

Special Audit

Kinta Public School District No. 311013

Haskell County

July 1, 2002 through June 30, 2005



Office of the Oklahoma State Auditor and Inspector
Jeff A. McMahan, CFE



Kinta Public School Haskell County Special Audit Report July 1, 2002-June 30, 2005

JEFF A. McMAHAN, CFE

OKLAHOMA OFFICE
OF THE
STATE AUDITOR & INSPECTOR

Why the audit was performed

The Kinta Public School was audited pursuant to a request by the State Board of Education in accordance with **74 O.S. § 213.**

Audit Summary:

- ✓ During the 2002-03, 2003-04 and 2004-05 school years, general fund appropriations were used to pay for expenditures of prior years, \$22,740.00, \$8,757.00 and \$10,024.00, respectively. Pgs 7-8
- ✓ During the 2003-04 school year, the school exceeded general fund appropriations by approximately \$10,000.00. Pgs 8-9
- ✓ During the 2002-03, 2003-04 and 2004-05 school year, there were inadequate internal controls. During the 2002-03 and the 2003-04 school years, only the encumbrance clerk signed (approved) the purchase orders. During the 2002-03, 2003-04 and 2004-05 school year, the Board was presented with warrant registers (instead of encumbrances) which indicates obligations had been incurred and approved prior to the Board's review and approval of the encumbrances. Expenditures were not always paid from original, itemized invoices. Pg 10
- ✓ A teacher was paid \$400.00 per month for the entire year. The payment was not included in any type of contract and may not have been reported as taxable income. Pg 10
- ✓ During 2002-03 and 2003-04, there was a possible violation of the Open Meeting Act—special meetings were held approximately 34 miles from the town of Kinta. Pg 11-12
- ✓ During 2004-05, the superintendent denied a claim due to invoices being less than the amount claimed. The encumbrance clerk subsequently processed the claim and the claimant was paid. In addition, a school employee was reimbursed funds that he did not appear to be entitled to. Pg 12-13
- ✓ During the 2003-04 school year, the encumbrance clerk (who was also the payroll clerk) was overpaid approximately \$6,000.00 without the approval or the knowledge of the Board. During the 2004-05 school year, the same employee prepared a payroll warrant for 60 hours in excess of what she was entitled to. Pgs 13-15
- ✓ The school failed to report social security wages for 2003 and 2004 in a timely manner, failed to make payroll deposits from 3/31/04 – 6/30/05 in a timely manner, which resulted in assessed penalties of \$14,091.00, and failed to submit teacher's retirement reports and pay insurance premiums in a timely manner resulting in late remittance penalties of \$196.51 and \$84.45, respectively. Pgs 16-17
- ✓ Activity fund pre-numbered, duplicate receipts were not used and the activity fund custodian was not reconciling receipts to deposits to bank statements. Not all funds received were deposited. Pgs 17-24
- ✓ Activity fund expenditures were not pre-approved and not all expenditures were paid from original, itemized invoices. Some of the payments were for past due bills (one was over 90 days old and one was over 120 days old). Pgs 25-26
- ✓ The school reimbursed the FFA sponsor (and Vocational Agriculture teacher) for the purchase of a digital camera in the amount of \$312.59. However, the digital camera was not listed on the teacher's inventory and could not be located at the school. Pg 26
- ✓ There was an activity account that did not appear to be approved by the Board. Pgs 27-28

**KINTA PUBLIC SCHOOL DISTRICT No 311013
HASKELL COUNTY
SPECIAL AUDIT REPORT
JULY 1, 2002-JUNE 30, 2005**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

September 27, 2007

Honorable Sandy Garrett, Chairperson
State Board of Education
2500 North Lincoln Blvd., Room 118
Oklahoma City, Oklahoma 73105-4599

Dear Ms. Garrett:

Transmitted herewith is the Special Audit Report for the Kinta Public School District No. 311013, Haskell County, Oklahoma. We performed our special audit pursuant to a request from the State Board of Education under the requirements of **74 O.S. 2001, § 213(C)**.

A report of this type tends to be critical in nature. Failure to report commendable features in the present accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

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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index of specific concerns

The following concerns are presented in their entirety in italics as they were communicated to us.

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

Ms. Patricia Deville, Superintendent
Kinta Public School District No. 311013
P.O. Box 219
Kinta, Oklahoma 74552-0219

Dear Ms. Deville:

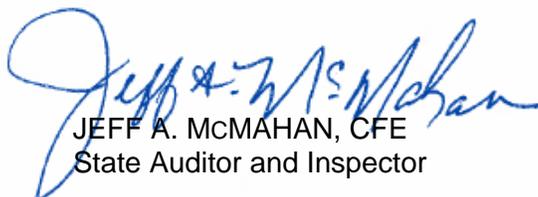
Pursuant to a request by the State Superintendent of Public Instruction, and in accordance with the requirements of **74 O.S. 2001, § 213(C)**, we performed a special audit with respect to the Kinta Public School District No. 311013, Haskell County, for a period of July 1, 2002 through June 30, 2005.

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 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 Kinta Public School District No. 311013, for the period July 1, 2002 through June 30, 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 District taken as a whole.

This report is intended solely for the information and use of the State Board of Education, Kinta Board of Education and Administration of the District and should not be used for any other purpose. This report is also a public document pursuant to the **Oklahoma Open Records Act (510.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

June 26, 2007

INTRODUCTION

The Independent District No. 311013, Haskell County, Oklahoma, (Kinta Public School) is an integral part of the Oklahoma State System of Public Education as described in **70 O.S. 2001, § 1-101 et seq.**, the **Oklahoma School Code**. The Board of Education of the Kinta Public School District is responsible for the supervision, management and control of the District as provided by **70 O.S. 2001, § 5-117**. Both the Board of Education, composed of five (5) elected members, and the Kinta Public School District are subject to the provisions of the **Oklahoma School Code**.

The student body consists of Pre-K through grade 12. The District currently has an enrollment of 165 students. The appointed superintendent is the executive officer of the District.

The Kinta Public School District No. 311013 is audited annually by private independent auditors, and such audit reports were available for our review. The District Board of Education prepares an annual financial statement, presenting the financial position of the District as of the close of the previous fiscal year in accordance with the requirements of **68 O.S. 2001, § 3002**. The financial information presented was prepared from the District's records provided to us by the District Administration.

The State Auditor and Inspector conducted a special audit of the records of the Kinta Public School District, primarily those records relating to the State Board of Education's concerns listed in the "index of specific concerns" noted in the table of contents. The results of the special audit are in the following report.

CONCERNS, FINDINGS AND RECOMMENDATIONS

I. **CONCERN:** *Possible irregularities in expenditures for 2002-03, 2003-04 and 2004-05.*

We reviewed warrant registers, appropriations, employment contracts, board meeting minutes, purchase orders, invoices and supporting documents for payments made during July-September 2002-03, 2003-04 and 2004-05. We also interviewed some former and current school personnel.

According to school personnel, the Board members reviewed warrant registers, not encumbrance registers, purchase orders or invoices. However, the persons who served as superintendent during the 2002-03 and the 2003-04 school years stated that invoices were available at board meetings for the members to review if they requested.

FINDING (1): Appropriations (general fund) for 2002-03, 2003-04 and the 2004-05 were used to pay for expenditures of prior years.

- During the 2002-03 school year, approximately \$22,470 prior year obligations (non-payroll related expenditures—supplies, hotel bills, registration fees and consulting services) were paid in the current year.
- During the 2003-04 school year, approximately \$8,757.00 prior year obligations (non-payroll related expenditures—supplies, legal services and utilities) were paid in the current year.
- One of the prior year expenditures paid in September 2003 included a payment of \$1,890.00 to the Internal Revenue Service for a **2001 penalty** assessment due to late filing of W-2s.
- The expenditure is listed on the warrant register presented to the Board, and there is nothing that indicates that this was for a prior year tax penalty
- During the 2004-05 school year, approximately \$10,024.00 prior year obligations (non-payroll expenditures—supplies and utilities) were paid in the current year.
- The superintendent and the new treasurer stated that toward the end of this school year the encumbrance clerk verified to them that all 2004-05 expenditures had been encumbered and that there were no outstanding obligations or unpaid invoices.
- Subsequent to these statements and after the end of the school year, the superintendent stated the encumbrance clerk presented invoices and purchase orders dated in the 2005-06 school year that were for expenditures (invoices from the 2004-05 school year) that should have been paid or reserved to be paid from the 2004-05 year funds.

SUBSEQUENT EVENTS

The 2004-05 independent audit report included, in part: "05-8 Unrecorded Liabilities: During our review of 2005-06 purchase orders, we observed some purchase orders that had supporting invoices dated prior to July 1, 2005. Because these invoices were dated in the 2004-05 fiscal year, they were actually legal obligations of the 2004-05 fiscal year, and should have been paid by that fiscal year's funds. We reviewed the first 80 general fund purchase orders and noted 338 invoices, totaling \$14,226.84, that were dated in the 2004-05 fiscal year."

The above appears to be contrary to the following statutes:

70 O.S. Supp. 2002, § 1-117(A) states in part:

"The general fund of any school district is hereby defined as a current expense fund and shall consist of all revenue or monies that can legally be expended within a certain specified fiscal year[.]"

62 O.S. Supp. 2004, § 477 states in part:

It shall be unlawful for any officer to issue, approve, sign or attest any warrant or certificate of indebtedness in any form in excess of the estimate of expenses made and approved for the current fiscal year or authorized for such a purpose by a bond issue, and any such warrant or certificate of indebtedness issued, approved or attested in excess of the estimate made and approved or authorized by a bond issue, shall not be a charge against the city or town upon which it is issued, but may be collected by civil action from any officer issuing, drawing, approving, signing or attesting the same, or from either or all of them, or from their bondsmen.

RECOMMENDATION: We recommend the Kinta Board of Education (hereinafter referred to as Board) establish policies and procedures to insure obligations are properly encumbered, recorded and expended from the corresponding fiscal year. We recommend the Board periodically review the policies and procedures to determine if they are being following.

FINDING (2): The school exceeded 2003-04 appropriations by approximately \$10,000.00.

- A new treasurer was hired July 1, 2004. Shortly after she began, she noted that the school had exceeded 2003-04 appropriations.
- The encumbrance clerk's computer program is designed to prevent the school from issuing encumbrances beyond approved appropriations. When the new treasurer inquired as to how this occurred, the encumbrance clerk (and 2003-04 treasurer) stated that she was told they were going to file a supplemental appropriation so she went ahead and increased the computer appropriations so she could process encumbrances and warrants.
- The new treasurer learned that no supplemental appropriation had been filed at that time and she contacted the school auditor.
- Subsequently a supplemental appropriation was filed with the county clerk on August 31, 2004.
- However, approximately \$10,024.00 obligations (invoices dated prior to the end of June 30, 2004) were not entered into the computer against the current fiscal year and were held until 2004-05, thereby causing the school to exceed appropriations by approximately \$10,024.00.
- The superintendent (during 2003-04) stated he was not aware of any bills rolled into the succeeding year. However, the former superintendent stated: "all schools do it".

The above findings appear to be contrary to the following:

The **Constitution of Oklahoma, Article 10 § 26(a)** states in part:

Except as herein otherwise provided, no ... school district, or other political subdivision of the state, shall be allowed to become indebted, in any manner, or for any purpose, to an amount exceeding, in any year, the income and revenue provided for such year without the assent of three-fifths of the voters thereof[.]

62 O.S. 2001, § 476 states:

Warrants and certificates of indebtedness may be issued to the amount of the estimate made and approved by the excise board for the current fiscal year or to the amount authorized for such purpose by a bond issue.

70 O.S. 2001, § 5-157 states in part:

A. No expenditure may be authorized or made by any officer or employee of a school district which exceeds the appropriation for any fund of the budget as adopted or amended. Any balance remaining in a fund at the end of the budget year shall be carried forward to the credit of the fund for the next budget year pursuant to law.

B. It shall be unlawful for any officer or employee of the school district in any budget year:

1. To create or authorize creation of a deficit in any fund; or
2. To authorize, make or incur expenditures or encumbrances in excess of one hundred percent (100%) of the appropriation for any fund of the budget as adopted or amended until revenues in an amount equal to at least one hundred percent (100%) of the appropriation for the fund have been collected. Any fund balance which is included in the appropriation for the fund is considered revenue in the budget year for which it is appropriated. Expenditures may then be made and authorized so long as any expenditure does not exceed any fund balance.

C. Any obligation that is contracted or authorized by any officer or employee in violation of this act¹ shall become the obligation of the officer or employee himself and shall not be valid or enforceable against the school district. Any officer or employee who violates this act shall forfeit his office or position and shall be subject to such civil and criminal punishments as are provided by law. Any obligation, authorization for expenditure or expenditure made in violation of this act shall be illegal and void.

70 O.S. Supp. 2004, § 5-182 states:

It shall be unlawful for any school district officer to issue, approve, sign, or attest any check, warrant or certificate of indebtedness in any form in excess of the estimate of expenses made and approved for the current fiscal year or authorized for such a purpose by a bond issue and any such check, warrant or certificate of indebtedness issued, approved, or authorized by a bond issue shall not be a charge against the school district upon which it is issued, but may be collected by civil action from any officer issuing, drawing, approving, signing, or attesting the same, or from either or all of them, or from their bondsmen.

70 O.S. Supp. 2004, § 5-183 states in part:

Any treasurer who shall willfully or knowingly register or pay a warrant, check or certificate of indebtedness, issued in excess of the estimate made and approved by the excise board for the current fiscal year or in excess of a bond issue for such purpose ... shall be punished by a fine[.]

70 O.S. Supp. 2004, § 5-184 states in part:

Any school district officer willfully or knowingly contracting, incurring, acknowledging, authorizing, allowing, or approving any indebtedness or any officer issuing, drawing, or attesting any check, warrant or certificate of indebtedness in excess of the estimate made and approved by the excise board for such purpose for the current fiscal year or in excess of the specific amount authorized for such purpose by a bond issue, shall be deemed guilty of a misdemeanor[.]

70 O.S. Supp. 2004, § 5-186 states in part:

It shall be unlawful for the governing board of education to issue any check, warrant or certificate of indebtedness, in any form, in payment of, or representing or acknowledging any account, claim, or indebtedness against the school district, or to make any contracts for, or incur any indebtedness against

the school district in excess of the amount then unexpended and unencumbered of the sum appropriated for the specific item of estimated needs for such purpose theretofore made, submitted, and approved, or authorized for such purpose by a bond issue. The signature of the board president and clerk shall be notification to the public that the check or warrant is for the purpose and within the amount of the appropriation charged.

RECOMMENDATION: We recommend that the school adhere to the statutes regarding obligations, expenditures and budgets. We recommend the appropriate authorities review this finding to determine what action, if any, may be required.

FINDING (3): There were inadequate internal controls during the 2002-03 2003-04 and the 2004-05 school years:

- During the 2002-03 school year, the purchase orders we reviewed lacked a signature of an approving officer. The encumbrance clerk is the only signature on the purchase orders. Essentially, the encumbrance clerk was also the approving officer.
- Purchase orders were dated subsequent to the invoices in every instance, indicating that purchases were not encumbered prior to making the purchases.
- Purchase orders and warrants were dated the same date.
- During the 2003-04 school year in July and September 2003, the purchase orders lacked the signature of an approving officer. The encumbrance clerk is the only signature on the purchase orders. During the month of August 2003, the purchase orders lacked signatures for the encumbrance clerk and the approving officer. Essentially, no one was signing as encumbering or approving purchases during this time period. We noted that none of the purchase orders during this entire year had an approving officer's signature. The encumbrance clerk was the only signature listed on the purchase orders. However, the superintendent indicated to us that he reviewed and approved all of the purchase orders, although his signature does not appear as the approving officer on any of the purchase orders.
- During the 2003-04 school year, the encumbrance clerk was also listed as the treasurer, the activity fund custodian and the payroll clerk.
- Some of the expenditures were paid from billing statements, not original itemized invoices.
- We noted a purchase order made payable to the Vocational Agriculture teacher in the amount of \$400.00. There was no invoice to support this expenditure. We noted that this individual was paid \$400.00 per month. The school should determine if this amount was reported as taxable income.
- During the 2004-05 school year, we noted that the superintendent signed the purchase orders as the approving officer.
- Expenditures were not always paid from original, itemized invoices. Many purchases were paid from billing statements or copies of invoices.
- We reviewed invoices that reflected credit balances that indicated overpayments were being made.
- During the 2002-03, 2003-04 and 2004-05 school years (except March 2005), encumbrances were not listed in the meeting minutes. The Board was presented with warrant registers which indicates obligations had been incurred and approved prior to the Board's review and approval of the encumbrances.

70 O.S. Supp. 2004, § 5-135 states in part:

A. The board of education of each school district shall use the following system of initiating, recording and paying for all purchases, salaries, wages or contractual obligations due from any of the funds under the control of such board of education[.]
* * *

D. Prior to the issuance of a purchase order, the encumbrance clerk must first determine that the encumbrance will not exceed the balance of the appropriation to be charged. The encumbrance clerk shall charge the appropriate appropriation accounts and credit the affected encumbrances outstanding accounts with the encumbrances. A copy of the encumbrance or purchase order may be used as the authority for the designated school personnel to complete the purchasing process. Encumbrances must be submitted to the board of education in the order of their issuance on a monthly basis, subject to a monthly business cycle cut-off date determined by the board of education. Approved encumbrances shall be listed in the minutes by the minute clerk.

E. Before any purchase is completed, a purchase order or encumbrance must be issued. No bill shall be paid unless it is supported by an itemized invoice clearly describing the items purchased, the quantity of each item, its unit price, its total cost and proof of receipt of such goods or services. The bill and/or invoice shall be filed in the encumbrance clerk's official records....
* * *

G. After ascertaining that proper accounting of the purchase has been made and that the files contain sufficient information to justify the expenditure of public funds, the encumbrance clerk shall pay the approved bill by issuing a warrant or check against the designated fund[.]

H. The treasurer shall register the warrant or check in the warrant or check register, charging the appropriation account and crediting the warrants or checks outstanding account of the designated fund. Provided, no warrant or check shall be registered in excess of the appropriation account's balance.

RECOMMENDATION: We recommend the school adhere to the statutes regarding obligation of funds, issuance of purchase orders, presentation of encumbrances to the Board and the processing of warrants. We recommend the appropriate authorities review this finding to determine what action, if any, may be required.

FINDING (4): During 2002-03 and 2003-04, there was a possible violation of the Open Meeting Act—Special meetings were held approximately 34 miles from the town of Kinta, which might not have been convenient to the public.

2002-03

- One purchase order was issued to Pete's Place in the amount of \$201.95 for "Board Meeting Expense". Based on the documentation, it appears 9 individuals incurred meal expenses for a board meeting held at Pete's Place in Krebs. (see invoice to the right)
- Based on the ODOT mileage table, Krebs is 34 miles from Kinta.
- August 4, 2003 special meeting minutes indicated that the meeting was held at Pete's Place in Krebs, Oklahoma.



- October 2003 the Superintendent was reimbursed from the school's general fund \$186.44 for the August 4, 2003 expenditure to Pete's Place for 9 individuals.

Items purchased included 6 rib eye steaks, lamb fries, shrimp, and drinks.

While the distance to travel may not be so extensive to be considered inconvenient and in violation of the Open Meeting Act, there appears to be no other reason for the travel for the meeting other than to have dinner in Krebs. Moreover, the expenditures for these meals should be reviewed to determine if they were in compliance with the Board's policies.

25 O.S. § 303. Times and Places - Advance Notice

All meetings of public bodies, as defined hereinafter, shall be held at specified times and places which are convenient to the public and shall be open to the public, except as hereinafter specifically provided. All meetings of such public bodies, except for executive sessions of the State Banking Board and Oklahoma Savings and Loan Board, shall be preceded by advance public notice specifying the time and place of each such meeting to be convened as well as the subject matter or matters to be considered at such meeting, as hereinafter provided.

RECOMMENDATION: We recommend the school adhere to statutory requirements regarding open meetings. We recommend the appropriate authorities review this finding to determine what action, if any, may be required.

FINDING (5): Unauthorized encumbrance and subsequent payment.

- During the 2004-05 school year, the encumbrance clerk presented the superintendent with a purchase order and a reimbursement claim form in the amount of \$700.87.
- The superintendent denied the claim because the invoices were less than the amount claimed. The superintendent did not sign the purchase order and held the purchase order and claim so that it would not be processed.
- Attached to the purchase order is a reimbursement expense claim that states in part: "1. No claims will be paid without receipts for expenses". The claimant's signature appears on this form.
- The invoices do not support the amount claimed.
- The encumbrance clerk issued a warrant for this expenditure and the expenditure was listed on the payment register that was subsequently submitted to and approved by the Board, signed by the treasurer and processed by the bank. The payment is for the exact amount that was initially presented and denied by the superintendent. It appears the claim was processed without prior approval of the superintendent.
- The encumbrance clerk was responsible for printing the warrants and the treasurer was not aware that the warrant should not have been processed.
- All other purchase orders we reviewed during this time period, had the signature of the encumbrance clerk and the signature of the superintendent as the approving officer.

RECOMMENDATION: We recommend the school adhere to the statutes regarding obligation of funds, issuance of purchase orders, presentation of encumbrances to the Board and the processing of warrants. We recommend the appropriate authorities review this finding to determine what action, if any, may be required.

FINDING (6): Unauthorized reimbursement to a school employee.

According to a statement from a vendor, during the first week of August 2004, a school employee made statements to the vendor that he would be paying for football helmet reconditioning. The employee asked if he could pay down \$150.00 with a Kinta Booster Club check. The vendor accepted and deposited the check.

The school was subsequently billed and paid the entire amount of the invoice for \$872.10. After the school paid the invoice, the school employee returned to the vendor and requested that the vendor reimburse him the \$150.00. According to a statement from the vendor, the vendor paid the employee the \$150.00 instead of reimbursing the Kinta Booster Club.

RECOMMENDATION: We recommend the appropriate authorities review this finding to determine what action, if any, may be required.

FINDING (7): Unauthorized overpayment of approximately \$6,000.00 to a school employee.

2003-04

The encumbrance clerk (who was also the minutes clerk, payroll clerk, activity fund custodian and signed warrants as the school treasurer) was overpaid approximately \$6,000.00. The following is a synopsis of what occurred:

- July 1, 2003 Support Employee Contract for school secretary, total salary: \$16,560.00. July payroll is consistent with the contract.
- August 4, 2003 meeting minutes reflect the Board hired the secretary (and encumbrance clerk) to serve as the school treasurer. There was no pay increase approved and there were no addendums to the employment contract to reflect any type of pay increase.
- However, in August 2003, the employee received an increase in salary and the payroll forms indicated that the increase was for \$6,000.00 to be paid in 11 payments
- August 18, 2003 meeting minutes reflect that this employee gave the financial report.
- September 8, 2003 agenda and meeting minutes reflect the Board accepted the resignation of this employee as treasurer due to this employee being the encumbrance clerk.
- September 8, 2003, the Board unanimously approved to hire another individual as treasurer.
- The individual submitted a proposal to the school stating "For the school year 2003-2004 treasurer's fee will be \$435.00 per month plus any postage and out-of-pocket expenses. Treasurer bond will be purchased by school. If this arrangement is satisfactory with your board please sign and return the copy of this letter to me." The Board President's signature appears at the bottom of this letter under the words: "The above conditions meet with approval of KintPublic [sic] Schools."
- The encumbrance clerk's salary was not reduced and she continued to receive the increased salary and continued to sign as the school treasurer on payroll and non-payroll warrants.
- On February 17, 2004, the superintendent signed a document that lists the same person as the encumbrance clerk and the treasurer.

- During this period, this individual was the encumbrance clerk, payroll clerk and signed the warrants as the treasurer. During this time period, the superintendent's signature does not appear on any of the purchase orders. In essence, one employee approved the purchases, prepared payroll and signed the warrants.
- May 24, 2005 the independent financial auditor presented the 2003-04 audit findings to the Kinta Board of Education. One of the findings listed in the audit and presented to the Board was:

04-13—Employee Contract

We observed during the audit of the contracts that one individual was hired by the board to perform additional duties. Subsequently, approximately 1 month, the board released this individual due to a conflict in the position held. However, this individual continued to receive the additional pay for this position for the remainder of the year. We recommend that the board take action to either recover this overpayment or to approve as additional compensation.

- On June 30, 2005, the employee entered into an Agreement for Reimbursement with the Kinta Public School District. The agreement stated in part: "...From July 1, 2003 to June 30, 2004, employee received compensation relating to Kinta School District Treasurer duties that she was not performing nor hired to perform. Nor was she qualified to perform such duties..."
- The agreement authorized the District to make automatic deductions from the employee's monthly paycheck beginning on July 1, 2005 and continuing until the District had received full reimbursement.
- The agreement also stated that if the employee resigned or was dismissed, the employee "shall immediately pay the District any amounts remaining of the \$6,000.00 that are owed the District..."
- The employee resigned effective January 30, 2006, leaving a balance of \$4,950.00 due to the District.
- The former superintendent stated that the individual the Board hired as treasurer "did not want the job" (although he had submitted a proposal for the position). The former superintendent stated he did not inform the local Board of this and he stated he "just forgot to mention it to the Board" and he "just forgot to appoint someone else as the encumbrance clerk."
- He stated he knew that the encumbrance clerk was receiving the additional payments and he stated she was performing the treasurer's duties.
- The school hired a new treasurer effective July 1, 2004.
- According to the new treasurer, none of the treasurer's duties (other than signing warrants) were performed during the above-referenced school year.
- There were no entries in the computer regarding school revenue or any other information needed by the school so that they could submit their reports required by the State Department of Education.
- The new treasurer had to gather data, enter the data and submit the 2003-04 reports to the State Department of Education.

2004-05

- The above-referenced employee's July 1, 2004 - June 30, 2005 support personnel employment contract states that the employee shall be compensated at a rate of \$8.00 per hour, 8 hours a day.

- **SUBSEQUENT EVENTS:** On July 7, 2005, only seven days after the employee signed the repayment agreement dated June 30, 2005, the same employee, who was also the payroll clerk, prepared her own payroll. Her payroll exceeded the hours to which she was entitled by approximately 60 hours.
- This employee was only entitled to 168 hours (paid hourly). However, the employee prepared a warrant for 228 hours (an excess of 60 hours).
- The superintendent noticed this before payroll was distributed and required the payroll clerk to cancel the incorrect warrant and issue the warrant for the correct amount.

It is contrary to Oklahoma Statutes for the same person to serve as treasurer and encumbrance clerk. In addition, the Board, not the superintendent, may contract with and set salaries as set out below:

70 O.S. § 5-119 states:

If the board elects a board clerk who is not one of the members of the board, the board clerk may also be employed as the **encumbrance clerk** and minute clerk. Provided, no superintendent, principal, treasurer or assistant treasurer, instructor, or teacher employed by such board shall be elected or serve as clerk or deputy clerk of the board nor as **encumbrance clerk** or minute clerk except that a treasurer or assistant treasurer may serve as a minute clerk. No board member shall serve as **encumbrance clerk** or minute clerk. The deputy clerk may perform any of the duties and exercise any of the powers of the clerk

B. The board of education shall employ an **encumbrance clerk** and minute clerk, both functions of which may be performed by the same employee. The **encumbrance clerk** shall keep the books and documents of the school district and perform such other duties as the board of education or its committees may require[.]

AG Opinion 87-080 states in part:

The powers of the local school board are set forth at 70 O.S. 5-17 (1981)...A. The board of education of each school district shall have the power to:

* * *

- a. contract with and fix the duties and compensation of physicians, dentists, optometrists, nurses, attorneys, superintendents, principals, teachers, bus drivers, janitors, and other necessary employees of the district[.]

The position of district superintendent of schools is defined in the **Oklahoma School Code at 70 O.S. 1-116(2)** which states:

Superintendent: A superintendent of schools shall be the executive officer of the board of education and the administrative head of the school system of a district maintaining an accredited school, provided he or she holds an administrator's certificate recognized by the State Board of Education.

There is no further delineation of the duties of a district superintendent of schools[.]

21 O.S. Supp. 2002, § 341 states as follows:

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;

* * *

Third: [S]hall, upon conviction, thereof, be deemed guilty of a felony[.]

21 O.S. § 358 - False, Fictitious, or Fraudulent Claims Against State

A. It shall be unlawful for any person, firm, corporation, association or agency to make, present, or cause to be presented to any employee or officer of the State of Oklahoma, or to any department or agency thereof, any false, fictitious or fraudulent claim for payment of public funds upon or against the State of Oklahoma, or any department or agency thereof, knowing such claim to be false, fictitious or fraudulent. A violation of this subsection shall be punished as provided in subsection A of Section 359 of this title.

B. It shall be unlawful for any person applying for employment with the State of Oklahoma to make a materially false, fictitious or fraudulent statement or representation on an employment application, knowing such statement or representation to be materially false, fictitious or fraudulent. A violation of this subsection shall be punished as provided in subsection B of Section 359 of this title.

RECOMMENDATION: We recommend the appropriate authorities review this finding to determine what action, if any, may be required.

FINDING (8): Failure to report social security wages, failure to report payroll taxes, failure to submit teacher's retirement report, and failure to pay insurance premiums.

While reviewing expenditures, we noted correspondence from various entities regarding underpayments, non-reporting and assessments for penalties for the non-reporting and late payments. The documentation and correspondence was too numerous to include in its entirety; therefore, we selected a sampling of the types of documents and correspondence and noted the following:

- During 2003 and 2004, the payroll clerk failed to report social security wages for 15 and 20 employees, respectively. Their social security contributions for these two years showed zero earnings.
- The payroll clerk failed to make federal payroll deposits in a timely manner for the tax period ending March 31, 2004, June 30, 2004, September 30, 2004, December 31, 2004, March 31, 2005, and June 30, 2005, which resulted in federal tax deposit penalties assessed to the school in the amount of \$14,091.00.
- The Internal Revenue Service levied (froze) the school's bank account on 8-27-04.
- The school's bank account was overdrawn by \$3,179.64 due to the wrong account being submitted for payroll tax information.
- An Internal Revenue Service notice, dated August 22, 2005, indicates the school still owed taxes for the period that ended 7/31/2000.
- Interest was charged the school because tax payments were not paid on time. Interest was computed from the due date of the return until paid in full. There were 17 occurrences of late assessment charges to the school from June 16, 2003-August 22, 2005 due to late tax payments. The late payments ranged from 2 days up to 92 days for a computed interest of \$108.00
- Oklahoma State and Education Employees Group Insurance premiums were delinquent.
- The November 2004 Teacher's Retirement System report was due 12/10/04 and was received 2/22/05. This resulted in a late remittance penalty of \$196.51.
- The December 2004 Teacher's Retirement System report was due 1/10/05 and was received 2/22/05. This resulted in a late remittance penalty of \$84.45.

We noted several occasions where the entities had documented numerous correspondence with the school employee regarding the above-referenced problems. The employee was away from the school for a couple of days. During the time period she was away, the superintendent received phone calls from agencies and vendors regarding late payments and delinquent taxes.

RECOMMENDATION: We recommend the Board adopt internal controls and policies regarding employment contracts and payroll to insure that amounts being paid to employees are consistent with their employment contracts and taxes are appropriately reported and paid. We recommend the appropriate authorities review this finding to determine what action, if any, may be required.

II. CONCERN: *Possible irregularities in the school activity fund accounts for 2002-03, 2003-04 and 2004-05.*

We attempted to determine whether the activity funds were properly receipted and deposited. The records available for the activity fund were carbon copies of receipts, computer-generated receipts, and handwritten notations of payments (post it notes, adding machine tape) from the activity fund custodian, original receipts from two (2) sponsors and a spiral notebook of receipts from the ice cream sales person.

RECEIPTS TO DEPOSITS

2002-03

FINDING (1): The pre-numbered, duplicate receipts were not utilized and the activity fund custodian was not reconciling with the bank.

- We were unable to perform cash comp tests in that receipts did not indicate amount of cash/check composition.
- Pre-printed receipts were renumbered.
- There were twenty-two (22) pre-printed receipts missing.
- Receipts were not written for all funds deposited.
- Some of the activity sponsors' receipts were not available for testing.
- The activity fund custodian yearly report of revenue is inconsistent with the amount deposited with the bank statements. Bank records indicate that \$58,497.00 was deposited. The activity fund custodian report indicates that \$54,214.74 was received and deposited. However, receipts total approximately \$55,233.00.

The activity fund custodian renumbered the receipts out of actual issuance date sequence. For instance, pre-numbered receipt number 4945 was issued on 8-27-02. However, the activity fund custodian renumbered the receipt as number 743 and entered it on the computer as a payment made on 9-6-02. The activity fund custodian generated a report based on the renumbered receipts. This report does not indicate a skip in numbers. However, while reviewing the actual pre-printed numbers, we noted approximately 22 missing pre-printed receipts. We also noted one receipt entered in the ice cream ledger that was not issued by the activity fund custodian. However, we did note that the amount appears to have been deposited.

We reviewed the pre-numbered receipts and determined that there are missing numbers in the time period the receipts were issued. However, the renumbered receipts and receipt report prepared by the activity fund custodian do not indicate any missing numbers.

In addition, the activity fund custodian end of the year analysis report indicates that revenue was \$54,214.74, when the actual bank deposits for the same time period were \$58,496.54.

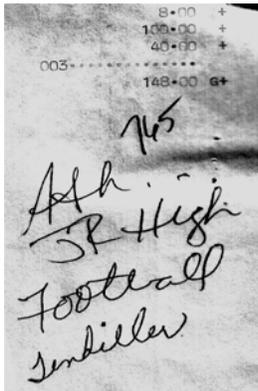
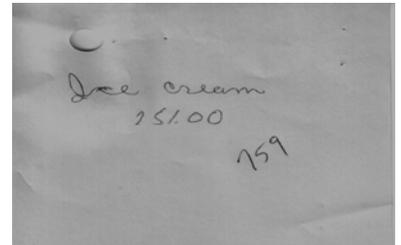
2003-04

The records available were carbon copies of receipts, handwritten receipts, calculator tape treated as receipts, computerized receipts, a cash deposit process printout, deposit slips and bank statements.



The carbon receipts appear to be primarily for monies submitted to the activity fund custodian for monies collected for various fundraising activities. The activity fund custodian appeared to renumber these pre-numbered receipts.

In addition to the carbon receipts, were handwritten receipts for ice cream sales. These receipts contained an amount and a handwritten receipt number. The numbering for these receipts corresponds with the renumbering on the carbon receipts. Based on the documentation, there is no indication who the activity fund custodian was collecting the monies from.



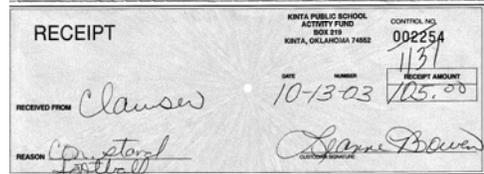
The other types of receipts used were what appear to be adding machine tapes. These receipts contained amount(s) and a handwritten receipt number that corresponds with the renumbering on the carbon receipts. This type of receipt appeared to be used for pop sales and monies collected at athletic events. Based on the receipts, there was no indication who the activity fund custodian was collecting the monies from. There is nothing to indicate monies were submitted to the custodian.

The carbon receipts were pre-numbered then manually changed to reflect another number. This may have been done as a method to include the ice cream and the athletic events collection receipts with the carbon receipts. We were unable to determine why collections from the sale of ice cream and athletic events were not issued on the same type receipts as the fundraisers.

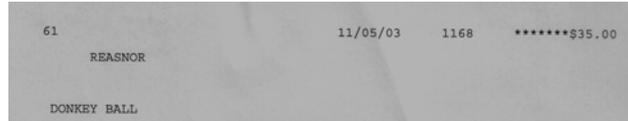
Several factors prevented us from being able to reconcile receipts to deposits:

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- The pre-numbered carbon receipts are in sequential order only after they were manually changed. We compared the actual receipt date to the date on the deposit report for the months of August through October. Although the modified receipt numbers are in sequential order they were not issued in chronological order, for example receipt #1137 was issued on 10/13/03 and #1138 was issued on 10/8/03.



Also, when concentrating on the original control number (prior to changing) there was no apparent logic used on how the receipts were issued. Based on the original control numbers, it appears receipts are missing and not issued in sequential order. In the example, the original control number of #2266 was issued prior to #2254. We prepared a report showing the gaps in receipts using the original control numbers, based on the procedures we performed there are at least 35 missing control numbers.



- In addition to the carbon receipts, a computer-generated receipt is prepared. The computer-generated receipts for that time period are all prepared on the same date; thus, they do not necessarily reflect the actual receipt date. It appears that a Cash Deposit Process report is generated from the computer-generated receipts. This report reflects the receipts for that time period which would appear to be the amount of the deposit. However, the "Total of Deposit" does not trace to actual deposit totals. The report provides little to no assistance when attempting to determine if amounts receipted were deposited; therefore, the report is virtually meaningless.
- We attempted to correlate the receipts to the deposit slips using the deposit report. We were unable to correlate the receipts with the deposit slips. The receipts do not identify whether cash or checks were collected and the deposit slips do not indicate the source of the cash. The checks listed on the deposit slips appear to reflect the actual name on the checks while the receipts show the teacher's name that turned over the collections to the activity fund custodian. To illustrate, the example below shows three receipts issued on 10/6/03 from an activity fund sponsor. These receipts cannot be traced to either the 10/6/03 or the 10/7/03 deposits. The names listed on the deposit slips are not teachers. Also, the source of the cash is not indicated.

1168.00	REASNOR	11/05/03	35.00
1169.00	REASNOR	11/05/03	770.65
1170.00	REASNOR	11/05/03	200.00
1171.00	REASNOR	11/05/03	612.50
1172.00	REASNOR	11/05/03	50.00
1173.00	REASNOR	11/05/03	577.01
1174.00	REASNOR	11/05/03	27.00
1175.00	REASNOR	11/05/03	16.50
1176.00	REASNOR	11/05/03	150.00
TOTAL OF DEPOSIT :			2,438.66

Date	Number	Received From	Reason	Amount
10/6/03	1143	Sponsor's name	Sausage	\$339.50
10/6/03	1144	Sponsor's name	Sausage	\$16.00
10/6/03	1145	Sponsor's name	Sausage	\$824.50

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SPECIAL AUDIT REPORT
JULY 1, 2002 THROUGH JUNE 30, 2005

 FARMERS STATE BANK <small>OF KANSAS, INCORPORATED</small>		DEPOSITED WITH CURRENCY 271.00	
Date: <u>10-6-03</u> Name: <u>Auto Fund</u>		COIN CHECKS <small>Use Other Side For Additional Listing</small>	
Sign Here For Cash Received Acct. No. <u>746046</u>		Ashley 25.00 Ditchhead 56.00 uson 18.00 [unclear] 8.00 TOTAL FROM OTHER SIDE 107.00	
<small>Checks and other items are received for deposit subject to the terms and conditions of the bank's collection agreement. DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL.</small>		LESS CASH NET DEPOSIT 234.00	

 FARMERS STATE BANK <small>OF KANSAS, INCORPORATED</small>		DEPOSITED WITH CURRENCY 667.00	
Date: <u>10-7-03</u> Name: <u>Auto Fund</u>		COIN CHECKS <small>Use Other Side For Additional Listing</small>	
Sign Here For Cash Received Acct. No. <u>746046</u>		[unclear] 10.00 [unclear] 110.00 [unclear] 110.00 [unclear] 71.00 [unclear] 12.00 [unclear] 37.00 TOTAL FROM OTHER SIDE 316.00	
<small>Checks and other items are received for deposit subject to the terms and conditions of the bank's collection agreement. DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL.</small>		LESS CASH NET DEPOSIT 1376.00	

List Additional Checks Here <small>IF NOT ENOUGH SPACE ON FRONT</small>	16.00 5.00 12.00 10.00 10.00 20.00 85.00 85.00 18.00 174.00
[unclear] [unclear] [unclear] [unclear] [unclear] [unclear] [unclear] [unclear] [unclear] [unclear]	

984-2-1884-312-084-16-144-30 Acct#: 746046 Post Rt: 10-07-2003 Timestamp: 10-07-2003 1:57:29 BSR-Net-41:076-85 Balance: \$25,688.46	Include This Total on Front 316.05
---	---

We were unable to correlate the receipts to deposit slips. The receipts do not identify the initial source of funds and whether they were cash or checks. The deposit slips list the payers' checks and no indication of who paid cash, whereas the receipts reflect the sponsor and do not list the individual payers.

The carbon receipts and handwritten receipts were for monies submitted to the activity fund custodian from activity fund sponsors for various fundraising activities. The carbon receipts are pre-numbered. However, the activity fund custodian renumbered these pre-numbered receipts and numbered the handwritten receipts to fit into the renumbered sequence.

In addition to the carbon receipts and the handwritten receipts, when the renumbered receipts and handwritten receipts were assigned and entered into the computer, the computer generated receipts with the new numbered sequence. For example, the computer-generated receipts reflect the renumbered carbon receipts and the handwritten receipts. However, the computer-generated receipts do not necessarily reflect the actual receipt date. They are dated the date that the activity fund custodian entered them into the computer.

2004-05

FINDING (2): Some of the funds received were not deposited.

- A receipt to deposit comparison reveals a deposit shortage of \$2,778.34.
- Significant gaps were found between receipt ranges.

- Twenty-eight in-range receipts are missing.
- Receipts were used out-of-sequence.
- Receipts cannot be reconciled to deposits.
- Independent records do not match the activity fund custodian's records.
- Activity fund custodian's reports are unreliable.

In total there were 391 receipts issued totaling \$73,316.77. The bank statements for the same period revealed a total deposit amount of \$70,501.87, a variance of -\$2,778.34.

Statement Period	Statement	Receipts	Variance
7-1-2004 / 7-30-2004	\$ 2,957.87	\$ 2,994.43	\$ (36.56)
7-31-2004 / 8-31-2004	\$ 1,941.00	\$ 2,324.99	\$ (383.99)
9-1-2004 / 9-30-2004	\$ 10,083.75	\$ 14,773.05	\$ (4,689.30)
10-1-2004 / 10-29-2004	\$ 13,849.83	\$ 10,705.33	\$ 3,144.50
10-30-2004 / 11-30-2004	\$ 3,842.33	\$ 4,766.61	\$ (924.28)
12-1-2004 / 12-31-2004	\$ 8,916.11	\$ 10371.45	\$ (1,455.34)
1-1-2005 / 1-31-2005	\$ 7,475.78	\$ 7,057.40	\$ 418.38
2-1-2005 / 2-28-2005	\$ 5,984.34	\$ 6,460.59	\$ (476.25)
3-1-2005 / 3-31-2005	\$ 4,583.25	\$ 4,661.33	\$ (78.08)
4-1-2005 / 4-29-2005	\$ 6,833.64	\$ 5,852.14	\$ 981.50
4-30-2005 / 5-31-2005	\$ 2,991.79	\$ 2,771.95	\$ 219.84
6-1-2005 / 6-30-2005	\$ 1,042.18	\$ 577.50	\$ 464.68
	\$70,501.87	\$73,316.77	\$ (2,778.34)

The table shown at left provides a monthly variance amount for each month for FY 04-05.

It should be noted this variance amount does not consider receipts that appear to be missing.

Significant Gaps Were Found Between Receipt Ranges.

The receipts, when considered by the pre-printed control numbers, range from 2310 through 2996 representing a total of 686 receipts. However, we found only 339 pre-numbered receipts, which resulted in a variance of 347 receipts.

It appears that two different receipt ranges were used. When considered by the pre-printed control number that appears on the receipts, it appears that a gap exists from receipt number 2656 to receipt number 2906.

Twenty-four in-range receipts are missing.

Without considering the gap in the receipt ranges, it appears twenty-four receipts are missing that are inside of the receipt ranges that were issued.

Receipts Were Used Out-Of-Sequence.

When considered by the pre-printed control number (receipt number), it appears the receipts were issued out-of-sequence. For example, receipt number 2310 was issued on 12/6/2004. Subsequent receipt numbers 2316, 2317 and 2318 were issued three-days before (12/3/2004). Similarly receipts 2632, 2633 and 2636 were issued on 12/14/2004 while subsequent receipts 2638 and 2639 were issued the day before. Receipts 2634 and 2635 were missing.

Receipts Cannot Be Reconciled To Deposits.

Ordinarily we would expect receipts to be issued sequentially and for deposits to be made in a timely manner. This appears not to be the case in this instance. The following was determined from *attempting* to reconcile receipts to deposits for November 2005.

A deposit was made on 11-9-2004 in the amount of \$664.96. The next subsequent deposit was made on 11-10-2004 in the amount of \$628.00. Between the two deposit dates (inclusive), we identified a total of 6 receipts as having been issued in the cumulative amount of \$507.18, a variance of \$120.82. It appears, based on this evaluation, that one of two conditions occurred:

1. All of the on-hand funds were not deposited on 11-9-2004.
2. Funds were deposited that were not receipted.

We attempted to reconcile all or part of the receipted names to the deposited names. We were unable to do so. The four receipts issued between these two deposit dates are listed in the table that follows:

		B/#	Rec From	Reason	Amount
11/9/2004	2339	1609	Reasnor	Sausage	\$45.95
11/9/2004	2338	1676	Franklin	Suckers	\$63.00
11/10/2004		1593	Nat	Power Ade	\$103.00
11/10/2004	2337	1610	Bird	Yearbooks	\$262.00
					\$473.95

The 11-10-2004 deposit record appears as follows:

DEPOSITED WITH		CURRENCY		485	00
 FARMERS STATE BANK <small>OF QUINCY, OKLAHOMA</small>		COIN		61	00
		CHECKS <small>Use Other Side For Additional Listing</small>			
Date	11-10-04	Burgess		10	00
Name	Kinta Public School	Darby		18	00
		Carpenter		18	00
		Watson		36	00
Sign Here For Cash Received		TOTAL FROM OTHER SIDE			
Acct. No.	0746046	LESS CASH			
<small>Checks and other items are received for deposit subject to the terms and conditions of this bank's collection agreement. DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL</small>		NET DEPOSIT		628	00

It appears the receipts issued reflect an amount received from individual teachers while the deposit slip reflects, possibly, the names that appear on checks turned in by the teachers.

The receipts issued to the teacher have no reflection of cash, check or money order composition. As such, we are unable to make any type of cash composition comparison that we would ordinarily expect to be able to perform.

Independently Maintained Records Do Not Match Custodian Fund Records.

We were provided a list of payments that were, apparently, provided by the person responsible for collecting the 'ice cream' money. We compared this listing with the receipts maintained by the activity fund custodian for the FY 04 and FY 05 periods.

During this period we noted, based on the activity fund clerk's records, a total of \$4,811.90 (45 receipts) as having been issued for the purpose of 'ice cream'. Additionally, as a crosschecking comparison, we noted that all of the 'ice cream' receipts listed as received from as "*name of ice cream custodian*". We ran a report for all receipts reflecting the received from as "name of ice cream custodian" and found the same number and amount reflected as being receipts for 'ice cream'.

We noted the following variances between the records maintained by the ice cream clerk and the activity fund clerk:

- One payment in the amount of \$47.00 is reflected on the activity fund clerk's record that is not reflected on the ice cream clerk's records.
- The ice cream ledger reflects five payments in the amounts of \$123.00, \$113.50, \$108.00, \$107.00 and \$20.50 (\$472.00) that we cannot correspond to the activity fund clerk's receipts.

We examined the bank records for this time period and found that although the five (5) payments were not receipted by the activity fund custodian, we were able to find corresponding deposits.

During this testing, we were unable to find a corresponding deposit for a receipt, with the handwritten number 1779, in the amount of \$197.50. We were also unable to find a corresponding receipt for a deposit on 2-18-2005 in the amount of \$87.00.

Note: The school's independent auditor also reported the same finding to the school for the audit period ending June 30, 2005. The auditor stated in part: "05-3 Activity Fund...we also observed that on March 10, 2005, \$197.50 was collected for ice cream by the cafeteria manager and turned in to the activity fund custodian, who issued receipt number 1779 for it on March 29, 2005. However, this money was never deposited in the bank..."

Activity Fund Custodian's Reports Are Unreliable

Provided in the school records were manila file folders labeled "Activity Fund [month year]". The folders were found to contain:

- Original monthly bank statements.
- Bank supplied copies of items processed for the month.
- Original copies of deposit tickets.
- Various reports that appear to have been generated by the activity fund custodian.

Among the reports contained in each file was a report titled "Custodian's Activity". This report included balances, revenue and expenditures for twenty four (24) separate sub-accounts including *Athletic Account, FHA Account, Yearbook Account, Class of 2006, Ice Cream Account* etc. It appears these are sub-accounts falling under the general Activity Fund account.

DEPOSITED WITH		CURRENCY	83.00
 FARMERS STATE BANK <small>OF OKLAHOMA</small>		COIN	59.50
		CHECKS <small>Use Other Side For Additional Listing</small>	
Date	10-18-04		
Name	Anna, Ice Cream		
Sign Here For Cash Received			
Acct. No.	0746046		
<small>Checks and other items are received for deposit subject to the terms and conditions of this bank's collection agreement. DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL.</small>		TOTAL FROM OTHER SIDE	
		LESS CASH	
		NET DEPOSIT	142.50

In previous test work we found that the funds deposited for the *Ice Cream Account* were deposited separately and the deposit tickets reflected "Kinta Ice Cream" or similar wording allowing for the distinction between the Ice Cream sub-account and the other 23 sub-accounts.

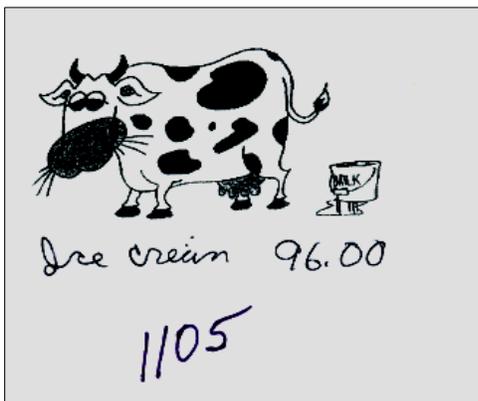
Each of the *Custodian Activity* reports included a beginning balance, revenue for the month, transfers, adjustments, disbursements and an ending balance. By comparing the reported monthly revenue for the *Ice Cream Account* to the actual deposit tickets we found that only two months (July & August) of the reports revenues matched the bank records.

For the total period the records maintained by the Ice Cream clerk reflected, for FY 05, a total amount of \$2,581.30, a variance of \$513.20 from the revenue reported by the Activity Fund clerk.

Month (FY05)	Reported	Deposits	Variance
July	\$ -	\$ -	
August	\$ 143.00	\$ 143.00	\$ -
September	\$ 390.50	\$ 384.50	\$ (6.00)
October	\$ 335.00	\$ 400.50	\$ 65.50
November	\$ 141.00	\$ 248.00	\$ 107.00
December	\$ 335.00	\$ 272.50	\$ (62.50)
January	\$ -	\$ 261.50	\$ 261.50
February	\$ 170.00	\$ 207.00	\$ 37.00
March	\$ 712.50	\$ 52.50	\$ (660.00)
April	\$ 50.00	\$ 295.50	\$ 245.50
May	\$ 240.00	\$ 122.00	\$ (118.00)
June	\$ 577.50	\$ -	\$ (577.50)
	\$ 3,094.50	\$ 2,387.00	\$ (707.50)

The "receipts" for the ice cream account generally consisted of adding machine tape or post-it notes.

Although these "receipts" did include a handwritten number, they did not include a date.



One of the "receipts" we identified (image at left) reflected the handwritten number 1105. We were able to correspond this receipt to a ledger maintained by the ice cream clerk reflecting a date of 9-11-2003.

We identified the corresponding deposit ticket reflecting a deposit date of 9-11-2003. The bank statement reflects the deposit was processed on 9-16-2003.

We tested ten (10) ice cream deposit transactions for FY 04 and ten (10) transactions for FY 05. During FY 04 nine (9) of the ten (10) deposits were processed by the bank prior to the receipt date. In FY 05 eight (8) of the

(10) deposits had been processed by the bank prior to the receipt date.

During this test we also identified instances where the handwritten receipt numbers do not appear to coincide with the deposit dates. For example, the receipt bearing the handwritten number 1105 was deposited, according to the bank records, on 9/15/2003. The bank on 9/30/2003 processed the receipt with the handwritten number 1094. Ordinarily we would expect receipt number 1094 to have been processed prior to 1105.

We were unable to determine why the activity fund custodian did not use the pre-printed receipts. Nor were we able to determine why she did not issue regular receipts for the pop, ice cream and athletic events that were on the post it notes and adding machine tape paper.

Because of these findings, we question if the reports generated by the activity fund custodian, and included with the school's activity fund financial records, are accurate or valid.

SUBSEQUENT EVENT: On October 4, 2005, the superintendent and principal located the activity bank bag in a file cabinet. The bank bag contents consisted of receipts totaling \$391.00. The total of checks and cash was only \$218.00, approximately \$173.00 less than the amount of receipts for that time period.

It does not appear that all funds received were deposited contrary to **21 O.S. Supp. 2002, § 341** which states as follows:

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;

* * *

Third: [S]hall, upon conviction, thereof, be deemed guilty of a felony[.]

RECOMMENDATION: We recommend the appropriate authorities review this finding to determine what action, if any, may be required.

ACTIVITY FUND EXPENDITURES

We reviewed the activity fund check registers for the school years 2002-03 and 2004-05. After reviewing the records, we determined that additional testing of the records would not be productive. We attempted to locate purchase orders and supporting documentation. Activity fund paper work was located in expandable file folders. The contents did not appear to be in any type of numerical or date order thereby making it extremely difficult to locate the purchase orders that corresponded to the check registers. The contents included, but were not limited to, loose invoices and statements with and without purchase orders and check stubs without purchase orders or invoices.

FINDING (3): Expenditures were not pre-approved and not all expenditures were paid from original, itemized invoices.

- We noted instances of purchases where there were no purchase orders, only signed check stubs or invoices with check numbers written on them.

- Not all purchase orders were signed for approval.
- Numerous claims did not have itemized, original invoices.
- Purchase orders were issued after invoice dates.
- Some of the payments were for past due bills (one was over 90 days old, one included a \$20.00 late fee and one invoice listed an outstanding charge of over 120 days).
- In another instance a letter dated February 4, 2003, from a vendor to the school stated: "...despite numerous reminders to your accounts payable department concerning a past due balance for Kinta High School, we have not received remittance or explanation of why the account remains unpaid...This is our 5th written reminder that account... is now past due by 131 days and our 3rd written reminder that account ... is now past due by 82 days..."

FINDING (4): Inadequate Inventory.

- One of the expenditures was for the reimbursement to the FFA sponsor for the purchase of a digital camera in the amount of \$312.59. However, the digital camera was not listed on this teacher's inventory and the school was unable to locate the camera.

RECOMMENDATION: We recommend the school implement policies and procedures to insure that all expenditures are authorized prior to the invoice dates and that all expenditures are paid from itemized, original invoices. We recommend the school routinely review the policies and procedures to determine if the policies and procedures are being followed. We recommend the school implement an inventory tracking system to insure that all items purchased with school funds be inventoried and accounted for.

RECONCILIATION OF ACCOUNTS

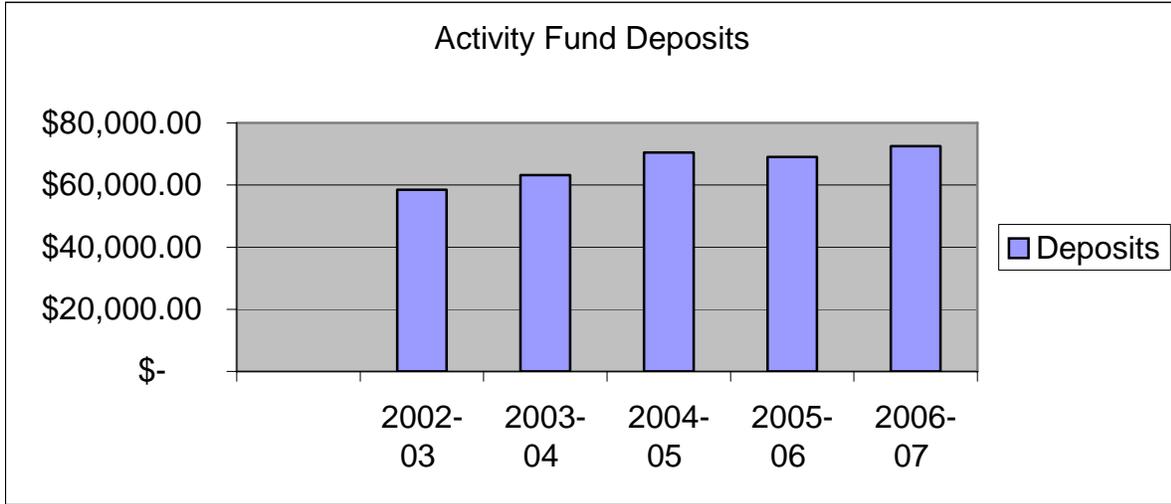
- The activity fund custodian did not reconcile the account to bank statements.
- Activity reports are not consistent with actual bank deposits.

We reviewed bank statement deposits (revenue) to the activity fund account reports for the time period of July 1, 2002 - June 30, 2006, to compare the revenue collections for the activity fund.

We were unable to rely on the activity fund custodian reports for 2002-03, 2003-04 and 2004-05 in that the reports for revenue were inconsistent with the bank statement deposits. The first year that the activity report actually reconciled with the independent auditor's report was the 2005-06 school year.

The following table and chart are comparisons of activity fund revenue (deposits) over the past five years. The 2006-07 numbers are deposits made through April 30, 2007 and do not include the May and June 2007 revenue.

School Year	Deposits
2002-03	\$58,497
2003-04	\$63,170
2004-05	\$70,502
2005-06	\$69,057
2006-07	\$72,558



SUBSEQUENT EVENTS

We noted that the school activity fund sponsors and the activity fund custodian are utilizing triplicate receipts. It appears that they have implemented internal controls for the accounting of activity fund receipts and deposits.

FINDING (5): An account that does not appear to be approved by the Board.

Bank records indicate that there is an account called Kinta Livestock Booster Club, c/o (*individual's name*). The account is not listed as a Board approved activity account and appears to be handled outside of the school activity accounts.

The statute pertaining to activity fund accounts states that the board of education of each school district shall exercise control over all funds and revenues. There is nothing in the statute that provides for individuals to set up accounts outside of the school for school related activity events for depositing or spending funds.

Title 70 O.S. § 5-129 School Activity Fund - Control - Accounts - Disbursements - Petty Cash Accounts - Custodian - Bond - Investment of Funds

A. The board of education of each school district shall exercise control over all funds and revenues on hand or hereafter received or collected, as herein provided, from student or other extracurricular activities or other revenue-generating sources listed in subsection B of this section that are conducted in the school district. Such funds shall be deposited to the credit of the account maintained for the benefit of the particular activity within the school activity fund... Disbursements from each of the activity accounts shall be by check countersigned by the school activity fund custodian and shall not be used for any purpose other than that for which the account was originally created. The board of education, at the beginning of each fiscal year and as needed during each fiscal year, shall approve all school activity fund subaccounts, all subaccount fund raising activities and all purposes for which the monies collected in each subaccount can be expended...

* * *

E. The school activity fund custodian and the petty cash custodian shall be appointed by the board of education of the school district. The school activity fund custodian and the petty cash custodian shall give a surety bond in an amount determined by the board of education, but not less than One Thousand Dollars (\$1,000.00). The premium of the surety bond shall be paid from the school activity fund.

I. Any invoice submitted to a school district which is to be paid from a school activity fund and is for payment of an authorized expenditure of Two Thousand Dollars (\$2,000.00) or less, shall not be required to have on the invoice the sworn statement requirements set forth in Section 310.9 of Title 62 and Section 3109 of Title 74 of the Oklahoma Statutes.

RECOMMENDATION: We recommend all activity accounts be approved by the local Board as provided by State Statutes.

SUBSEQUENT EVENTS

We reviewed a letter dated October 31, 2005 from the State Department of Education to Kinta Public School concerning the district's 2004 independent audit and 13 areas of material weaknesses. The letter also stated: "...Further, the fact that many of these findings have been on-going for several years causes even greater apprehension. Our office has worked with the district personnel for several years in regard to many of the issues addressed in the audit and we are extremely worried as to how these findings continue from year to year..."

The current superintendent and staff have corrected the social security earnings reports, corrected insurance premium issues and have corrected the payroll reporting problems with the Internal Revenue Service.

The independent audit report for FY 2006 indicates the school has corrected many of the repeated prior year audit findings.

* * *

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 Kinta Public School District No. 311013 or any of the individuals named in this report or acting on behalf of the District 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 District 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.

Protecting Your Tax Dollars



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