



TOWN OF DOUGHERTY

Citizen Petition Audit Report

July 1, 2019

Cindy Byrd, CPA
State Auditor & Inspector

TOWN OF DOUGHERTY
MURRAY COUNTY, OKLAHOMA
CITIZEN PETITION AUDIT REPORT
JULY 1, 2016 THROUGH DECEMBER 31, 2018

July 1, 2019

TO THE CITIZENS OF THE TOWN OF DOUGHERTY

Pursuant to your request and in accordance with the requirements of 74 O.S. § 212(L), we performed a special audit of the Town of Dougherty for the period July 1, 2016 through December 31, 2018. The objectives of our audit primarily included, but were not limited to, the concerns noted in the citizens petition. The results of this audit are presented in the accompanying report.

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 services to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is also a public document pursuant to the Oklahoma Open Records Act in accordance with 51 O.S. §§ 24A.1, *et seq.*

Sincerely,



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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Executive Summary

Why We Conducted This Audit

We performed this audit at the request of the citizens of the Town of Dougherty, Murray County, Oklahoma, pursuant to 74 O.S. § 212(L). The scope of the citizen petition was July 1, 2016 through December 31, 2018.

What We Found

- The Town of Dougherty's water rate increase in December 2017 appeared necessary and the implementation of the increase was handled properly. Water rates were increased to facilitate access to potable water. (Pg. 3)
- In a review of 31 utility billing accounts, one customer was underbilled by \$47.50 and one customer's account included a calculation error of \$80. The remaining accounts reviewed reflected properly recorded and deposited utility billing revenue. (Pg. 4-5)
- During the audit period the Town incurred an estimated water loss of 6,567,000 gallons, equating to an increased expense to the Town of approximately \$9,600 over a 30-month period. (Pg. 5)
- In a review of the Town and Authority's compliance with the Open Meeting Act, we noted eight violations of improper item discussions; two instances of the lack of recording of individual votes of board members; and in 65 of 68 meetings the presence or absence of each board member was not recorded. (Pg. 7-8)
- Open records requests for utility customer account information were not honored by Town officials. (Pg. 9)
- The Town currently employs only one individual who is responsible for all financial and recordkeeping functions, resulting in a lack of segregation of duties and internal controls sufficient to prevent or reduce errors or irregularities. (Pg. 10)

Town of Dougherty – Citizen Petition Audit

Introduction The Town of Dougherty (Town) is organized under the statutory town board of trustees form of government, as outlined in 11 O.S. §§ 12-101 *et seq.* The Dougherty Public Works Authority (Authority) is a public trust established under 60 O.S. §§ 176 *et seq.* The Authority provides utility services to the residents of the Town and surrounding rural areas, the Town Board also serves as the board for the Authority.

The Town operates on a fiscal year from July 1 through June 30.

Town officials as of December 31, 2018, the end of the petition audit period, were:

Judy HaleMayor
Michael Baker Board Member
David Greer Board Member
Monte Billy Clerk/Treasurer/Water Superintendent

Petition & Objectives

Pursuant to increased water rates, which began in January 2018, citizens circulated a petition calling for an examination of the books and records of the Town. In the petition, verified by the Murray County Election Board on August 16, 2018, the citizens requested the assistance of the Oklahoma State Auditor and Inspector (SA&I) in conducting an audit of the following alleged concerns:

1. Review possible irregularities in the Town’s budget including dependence on utility revenue to maintain municipal operations and an increase exceeding 100 percent in water costs.
2. Review possible misappropriation of utility revenues including possible missing receipts and bank records not reconciled with Town financial records.
3. Review possible violations of the Open Meeting Act and the Open Records Act including the creation of fictitious meeting agendas, minutes, and denial of access to public records.

These concerns were used to develop the ‘Objectives’ addressed in the following report.

OBJECTIVE I

Water Rate Increase

Background

The petitioners were concerned with the Town’s increase in water rates and the related costs of water purchased from the Murray County Rural Water District #1 (RWD). This concern was addressed by obtaining and reviewing documentation to determine if:

- The water rate increase was warranted and if the amount of the increase was properly supported.
- The implementation of the water rate increase was performed in a legal manner.

In October 2017, the Town of Dougherty received a letter of notification from the RWD explaining water rates would be increasing as of December 1, 2017. The increase was due to a reduction in permitted water withdrawal from the Arbuckle Simpson Aquifer and the subsequent need to acquire a significant amount of additional water rights in order to meet Oklahoma Water Resources Board (OWRB) regulations.

Town officials enlisted their independent auditor to prepare a rate study of how the RWD rate increase would affect the Town’s finances. According to the board minutes, three proposals were received on how to increase the Town’s water rates to adjust to the rate increase from the RWD. In December 2017 Dougherty’s governing board accepted one of the rate proposals and approved a rate increase effective immediately. The Town’s annual contract with the RWD was also renewed in December 2017.

The Town of Dougherty owns a water treatment plant and water rights to the Arbuckle Lake; however, the water treatment plant needs extensive repairs and is not capable of producing water that meets the standards and qualifications required by the OWRB and the Department of Environmental Quality (DEQ). The Town does not have the capital to make the necessary improvements to the water treatment plant. To provide safe water to the residents of the Town, the Authority buys water from the RWD as a wholesale customer.

Finding

The Town’s water rate increase in December 2017 appeared necessary and the implementation of the increase was handled properly. Water rates were increased to facilitate access to potable water.

The Town purchases water for its citizens from the RWD. The RWD increased their rates because access to their primary water source, the Arbuckle Simpson Aquifer, was drastically reduced from 2.2 feet per acre to .2 feet per acre by the OWRB to protect the long-term viability of the Aquifer. That reduction necessitated the need to purchase water rights

elsewhere and to raise their rates to pay for the additional cost. The Town's rate from the RWD increased from \$1.00 per 1,000 gallons to \$2.20 per 1,000 gallons. The RWD acted within their rights provided by 82 O.S. § 1324 et. seq. in raising their rates.

The Town of Dougherty was notified of the rate increase and, in turn, elected to raise their consumer rates to offset their costs. The increase to Dougherty's base rate was 19% and the increase in the incremental rate per 1,000 gallons was 73%. Dougherty's rate increase was properly approved by the governing board and published in the local newspaper in accordance with 11 O.S. §14-106 which states:

No ordinance having any subject other than the appropriation of monies shall be in force unless published or posted within fifteen (15) days after its passage.

OBJECTIVE II

UTILITY BILLING

Background

The petitioners had no identifiable concerns regarding utility billing apart from questioning if the water rate increase was related to a possible misappropriation of utility billing revenue. It was also presented as part of the petition that bank records were not properly reconciled to the Town's financial records.

These concerns were addressed through a review of bank reconciliations, along with a review of utility billing activity and procedures with the objective to determine if:

- Utility billing was accurate, complete, and timely, and if utility revenue collected was properly recorded and deposited.
- Bank reconciliations were performed, and if the Town's financial records were properly reconciled with bank records.

Utility Billing

For a sample of 31 utility billing customers, monthly meter readings were traced to customer account records to determine if the correct water usage and water costs were billed. Corresponding utility payments recorded in the customer account records were then traced to carbon copy receipts and were reconciled to the Town's deposit records and the bank's deposit sources.

Finding

For four of the 31 utility billing accounts reviewed, the number of gallons of water usage recorded per the Town's meter reading sheets differed from the actual amount of water billed per the customer account records, resulting in one account being underbilled by \$47.50.

The Water Superintendent is aware of the weaknesses in the water system and appears to work to correct any problems noted. The water losses have resulted from a combination of the following factors:

- The water tower does not have an altitude control valve resulting in water losses that cannot be measured. An estimate of the loss is reported on Monthly Operational Reports filed with DEQ, but the actual gallons lost is unknown. The Town is currently in the process of obtaining an altitude control valve which will help alleviate this problem.
- The water usage at the fire department, town hall and school building is not metered, so water used at these facilities is not billed, resulting in cost incurred that are not recoverable.
- All Town utility records are hand-written and hand-calculated increasing the possibility that errors will occur.
- Water leaks, both known and unknown throughout the system, result in water losses that would not be billed.

DEQ offers two programs, free of charge, to help Oklahoma public water distribution systems provide safe drinking water, achieve compliance with the Safe Drinking Water Act, and find and correct sources of non-revenue water. These two programs are:

- Water Loss Audits
- Water Capacity Development Program

The Water Loss Audits program provides a free water loss audit conducted by DEQ personnel, a free copy of the AWWA/IWA² auditing software, and instruction on the auditing method so that water systems can conduct regular self-audits in the future.

A water loss audit should help identify and quantify water loss by providing an accounting of all the water produced, sold, consumed, and lost in a water system. A water loss audit will also indicate how much water is lost due to faulty meters, data handling errors, and unauthorized use, along with how much is lost due to leaks and overflows.

The Water Capacity Development Program provides training and technical assistance in the areas of adequacy of physical infrastructure, fiscal management, and administrative effectiveness.

We recommend the Town of Dougherty take advantage of these free programs provided by DEQ to improve the operating effectiveness of their water system.

² American Water Works Association/International Water Association

Bank Reconciliations

Monthly bank reconciliations were obtained and reviewed for both the Authority’s Maintenance and Operation bank account and the Town’s General Fund bank account. It appeared bank reconciliations were completed timely and that statement balances reconciled with the Town’s financial records.

In addition, the independent accountant’s Report on Applying Agreed Upon Procedures for the year ended June 30, 2017, reflected that material bank accounts appeared properly reconciled without exception.

OBJECTIVE III

OPEN MEETING ACT AND OPEN RECORDS ACT

Background

The petitioners had no specific concerns regarding the Open Meeting Act or the Open Records Act. The petitioners had not attended any Town meetings and had no knowledge of anyone that had been denied access to Town records.

To address possible violations of the Open Meeting Act, meeting agendas and minutes for the Town and the Authority were reviewed to determine if agendas had been properly posted and minutes were properly recorded.

We also interviewed Town officials in an attempt to determine if any public records request had been submitted and if any such request were handled in accordance with the Open Records Act.

Open Meeting Act

Finding

Agenda discussion items from previous meetings were brought up in subsequent meetings under ‘Old Business’ or ‘New Business’ and not listed on the agenda of the subsequent meeting. This was noted eight times during the audit period.

According to the Open Meeting Act³, agendas must include all items of business to be transacted. Matters discussed in previous meetings cannot be addressed unless they are on the agenda, or unless the previous meeting was officially continued or reconvened. We noted items improperly addressed as “Old Business” or “New Business” during the following eight meetings:

³ Title 25 O.S. §§ 301-314.

Board Meeting Dates With Improper Discussion	
Town of Dougherty	Public Works Authority
August 8, 2016	October 10, 2016
November 14, 2016	May 14, 2018
January 9, 2017	-
February 13, 2017	-
May 8, 2017	-
November 13, 2017	-

Finding

Individual votes of board members were not recorded in the minutes of two board meetings.

According to 25 O.S. § 305 the vote of each board member must be recorded, the statute states:

In all meetings of public bodies, the vote of each member must be publicly cast and recorded.

The January 9, 2017, Authority board minutes did not record each board member’s vote on agenda item 6.2, instead the minutes stated, “COUNCIL ALL IN AGREEMENT WITH THIS PROBLEM.” No documentation was noted that a vote had been taken.

The July 10, 2017, Town board minutes also did not record each board member’s vote on agenda item 7, the minutes stated “Council Approved” without documenting that a vote had been taken.

The Town and Authority minutes should properly reflect each board member’s vote on meeting items as required by statute.

Finding

The minutes did not list individual board members as present or absent at each meeting. The minutes stated “ALL PRESENT” or named the member that was absent without naming who was present.

For 65 of the 68 meetings reviewed for both the Town and the Authority, the name of each board member and whether they were present or absent was not properly recorded in the minutes. As shown in the example for the July 9, 2018, Town meeting, members were not listed individually as present.

2. ROLL CALL. ALL PRESENT.

According to 25 O.S. § 312.A:

The proceedings of a public body shall be kept by a person so designated by such public body in the form of written minutes which shall be an official summary of the proceedings **showing clearly those members present and absent**, all matters considered by the public body, and all actions taken by such public body. [Emphasis added]

Open Records Act

Finding

Open records requests for utility customer account information were not honored by Town officials.

Town officials indicated they had received requests from the public to view utility customer account information. These requests were not honored because it was believed customer payment information was not public record.

According to 51 O.S. § 24.A.10.D. public bodies that provide utility services to the public must provide public access to their records. The exception is confidential payment information. The statute states in relevant part:

Although they must provide public access to their records, including records of the address, rate paid for services, charges, consumption rates, adjustments to the bill, reasons for adjustment, the name of the person that authorized the adjustment, and payment for each customer, public bodies that provide utility services to the public may keep confidential credit information, credit card numbers, telephone numbers, social security numbers, bank account information for individual customers...

We recommend Town officials establish a system of documenting open records request and provide public access to all records allowed under statute.

OBJECTIVE IV

INTERNAL CONTROL

Effective internal controls provide reasonable assurance that an entity's objective of accurate accounting and reporting will be met. No single employee should have complete control over all components of a transaction. Town officials are responsible for ensuring that internal controls are established, followed, and reviewed regularly.

Finding

The Town currently employs only one individual who is responsible for all financial and recordkeeping functions, resulting in a lack of segregation of duties and internal controls sufficient to prevent or reduce errors or irregularities.

Currently, the Town clerk/treasurer is responsible for receipting, depositing, and recording utility revenue, along with the reconciliation of the Town's bank accounts. The clerk/treasurer also has the authority to prepare and distribute vendor payments.⁴

The Town should evaluate areas where any segregation of duties could be implemented or where additional internal controls could be put into practice. Suggested internal controls include:

- Retaining an accounting firm to reconcile bank records to Town records;
- Mailing bank statements, with check images, to a board member for independent oversight;
- Requiring two signatures on checks at the bank level. Although checks are required to have two signatures per Town policy, checks are allowed to clear the bank with one signature;
- Utilizing the 'Audit Trail' feature in the QuickBooks software used by the Town. This feature maintains a record of all activity and corrections made to the financial records and can be password protected from the primary user; and
- Consider hiring a part-time employee to integrate segregation of duties into the daily receipting, depositing, and/or expenditures of the Town.

⁴ One exception is the preparation of employee payroll tax reports which are prepared by an independent accountant.

DISCLAIMER

In this report, there may be references to state statutes and legal authorities which appear to be potentially relevant to the issues reviewed by the State Auditor & Inspector's Office. This Office 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, prosecutorial, and/or judicial authorities designated by law.

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STATE AUDITOR & INSPECTOR



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov