, and judicial authorities designated by law.

The inclusion of cites to specific statutes or other authorities within this report does not, and is not intended to, constitute a determination or finding by the State Auditor and Inspector that the Consolidated Rural Water District No. 1 or any of the individuals named in this report or acting on behalf of the Consolidated Rural Water District No. 1 have violated any statutory requirement or prohibition imposed by law. All cites and/or references to specific legal provisions are included within this report for the sole purpose of enabling the Administration and other interested parties to review and consider the cited provisions, independently ascertain whether or not the Consolidated Rural Water District No. 1 policies, procedures or practices should be modified or discontinued, and to independently evaluate whether or not the recommendations made by this Office should be implemented.