



STATE OF OKLAHOMA
OFFICE OF THE STATE AUDITOR & INSPECTOR

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HEAVENER UTILITIES AUTHORITY
LEFLORE COUNTY
SPECIAL AUDIT REPORT

JANUARY 1, 2004 THROUGH OCTOBER 31, 2005



JEFF A. MCMAHAN, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR



Heavener Utilities Authority
LeFlore County
Special Audit Report
January 1, 2004 through October 31, 2005

JEFF A. McMAHAN, CFE

OKLAHOMA OFFICE OF THE
STATE AUDITOR & INSPECTOR

Why the audit was performed

The District Attorney requested
the audit pursuant to
74 O.S. 2001 § 212(H).

Audit Summary:

- ✓ Utility receipts examined from January 1, 2004 through June 30, 2005, in the amount of \$216,568.78, could not be found in the Gross Revenue account deposits. **Pg 7**
- ✓ Utility receipts examined from July 1, 1999 through December 31, 1999, in the amount of \$39,629.79, could not be found in the Gross Revenue account deposits. **Pg 8**
- ✓ Meter deposits examined from January 1, 2004 through June 30, 2005, in the amount of \$19,502.00, could not be found deposited in the Water Meter Account. **Pg 9**
- ✓ Water meter deposit fees examined from January 1, 2004 through June 30, 2005, in the amount of \$6,370.00, could not be found in the Gross Revenue account deposits. **Pg 10**

HEAVENER UTILITIES AUTHORITY

LEFLORE COUNTY

SPECIAL AUDIT REPORT

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

October 5, 2006

Mr. Farley Ward
District Attorney, District No. 16
P.O. Box 880
Poteau, Oklahoma 74953-0880

Transmitted herewith is the Special Audit Report of the Heavener Utilities Authority, LeFlore 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 Authority.

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,

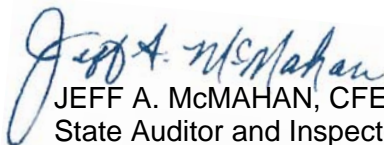

JEFF A. McMAHAN, CFE
State Auditor and Inspector

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BOARD OF TRUSTEES

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Charles Diedrich Ward #4 Trustee
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Judy Janway Former Water Utilities Clerk

CITY MANAGER

Mike Kennerson

CITY CLERK

Gail Loar

CITY TREASURER

Eddie Freeman



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

Mr. Mel Brand, Mayor
Chairman, Heavener Utilities Authority
103 East Avenue B
Heavener, Oklahoma 74937

Dear Mr. Brand:


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 the Heavener Utilities Authority, LeFlore County, for the period January 1, 2004 through October 31, 2005.

The objectives of our special audit primarily included but were not limited to, the areas noted in the District Attorney's request. Our findings and recommendations related to these procedures are presented in the accompanying report.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the Heavener Utilities Authority for the period January 1, 2004 through October 31, 2005. 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 do not extend to any financial statements of the Authority taken as a whole.

This report is intended solely for the information and use of the District Attorney and the Heavener Utilities Authority Administration and should not be used for any other purpose. This report is also a public document pursuant to the **Oklahoma Open Records Act (51 O.S. 2001, § 24A.1 et seq.)**, and shall be open to any person for inspection and copying.

Sincerely,


JEFF A. McMAHAN, CFE
State Auditor and Inspector

September 28, 2006

INTRODUCTION

The Heavener Utilities Authority was created January 17, 1963 under **60 O.S. 2001, § 176** *et seq.*

The State Auditor and Inspector conducted a special audit of the records of the Heavener Utilities Authority, primarily those records relating to the District Attorney's concerns. The results of the special audit are in the following report.

CONCERNS, FINDINGS AND RECOMMENDATIONS

CONCERN: *Possible irregularities in utility payments and deposits.*

FINDING: We obtained monthly utility stubs, bank statements, deposit slips, daily payment register reports (generated by the City’s utilities program) and the former utilities clerk monthly deposit sheet for the period of January 2004 through the last working month of the former utilities clerk of June 2005. We performed a receipt to deposits test where we totaled daily stubs and daily payment reports and reconciled them to a deposit. From our examination, we noted that totals from the utility stubs (submitted by the customer to the Authority when a payment was remitted) and totals per the daily payment reports were greater than the amounts deposited. It appears that all money collected was not deposited into the Authority’s bank account. The following schedule reflects the total per month that was collected, but not deposited into the Authority’s “Gross Revenue Account”:

DATE	STUBS/ PAYMENT REPORT	AMOUNT	VARIANCE
	RECEIPTS	DEPOSITED	OVER(UNDER)
January-04	\$51,421.82	\$41,567.58	(\$9,854.24)
February	66,149.82	51,647.83	(14,501.99)
March	64,477.96	52,508.76	(11,969.20)
April	49,519.59	43,085.57	(6,434.02)
May	56,719.89	47,962.68	(8,757.21)
June	67,222.43	46,828.76	(20,393.67)
July	56,654.41	47,242.46	(9,411.95)
August	69,208.71	52,269.89	(16,938.82)
September	75,264.51	61,654.82	(13,609.69)
October	66,348.17	54,813.69	(11,534.48)
November	73,719.32	55,001.87	(18,717.45)
December	71,400.90	57,520.49	(13,880.41)
January-05	62,389.37	51,806.87	(10,582.50)
February	76,609.04	59,318.29	(17,290.75)
March	64,663.97	49,643.31	(15,020.66)
April	56,687.48	50,421.26	(6,266.22)
May	61,970.87	59,570.96	(2,399.91)
June	<u>68,035.26</u>	<u>59,029.65</u>	<u>(9,005.61)</u>
TOTAL	\$1,158,463.52	\$941,894.74	(\$216,568.78)

The former utilities clerk was terminated from her duties on July 11, 2005. The former utilities clerk was on paid vacation leave and worked one day of July 2005. We tested the following four (4) months subsequent to her termination to determine if other employees may have been involved in the shortages of funds deposited. The summary is as follows:

DATE	STUBS/ PAYMENT REPORT	AMOUNT	VARIANCE
	RECEIPTS	DEPOSITED	OVER (UNDER)
July-05	\$74,085.17	\$74,109.49	\$24.32
August	70,805.51	70,962.86	157.35
September	77,903.19	77,579.29	(323.90)
October	78,738.61	78,823.61	85.00
Total	\$301,532.48	\$301,475.25	\$(57.23)

The former utilities clerk had been employed since 1990, and had the sole responsibility of receiving and depositing HUA funds. To substantiate our findings further, we selected 6 months prior to the tenure of the current City Manager and current Utilities Clerk to check the possibility that there might have been collaboration within the utilities office. The summary of findings is as follows:

DATE	STUBS/ PAYMENT REPORT	AMOUNT	VARIANCE
	RECEIPTS	DEPOSITED	OVER (UNDER)
July-99	\$34,904.22	\$34,580.50	\$(323.72)
August	46,706.44	34,241.37	(12,465.07)
September	42,122.21	34,863.19	(7,259.02)
October	38,208.08	38,583.82	375.74
November	55,462.73	38,127.59	(17,335.14)
December	40,798.84	38,176.26	(2,622.58)
Total	\$258,202.52	\$218,572.73	\$(39,629.79)

FINDING: The Heavener Utilities Authority requires a \$75.00 (homeowners) and a \$125.00 (renters) deposit for all new water customers. A handwritten receipt is issued to the individual and the money received is deposited into the “water meter account”. We obtained a “customer deposit list” that showed customer deposit dates. We scheduled the receipts and attempted to trace them to a deposit. The schedule is as follows:

<u>MONTH</u>	<u>RECEIPT TOTALS</u>	<u>AMOUNT DEPOSITED</u>	<u>VARIANCE OVER (UNDER)</u>
January-04	\$1,725.00	\$1,225.00	(\$500.00)
February	1,650.00	1,075.00	(575.00)
March	2,950.00	875.00	(2,075.00)
April	2,550.00	1,025.00	(1,525.00)
May	1,900.00	950.00	(950.00)
June	2,725.00	1,150.00	(1,575.00)
July	1,975.00	1,525.00	(450.00)
August	2,150.00	950.00	(1,200.00)
September	2,150.00	2,025.00	(125.00)
October	2,875.00	1,125.00	(1,750.00)
November	3,250.00	1,150.00	(2,100.00)
December	2,025.00	1,500.00	(525.00)
January-05	2,700.00	1,525.00	(1,175.00)
February	2,075.00	1,148.00	(927.00)
March	2,450.00	1,325.00	(1,125.00)
April	1,900.00	1,900.00	0.00
May	2,175.00	1,100.00	(1,075.00)
June	<u>3,350.00</u>	<u>1,500.00</u>	<u>(1,850.00)</u>
	<u>\$42,575.00</u>	<u>\$23,073.00</u>	<u>(\$19,502.00)</u>

From our examination, it appears that some monies received by the Authority from new customers were not deposited into the “Water Meter Account”.

In addition to the water meter deposit, a garbage pick-up fee of \$7.50 and a \$10.00 water turn-on fee are added to their payment. These fees are deposited into the Authority’s “Gross Revenue Account”. We scheduled the above water meter deposit payments to determine the amount that should have been deposited. The schedule is as follows:

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MONTH	# OF DEPOSITS	GARBAGE FEE/	AMOUNT
	PER RECEIPTS	TURN-ON FEE	
Jan-04	15	\$17.50	\$262.50
February	14	17.50	\$245.00
March	24	17.50	420.00
April	22	17.50	385.00
May	18	17.50	315.00
June	22	17.50	385.00
July	17	17.50	297.50
August	18	17.50	315.00
September	18	17.50	315.00
October	23	17.50	402.50
November	28	17.50	490.00
December	17	17.50	297.50
Jan-05	24	17.50	420.00
February	19	17.50	332.50
March	22	17.50	385.00
April	16	17.50	280.00
May	19	17.50	332.50
June	28	17.50	490.00
			<u>\$6,370.00</u>

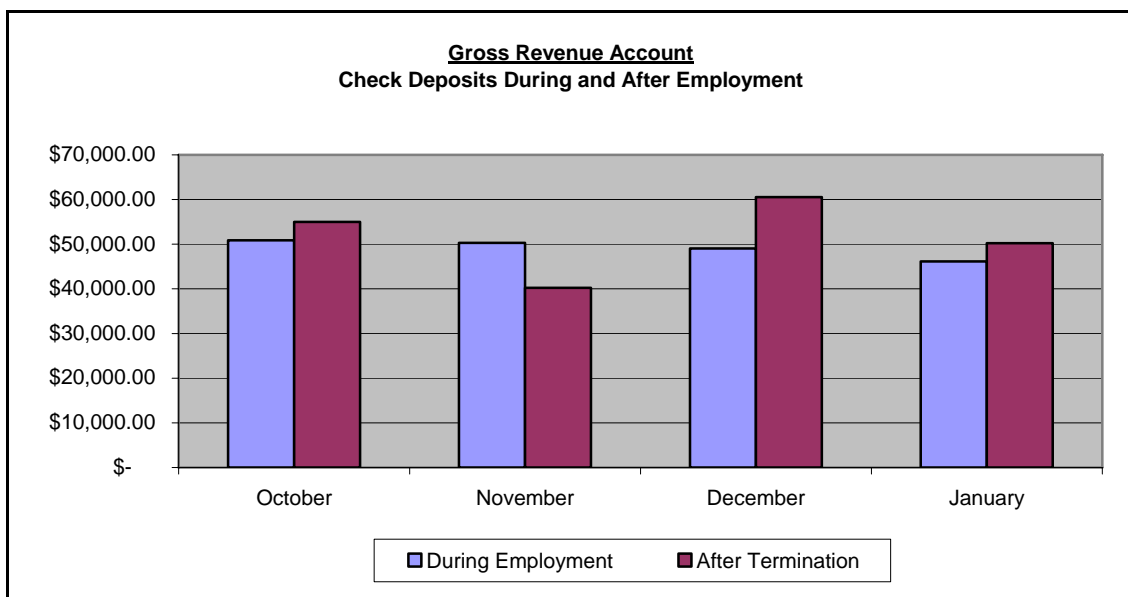
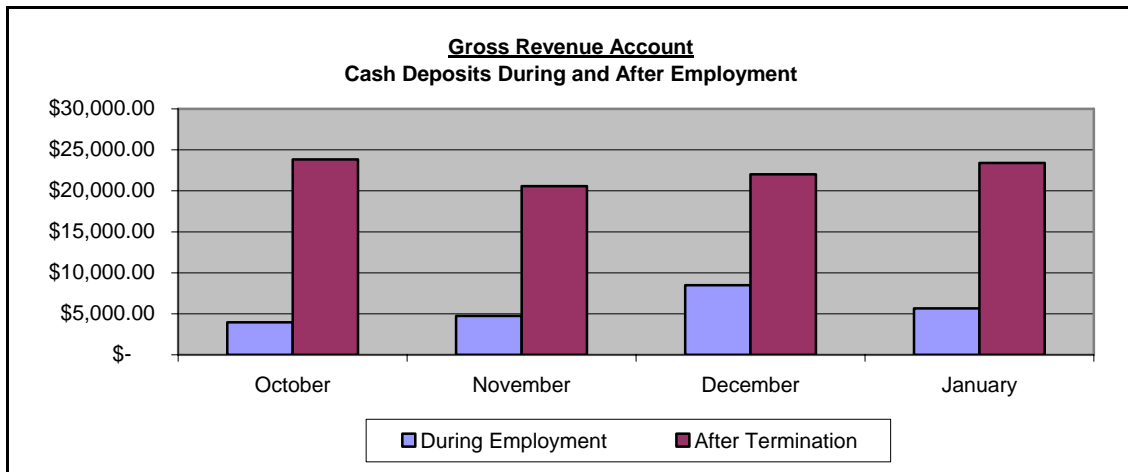
From the shortage of deposits in the "Gross Revenue Account" and "Water Meter Account" it appears that the above fees were also not properly deposited by the former Utilities Clerk.

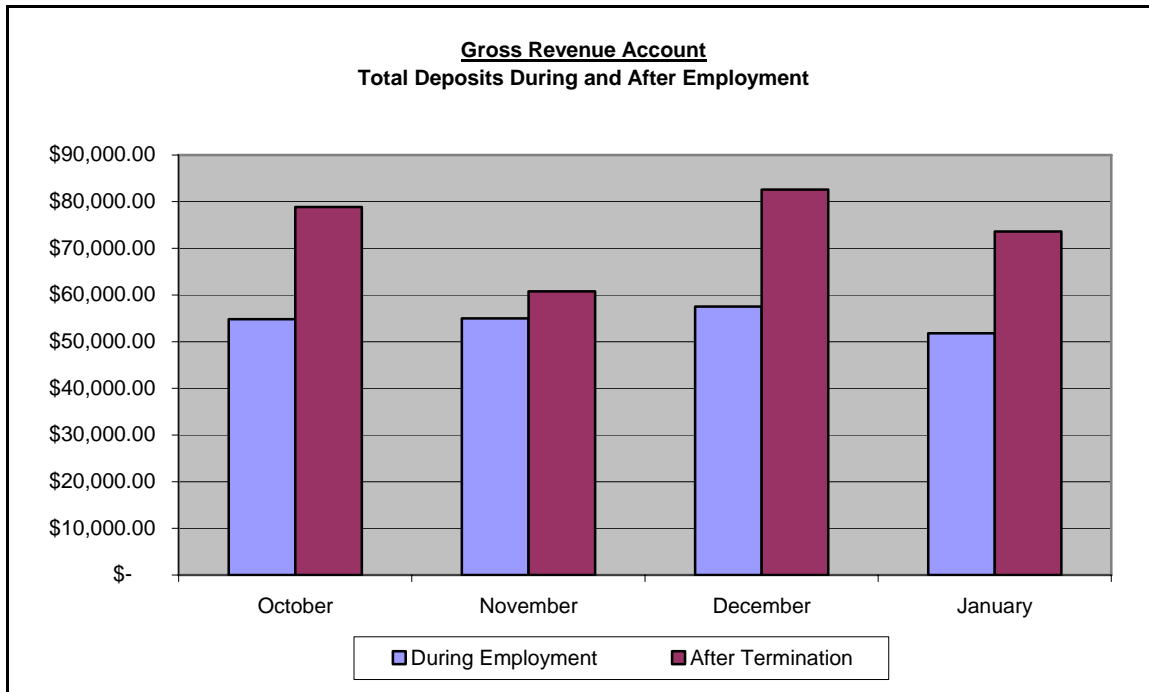
We tested the four months subsequent to the former utilities clerk termination to determine if there were any irregularities in deposits in the "Water Meter Account". The schedule is as follows:

MONTH	RECEIPT	AMOUNT	VARIANCE
	AMOUNT	DEPOSITED	OVER(UNDER)
July-05	\$2,875.00	\$2,775.00	(\$100.00)
August	2,400.00	2,700.00	300.00
September	2,300.00	2,300.00	0.00
October	<u>1,250.00</u>	<u>1,625.00</u>	<u>375.00</u>
	<u>\$8,825.00</u>	<u>\$9,400.00</u>	<u>\$575.00</u>

A cash composition could not be performed on the above examinations. Utility payments received were not denoted as cash, check, or money order to determine the type of payment that was absent in the Authority's bank deposits. However, we selected four (4) months of deposits in 2004-05 and compared the totals (cash and checks) with the same four (4) months of deposits in 2005-06, after the former utilities clerk termination.

The following summaries reflect the difference:





In summary, the total amount of missing funds from each finding is as follows:

Gross Revenue Deposits (04-05)	\$216,568.78
Gross Revenue Deposits (99)	39,629.79
Water Meter Deposits (04-05)	19,502.00
Meter Deposit Fees (04-05)	<u>6,370.00</u>
Grand Total	<u>\$282,070.57</u>

In addition, the above findings appear to violate **21 O.S. Supp. 2002, § 341** which states in part:

“EMBEZZLEMENT AND FALSE ACCOUNTS BY OFFICERS

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

Second: Knowingly keeps any false account, or makes any false entry of 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

Third: Fraudulently alters, falsifies, cancels, destroys or obliterates any such account, shall, upon conviction, thereof be deemed guilty of a felony and shall be punished by a fine of not to exceed Five Hundred Dollars (\$500.00), and by imprisonment in the State Penitentiary for a term of not less than one (10 year nor more than twenty (20) years and, in addition thereto, the person shall be disqualified to hold office in this state, and the court shall issue an order of such forfeiture, and should appeal be taken from the judgment of the court, the defendant may, in the discretion of the court, stand suspended from such office until such cause is finally determined."

RECOMMENDATION: We recommend the District Attorney review the above findings to determine further action necessary.

* * * *

Throughout this report there are numerous references to state statutes and legal authorities which appear to be potentially relevant to issues raised by the patrons 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 Authority or any of the individuals named in this report or acting on behalf of the Authority 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 Authority and other interested parties to review and consider the cited provisions, independently ascertain whether or not Authority 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.



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