



# Town of Headrick Jackson County Special Audit Report January 2003 – December 2004

**JEFF A. McMAHAN, CFE**  
OKLAHOMA OFFICE  
OF THE  
STATE AUDITOR & INSPECTOR

## Why the audit was performed

The audit was conducted in response to a request by the District Attorney of Jackson County pursuant to 74 O.S.2001, § 212(H).

## Audit Summary:

- ✓ Posting to accounts receivable records as being paid or in which receipts have been issued for payment in the amount of \$6,233.25 cannot be accounted for as being deposited with the County Treasurer's office. **Pg 8**
- ✓ No invoices or receipts for expenses were attached to purchase orders for the funds received by the previous Clerk from the Utility Trust above her base salary. **Pg 10**
- ✓ We were unable to locate W-2 forms for wages to employees paid during the time frame encompassed by the audit. **Pg 10**
- ✓ The previous Town Clerk owes \$2,540.95 for water and fees to the Town of Headrick over the period that the Clerk was employed. **Pg 11**
- ✓ Bills were being generated late for some months and not at all for other months. The accounts receivable ledgers were prepared by the Town Clerk. **Pg 12**
- ✓ Incomplete records are being kept on payments received and inconsistent billing procedures are done by the Clerk of Headrick. **Pg 12**
- ✓ We were unable to locate records reflecting deposits held by the Town for water meter customers. **Pg 13**
- ✓ Documents reflect previous balances on several bills and copies of collection letters from attorneys that have been sent to the Town. The prior Town Clerk did not send out several warrants that had been registered to vendors. **Pg 14**
- ✓ Three different types of receipts were issued by the prior Town Clerk, but only two different types of receipt books were found. Some receipts had been torn out of the receipt books. Receipts were not issued consistently for funds received. **Pg 15**

To view a copy of the entire report, please visit our website at: [www.sai.state.ok.us](http://www.sai.state.ok.us).

If you have questions or would like to contact our office, please call (405) 521-3495.

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This publication is printed and issued by the State Auditor and Inspector as authorized by 74 O.S. 2001, § 212(H). Pursuant to 74 O.S. 2001, § 3105(B), 35 copies have been prepared and distributed at a cost of \$45.00. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan  
State Auditor and Inspector

February 23, 2005

Honorable John M. Wampler  
District Attorney-District No. 3  
101 N. Main  
Altus, Oklahoma 73521

Transmitted herewith is the Special Audit Report of the Town of Headrick, Jackson County, Oklahoma. 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 Town.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to insure a government which is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our Office during the course of our special audit.

Sincerely,

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

JEFF A. McMAHAN  
State Auditor and Inspector

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**HEADRICK TOWN TRUSTEES AND TOWN OFFICIALS**

**CURRENT BOARD OF TRUSTEES**

Steve Jameson ..... Mayor

Billy Smith ..... Trustee

David Burbank ..... Trustee

**TOWN OFFICIALS**

Joe Bailey ..... Town Clerk/Treasurer  
(1-1-05 to current)

Robbin Gardner ..... Previous Town Clerk/Treasurer  
(April 2003 to December 2004)

Joe Bailey ..... Water Superintendent  
(1-1-05 to current)



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan  
State Auditor and Inspector

Honorable Mayor and Board of Trustees  
Town of Headrick  
P.O. Box 153  
Headrick, Oklahoma 73549

Pursuant to the District Attorney's request and in accordance with the requirements of **74 O.S. 2001, § 212(H)**, we conducted a special audit with respect to the Town of Headrick, Jackson County, Oklahoma, for the period January 2003 through December 2004.

The objectives of our special audit primarily included, but were not limited to, the areas outlined in the "index of specific concerns" noted in the table of contents. Our findings and recommendations are presented in the accompanying report.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the Town of Headrick for the period January 2003 through December 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 Town taken as a whole.

This report is intended to provide information to the District Attorney, Board of Trustees, and Town Officials. 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  
State Auditor and Inspector

February 2, 2005

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## **INTRODUCTION**

The Town of Headrick, Oklahoma is organized under the statutory town board of trustees form of government, as outlined in **11 O.S. 2001, § 12-101, et seq.**

**11 O.S. 2001, § 12-101, et seq.** states:

“The form of government provided by Sections 12-101 through 12-114 of this title shall be known as the statutory town board of trustees form of government. Towns governed under the statutory town board of trustees form shall have all the powers, functions, rights, privileges, franchises and immunities granted, or which may be granted, to towns. Such powers shall be exercised as provided by law applicable to towns under the town board of trustees form, or if the manner is not thus prescribed, then in such manner as the board of trustees may prescribe.”

The Town is audited by a private, independent audit firm. Audit reports were made available for our review. The latest audit report available was for fiscal year ending June 30, 2000.

The State Auditor and Inspector conducted a special audit of the records of the Town of Headrick, primarily those records relating to the District Attorney’s concerns. The results of the special audit are in the following report.

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**CONCERNS, FINDINGS AND RECOMMENDATIONS**

**I. CONCERN:** *Cash revenue generated from water, fire, garbage and sewer fees are not being deposited with the Jackson County Treasurer.*

**FINDING:** A review of Jackson County Treasurer's records reflected a significant decrease in cash being deposited by the Town of Headrick.

The table below reflects the decrease in the amount of cash that has been deposited at the Jackson County Treasurer's office during the years listed.

	<b>CASH DEPOSITED</b>
July 1, 2001 thru June 30, 2002	\$5,147.65
July 1, 2002 thru June 30, 2003	\$4,755.20
July 1, 2003 thru June 30, 2004	\$ 130.75
July 1, 2004 thru January 7, 2005	\$ 195.00

The \$195.00 was deposited on January 6, 2005, after we began the audit on January 5, 2005.

During a review of the Town of Headrick's records, some cash was found randomly placed in books and envelopes. Also, checks that were made out to the Town of Headrick were found in records.

Cash in the amount of \$50.00 was found in an old billing book that was deposited after we began audit field work. Four checks made out to the Headrick Utility Trust totaling \$232.00 were found dating from August 2002 through August 2004.

Cash in the amount of \$245.00 was found sealed in an envelope with a deposit slip for the Town of Headrick wrapped around it. The front of the envelope was dated 11-3-2004, the same date as the deposit slip inside the envelope.

Monies were not deposited daily as required by **62 O.S. 2001, § 517.3.B.**, which states in part:

"The treasurer of every public entity shall deposit daily, not later than the immediately next banking day, all funds and monies of whatsoever kind that shall come into the possession of the treasurer by virtue of the office, in one or more financial institutions that have been designated as either state or county depositories, or both, and the acceptance of any such deposit from any such treasurer shall be tantamount to adoption, in relation thereto, of the same privileges and conditions, other than collateral security, as are now provided by law in acceptance of designation as state or county depositories. The treasurer may establish a depository or depositories for demand accounts in financial institutions outside of the



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governmental or municipal area of the treasurer but within this state. The State Treasurer is hereby authorized to be the official depository for the treasurer of any county, and for the treasurer of any city or board of education where such city or school district has a population of five thousand (5,000) or more inhabitants but only for deposit of remaining fund balances in inactive funds and not for checking purposes. The county treasurer is hereby authorized to be official depository for the treasurer of any city, town, or board of education."

Treasurer's records, accounts receivable ledgers of the Town of Headrick, and some receipts were used to determine if funds were properly deposited with the Treasurer's office.

All deposits made at the County Treasurer's office for this time period have been traced to accounts receivable ledgers or traced to the source of funds. Most accounts receivable ledgers seem to be correct with only minor addition problems within the ledger posting.

We identified cash payments and other payments that have been posted to the ledgers that cannot be identified as being deposited with the County Treasurer's office. Several receipts were reviewed and found to be inconsistent as to what had been deposited with the County Treasurer's office.

Some of the customers that we interviewed signed affidavits stating that they paid cash over the audit period for water bills and other fees.

Posting to accounts receivable records as being "paid" or in which receipts have been issued for payment in the amount of \$6,233.25 cannot be accounted for as being deposited with the County Treasurer's office.

This appears to be a violation of **21 O.S. 2001, § 341**, which states in part:

"Every public officer of the state or any county, city, town, or member or officer of the Legislature, and every deputy or clerk of any such officer and every other person receiving any money or other thing of value on behalf of or for account of this state or any department of the government of this state or any bureau or fund created by law and in which this state or the people thereof, are directly or indirectly interested, who either:

First: Appropriates to his own use, or to the use of any person not entitled thereto, without authority of law, any money or anything of value received by him as such officer, clerk, or deputy, or otherwise, on behalf of this state, or any subdivision of this state, or the people thereof, or in which they are interested; or

Second: Receives, directly or indirectly, any interest, profit or perquisites, arising from the use or loan of public funds in his hands or money to be raised through this agency for state, city, town, district, or county purposes; or

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Third: Knowingly keeps any false account, or makes any false entry or erasure in any account of or relating to any moneys so received by him, on behalf of the state, city, town, district or county, or the people thereof, or in which they are interested; or

Fourth: Fraudulently alters, falsifies, cancels, destroys or obliterates any such account; or

Fifth: Willfully omits or refuses to pay over to the state, city, town, district or county, or their officers or agents authorized by law to receive the same, any money or interest, profit or perquisites arising therefrom, received by him under any duty imposed by law so to pay over the same shall, upon conviction thereof, be deemed guilty of a felony[.]"

**RECOMMENDATION:** We recommend the District Attorney review this finding to determine what action, if any, may be necessary. In addition, we recommend the Board of Trustees establish policies, procedures, and internal controls to provide greater oversight of funds received.

**II. CONCERN:** *Determine wages paid to the previous Town Clerk/Treasurer.*

**FINDING:** The Mayor stated that the previous Town Clerk/Treasurer received \$75.00 per month from the general fund and \$225.00 per month from the utility trust fund. Wages paid to the previous Town Clerk during her employment are listed below:

**HEADRICK GENERAL FUND**

WARRANT NO.	DATE PAID	TOTAL PAID	WARRANT NO.	DATE PAID	TOTAL PAID
47	5/14/2003	\$75.00	78	4/16/2004	\$75.00
54	6/12/2003	\$75.00	86	5/13/2004	\$75.00
4	7/14/2003	\$75.00	90	6/7/2004	\$75.00
11	8/11/2003	\$75.00	7	7/13/2004	\$75.00
20	9/8/2003	\$75.00	9	8/9/2004	\$75.00
37	10/10/2003	\$75.00	13	9/13/2004	\$75.00
42	11/7/2003	\$75.00	17	10/15/2004	\$75.00
54	12/5/2003	\$75.00	20	11/17/2004	\$75.00
63	1/7/2004	\$75.00	23	12/10/2004	\$75.00
71	2/5/2004	\$75.00	26	1/12/2005	\$75.00
76	3/8/2004	\$75.00			

**Total paid from General Fund:     \$1,575.00**

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**HEADRICK UTILITY TRUST**

<b>WARRANT NO.</b>	<b>DATE PAID</b>	<b>TOTAL PAID</b>	<b>WARRANT NO.</b>	<b>DATE PAID</b>	<b>TOTAL PAID</b>
75	5/14/2003	\$241.83	64	3/8/2004	\$246.09
83	6/12/2003	\$225.00	69	4/16/2004	\$247.00
7	7/14/2003	\$246.00	76	5/13/2004	\$294.00
16	8/13/2003	\$239.83	78	6/7/2004	\$225.00
19	9/8/2003	\$239.28	9	7/13/2004	\$264.62
25	10/10/2003	\$275.44		8/13/2004	\$ 0.00
37	11/7/2003	\$255.00	16	9/13/2004	\$300.00
38	11/24/2003	\$91.00	22	10/15/2004	\$464.84
41	12/5/2003	\$250.95	24	11/17/2004	\$90.00
50	1/13/2004	\$246.09	26	12/10/2004	\$390.00
55	2/5/2004	\$255.80	33	1/12/2005	\$225.00

**Total paid from Utility Trust:        \$5,312.77**

Base pay is \$225.00/month or \$4,725.00 over audit period. The difference of \$5,312.77 and \$4,725.00 is \$587.77.

The Mayor stated to us that the previous Town Clerk/Treasurer was paid more than her base salary from the Utility Trust as reimbursement for miscellaneous items purchased for the Town. (\$587.77)

We reviewed purchase orders paid to the previous Clerk/Treasurer from the Utility Trust and found that no invoices or receipts for expenses were attached to purchase orders for the funds received above her base salary.

We were unable to locate W-2 forms for wages to employees paid during the time frame encompassed by the audit.

This appears to be a violation of **21 O.S. 2001, § 341** previously cited and **Article 10 § 11** of the **Constitution of Oklahoma**, which states:

"The receiving, directly or indirectly, by any officer of the State, or of any county, city, or town, or member or officer of the Legislature, of any interest, profit, or perquisites, arising from the use or loan of public funds in his hands, or moneys to be raised through his agency for State, city, town, district, or county purposes shall be deemed a felony. Said offense shall be punished as may be prescribed by law, a part of which punishment shall be disqualification to hold office."

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**RECOMMENDATION:** We recommend W-2 forms be prepared as required by IRS Circular E to document wages paid to employees. We recommend the District Attorney review this finding to determine what action, if any, may be necessary. In addition, we recommend the Board of Trustees establish policies, procedures, and internal controls to provide greater oversight of funds expended.

**III. CONCERN:** *Determine why a purchase order was issued for petty cash and determine fund balance.*

**FINDING:** A review of Jackson County Treasurer's Ledger reflected that a warrant was issued on 1-6-2004 to Petty Cash from the Utility Trust Fund.

No records exist for the Petty Cash Fund. No receipts for expenses or documentation of Petty Cash Fund balance were located.

**RECOMMENDATION:** We recommend the Town of Headrick seek reimbursement for the Petty Cash Fund money or that proof of the expenses be provided.

**IV. CONCERN:** *Determine if previous Town Clerk/Treasurer paid her water, fire, sewer and garbage fees owing the Town of Headrick.*

**FINDING:** A review of Jackson County Treasurer's office records on deposits made by the Town of Headrick revealed that the previous Town Clerk/Treasurer had not made any payments to the Town since February 28, 2003, for water, fire, garbage, and sewer fees. Prior to February 28, 2003, she paid by check.

The previous Town Clerk/Treasurer had two meters, one for farm use and the other for residential use. The subject bill reflects an outstanding balance of \$135.00 on February 28, 2003.

We reviewed meter readings of both meters and determined that the previous Town Clerk/Treasurer owes \$2,540.95 for water and fees to the Town of Headrick over the period that the Clerk/Treasurer was employed.

Several postings to the accounts receivable ledgers reflect payments and charges to the ledgers, but our comparison of ledgers and deposits made to the County Treasurer reflect that such deposits were not made for the previous Town Clerk/Treasurer to the County Treasurer's office. The prior Town Clerk/Treasurer did the posting to the accounts receivable ledgers and made the deposits to the County Treasurer as part of her duties as Town Clerk/Treasurer.

This appears to be a violation of **21 O.S. 2001, § 341** previously cited.

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**RECOMMENDATION:** Based on the records reviewed, it appears the prior Town Clerk/Treasurer owes a balance of \$135.00 and other charges of \$2,540.95 totaling \$2,675.95 and any late fees that may apply to the Town of Headrick. We recommend the District Attorney review this finding to determine what action, if any, may be necessary. In addition, we recommend the Board of Trustees establish policies, procedures, and internal controls to provide greater oversight of funds received and billed.

**V. CONCERN:** *Determine if Town of Headrick has complete records for billing water usage and other fees to be collected by the Town.*

**FINDING:** We attempted to determine if billing was done from January 2003 thru December 2004. During the review of billing statements, bills were sent out one to two months late.

We noted that during several months, a computer-generated statement was used for billing, but after a review of the computer system noted that the Town of Headrick data files could not be found on the system at the time of the audit.

The meter book was reviewed and accurate meter readings appeared to be listed in the book, which showed that the meters were read and posted before the end of the month. The entries in the meter book were done by the water superintendent.

After a review of the accounts receivable ledgers, we determined that bills were being generated late for some months and not at all for other months. The accounts receivable ledgers were prepared by the Town Clerk/Treasurer.

We attempted to generate accounts receivable balances from the meter book and whether the posting and deposits were handled correctly. We found that incomplete records are being kept on payments received and inconsistent billing procedures are done by the Clerk/Treasurer of Headrick.

This appears to be a violation of **11 O.S. 2001, § 12-109** and **12-110**, which states:

"The town clerk shall be an officer of the town. The town clerk shall:

1. keep the journal of the proceedings of the board of trustees; and
2. enroll all ordinances and resolutions passed by the board of trustees in a book or set of books kept for that purpose; and
3. have custody of documents, records, and archives, as may be provided for by law or by ordinance, and have custody of the town seal; and
4. attest and affix the seal of the town to documents as required by law or by ordinance; and
5. have such other powers, duties, and functions related to his statutory duties as may be prescribed by law or by ordinance. The person who serves as town clerk may be employed by the town to perform duties not related to his position as town clerk. The salary, if any, for said duties shall be provided for separately by ordinance."

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"The town treasurer shall be an officer of the town. The town treasurer shall:

1. maintain accounts and books to show where and from what source all monies paid to him have been derived and to whom and when any monies have been paid; and
  2. deposit daily funds received for the town in depositories as the board of trustees may designate; and
  3. have such other powers, duties, and functions related to his statutory duties as may be prescribed by law or by ordinance. The person who serves as town treasurer may be employed by the town to perform duties not related to his position as town treasurer. The salary, if any, for said duties shall be provided for separately by ordinance.
- The books and accounts of the town treasurer shall be subject at all times to examination by the board of trustees."

**RECOMMENDATION:** We recommend the District Attorney review this finding to determine what action, if any, may be necessary. In addition, we recommend the Board of Trustees establish policies, procedures, and internal controls to provide greater oversight on accounts receivable, billings, and funds received. We recommend that a report on past due accounts, billings, and payments received be provided to the Trustees at each Board meeting and the Trustees provide greater oversight of the bookkeeping practices being used.

**VI. CONCERN:** *Records of water deposits held by the Town of Headrick.*

**FINDING:** We were unable to locate records reflecting deposits held by the Town for water meter customers. These deposits from 2001 to current were for \$50.00 per meter. Prior to that date the mayor said that the amount of deposit might have been \$25.00.

Approximately 40 to 50 meters exist on the Town's water meters. This could result in approximately \$2,000.00 of liability to the Town.

A question that exists is the location of the deposits. The account balances at the Jackson County Treasurer do not reflect deposits being held in fund balances.

We could not detect any payments back to customers for deposits held, but some deposits were used to make payments on last bills. Most of the time the last bill was for more than \$50 and other payments were not collected.

This appears to be a violation of **11 O.S. 2001, § 35-107**, which states:

- A. "Money in the municipal treasury which has been acquired as a utility deposit from a customer of a municipal utility shall be refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service, or at an earlier date as may be allowed by the municipality. Refunds to the customer shall be made in accordance with the procedures set forth in this section.

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B. If a utility deposit is to be refunded to the customer instead of being credited to the account of the customer, a refund check or warrant payable to the customer shall be issued by the municipal utility within thirty (30) days following the termination of the utility service.

C. Utility deposit refund checks or warrants of Five Dollars (\$5.00) or less shall be cashed by the customer within one (1) year of the termination of the utility service. Any such refund check or warrant not cashed by the customer within one (1) year of termination of the utility service shall be cancelled and the amount of the deposit shall be paid into the fund of the municipal utility for which the deposit was collected, or into the general fund as may be determined by the municipal governing body. No municipal utility customer shall have the right to any claim or refund on the deposit following the expiration of the one-year time period as set forth in this subsection.

D. If a utility deposit refund check or warrant in excess of Five Dollars (\$5.00) has not been cashed by a customer within one (1) year following termination of the utility service to the customer, the municipality shall send written notice to the customer at the last-known address of the customer stating that the refund check or warrant shall be cancelled and the deposit will be paid over to the municipality unless it is cashed by the customer within ninety (90) days of the date the notice is mailed by the municipality. If the check or warrant is not cashed within the ninety (90) days, the check or warrant shall be cancelled and the amount of the deposit shall be paid into the fund of the municipal utility for which the deposit was collected, or into the general fund as may be determined by the governing body. No municipal utility customer shall have a right to any claim or refund on the deposit after written notice and expiration of the ninety-day period in accordance with this subsection."

**RECOMMENDATION:** We recommend the District Attorney review this finding to determine what action, if any, may be necessary. In addition, we recommend the Board of Trustees establish policies, procedures, and internal controls over water meter deposits.

**VII. CONCERN:** *Bills of the Town of Headrick are not being paid timely.*

**FINDING:** The Jackson County Treasurer provided several documents which reflect previous balances on several bills and copies of collection letters from attorneys that have been sent to the Town. The prior Town Clerk/Treasurer did not send out several warrants that had been registered to vendors according to the County Treasurer.

A warrant that had been issued by the Jackson County Treasurer to PSO for the Town of Headrick was found dated August 5, 2003, for \$35.64.

**RECOMMENDATION:** We recommend the District Attorney review this finding to determine what action, if any, may be necessary. In addition, we recommend the Board of Trustees establish policies, procedures, and internal controls to provide greater oversight of expenditures.

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**VIII. CONCERN:** *Incomplete receipts and receipt books being kept.*

**FINDING:** The prior Town Clerk/Treasurer issued three different types of receipts, but only two different types of receipt books were found.

Some receipts had been torn out of the receipt books. Receipts were not issued consistently for funds received.

**RECOMMENDATION:** We recommend the District Attorney review this finding to determine what action, if any, may be necessary. In addition, we recommend the Board of Trustees establish policies, procedures, and internal controls to provide greater oversight of receipts.

\* \* \* \* \*

Throughout this report there are numerous references to state statutes and legal authorities that appear to be potentially relevant to issues 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 Town or any of the individuals named in this report or acting on behalf of the Town 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 Town 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.