

**MARBLE CITY
ELEMENTARY SCHOOL
DISTRICT NO. 68C035**

SEQUOYAH COUNTY

MARCH 1, 1998 THROUGH
NOVEMBER 30, 2007



**SPECIAL
AUDIT**



Jeff A. McMahan
Oklahoma State Auditor
& Inspector



Marble City Elementary School
District No. 68C035
Sequoyah County
Special Audit Report
March 1, 1998 through November 30, 2007

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:

- ✓ The Marble City Superintendent used \$100,000.00 of Marble City School Impact Aid (federal) funds to purchase real property for himself and his wife. **Pgs 3-7**
- ✓ An outside bank account, Organization of Rural Elementary Schools, that should have been closed in 1998 remained open and from March 1998 through June 2007 was used as a tool to conceal the deposits and expenditures of Marble City School funds. We question deposits totaling \$948,202.35. **Pgs 8-10**
- ✓ The source of the money deposited into the ORES account was comprised of: (a) \$791,608.28 of Marble City School warrants, (b) approximately (b) \$109,489.57 of checks from the Cherokee Nation payable to the Marble City School and (c) \$47,104.50 checks from miscellaneous sources payable to the Marble City School. **Pg 10**
- ✓ It appears that three methods were used in which warrants were issued from the school, payable to various vendors, and ultimately deposited in the ORES account. The three methods identified were: payments issued to non-existent vendors, payments issued to vendors in excess of the amount owed, payments issued to vendors in which the vendor never received payments. **Pgs 10-15**
- ✓ The intended purpose of the Cherokee Nation checks payable to Marble City Schools included but were not limited to the prevention of diabetes/overweight programs, motor vehicle tax allocations and a Cherokee language immersion program. **Pg 16**
- ✓ Some of the (c) miscellaneous checks deposited into the ORES account included but were not limited to: \$5,922.77 from the Cookson Hills Community Action for reimbursements of meals for the head start program, including meals for the three and four year old children; \$1,871.21 e-rate reimbursement funds and a \$1,000.00 donation from the Wal-Mart Foundation. **Pgs 16-18**
- ✓ From July 1999 through June 2007 one hundred thirty-eight (138) ORES checks totaling \$869,373.03 were written from this account. One hundred thirty seven (137) of these checks, totaling \$854,873.03, included forged signatures of the former ORES president. **Pg 19**
- ✓ The ORES checks were used to pay the following: \$641,170.26 for credit cards owned by the school superintendent and/or the superintendent's wife; \$85,000.00 was paid for land purchased by the superintendent; \$1,228.06 was paid for personal indebtedness; \$4,730.00 was paid for a tractor; \$8,106.60 was paid for miscellaneous expenditures. **Pgs 19-23**
- ✓ The Superintendent was provided the use of vehicles that cost \$161,157.40. **Pgs 23-24**
- ✓ The school issued a \$10,408.36 warrant to Teacher's Retirement System on behalf of the superintendent without the knowledge or the approval of the Board. **Pgs 26-27**
- ✓ A 2002 Chevrolet pickup was disposed of without the Board's approval. **Pgs 27-30**
- ✓ Documents supporting a 2006 van purchase for \$48,500.00 were altered to conceal the purchase of a 2006 dually pickup. The 2006 dually pickup was not listed on the school inventory. **Pgs 27-30**



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Why the audit was performed

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

Audit Summary (continued):

- ✓ A 1999 van purchased by the school was converted for personal use without the Board's knowledge or authorization. **Pgs 30-31**
- ✓ A tractor and mower purchased by the school may have been used for personal use: An altered invoice made it appear the school purchased one mower for \$12,552.00 when two mowers had been purchased. A \$21,550.00 Kubota Tractor was not listed on the school's inventory. The tractor and mower appeared at the school after the audit began. **Pgs 32-34**
- ✓ The school has not maintained inventory records for assets and has little or no procedures to adequately insure purchased items are received by, and for use of, the school. **Pgs 35-36**
- ✓ The school paid the superintendent \$1,941.37 as reimbursement for equipment rental that was used for his personal use. **Pgs 36-37**
- ✓ Other questionable expenditures paid by the school include: **Pgs 38-40**
 - \$2,127.00 paid in advance for the superintendent and his wife to attend a conference in Arizona,
 - \$254.09 paid for rib-eye steaks for "food for a meeting",
 - \$4,800.00 paid to the superintendent without any supporting documentation.
- ✓ Lack of internal controls included: **Pgs 40-44**
 - the failure to present warrants to the Board for signatures wherein facsimile signatures were used,
 - the failure to give proper notice to a Board member of a special meeting,
 - the failure to take executive session meeting minutes.
- ✓ Two of the three board members may be ineligible to serve on the board as a result of a criminal charge and failure to reside in the school district. **Pgs 44-46**
- ✓ From school years 2002-03 through 2006-07 the school received approximately 1.4 million dollars in impact aid. We question whether all of the children claimed are eligible to be counted by the school as federally connected. **Pgs 47-48**
- ✓ The issues addressed by the State Board of Education during a certificate revocation process are separate and in addition to the findings in this report. **Pg 44**

MARBLE CITY ELEMENTARY SCHOOL DISTRICT No. 68C035

SEQUOYAH COUNTY

SPECIAL AUDIT REPORT

MARCH 1, 1998 THROUGH NOVEMBER 30, 2007

This publication is printed and issued by the State Auditor and Inspector as authorized by 74 O.S. 2001, § 212 (H) and 74 O.S. 2001, § 3105. Thirty-five copies have been prepared and distributed at a cost of \$159.00. 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 25, 2008

Honorable Jerry S. Moore, District Attorney
District No. 27
213 West Delaware
Tahlequah, Oklahoma 74464

Transmitted herewith is the Special Audit Report of the Marble City Elementary School District No. 68C035. We performed our special audit in accordance with the requirements of **74 O.S. 2001, § 212(H)**.

A report of this type tends to be critical in nature; however, failure to report commendable features in the present accounting and operating procedures of the entity should not be interpreted to mean 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 ensure a government, which is accountable to the people of the State of Oklahoma.

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

Sincerely,

A handwritten signature in blue ink that reads "Michelle R. Day".

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

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SEQUOYAH COUNTY
SPECIAL AUDIT REPORT
MARCH 1, 1998 THROUGH NOVEMBER 30, 2007

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**MARBLE CITY ELEMENTARY SCHOOL DISTRICT No. 68C035
SEQUOYAH COUNTY
SPECIAL AUDIT REPORT
MARCH 1, 1998 THROUGH NOVEMBER 30, 2007**

BOARD OF EDUCATION

President Mary Cooksey
Clerk..... Tim Farris
Member Ramon Bolin

SUPERINTENDENT
Larry Couch

ENCUMBRANCE CLERK, PAYROLL CLERK & MINUTES CLERK
Mary Brown

TREASURER
Sequoyah County Treasurer Trica Yates



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

Ms. Mary Cooksey, President
Board of Education
Marble City Elementary School District No. 68C035
P.O. Box 10
Marble City, Oklahoma 74945-0010

Dear Ms. Cooksey:

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 Marble City Elementary School District No. 68C035, for the period March 1, 1998 through November 30, 2007.

The objectives of our special audit primarily included, but were not limited to, possible misappropriation of money. Our findings and concerns related to these procedures are presented in the accompanying report.

Because the above procedures do not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the Marble City Elementary School District No. 68C035. 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 School.

This report is intended solely for the information and use of the District Attorney, Marble City Elementary School 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 (51O.S. 2001, § 24A.1 et seq.)**, and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Michelle R. Day".

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

December 13, 2007

MARBLE CITY ELEMENTARY SCHOOL DISTRICT NO. 68C035
SEQUOYAH COUNTY
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INTRODUCTION

The School District No. 68CO35, Sequoyah County, Oklahoma (Marble City Elementary 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 Marble City Elementary 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 three (3) elected members and the Marble City Elementary School District are subject to the provisions of the **Oklahoma School Code**.

The student body consists of Pre-K through 8th grade. As of June 30, 2007 the school reported to us they had an enrollment of approximately 162 students. The appointed Superintendent is the executive officer of the District.

Private independent auditors audit the Marble City Elementary School District annually, 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 Office of the State Auditor and Inspector (OSAI) conducted a special audit of the records of the District, primarily those records relating to concerns expressed by the District Attorney in his request. The results of the special audit are in the following report.

BACKGROUND

On May 4, 2007, School Board Member Ramon Bolin asked the Sequoyah County Treasurer for certain documents and records pertaining to Marble City School. The Sequoyah County Treasurer serves as the Marble City School Treasurer. Subsequent to that request, the School Superintendent, Larry Couch, contacted the County Treasurer's Office concerned about what records had been given to Board Member Ramon Bolin.

Superintendent Couch expressed concern about the Treasurer's Office providing Ramon Bolin specific records concerning a \$100,000.00 transaction from the school's building fund. When Superintendent Couch was told that the Treasurer's Office was having difficulty in locating the records pertaining to the \$100,000.00 transaction, Superintendent Couch reportedly stated, "Good, that's the one I don't want him to have".

Concerned about what had transpired, the Treasurer obtained copies of the school warrant that had been issued in the amount of \$100,000.00 and began inquiring about the circumstances surrounding this warrant. The Treasurer learned the school warrant had been used to purchase a \$100,000.00 cashiers check payable to Jane & Kelly Nelson. The Treasurer then determined Superintendent Couch had contemporaneously purchased land from Jane and Kelly Nelson, and based on those records, it appeared \$100,000.00 had been paid towards the purchase price. The Treasurer reported her concerns and findings to District Attorney Jerry Moore on May 8, 2007.

On June 5, 2007, investigators from the District 27 District Attorney's Office (DA'S Office) and an employee of the State Auditor and Inspector's Office served a search warrant to Marble City Elementary School ("School") for financial documents and records.

During the service of the search warrant, Superintendent Couch stated to both OSAI and District Attorney staff that he had misused school funds. He stated that he had used \$100,000.00 in school funds to purchase land. Superintendent Couch further stated that he intended to pay the money back, and he intended to immediately resign his position.

When asked if the \$100,000.00 fraudulent expenditure had been questioned by the School's independent auditor, Superintendent Couch stated that he had "cooked the books" and that the independent auditor would not have known about the transaction.

The Superintendent stated that he had done nothing else wrong; however, if we should find something else, then he would be willing to pay that back also.

Because the \$100,000.00 land transaction was the initial concern OSAI was asked to address, we will report those findings before we report other concerns identified and addressed during the course of this audit.

CONCERN: LAND PURCHASED WITH SCHOOL FUNDS

FINDINGS:

- **The School Superintendent purchased land for himself and his spouse using \$100,000.00 in school funds.**
 - **The School Superintendent has been charged with one count of embezzlement of public funds.**
 - **A board member's signature stamp was used on an instrument without authority from the board member.**
-

The United States Government, through the United States Department of Education, provides schools with *Impact Aid* funds. Impact Aid funds are Federal funds provided to assist local school districts that have lost property tax revenue or have an increase in expenditures due to the enrollment of Federally-connected children.

Impact Aid funds are considered general aid to the recipient school districts; these districts may use the funds in whatever manner they choose in accordance with their local and State requirements. Impact Aid funds will be addressed further later in this report.

On February 14, 2006, \$100,000.00 was transferred from the Impact Aid Account to the Building Fund Account. On February 14, 2006, a purchase order for the building fund was issued in the amount of \$100,000.00 for the purpose of "land acquisition". There were no documents attached to the purchase order to support the expenditure.

70 O.S. § 5-135(E) states:

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. If a district has the ability to electronically utilize evaluated receipt settlement (ERS), the district may remit to vendors on that basis if the requirements of this subsection are fulfilled. In the event a district is establishing electronic data interchange, electronic entries will suffice in lieu of paper documents. In order for a district to be authorized to utilize an evaluated receipt settlement system[.]

The Board of Education ("Board") agenda for February 14, 2006, included the following:

5. Board to review and take action on proposal by Superintendent Larry Couch to purchase fifty (50) acres located adjacent to the school property lines owned by the Christie family.

The Board meeting minutes for the February 14, 2006 meeting reflect the following:

Item 5 – Board reviewed and voted to approve the purchase of the Christie land with Superintendent Larry Couch as agent to handle such purchase at a cost of \$2,000.00 per acre. Mr. Couch pointed out to the board that the land was restricted by the Cherokee Nation and

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would take sometime to get all the legal work done. The board gave authority to Mr. Couch to hire an attorney to handle abstracting. Motion to approve by Mary Cooksey and seconded by Tim Farris. Motion carried.

We noted the meeting minutes included signatures, by signature stamps, for Board Members Mary Cooksey, Tim Farris and Ramon Bolin. However, the meeting roll call reflects that member Ramon Bolin was not present. We interviewed Mr. Bolin who stated that he was not a Board member and was not present during the February 14, 2006 meeting.

OSAI assisted the District 27 District Attorney's Office in the execution of a search warrant at the Marble City School. District Attorney investigators seized a small blue plastic box containing signatures stamps for the members of the school board. The box was found in the encumbrance clerk's desk. Included in the box was a signature stamp for Board Member Ramon Bolin as well as several sheets of paper appearing to have Bolin's signature in various sizes and at various locations on the paper.

OSAI interviewed Mr. Bolin who stated that he had not given permission for anyone to obtain or use a facsimile signature stamp on his behalf.

The use of Ramon Bolin's signature stamp appears to be a violation of **21 O.S. § 1593**, which states:

Every person who, by any false representation, artifice or deceit, procures from another his signature to any instrument, the false making of which would be forgery, and which the party signing would not have executed had he known the facts and effect of the instrument, is guilty of forgery in the second degree.

On the same date as the Board meeting, February 14, 2006, warrant number 2 was issued from the Building Fund in the amount of \$100,000.00, payable to Armstrong Bank. Jim Giles, President of the Vian Branch of Armstrong Bank, endorsed the warrant.

Subsequently, on March 23, 2006, a cashier's check, in the amount of \$100,000.00, was issued by Armstrong Bank payable to Jane & Kelly Nelson.

On March 24, 2006, a Joint Tenancy Warranty Deed, dated March 23, 2006, was filed with the Sequoyah County Clerk. The Deed conveyed certain property from Kelly and Jane Nelson, a husband and wife, to Larry D. Couch and Carolyn L. Couch, a husband and wife.

According to the County Treasurer, based on the documentary stamps, the amount of the transaction was \$250,000.00. On March 24, 2006, a real estate mortgage was filed with the Sequoyah County Clerk reflecting the same property was mortgaged in the amount of \$150,000.00.

On June 5, 2007, Larry Couch, the School Superintendent, told investigators from the DA's Office and a representative from the OSAI that he had used the \$100,000.00 to purchase land for himself and his wife.

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The purchase of items for personal use with school monies or under the color of the school appears to be a violation of **21 O.S. §§ 341, 358 and 1451**, which state, in pertinent part, respectively:

§ 341 – Every public officer of the state ... 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 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 or erasure in any account of or relating to any moneys so received by him, on behalf of the state ... 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 (1) year nor more than twenty (20) years[.]

§ 358 – A. It shall be unlawful for any person ... 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.

§ 1451 – A. Embezzlement is the fraudulent appropriation of property of any person or legal entity, legally obtained, to any use or purpose not intended or authorized by its owner, or the secretion of the property with the fraudulent intent to appropriate it to such use or purpose...
* * *

5. Where any person diverts any money appropriated by law from the purpose and object of the appropriation [.]

Embezzlement does not require a distinct act of taking, but only a fraudulent appropriation, conversion or use of property.
* * *

C. Any county or state officer, deputy or employee of such officer, who shall divert any money appropriated by law from the purpose and object of the appropriation, shall, upon conviction, be guilty of a felony punishable by imprisonment in the State Penitentiary for a term not less than one (1) year nor more than ten (10) years, and a fine equal to triple the amount of money so embezzled and ordered to pay restitution to the victimim [.]

Article X, § 15 of the **Constitution of Oklahoma** states in pertinent part:

Except as provided by this section, the credit of the State shall not be given, pledged, or loaned to any individual ... or political subdivision of the State[.]

While examining school records, OSAI found a copy of the \$100,000.00 Impact Aid transfer form attached to and in the same file as documents from the Valley Land Title Company, Inc.

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Additionally, OSAI found documents from the United States Department of the Interior (“letter”) addressed to Superintendent Larry Couch and concerning the school’s encroachment on the Esther Flute property.

The letter, dated July 6, 2005, states, in relevant parts:

The Secretary [of Interior] serves as trustee for individual Indians who own property in a restricted or trust status.

* * *

A cadastral survey prepared by the Bureau of Land Management in June 2003 reflects that the basketball court, propane tanks, a portion of the new cafeteria building, and an access road and parking lot are all located on the Flute property. An Improvement Location Sketch and more recent photographs of the area show that some of the playground equipment, the trash dumpsters, some fencing and a small portion of the running track are also located on the Flute property. School construction debris has also been left on the Flute property.

* * *

Our file reflects that certain members of the Flute family and the Cherokee Nation Real Estate Services Office have attempted to contact you regarding this matter, but that you have not been responsive. It is clear the school is encroaching on the Flute property.

A letter from the United States Department of the Interior, dated September 25, 2007, reflects that the encroachment issue is still an ongoing concern for the school. The letter reflects that the family and the Department of the Interior are requesting, among other conditions, the payment of \$33,430.00 for the property on which the school has already built.

Documentation reflects that the school has built facilities and structures, including part of the cafeteria, a parking lot, basketball court and running track, on property not owned by the school and without permission from the landowners.

OSAI obtained documentation reflecting that the Christie family members are heirs to the Flute property being described and discussed in the correspondence between the Department of the Interior and the School Superintendent. OSAI spoke with one of the heirs of the property who stated that had the school asked to use the property first, the heirs would have deeded the land to the school without cost.

It appears there was an issue concerning property adjacent to the school (the Christie property) and there may have been a legitimate reason the Board would be interested in purchasing property adjacent to the school. However, rather than purchasing the property adjacent to the school, as described on the Board meeting agenda and Board minutes, Superintendent Couch purchased land, not adjacent to the school, with the school funds but put the property purchased in the name of Larry and Carolyn Couch.

On August 3, 2007 Superintendent Larry Couch was charged with one count of embezzlement of public money. As of the conclusion of our audit this charge has not been adjudicated.

RECOMMENDATIONS: OSAI recommends the proper legal authority determine if any further action should be taken. OSAI also recommends the school board consult with legal counsel concerning all land transactions, and take appropriate measures to ensure that capital improvements are done on land owned by the school.

CONCERN: ACCOUNT USED TO LAUNDER FUNDS - DEPOSITS

FINDINGS:

- An outside bank account was used to launder \$791,608.28 from the school.
 - An outside bank account was used to launder \$109,489.57 from funds paid by Cherokee Nation and intended to for the school.
 - An outside bank account was used to launder \$47,104.50 from various payment sources intended for the school.
 - School warrants were issued to non-existent vendors and deposited to an outside bank account.
 - School warrants were issued to vendors in excess of amounts owed and deposited to an outside bank account.
 - School warrants were issued to vendors who never received the payments and deposited to an outside bank account.
 - Endorsements were forged on warrants deposited into an outside bank account.
 - Falsified invoices were submitted for payment from the school.
 - A deposit endorsement stamp appears to have been obtained and used without the vendor's knowledge.
-

Background information and discovery of ORES account.

The Organization of Rural Elementary Schools ("ORES") is a membership organization consisting of various dependent schools throughout Oklahoma. In 1992 an ORES account was opened at a local bank in Vian, Oklahoma. The signature card on this account reflected Superintendent Larry Couch and former Moffet School Superintendent Bill Horton.

Bill Horton and Superintendent Larry Couch served as the President and Treasurer, respectively, of ORES from 1992 through 1998. In 1998 the organization elected a new president and a new treasurer. Bill Horton stated that he no longer had any connection with ORES after May 1998.

ORES check number 1212 in the amount of \$50,226.07, was issued on April 24, 1998, to the newly-elected ORES Treasurer and President. These funds were then deposited into a new ORES account under the control of the newly-elected Treasurer and President.

Between 1998 and November 2007, ORES has had three Treasurers. Jackie Grass succeeded Larry Couch. Randy Rountree succeeded Jackie Grass. OSAI interviewed both Grass and Rountree who both advised us that when ORES elects a new President, they also elect a new Treasurer in order to keep the president and treasurer in geographically close proximity.

When a new President and Treasurer are elected, a new ORES bank account is opened. The previous treasurer should close out his or her ORES account and forward the funds to the new treasurer and president who will then deposit those proceeds into the new ORES account.

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Based on the information provided by former ORES President Bill Horton, former ORES Treasurer Jackie Grass and current ORES Treasurer Randy Rountree, the ORES account managed by Superintendent Couch should have been closed in April 1998. Instead this account was used as a tool to conceal the deposits and expenditures of Marble City School funds for purposes other than what was intended.

During the course of this audit, equipment and two vehicles appeared at the school (which are addressed in separate sections of this report). After a tractor appeared and OSAI was able to determine Marble City School had purchased the tractor, OSAI contacted the Sequoyah County Treasurer's Office to assist in locating records. As stated earlier, the Sequoyah County Treasurer serves as the school's treasurer.

OSAI did not have any purchase orders or supporting documentation from the school for the time period being researched, so the Treasurer's Office was requested to review old warrant (payment) registers for any payments issued to two tractor companies. While searching the old warrant registers for these payments, the Treasurer's Office discovered numerous warrants that raised concerns. They noted several large warrants (payments) issued to vendors, which included but were not limited to: warrant #1023 to Merel Rowe Electrical for \$19,245.00; warrant #1024 to Rick Craighead for \$21,785.00; warrant #6 to Green & Green for \$8,500.00 and warrant #7 to Green Country Commercial Paint for \$5,175.00.

The Sequoyah County Treasurer (hereinafter referred to as Treasurer) noted that all four warrants were issued on May 13, 2003, and three of those four warrants were endorsed "credited to the account of the within named payee in accordance with payee's instruction, absence of endorsement guaranteed" and stamped Armstrong Bank, Muskogee, Oklahoma with a deposit date of May 20, 2003. The Treasurer noted irregular endorsements on these warrants, noted that the warrants had cleared Armstrong Bank on the same day, and noted that three warrants had consecutive transaction numbers on them indicating that they had been deposited into the same account at Armstrong Bank. The Treasurer then contacted Armstrong Bank in Muskogee, Oklahoma and attempted to determine the account in which these warrants were deposited.

The Treasurer knows Merel Rowe and noted the endorsement on the warrant was not his name. She met with Mr. Rowe and showed Mr. Rowe a copy of the endorsement. He confirmed to her that the endorsement on warrant number 1023 for \$19,245.00 was not his signature.

The Treasurer was in the process of determining the Armstrong Bank account name in which these warrants were deposited when she turned over the warrants and the information she had gathered to our office. OSAI then interviewed Mr. Rowe who verified the endorsement on the warrant was not his and he had not received the payment.

Working in conjunction with District Attorney investigators, a multi-county grand jury subpoena was obtained in order to determine the name of the account in which the three warrants had been deposited. Based on information provided by the bank, under the subpoena, OSAI determined that all three warrants had been deposited into an ORES account.

OSAI interviewed former and present ORES officials who advised that the questioned ORES account should have been closed. A second multi-county grand jury subpoena was obtained for the ORES bank account records.

ORES records obtained by subpoena

On October 30, 2007, District Attorney investigators provided OSAI with copies of the ORES account records obtained as a result of the multi-county grand jury subpoena. The records revealed that during the period from June 1999 through June 2007, one hundred thirty-eight (138) checks were written from the account totaling \$869,373.03.

Deposits to the ORES account

OSAI was provided with images reflecting the source of each deposit made to the ORES account for the period from March 1998 through June 2007. From the documentation provided, we identified the following questionable deposits into the ORES account:

- Warrants from Marble City School totaling \$791,608.28 (83.5%).
- Checks issued by the Cherokee Nation, payable to Marble City School, totaling \$109,489.57 (11.5%)
- Other miscellaneous checks totaling \$47,104.50. (5%).

OSAI identified what appeared to be three methods in which warrants were issued from the school, payable to various vendors, and ultimately deposited into the ORES account. The three methods identified were:

- Payments issued to non-existent vendors.
- Payments issued to vendors in excess of the amount owed.
- Payments issued to vendors in which the vendors never received payments.

Payments made to non-existent vendors

On May 13, 2003, school warrant no. 7, building fund, was issued to Green Country Commercial Paint, with a listed address of 605 W. Cherokee, Sallisaw, Oklahoma. The warrant was issued in the amount of \$5,175.00.

On June 22, 2004, a purchase order was approved for payment of \$3,895.00 to Green Country Commercial Paint. The address listed on the purchase order was 805 W. Cherokee, Sallisaw, Oklahoma.

OSAI went to both addresses listed and there was no such business at either address. OSAI contacted city utilities for Sallisaw and was advised that there was no such business at either location or at any other location in Sallisaw.

A school warrant, general fund, was issued to Hoytsiding with a Post Office Box address in Cookson, Oklahoma. The warrant was issued in the amount of \$15,668.50.

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A postal employee in Cookson, who had worked there for over thirty years, was unfamiliar with a business of this name and confirmed there was no such business at the post office box listed.

Payments issued to vendors in excess of amounts owed

OSAI noted instances in which school warrants had been issued to specific vendors; the warrants were deposited into the ORES account (instead of paid directly to the vendor from the school); and then a subsequent check was written to the respective vendor from the ORES account for a lesser amount. The following are examples:

- On August 1, 2000, a school warrant, in the amount of \$22,330.00, was issued to Wright's Electric Heat & Air. The warrant was deposited into the ORES account. Subsequently, on August 9, 2000, an ORES check was issued to Wright's Electric in the amount of \$6,000.00.
- On August 6, 2000, an ORES check was written to Mark Collins in the amount of \$14,000.00. The following day, August 7, 2000, a school warrant payable to Mark Collins in the amount of \$20,981.75, was deposited into the ORES account.
- On May 13, 2003, a school warrant was issued payable to Rick Craighead in the amount of \$21,785.00. On July 11, 2003 this warrant was deposited into the ORES account. On June 27, 2003 an ORES check was written to Rick Craighead in the amount of \$2,895.00.

OSAI identified sixteen (16) instances where a school warrant was issued to a particular vendor, the warrant was deposited into the ORES account, and then a check for a lesser amount was issued from ORES to the vendor named on the school warrant. These instances are reflected in the following table:

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School Warrants Deposited In ORES Account				Payments To Same Vendor From ORES Account			
Payee	Warrant	Date	Amount	Check	Date	Amount	Variance
Larry's Custom Interior	1172	8/3/1999	\$21,260.00	1004	8/17/1999	\$13,486.00	\$7,774.00
Ronald G. Loyd	1176	8/3/1999	\$12,685.00	1005	8/27/1999	\$207.50	
				1219	8/21/1999	\$7,000.00	
						\$7,207.50	\$5,477.50
Arkansas School Supply	1168	8/3/1999	\$8,330.03	1220	9/2/1999	\$6,520.00	\$1,810.03
Arkholo Sand & Gravel	1170	8/3/1999	\$24,962.00	1222	10/8/1999	\$16,966.00	\$7,996.00
Green & Green	1	4/4/2000	\$14,000.00	1239	4/10/2000	\$6,300.00	\$7,700.00
Jarvis Hedrick	2	5/24/2000	\$12,600.00	1245	5/25/2000	\$5,525.00	\$7,075.00
Chad Nolan	26	5/24/2000	\$11,200.00	1246	5/26/2000	\$6,605.00	\$4,595.00
Larry's Custom Interiors	36	6/20/2000	\$18,150.00	1248	7/3/2000	\$11,250.00	\$6,900.00
Wrights Electric	1157	8/1/2000	\$22,330.00	1251	8/9/2000	\$6,000.00	\$16,330.00
Stanfill Plumbing	1160	8/1/2000	\$15,425.80	1252	8/25/2000	\$8,820.00	\$6,605.80
Green & Green	1155	8/1/2000	\$15,554.40	1257	9/26/2000	\$12,671.00	\$2,883.40
Mark Collins	1158	9/1/2000	\$20,981.75	1250	8/6/2000	\$14,000.00	\$6,981.75
Larry's Custom Interiors	669	2/13/2001	\$10,730.00	1264	2/26/2001	\$6,400.00	\$4,330.00
Mark Collins	702	2/13/2001	\$4,850.00	1265	2/23/2001	\$3,500.00	\$1,350.00
Looper Acustical	1177	6/28/2001	\$12,500.00	1276	8/16/2001	\$992.00	\$11,508.00
Rick Craighead	1024	5/13/2003	\$21,785.00	1014	6/27/2003	\$2,895.00	\$18,890.00
Total			\$247,343.98			\$129,137.50	\$118,206.48

OSAI obtained sworn affidavits from nine (9) vendors stating they did not receive and did not endorse the Marble City School warrants payable to their respective businesses and deposited into the ORES account.

Warrants were issued from the school to various vendors wherein the vendors did not receive payment. The warrants were then deposited in the ORES account and lesser payments were made to the vendor with the remaining \$118,206.48 being used for other purposes discussed later in this report.

21 O.S. § 1577, states:

Every person who sells, exchanges or delivers for any consideration any forged or counterfeited promissory note, check, bill, draft, or other evidence of debt, or engagement for the payment of money absolutely, or upon any contingency, knowing the same to be forged or counterfeited, with intent to have the same uttered or passed, or who offers any such note or other instrument for sale, exchange or delivery for any consideration, with the like knowledge and intent, or who receives any such note or other instrument upon a sale, exchange or delivery for any consideration with the like knowledge and intent, is guilty of forgery in the second degree.

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Payments issued to vendors in which the vendor did not receive payment

Eight (8) warrants totaling \$370,629.50, were made payable to S&S Truck and Bus Sales, Inc. These payments comprise 47% of the total amount of funds from Marble City School deposited into the ORES account. The payments are reflected in the following table:

Marble City School Warrants				ORES Deposits	
Date	No.	Payee	Amount	Amount	Date
6/24/98	1199	S&S Bus Sales	\$45,000.00	\$45,000.00	08/05/98
8/3/99	1171	S&S Truck & Bus, Inc.	\$44,920.00	\$44,920.00	10/22/99
8/1/00	1154	S&S Truck & Bus, Inc.	\$51,429.50	\$51,429.50	9/13/00
4/10/01	878	S&S Truck & Bus, Inc.	\$43,495.00	\$43,495.00	4/17/01
1/8/02	603	S&S Truck & Bus Sales	\$46,865.00	\$46,865.00	2/13/02
6/25/02	1180	S&S Truck & Bus Sales	\$44,125.00	\$44,125.00	7/2/02
12/10/02	470	S&S Truck & Bus Sales	\$48,500.00	\$48,500.00	12/23/02
11/11/03	395	S&S Truck & Bus Sales	\$46,295.00	\$46,295.00	11/18/03
Totals			\$370,629.50	\$370,629.50	

We obtained the purchase order and supporting documents for the \$46,295.00 payment dated November 11, 2003. A purchase order requisition form was attached to the purchase order reflecting the description of the item to be purchased as "bus". The requisition form included the signature stamp endorsement of Superintendent Larry Couch and the initial "L.C."

Additionally, an invoice depicted as being an authentic invoice from S&S Truck and Transport was also attached to the purchase order. This invoice reflected the purchase of a 2003 53-passenger Collins school bus and included a VIN number. The invoice contains the signature of "K. Sparks". The total invoice amount was \$46,295.00. The invoice appears to have been generated by a computer.

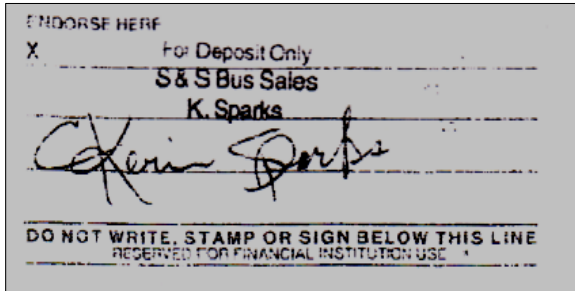
Although S&S Bus and Truck Sales is no longer in business, District Attorney investigators located the former proprietor, Kevin Sparks. Mr. Sparks stated the computer-generated invoice is not an invoice from his company, and the signature on the invoice; "K. Sparks" is not his signature. Additionally, Sparks stated Collins Bus Company does not manufacture a 53-passenger bus.

Using a computer to create a falsified invoice may be a violation of **21 O.S. § 1953(A)(2)**, which states it shall be unlawful to:

Use a computer, computer system, computer network or any other property as hereinbefore defined for the purpose of devising or executing a scheme or artifice with the intent to defraud, deceive, extort or for the purpose of controlling or obtaining money, property, services or other thing of value by means of a false or fraudulent pretense or representation;

Four warrants (878, 603, 470, 395) were endorsed with a stamp reflecting "For Deposit Only S & S Bus Sales K.Sparks". Sparks stated the endorsement stamps used to endorse the warrants are not endorsement stamps used by S&S Bus and Truck Sales, Inc. Further, Mr. Sparks stated the signed endorsements are not his endorsements either.

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It appears a signature stamp, reflecting S&S Bus Sales, may have been obtained without authority. This may be a violation of **21 O.S. § 1593**, which states:

Every person who, by any false representation, artifice or deceit, procures from another his signature to any instrument, the false making of which would be forgery, and which the party signing would not have executed had he known the facts and effect of the instrument, is guilty of forgery in the second degree.

OSAI determined that all eight (8) warrants, totaling \$370,629.50, were deposited into the ORES account and appears to be a violation of **21 O.S. §§ 341, 358 and 1451**, previously quoted in this report.

Although eight (8) payments were made to S & S Bus Sales, and supporting documentation was requested for all payments, OSAI was only provided the purchase order and supporting documentation for one payment. The school failed to produce purchase orders and supporting documents for most transactions that occurred prior to July 2003. Therefore, OSAI was unable to determine if falsified invoices were used to support the other seven (7) payments totaling \$324,334.50, made to S & S Bus Sales.

Other falsified invoices

Purchase order 2004-11-350 was issued to Ron Gates Metal in the amount of \$8,500.00. The purchase order was approved on June 22, 2004; and subsequently, a school warrant, number 1222, was issued in the same amount.

Attached to and in support of the purchase order was a purchase order requisition form reflecting "Metal For Roofing Project On Headstart". The purchase order requisition was signed "L. Couch".

OSAI met with Ron and Teresa Gates, Gates Metals, who provided a sworn affidavit stating the invoice and the endorsement on the warrant issued to Gates Metals were not authentic. The invoice appears similar in layout, font, design and format as the S&S Bus and Truck Sales invoice previously noted in this report. This warrant was deposited into the ORES account on August 5, 2004.

The documentation attached to the purchase order, the endorsement on the warrant issued and the depositing of funds to the ORES account appears to violate **21 O.S. §§ 1953(A)(2), 1593, 341, 358 and 1451**, previously quoted in this report.

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Two (2) school warrants were issued to Rick Craighead. The first warrant, number 1024 in the amount of \$21,785.00, was on May 13, 2003 (FY02-03). The school was unable to produce any documentation supporting this payment.

The second warrant, number 1221 was issued to Rick Craighead on June 22, 2004. The purchase order and supporting documentation included a purchase order requisition form, signed "L Couch", and an invoice indicating the \$6,200.00 payment was for "Re-Roof Headstart Building". During the execution of a search warrant, District Attorney investigators obtained a receipt book from Superintendent Couch's desk. The receipt book obtained had invoice forms inside it that were identical to the invoice form attached to this purchase order.

OSAI obtained a sworn affidavit from Rick Craighead stating the endorsements on warrants 1024 and 1221 were not his signatures, and the invoice attached to and in support of warrant number 1221 was not his invoice. This warrant was deposited into the ORES account on July 15, 2004.

The documentation attached to the purchase order, the endorsement on the warrant issued, and the depositing of funds to the ORES account appears to violate **21 O.S. §§ 1593, 341, 358 and 1451**, previously quoted in this report.

Four (4) warrants, totaling \$26,233.33, were issued from the Marble City School general fund to Arkansas School and Office Supply. However, all four warrants were deposited into the ORES account, as shown in the table below:

School Warrant Information			ORES Deposit	
Date	Wrt #	Amount	Date	Amount
8/3/1999	1168	\$8,330.03	10/1/1999	\$8,330.03
4/9/2002	891	\$9,153.30	4/26/2002	\$9,153.30
5/13/2003	1022	\$4,250.00	8/29/2003	\$4,250.00
6/8/2004	1179	\$4,500.00	6/17/2004	\$4,500.00
Total		\$26,233.33	Total	\$26,233.33

OSAI went to Arkansas School Supply in Fort Smith, Arkansas and met with Eric Brooks. Mr. Brooks provided a sworn affidavit stating that the endorsements on the four (4) checks were not the endorsement of Arkansas School and Office Supply, and they did not receive the funds from those warrants.

Attached to purchase order 2004-11-319, approved June 8, 2004, was a purchase order requisition with no signature and an invoice purported from Arkansas School & Office Supply. This invoice in the amount of \$4,500.00 was shown to Mr. Brooks, and he stated it was not authentic.

The deposit of all four (4) warrants, totaling \$26,233.33, deposited into the ORES account, appears to be in violation of **21 O.S. §§ 341, 358 and 1451**, previously quoted in this report.

In addition to school warrants being used to fund the ORES account, OSAI noted additional deposits being made to the ORES account using checks and warrants payable to Marble City

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School. These included payments from Cherokee Nation, Cookson Hills Community Action Foundation, Inc., Cookson Hills Electric, and personal checks.

Funds from the Cherokee Nation deposited into the ORES account

Ten (10) payments from the Cherokee Nation totaling \$109,489.57 were deposited in the ORES account during the period from September 2002 through February 2007. These deposits constituted 13% of the total ORES deposits. The payments are reflected in the following table:

Cherokee Nation			ORES Deposit	
Date	Check #	Amount	Date	Amount
9/18/2002	533939	\$28,000.00	9/30/2002	\$28,000.00
1/2/2003	545754	\$12,000.00	3/24/2003	\$12,000.00
10/6/2004	1252	\$9,800.00	11/2/2004	\$9,800.00
2/16/2005*	15664	\$10,332.57	2/28/2005	\$10,000.00
3/16/2005	19491	\$1,000.00	4/18/2005	\$1,000.00
10/5/2005	42268	\$25,000.00	10/19/2005	\$25,000.00
2/22/2006	58472	\$10,385.12	3/15/2006	\$10,385.12
8/9/2006	77367	\$800.00	8/14/2006	\$800.00
2/20/2007	99351	\$1,500.00	2/26/2007	\$1,500.00
2/20/2007	99352	\$11,004.45	2/26/2007	\$11,004.45
		\$109,822.14		\$109,489.57
*Less Cash Amount On 2/16/2005				\$332.57
	Total	\$109,822.14	Total	\$109,822.14

OSAI contacted the Cherokee Nation to determine the intended purpose of these payments. The Cherokee Nation officials stated that the three payments, totaling \$65,000.00, were intended to provide assistance for prevention of diabetes and for an overweight/obesity program. These funds were provided in accordance with contracts signed by Superintendent Larry Couch.

The officials stated the purpose of some of the other funds included payments for motor vehicle tax allocation (\$22,837.02) and an immersion program-Cherokee language (\$9,800.00).

In each of the ten (10) instances, the Cherokee Nation checks were endorsed "Marble City School by Larry Couch".

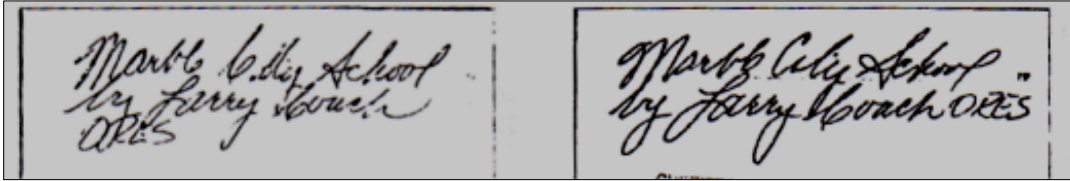
It appears these payments were intended for Marble City School and were diverted to the ORES account by Larry Couch. This appears to be in violation of **21 O.S. §§ 341, 358 and 1451**, previously quoted in this report.

Funds from the Cookson Hills Community Action Foundation, Inc. deposited into the ORES account.

Two (2) payments totaling \$5,922.77, from the Cookson Hills Community Action Foundation, Inc. ("Cookson Hills") were deposited into the ORES account. The endorsements on both

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checks reflected the endorsement for Marble City School by Larry Couch "ORES", as shown in the image below:



On June 30, 2006, Cookson Hills check number 94380, in the amount of \$1,853.35, was deposited into the ORES account. On May 21, 2007, Cookson Hills check number 96244, in the amount of \$4,069.42, was deposited into the ORES account. In both instances, the Cookson Hills payments were made payable to "Marble City Schools Lunch Prog."

OSAI contacted Cookson Hills and was advised these payments were reimbursements for meals for the head start program, including meals for the three and four year old children and their teachers.

Cookson Hills provided OSAI with copies of yearly contracts entered into between Marble City School and Cookson Hills for the periods of October 1, 2005 through September 30, 2006, and October 1, 2006 through September 30, 2007. Superintendent Larry Couch signed both contracts on behalf of Marble City Schools.

Funds intended for Marble City School were diverted and deposited into the ORES account. This appears to violate **21 O.S. §§ 341, 358 and 1451**, previously quoted in this report.

Other checks deposited into the ORES account

OSAI noted other checks deposited to the ORES account that were intended for Marble City School. These payments include:

- Two (2) AT&T checks totaling \$5,078.14 (one of these two checks in the amount of \$1,871.21 was an e-rate reimbursement as described below).
- Two (2) Cookson Hill Electric Coop checks totaling \$775.66.
- Three personal checks from Jarvis Hedrick in the amount of \$22,295.60.
- A check from Oklahoma School Insurance Group in the amount of \$2,037.00.
- A check from Triumph Learning Center in the amount of \$351.56.
- A check from OSEEGIB (Oklahoma State and Education Employees Group Insurance Board) in the amount of \$173.97.
- A check from Wal-Mart foundation in the amount of \$1,000.00.

According to Marble City School's Erate Consultant, the Schools and Libraries Program of the Universal Service Fund make discounts available to eligible schools and libraries for telecommunication services, internet access, and internal connections. The program is intended to ensure that schools and libraries have access to affordable telecommunications and information services. Some of the service providers (AT&T) send reimbursements (checks) for

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this discount directly to the school. The consultant verified the \$1,871.21 check payable to Marble City School was for the erate discount and that the amount represented 90% of the school's AT&T bills for July 2005-June 2006.

The consultant also provided OSAI with a list of payments the school should have received. Due to time constraints, OSAI was unable to verify if all the other reimbursements paid by AT&T were deposited with the Treasurer. In each instance, the payee listed on these checks was Marble City School. These funds were diverted from Marble City School and deposited into the ORES account contrary to **21 O.S. §§ 341, 358 and 1451**, previously quoted in this report.

Other questionable endorsement stamps

In addition to the previously-noted signature stamp for S&S Bus Sales, OSAI also noted a second instance where it appears an endorsement stamp may have been obtained and used without the knowledge of the represented business.

On October 12, 1999, Marble City School warrant number 1170 in the amount of \$24,962.00 was deposited in the ORES account. The warrant reflected the payee as Arkhola Sand & Gravel ("Arkhola"). The warrant was endorsed with a stamp reflecting an incorrect spelling "Arkola" Sand and Gravel.

A check, dated October 8, 1999, was written from the ORES account to "Arkola" Sand & Gravel Co. The check, in the amount of \$16,966.00, reflected the signatures Larry Couch and Bill Horton. Bill Horton stated the signature was not his signature.

OSAI contacted Arkhola but they were unable to determine, due to the time frame involved, if the misspelled endorsement stamp was actually an Arkhola endorsement stamp.

Two deposits were made to the ORES account by check from the Larry and Carolyn Couch Farm account. On September 23, 2004, a deposit of \$4,300.00 was made to the ORES account. The source of the deposit was a check drawn on their farm account. The check notation stated the check was written for "donation". At the time the deposit was made, the ORES account had a balance of \$727.62. The following day after the \$4,300.00 deposit was made, the bank processed a check to Triple A Financial in the amount of \$5,000.00. The payment to Triple A Financial was for a personal credit card belonging to Larry D. Couch.

On September 8, 2006, a deposit of \$1,200.00 was made to the ORES account. The source of the deposit was a check drawn on their farm account. The check notation stated "deposit oversight". The beginning account balance for this statement period was \$3,407.73. During the statement period, two (2) checks were written from the ORES account to Triple A Financial. Both checks, in the amounts of \$2,000.00 and \$2,500.00, appear to be payments for a personal credit card belonging to Larry D. Couch.

RECOMMENDATIONS: OSAI recommends the appropriate legal authority review the above findings to determine what action, if any, may be required. OSAI also recommends the Board of Education review erate reimbursements to determine if the school has received all scheduled payments.

CONCERN: ACCOUNT USED TO LAUNDER FUNDS; EXPENDITURES

FINDINGS:

- Payments totaling \$641,170.86 were paid toward personal credit cards of the School Superintendent, and the School Superintendent and his wife.
 - One hundred thirty-seven (137) checks written from the ORES account included forged signatures of the former ORES president.
 - One ORES check in the amount of \$55,000.00 for a “bus” was actually used to pay for land purchased by the Superintendent.
 - An ORES check was written for \$30,000.00 for payment on land purchased by the Superintendent.
 - A \$1,000.00 payment to Ford Motor Credit appears to be a payment made for the Superintendent’s personal indebtedness.
 - A \$228.06 payment made to a car dealership appears to be a payment for the Superintendent’s personal indebtedness.
 - A \$4,730.00 payment to a tractor company.
 - Payments totaling \$129,137.50 were paid to vendors.
 - Miscellaneous payments totaling \$8,106.60 were paid.
-

District Attorney investigators obtained a multi-county Grand Jury subpoena for records pertaining to the ORES account held at a local bank. As stated previously in this report, it appears the account should have been inactive and the account balance forwarded to the ORES Treasurer elected in April 1998.

OSAI was provided records, including expenditures made from the ORES account during the period from July 1999 through September 2007. During this period, one hundred thirty-eight (138) checks, totaling \$869,373.03 were written from the account. One hundred thirty-seven (137) checks (exception check no. 1022) of the one hundred thirty-eight (138) checks written from the ORES account reflected the signatures of Larry Couch and former ORES President, Bill Horton.

OSAI showed each of the one hundred thirty-seven (137) checks, totaling \$854,873.03, to Bill Horton. Mr. Horton stated that none of the signatures on the checks were his signature and that he had nothing to do with the ORES account after 1998. It appears the signatures representing Bill Horton are forgeries and may be in violation of **21 O.S. § 1577**, previously quoted in this report.

District Attorney investigator Bill Wilson obtained by subpoena, records for a Visa credit card ending with the numbers 7619 (“Visa 7619”). The records obtained reflect this is a personal credit card in the name of Larry D. Couch.

OSAI determined twenty-eight (28) payments totaling \$129,525.99 were made from the ORES account to Triple A. A majority of those payments included a notation on the check reflecting the Visa 7619 credit card, as shown in the following table:

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ORES Payment to Triple A Financial							
Date	Amount	Date	Amount	Date	Amount	Date	Amount
7/8/2004	\$4,400.00	1/10/2005	\$500.00	11/3/2005	\$9,900.00	9/6/2006	\$2,500.00
8/11/2004	\$6,200.00	3/10/2005	\$9,000.00	12/8/2005	\$5,500.00	9/14/2006	\$1,800.00
8/20/2004	\$6,000.00	4/12/2005	\$1,000.00	3/27/2006	\$9,800.00	12/6/2006	\$500.00
9/9/2004	\$2,000.00	6/13/2005	\$800.00	5/8/2006	\$175.00	2/13/2007	\$2,000.00
9/24/2004	\$5,000.00	8/1/2005	\$10,000.00	6/6/2006	\$225.00	3/5/2007	\$8,500.00
11/15/2004	\$4,025.99	8/8/2005	\$11,000.00	7/20/2006	\$1,800.00	4/2/2007	\$5,500.00
12/6/2004	\$5,200.00	11/9/2005	\$10,000.00	8/8/2006	\$2,000.00	6/7/2007	\$4,200.00
	\$32,825.99		\$42,300.00		\$29,400.00		\$25,000.00
						Total	\$129,525.99

District Attorney investigators, accompanied by personnel from the State Auditor's Office, served a search warrant on Marble City Schools. Records seized during the search warrant service included records obtained from Superintendent Couch's office.

Included in the seized records were Visa credit card statements issued by both Bank One and Wachovia. Both statements reflected the same credit card number ending with the numbers 3871 ("Visa 3871"). The Visa 3871 credit card statements reflected this card was in the name of Larry D. Couch and Carolyn L. Couch.

OSAI found fifty-nine (59) payments, totaling \$418,594.87, written to either Wachovia, Wachovia Bank Card Services or Wachovia B.C.S. A majority of these checks included notations such as "supplies", "supplies 3871" or the complete Visa 3871 credit card number. These payments are reflected in the table below.

Date	Amount	Date	Amount	Date	Amount
8/11/1999	\$100.00	9/5/2000	\$3,500.00	3/4/2002	\$6,000.00
9/9/1999	\$2,000.00	9/14/2000	\$8,000.00	3/12/2002	\$6,000.00
10/28/1999	\$4,500.00	10/12/2000	\$6,500.00	4/30/2002	\$8,500.00
12/13/1999	\$5,000.00	11/22/2000	\$8,750.00	5/14/2002	\$11,000.00
12/13/1999	\$6,500.00	12/11/2000	\$7,000.00	5/29/2002	\$5,000.00
11/18/1999	\$7,500.00	1/11/2001	\$1,000.00	6/13/2002	\$8,000.00
11/22/1999	\$3,000.00	3/7/2001	\$5,000.00	7/9/2002	\$10,000.00
12/9/1999	\$5,000.00	4/23/2001	\$11,000.00	9/3/2002	\$2,000.00
2/9/2000	\$5,360.00	4/3/2001	\$5,000.00	10/7/2002	\$10,000.00
1/27/2000	\$6,575.00	5/16/2001	\$7,000.00	10/31/2002	\$9,500.00
2/10/2000	\$8,750.00	5/29/2001	\$10,000.00	11/26/2002	\$9,000.00
2/14/2000	\$5,550.00	6/18/2001	\$10,000.00	1/8/2003	\$9,800.00
2/24/2000	\$12,000.00	6/29/2001	\$9,750.00	1/13/2003	\$9,500.00
3/15/2000	\$5,400.00	8/6/2001	\$10,000.00	2/11/2003	\$8,000.00
4/5/2000	\$4,000.00	8/20/2001	\$1,850.00	3/10/2003	\$9,500.00
4/27/2000	\$10,500.00	9/7/2001	\$10,000.00	4/1/2003	\$8,200.00
5/5/2000	\$6,000.00	10/1/2001	\$5,459.87	4/15/2003	\$5,000.00

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5/11/2000	\$5,500.00	10/15/2001	\$10,550.00	4/29/2003	\$10,000.00
6/14/2000	\$9,550.00	1/30/2002	\$5,000.00	6/13/2003	\$10,000.00
8/7/2000	\$8,000.00	2/11/2002	\$7,500.00		
	\$120,735.00		\$142,859.87		\$155,000.00
				Total	\$418,644.87

In addition, we noted fourteen (14) additional payments to "B.C.S." and/or Bank One, totaling \$93,000.00, as shown in the table below.

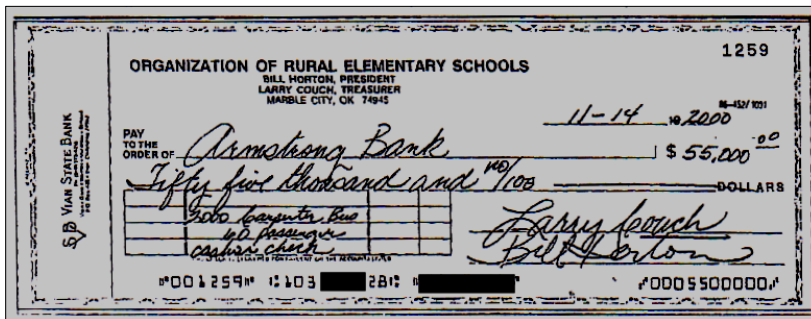
Date	CK#	Amount	Date	CK#	Amount	Date	CK#	Amount
1/10/2002	1280	\$500.00	9/10/2003	1018	\$4,000.00	12/16/2003	1025	\$4,500.00
6/4/2003	1012	\$11,500.00	10/15/2003	1019	\$1,500.00	1/14/2004	1026	\$4,400.00
7/16/2003	1015	\$11,500.00	11/12/2003	1021	\$1,000.00	2/2/2004	1027	\$4,500.00
8/6/2003	1016	\$7,000.00	11/26/2003	1022	\$14,500.00	3/9/2004	1028	\$2,100.00
8/12/2003	1017	\$10,000.00	12/10/2003	1023	\$16,000.00			
		\$40,500.00			\$37,000.00			\$15,500.00
						Total		\$93,000.00

The majority of the fourteen (14) payments written to either "B.C.S." or Bank One noted references to "3871" or, in some cases, the entire Visa 3871 credit card number.

Card Company	TTL Amounts
Triple A	\$129,525.99
Wachovia	\$418,644.87
Bank One / B.C.S.	\$93,000.00
Total	\$641,170.86

Based on the records and information provided, a total of \$641,170.86 was paid from the ORES account toward Visa credit cards in the name of Larry D. Couch (Visa 7619) and Larry D. Couch and Carolyn L. Couch (Visa 3871).

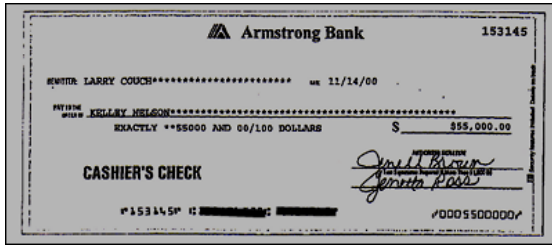
These payments appear to be in violation of **21 O.S. §§ 341, 358 and 1451**, previously quoted in this report.



ORES check number 1259, dated November 14, 2000, was written to Armstrong Bank in the amount of \$55,000.00. The notation on the check read "2000 Carpenter Bus 60 passenger cashier check".

Armstrong bank, in compliance with the multi-county Grand Jury subpoena, provided OSAI with the cashier's check purchased with ORES check number 1259. The cashier's check was issued to Kelley Nelson.

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OSAI later interviewed Kelley and Jane Nelson who advised us that on November 14, 2000, they received a payment from Larry Couch in the amount of \$55,000.00.

ORES check number 1048 was made payable to Kelly Nelson in the amount of \$30,000.00. The ORES check was dated July 17, 2002. OSAI interviewed Kelley and Jane Nelson who stated they received a \$30,000.00 payment from Larry Couch on July 18, 2002.

The payments were made, according to the Nelsons, for land and equipment. The \$55,000.00 and \$30,000.00 payments appear to violate **21 O.S. §§ 341, 358 and 1451**, previously quoted in this report.

ORES check number 1029, issued on March 8, 2004, was payable to Ford Motor Credit in the amount of \$1,000.00. The check includes a notation "Acct No 30443871". District Attorney investigators seized a brown briefcase containing numerous invoices, bills, statements and other documents belonging to Larry Couch. In that documentation, OSAI found an invoice from Ford Motor Credit referencing account number 30443871. The account is in the name of Larry D. Couch and references a 2001 Ford Excursion.

ORES check number 1225, issued on November 8, 1999, was payable to Ernie Miller Pontiac GMC in the amount of \$228.07. The ORES check included the notation "Inv. No 220-13028". Included in the same brown briefcase, previously noted, OSAI found an invoice, numbered 220-13028, reflecting a 90 day past due bill in the amount of \$172.10. The invoice reflected the customer name as "Couch Body Shop".

The \$1,000.00 and \$228.07 payments appear to violate **21 O.S. §§ 341, 358 and 1451**, previously quoted in this report.

OSAI previously noted in this report fifteen (15) instances in which school warrants were issued to vendors and deposited in the ORES account, and subsequently a check was written to the same vendor for a lesser amount. The payments previously noted are included in the table that follows.

Payee	Sch.Wrt	Date	Amount	ORES CK.	Date	Amount	Variance
Larry's Custom Interior	1172	8/3/1999	\$21,260.00	1004	8/10/1999	\$13,486.00	\$7,774.00
Ronald G. Loyd	1176	8/3/1999	\$12,685.00	1005	8/27/1999	\$207.50	
				1219	8/21/1999	\$7,000.00	
						\$7,207.50	\$5,477.50
Arkansas School Supply	1168	8/3/1999	\$8,330.03	1220	9/2/1999	\$6,520.00	\$1,810.03
Arkola Sand & Gravel	1170	8/3/1999	\$24,962.00	1222	10/8/1999	\$16,966.00	\$7,996.00
Green & Green	1	4/4/2000	\$14,000.00	1239	4/9/2000	\$6,300.00	\$7,700.00
Mark Collins	1158	9/1/2000	\$20,981.75	1250	8/6/2000	\$14,000.00	\$6,981.75
Jarvis Hedrick	2	5/24/2000	\$12,600.00	1245	5/24/2000	\$5,525.00	\$7,075.00

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Chad Nolan	26	5/24/2000	\$11,200.00	1246	5/24/2000	\$6,605.00	\$4,595.00
Larry's Custom Interiors	36	6/20/2000	\$18,150.00	1248	6/29/2000	\$11,250.00	\$6,900.00
Wrights Electric	1157	8/1/2000	\$22,330.00	1251	8/8/2000	\$6,000.00	\$16,330.00
Stanfill Plumbing	1160	8/1/2000	\$15,425.80	1252	8/21/2000	\$8,820.00	\$6,605.80
Green & Green	1155	8/1/2000	\$15,554.40	1257	9/26/2000	\$12,671.00	\$2,883.40
Mark Collins	702	2/13/2001	\$4,850.00	1265	2/13/2001	\$3,500.00	\$1,350.00
Larry's Custom Interiors	669	2/13/2001	\$10,730.00	1264	2/23/2001	\$6,400.00	\$4,330.00
Looper Acustical	1177	6/28/2001	\$12,500.00	1276	8/13/2001	\$992.00	\$11,508.00
Rick Craighead	1024	5/13/2003	\$21,785.00	1014	6/26/2003	\$2,895.00	\$18,890.00
Totals			\$247,343.98			\$129,137.50	\$118,206.48

Because these payments occurred prior to the 03-04 school year, OSAI was unable to obtain records to determine if the amounts paid to the vendors from the ORES account were valid payments that should have been made from the school directly.

ORES check number 1256, dated October 19, 2000, in the amount of \$4,730.00 was payable to Aceco Rental and Sales. This payment is addressed later in this report in the section concerning the purchase and use of a Kubota tractor purchased from the same vendor.

Fifteen (15) ORES checks totaling \$8,106.60 were written for miscellaneous payments.

RECOMMENDATION: OSAI recommends the proper legal authority review the above findings to determine what action, if any, may be required.

CONCERN: BENEFITS PROVIDED TO SUPERINTENDENT OUTSIDE CONTRACT

FINDINGS:

- **The Superintendent appears to have been provided additional benefits that were not provided for in his contract. These benefits include:**
 - **Purchase and use of vehicles, totaling \$161,157.40.**
 - **A portion of credit card payments totaling \$37,802.64.**
 - **Payments totaling \$11,400.00, toward a 403(b) retirement plan and other fringe benefits.**
 - **Payments totaling \$2,804.59, toward a cellular phone bill.**

The Use of Vehicles

OSAI determined that from 1997 through 2006, Superintendent Couch had been provided a vehicle by the school.

In September 1997, the school purchased a new 1997 GMC Sierra pickup from Reeder-Simco, an automobile dealership in Fort Smith, Arkansas, for \$27,530.00. Dealership records reflect that on June 25, 1999, Marble City Schools purchased a 1999 GMC Sierra red one-ton

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extended cab pickup. The sales price of the 1999 pickup was \$30,497.00. An additional \$1,800.00 in accessories was purchased, bringing the total retail price to \$32,297.00. The dealership records also reflect a 1997 GMC pickup, with 30,064 miles, was traded in on this purchase.

On November 7, 2001, Marble City Schools purchased a new 2002 GMC red one-ton 4x4 extended cab pickup for \$41,168.00, which included an additional \$2,000.00 in accessories. The dealership records reflect the 1999 GMC pickup, purchased by the School for \$32,297.00, was traded-in on this vehicle. The trade-in value at the time of this sale was \$24,168.00.

On March 14, 2006, Marble City Schools purchased a new 2006 GMC red one-ton dually 4-door pickup for \$40,200.00. The 2002 GMC pickup purchased by the school for \$32,297.00 was traded-in on this vehicle. The trade-in value at the time of this sale was \$18,700.00.

The 2006 GMC dually pickup was not listed on the school's inventory. It appeared in the art building after our audit began and after one of our auditors advised the Superintendent's attorney OSAI was aware of this purchase. This vehicle is addressed further in another section of this report.

In October 2004, the School purchased a red 2005 Chevrolet 4x4 pickup from Classic Chevrolet in Owasso, Oklahoma. While performing an inventory test, Superintendent Couch showed OSAI this vehicle and stated that this vehicle was the vehicle provided for him by the school.

OSAI noted both the 2005 red Chevy 4X4 and the 2006 GMC 4x4 dually have gooseneck trailer hitches installed in the truck beds. The school does not own any gooseneck trailers. District Attorney investigators and OSAI personnel observed the 2005 red Chevy pickup attached to a round hay bale trailer.

All trade in and/or sales transactions for all the above-referenced vehicles appear to have the signature of Larry Couch as the purchaser on behalf of Marble City School. OSAI spoke with the former encumbrance clerk who stated the school provided the Superintendent with a red Chevrolet pickup and several years ago, the school had purchased a vehicle for the Superintendent's use.

The clerk stated the older vehicle was not traded in and should be at the school. She also stated she advised the Superintendent that all benefits should be included in his contract. Board members Cooksey, Farris and Bolin stated they were not aware that the school had provided any vehicles for Couch's use.

Payments for credit cards and cellular phones

While examining payment registers and purchase orders for the school, the records reflect payments being made to a Bank of America credit card and a Cingular Wireless account.

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During the period from the 02-03 school year through the 06-07 school year, a total of \$37,802.64 was paid toward a Bank of America credit card. During the same period, a total of \$2,804.59 was paid toward a Cingular Wireless telephone bill.

School Year	Bank One	Cingular	Year Total
2002-03	\$5,696.17	\$705.46	\$6,401.63
2003-04	\$4,869.01	\$558.03	\$5,427.04
2004-05	\$7,115.91	\$410.03	\$7,525.94
2005-06	\$9,066.60	\$431.42	\$9,498.02
2006-07	\$11,054.95	\$699.65	\$11,754.60
Totals	\$37,802.64	\$2,804.59	\$40,607.23

The Superintendent's three-year contract, covering the period from January 2006 though June 2009, includes and addresses the issue of reimbursements. The contract reflects:

Reimbursement of Expenses – The Superintendent shall be entitled to reimbursement for necessary expenditures on behalf of the District pursuant to Oklahoma law and Board policy. The Superintendent shall provide adequate and appropriate receipts of expenses for which he seeks reimbursement.

The credit card payments were made based on credit card monthly statements, with some copies of credit card slips attached. However, most of the credit card slips did not show the person who signed the charge.

The Superintendent's contract appears to require the Superintendent to pay for expenses out-of-pocket and then submit "adequate and appropriate" documentation for reimbursement, presumably based on Board approval.

Annuity payment, 403(b) contribution & "other fringe" benefits

The records reflect fringe benefit payments made by the school on behalf of the Superintendent for the 03-04, 04-05, 05-06 and 06-07 school years. OSAI was provided copies of the Superintendent's contracts for each of these time periods and noted that prior to a contract approved in January 2006, there were no provisions for these additional fringe benefit payments. Additionally, OSAI noted two contracts were executed that overlapped each other. A three-year contract was approved for the period from January 1, 2006 through June 30, 2009. Subsequently, in August 2006, a second one-year contract was executed for the period from August 1, 2006 through June 30, 2007.

The first contract, covering the three-year period had been filed with the Oklahoma Department of Education, as required by law. This contract does not provide for the additional fringe benefits paid by the school on behalf of the Superintendent.

The second contract, covering the one-year period from August 1, 2006 through June 30, 2007, does provide for the payment of additional fringe benefits. Although this contract appears to have been approved and contains the signatures of the Superintendent and the School Board members, the contract was not on file with the Oklahoma Department of Education.

The former encumbrance clerk stated there was a time when the Board approved to pay additional benefits, primarily \$300.00 to Couch's 403(b) plan. However, she stated the Board did not approve this every year, but the Superintendent advised her to pay the benefits anyway.

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She stated she advised the Superintendent that anything he was provided as part of his employment should be in his employment contract and he told her "we are not going to do that".

OSAI attended A school Board meeting after June 30, 2007, the ending contract period for the one-year contract. At the school Board meeting, OSAI observed the Board members engaged in discussions related to buying out the remainder of the Superintendent's contract. As such it appears the Board is operating under the assumption the three-year contract is the binding contract.

If the one-year contract is the binding contract, the Superintendent may have been entitled to the additional fringe benefits paid during the period from August 1, 2006 through June 30, 2007. If the three-year contract is the binding contract, as appears to be the Board's assumption, the Superintendent was not entitled to the additional fringe benefits paid during the contract period. Additionally, previous contracts did not authorize the payment of additional benefits.

Payments made to or on behalf of the Superintendent, not specified in his employment contract, appear to be in violation of **70 O.S. § 5-141(B)** that states in part:

The school district shall not be authorized to pay any salary, benefits or other compensation to a superintendent which are not specified in the contract on file[.]

RECOMMENDATIONS: OSAI recommends the Board review the payments made to the Bank of America credit card and determine if the charges were authorized school charges. OSAI also recommends the Board review employment contracts and payroll records to determine if unauthorized payments were made to or on behalf of the Superintendent. OSAI further recommends the Board specify all payments and benefits in a Superintendent's contract and file the Superintendent's contract with the State Department of Education.

OSAI recommends the District Attorney review the above findings to determine what action, if any, may be required.

CONCERN: PAYMENT TO SUPERINTENDENT COUCH'S RETIREMENT PLAN

FINDINGS:

- **The school improperly paid \$10,408.36 into the Superintendent's retirement plan.**
 - **The \$10,408.36 payment was made without board approval.**
-

While reviewing purchase orders, OSAI noted a purchase order and subsequently a warrant was issued on September 12, 2006, in the amount of \$10,408.36 to the Teacher's Retirement System. The warrant was used to purchase additional retirement benefits on behalf of Superintendent Couch under a plan known as the Oklahoma Teacher's Retirement System Education Employees Service Incentive Plan (EESIP). This plan is also known as the "Wear Away Plan" which was enacted in 2006. The plan is designed for plan participants who have worked beyond normal retirement age to qualify for additional benefits.

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OSAI questioned encumbrance clerk Mary Brown about this payment, and she stated she was advised by a representative of the Oklahoma Teacher's Retirement System ("OTRS") that this payment was mandatory. Brown was unable to recall the OTRS representative who advised her that it was a mandatory requirement.

OSAI contacted OTRS Director Tommy Beavers who advised us that not only is the additional benefits optional, but that it is against the law for the employer to pay for the purchase of the extra benefits. Mr. Beavers provided a reference to **70 O.S. § 17-116.2C(6p)**, which states, in relevant part:

P. No participating employer of the System shall make payment of any required contribution deficit amount on behalf of any otherwise eligible member, whether directly or indirectly, in order for the member to have retirement benefits computed according to the provisions of this section.

Although the payment was listed on an encumbrance report, Ms. Brown indicated that the School Board was not provided copies of the encumbrance reports. OSAI spoke with Board President Cooksey and Board Members Farris and Bolin. All three stated they did not see and did not approve this payment. However, President Cooksey and Board Member Farris' facsimile signatures are affixed to the warrant payable to the Teacher's Retirement System.

This appears to be in violation of **21 O.S. § 1577**, which states:

Every person who sells, exchanges or delivers for any consideration any forged or counterfeited promissory note, check, bill, draft, or other evidence of debt, or engagement for the payment of money absolutely, or upon any contingency, knowing the same to be forged or counterfeited, with intent to have the same uttered or passed, or who offers any such note or other instrument for sale, exchange or delivery for any consideration, with the like knowledge and intent, or who receives any such note or other instrument upon a sale, exchange or delivery for any consideration with the like knowledge and intent, is guilty of forgery in the second degree.

RECOMMENDATIONS: OSAI recommends the School Board seek reimbursement for this payment. OSAI also recommends the appropriate legal authority determine what action, if any, may be necessary.

CONCERN: SCHOOL PURCHASE OF A 2006 CHEVROLET DUALY PICKUP

FINDINGS:

- **Documents supporting a 2006 van purchase for \$48,500 have been altered.**
 - **The Superintendent purchased a \$40,000.00 2006 GMC dually pickup without the Board's approval or knowledge.**
 - **A 2002 Chevrolet truck was disposed of without the Board's approval or knowledge.**
 - **The Superintendent may have used school vehicles for personal use and for profit.**
-

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Purchase order 2006-11-193 was issued to Reeder-Simco, a car dealership in Fort Smith, Arkansas, on January 10, 2006, in the amount of \$48,500.00. The purchase order reflects the purchase of a "school van". Documentation attached to and in support of the purchase order included a requisition form reflecting "GMC Van (Truck) VEH.ID#1GJH35UX61101716". The total amount listed on the requisition form and purchase order was \$48,500.00.

On January 9, 2006, warrant number 556 was issued from the general fund in the amount of \$48,500.00, payable to Reeder-Simco. OSAI obtained an encumbrance ledger reflecting the warrant was issued to purchase a school van.

The documentation attached as supporting the purchase order, included an invoice from Reeder-Simco, invoice number 34741, for the purchase of a 2006 GMC with the same serial number as reflected on the requisition form. The Reeder-Simco invoice attached to the invoice reflected that one vehicle was purchased for a total amount of \$48,500.00.

OSAI obtained a copy of original invoice number 34741 from Reeder-Simco. The original invoice reflected the school had purchased one vehicle: a van for \$28,500. The VIN number reflected on this invoice was the same VIN number as was reflected on the purchase order and supporting documents.

According to Reeder-Simco, the remaining \$20,000.00 difference was applied toward the purchase of a second vehicle. Clearly, the invoice provided by Reeder-Simco and the invoice attached to the school's purchase order, both of which are numbered 34741, are not identical. It appears the Reeder-Simco invoice included in the school's records has been altered.

Ms. Brown stated that Superintendent Couch was the school purchasing agent and dealt directly with Reeder-Simco. Ms. Brown encumbered the funds, initialed the purchase order and printed the warrant to Reeder-Simco in the amount of \$48,500.00 for a "school van". She completed this process based on a false invoice being presented to her, which appears to be in violation of **21 O.S. §§ 358 and 341**:

§ 358 – A. It shall be unlawful for any person ... 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.

§ 341 – Every public officer of the state ... 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 the people thereof, are directly or indirectly interested, who either:

* * *

Second: 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 or the people thereof, or in which they are interested; or

Both invoices reflect the signature of Superintendent Larry Couch as well as the name/initials of an employee of Reeder-Simco, as the seller of the vehicle. OSAI showed the school's invoice

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to employees of Reeder-Simco who stated that the name/initials reflected on the school invoice do not appear to be those of a Reeder-Simco employee.

Reeder-Simco provided OSAI with the invoice and documentation concerning the \$20,000.00 in school funds that was applied to the purchase of a second vehicle not listed on the school's invoice. Reeder-Simco invoice number 34831, dated March 14, 2006, reflects the purchase of a red 2006 GMC Sierra 3500 SLT dually, 4-wheel drive, 4 door truck, VIN/ 1GTK39G96E225383. The invoice, indicating this vehicle was sold to Marble City Schools, shows a 2002 GMC truck, VIN/1GTJK39G32E142803 was traded in on this vehicle.

OSAI obtained an Oklahoma vehicle registration reflecting this vehicle was registered to the school and had been issued Oklahoma license plate 52214X. The Superintendent purchased the tag for this vehicle using a personal check.

On April 10, 2007, Larry Couch submitted documents to the Oklahoma Used Motor Vehicle and Parts Commission to obtain a used dealer license. Included in the submitted documentation was a photograph of a 2006 red Chevrolet 3500 dually 4 door pickup with a blue gooseneck stock trailer attached to the truck.



On August 15, 2007, OSAI observed and verified that this vehicle was parked at Superintendent Couch's home. Shortly after observing the dually truck at Couch's home, the truck was taken to Marble City School and parked in one of the metal buildings. On August 28, 2007, Superintendent Couch stated that the school provided him with a vehicle. He showed OSAI the dually truck and stated this was the vehicle the school provided to him.

We noted at that time, the truck was equipped with a gooseneck trailer hitch, although the school does not own any trailers.

District Attorney investigators Wilson and Sheridan advised OSAI that on July 11, 2007, Couch told them that he was provided a vehicle by the school. Superintendent Couch stated that he was provided a red Chevrolet pickup. This vehicle, a 2005 Chevrolet pickup, is registered to Marble City School. OSAI previously observed this vehicle, a 2005 Chevrolet pickup registered to Marble City School, pulling a hay trailer on July 30, 2007. OSAI also observed that this pickup was also modified to pull a gooseneck trailer.

The agenda for the January 10, 2006, Marble City School Board meeting includes reference to payments 541-579, general fund. The \$48,500.00 payment to Reeder-Simco for the "school van" was payment number 556. However, there is no discussion in the meeting minutes concerning this expenditure.

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Purchase order 2006-11-350, approved on June 27, 2007, reflected a payment to Oklahoma Schools Insurance Group. The purpose of the payment was listed as "insurance". A list of school vehicles was attached to the purchase order. The list included six (6) busses and a GMC van valued at \$49,000.00. The 2006 GMC dually truck was not listed.

Although there were no school records reflecting the purchase of the 2006 GMC dually truck, two school employees, Amos Morgan and Mary Brown both stated they were aware that the school had purchased this vehicle.

Mary Brown, the school's encumbrance clerk, stated this vehicle was purchased prior to her taking over her current position. OSAI noted, however, the \$48,500.00 purchase order issued to Reeder-Simco included the initials "MB".

The \$49,000.00 invoice for the "school van" included in the school records, does not reflect a vehicle had been traded in. The invoice obtained from Reeder-Simco reflects a 2002 pickup was traded in. The school had no documentation concerning the purchase of the 2006 dually pickup, and there is no discussion in the Board minutes. The trading in of the 2002 pickup may constitute a violation of **21 O.S. § 341**, previously quoted in this report.

OSAI conducted interviews with all three school Board members, each member stated they were unaware that Superintendent Couch was provided a vehicle.

During the course of this audit, and after OSAI identified the red dually truck being parked at Superintendent Couch's residence, the truck was brought to the school and locked in the former art building along with a tractor, which is addressed later in this report.

RECOMMENDATION: OSAI recommends the appropriate legal authority determine what action, if any, may be necessary.

CONCERN: SCHOOL PURCHASE, SUBSEQUENT CONVERSION OF 1999 GMC VAN

FINDING:

- **A van, purchased by the school for \$25,919.00, was converted for personal use without the knowledge or authorization of the school Board.**
-

Board Member Ramon Bolin expressed a concern relating to a white van that may be owned by the school and may be being used at "The Greenhouse", a business owned by Carolyn Couch, the Superintendent's wife. The Greenhouse is located in Sallisaw, Oklahoma.

On September 7, 2007, a District Attorney investigator and an OSAI employee observed a white van parked at The Greenhouse and obtained the tag number, SOG 440, from the van. On October 19, 2007, a District Attorney investigator observed the same white van at The Greenhouse with a trailer attached and people unloading items from the attached trailer.

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District Attorney investigators obtained the registration information for the van bearing the tag SOG 440. The registration information reflects the van, VIN 1GJHG39R7X1155935, is currently registered to Couch Auto Sales, RR 1 Box 180A Vian, Oklahoma.

OSAI obtained a title history for the van. The title history reflects the following relevant transactions:

- On June 24, 1999, Superintendent Larry Couch signed the Certificate of Origin that reflected Marble City Schools was the purchaser.
- On July 30, 1999, Superintendent Larry Couch signed the Application for Certificate of Title reflecting the owner of the vehicle as Marble City Schools.
- A State of Oklahoma Certificate of Title was issued on July 30, 1999, reflecting the owner of the vehicle as Marble City Schools.
- The back of the Certificate of Title reflects a transfer of ownership to Couch Auto Sales. Larry Couch signed the transfer assignment as both the buyer and the seller. The transfer document reflected the vehicle had 60,000 miles at the time of transfer.
- On July 18, 2006, a new Certificate of Registration was issued reflecting the owner of the van as Couch Auto Sales, RR 1 Box 180A, Vian, Oklahoma.

OSAI obtained documentation reflecting that on May 4, 1999, school warrant number 986 was issued to Reeder-Simco that included a \$25,919.00 payment. OSAI obtained an invoice from Reeder-Simco, dated June 25, 1999, in the amount of \$25,919.00, reflecting the purchase of the 1999 GMC van.

OSAI interviewed School Board President Mary Cooksey, as well as encumbrance clerk Mary Brown, who both stated they believed the school traded in an old white van towards the purchase of the 2006 white van. It appears, based on the statements of Cooksey and Brown, the Board may have believed the white 1999 GMC van transferred from Marble City School to Couch Auto Sales was traded in on the purchase of the 2006 school van.

OSAI obtained the purchase invoice from Reeder-Simco for this van. The invoice provided by Reeder-Simco reflected the school purchased a 2006 GMC Van, VIN 1GJHG35UX61101716 on January 26, 2006. The invoice price was \$28,500.00. No trade-in was reflected on the invoice.

OSAI examined school Board meeting minutes for the period from January 2006 through May 2006, to determine if the school Board approved the transferring of the 1999 GMC van from the school to Superintendent Couch's used car business. OSAI found no minutes referencing the 1999 van.

Converting the title of the 1999 GMC van from the school to the Superintendent's used car business and subsequent use of the van for purposes that are not school related appears to be a violation of **21 O.S. §§ 341, 358 and 1451**, previously quoted in this report.

RECOMMENDATION: OSAI recommends the appropriate legal authority determine what action, if any, may be necessary.

CONCERN: TRACTORS AND MOWERS

FINDINGS:

- **A \$21,550.00 Kubota Tractor was not listed on the school's inventory and was not at the school until after OSAI began this audit.**
 - **An invoice was altered to make it appear the school purchased one mower for \$12,552.00, when two mowers were actually purchased.**
 - **A second mower appeared at the school during the course of our audit.**
 - **It appears the tractor and mower may have been purchased by the school and converted to personal use.**
 - **A school employee has performed work at the Superintendent's personal residence.**
-

Kubota Tractor

OSAI asked for and was provided with a list of school inventory. The list reflected the school owned one Kubota tractor equipped with a front-end loader. OSAI obtained documentation reflecting the school purchased this tractor from a dealer in Fort Smith, Arkansas on May 23, 1997.

OSAI conducted interviews with two maintenance employees. David Nelson, a school employee who mows the lawns, believed the school only owned one tractor. John Blackbird, a school maintenance employee, stated he didn't know the school had two tractors until a second tractor showed up at the school after this investigative audit was underway.

OSAI observed the tractor parked in the art building, the same building where we found the 2006 GMC truck mentioned previously, and noted it was a Kubota 4 wheel drive tractor; model M6800, serial number 61412 with an attached front-end loader.

OSAI obtained documentation from ACECO Rental and Sales in Muskogee, Oklahoma reflecting that on September 25, 2000, the school purchased a Kubota M6800 tractor, serial number 61412, equipped with a front-end loader, for the total purchase price of \$26,280.00.

Records from the dealership reflect the \$26,280.00 was paid in two payments of \$21,550.00 and \$4,730.00. The dealer invoice reflects check number 1161 paid the \$21,550.00 and check number 1256 paid the \$4,730.00. A school warrant was issued on August 1, 2000, in the amount of \$21,550.00 to the dealership. The warrant number, 1161, corresponds to the check number reflected on the invoice.

Records obtained on the ORES account reflected the \$4,730.00 was paid by ORES check number 1256 dated October 19, 2000.

When OSAI examined this tractor that had appeared at the school during the course of this audit, OSAI noted the presence of hay and bailing twine on the rear axle of the tractor. OSAI further noted the hour meter registered 803 hours of use.

Because the tractor was purchased seven (7) years prior to the start of this audit, OSAI was unable to obtain any purchase orders or school documentation reflecting the purchase of this tractor. However, the tractor vendor verified Marble City School purchased this tractor in 2000. OSAI questions the purchase and use of the tractor when the tractor was not listed on the school's inventory and maintenance personnel (one of whom had worked at the school since 1997) were not aware the school had a second tractor until this investigative audit was underway.

The personal use of school property, or property purchased with school funds, may be a violation of **21 O.S. § 341**, previously quoted in this report.

Purchase order 2005-11-158 was approved on November 9, 2004, in the amount of \$1,301.14, for "PARTS-TRACTOR". The attached documentation included an invoice reflecting repairs and parts replacement on a Kubota model number M6800 serial number 61412.

The cost of the repairs performed on a tractor that, although purchased by the school, appears to have been used for non-school purpose, may be a violation of **21 O.S. § 341**, previously quoted in this report.

Kubota Zero Radius Turning Mowers

On August 11, 2005, warrant number 90 was issued to ACECO Rental and Sales in the amount of \$12,552.00. OSAI obtained the purchase order, number 2006-11-60, and supporting documentation. The purchase order indicates the purchase is for a "tractor".

The documents attached as supporting the purchase order reflect the \$12,552.00 was for the purchase of one Kubota Zero Turn mower. For example, a fax transmission included a hand written notation, "we can sell you the Kubota model ZG23-54 Zero Turn mower for \$12,552.00". An attached requisition form, signed by Superintendent Larry Couch, reflects "1 Kubota Zero Turn Mower \$12,552.00".

Attached to the purchase order was what appeared to be an original invoice from ACECO Rental and Sales reflecting the purchase of "1 Zero Radius Turning Mower Kubota Model 2G23, serial number RCX54" and a total purchase amount of \$12,552.00. This invoice was printed on pink paper and contained what appeared to be an original signature of the Superintendent.

OSAI copied the attached documents and then contacted representatives from ACECO Rental and Sales. ACECO provided us with their copy of the same invoice (#238937) reflecting the purchase of two (2) Kubota brand mowers priced at \$6,276.00 (\$12,552.00 total). The invoice provided by the manufacturer reflects both mowers were model number 2G23-54 with the serial numbers 12554 and 13595.

An employee of ACECO stated that the invoice OSAI showed to them, (the school's invoice), is not accurate, and is not an authentic invoice issued by ACECO.

Based on the documentation and statements by officials of ACECO, it appears that the invoice used to support the purchase order had been fabricated in an apparent effort to disguise the fact that more than one Kubota mower had been purchased.

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With regard to this transaction, OSAI noted the Superintendent's signature appears on the following documents:

- The original purchase order.
- The altered invoice reflecting the purchase of one (1) tractor.
- The purchase order requisition number 60.
- The retail purchase order reflecting the purchase of two Kubota tractors.

On July 23, 2007, OSAI verified that two Kubota tractor/mowers ("mowers") were at the school. The serial numbers on the mowers found at the school corresponded with the serial numbers of the two mowers purchased on August 23, 2005.

John Blackbird, a school maintenance employee, stated that the school only had one mower, "until right after you all started your audit". According to Mr. Blackbird, after this audit began, he went home one night and when he left there was one mower in the shop building. When he returned the following morning, he found two mowers in the shop. Blackbird does not know who brought the second mower to the school.

On August 9, 2007, OSAI interviewed school employee David Nelson who initially stated the school has always had two mowers. When a District Attorney investigator questioned Mr. Nelson, he stated that the school only had one mower up until about two months ago and sometime after that, the second mower showed up at the school.

Mr. Nelson stated he operates a drug and alcohol recovery program, and he is paid \$1,200.00 a month by the school. According to Mr. Nelson he uses people in his program to help maintain the school grounds. Mr. Nelson stated that he and some of the people in his program went to Superintendent Couch's residence to trim trees and mow the yard in preparation for the wedding of Mr. Couch's daughter.

Mr. Nelson stated that in preparation for Superintendent Couch's daughter's wedding, he was performing work at Couch's residence. While he was performing this work at Superintendent Couch's residence, he observed Superintendent Couch's wife, Carolyn Couch, mowing their yard with a riding mower that "was identical to the one the school bought".

ACECO Rental and Sales provided us with documentation reflecting that Superintendent Couch purchased a similar Kubota tractor/mower after the second mower had been returned to the school. This mower was purchased after the date of the wedding.

The purchase of items for personal use with school monies or under the color of the school may be a violation of **21 O.S. §§ 341, 358 and 1451**, previously quoted in this report.

RECOMMENDATION: OSAI recommends the appropriate legal authority determine what action, if any, may be necessary.

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CONCERN: ASSET INVENTORY – RECEIVING PROCEDURES

FINDINGS:

- **The school has not maintained inventory records for assets.**
- **The school has little or no procedures to adequately insure purchased items are received by, and for use of, the school.**

At the outset of this audit, OSAI requested an inventory list from the school's encumbrance clerk. The school's encumbrance clerk told OSAI they would have to prepare the inventory list. The inventory information she provided only listed five (5) buses. However, a sixth bus later appeared at the school. To determine how many buses should have been listed on the school's inventory, OSAI reviewed old warrant registers and available school records.

While reviewing these records, OSAI noted that from June 1998 through December 2006, the school paid approximately \$532,162.86 in twelve (12) purchases.

The warrant dates, numbers, vendors, and amounts are presented below:

No. of Purchases	Warrant Date	Warrant No.	Vendor	Warrant Amount	Deposited into ORES Account	Date Deposited into ORES Acct.
1	6/24/1998	1199	S&S Bus Sales	\$ 45,000.00	\$ 45,000.00	8/5/1998
1	6/24/1998	1205	Ross Transportation	\$ 44,865.00		
1	8/3/1999	1171	S&S Truck & Bus, Inc.	\$ 44,920.00	\$ 44,920.00	10/22/1999
1	8/1/2000	1154	S&S Truck & Bus, Inc.	\$ 51,429.50	\$ 51,429.50	9/13/2000
1	4/10/2001	878	S&S Truck & Bus, Inc.	\$ 43,495.00	\$ 43,495.00	4/17/2001
1	1/8/2002	603	S&S Truck & Bus, Inc.	\$ 46,865.00	\$ 46,865.00	2/13/2002
1	6/25/2002	1180	S&S Truck & Bus, Inc.	\$ 44,125.00	\$ 44,125.00	7/2/2002
1	12/10/2002	470	S&S Truck & Bus, Inc.	\$ 48,500.00	\$ 48,500.00	12/23/2002
1	11/11/2003	395	S&S Truck & Bus, Inc.	\$ 46,295.00	\$ 46,295.00	11/18/2003
1	10/11/2004	255	Roberts Truck Center	\$ 2,750.00		
1	5/9/2006	1027	Roberts	\$ 55,469.00		
1	12/12/2006	453	Roberts Bus Center	\$ 58,449.36		
12	TOTAL			\$ 532,162.86	\$ 370,629.50	

In a previous section of this report, OSAI noted eight (8) warrants, totaling \$370,629.50, were issued to S&S Bus and Truck sales. OSAI was unable to obtain documentation for seven (7) of the eight (8) purchases, ranging from \$43,495.00 to \$51,429.50. The documentation supporting the last purchase in November 2003 in the amount of \$46,295.00, indicated the funds were used to purchase a bus.

This report has noted the questionable purchases of a 2006 GMC dually pickup, a Kubota tractor, Kubota mower and several transactions concerning the purchase and trading-in of

vehicles. If the school had maintained a current equipment and vehicle inventory, and performed periodic physical inspection of such inventory, the school would have detected the fraudulent warrants in an expedient manner, rather than allowing these types of schemes to continue for seven (7) or more years.

In addition to maintaining an accurate inventory list, prudent business practice dictates items purchased with taxpayer dollars, most specifically items of large value, should be subject to a proper receiving method to ensure the items were actually received and accounted for. Implementation of this type of procedure would detect ghost transactions such as the eight (8) bus transactions.

RECOMMENDATIONS: OSAI recommends the school maintain an accurate current inventory of physical assets and periodically ensure that those asset items are accounted for. OSAI further recommends the school implement receiving procedures wherein a school employee, whose duties are adequately segregated from the purchasing transaction, verify and acknowledge in writing, the school received the purchased items.

CONCERN: QUESTIONABLE REIMBURSEMENT OF RENTAL EQUIPMENT COSTS

FINDINGS:

- **A purchase order, for \$1,941.37, was issued to the Superintendent as a reimbursement for equipment rental. The equipment appears to have been used for personal use by the Superintendent.**
-

During an interview with Board Member Ramon Bolin, he advised OSAI he had seen a truck, with RSC on the side, unloading a lift at Superintendent Couch's property. Bolin also stated that during the same time period he noted a reimbursement payment was issued to Superintendent Couch.

Purchase order 2007-21-7, dated December 26, 2006, was issued to Superintendent Couch in the amount of \$1,941.37. The purchase order reflected the purpose was to reimburse Superintendent Couch for the rental of equipment. Attached to as supporting the purchase order was an invoice from RSC Equipment Rental in Fort Smith, Arkansas.



OSAI took a copy of the RSC invoice to RSC Equipment Rental. OSAI met with the Branch Manager who showed us the lift that was rented (shown in the image at left). OSAI then spoke with the RSC driver, Chester McGrew, who delivered the equipment. Mr. McGrew stated that he delivered the equipment to Superintendent Couch and Couch advised him that he was going to put a roof on his barn and then would drive the equipment to the school.

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Mr. McGrew provided the following directions to the location where he delivered the equipment:

Go past Brushy Lake like your going to Marble City, go to the top of the hill and it is on the right. There is a big ranch and a two-story playhouse looking building, with some big barns. There is a gate and it has a no trespassing, no fishing and no hunting sign.

OSAI left RSC Equipment Rental and followed the directions provided by Mr. McGrew. OSAI found the location, described by McGrew, to be 1.4 miles South of Marble City and 5.5 miles South of Marble City School.

Mr. McGrew stated another driver picked up the equipment and he understood the equipment was picked up at the same location it was dropped off.

Submitting a claim to the school for reimbursement of funds that were expended for personal purposes may violate **62 O.S. § 372**, which states:

Every officer of the state and of any county, township, city, town or school district, who shall hereafter order or direct the payment of any money or transfer of any property belonging to the state or to such county, city, town or school district, in settlement of any claim known to such officers to be fraudulent or void, or in pursuance of any unauthorized, unlawful or fraudulent contract or agreement made or attempted to be made, for the state or any such county, city, town or school district, by any officer thereof, and every person, having notice of the facts, with whom such unauthorized, unlawful or fraudulent contract shall have been made, or to whom, or for whose benefit such money shall be paid or such transfer of property shall be made, shall be jointly and severally liable in damage to all innocent persons in any manner injured thereby, and shall be furthermore jointly and severally liable to the state, county, city, town or school district affected, for triple the amount of all such sums of money so paid, and triple the value of property so transferred, as a penalty, to be recovered at the suit of the proper officers of the state or such county, city, town or school district, or of any resident taxpayer thereof, as hereinafter provided.

Obtaining reimbursement for expenses related to personal expenses, that are otherwise not reimbursable, may be a violation of **21 O.S. § 1542(A)**, which states:

Every person who, with intent to cheat or defraud another, designedly, by color or aid of any false token or writing, or other false pretense, obtains the signature of any person to any written instrument, or obtains from any person any money or property shall be guilty of a felony. The fine for a violation of this section shall not exceed three times the value of the money or property so obtained.

RECOMMENDATION: OSAI recommends the appropriate legal authority determine what action, if any, may be necessary.

CONCERN: AIR CONDITIONERS PURCHASED BY THE SCHOOL ARE MISSING

FINDING:

- **Air conditioning equipment purchased in 2006 could not be located.**
-

During a school Board meeting, the school's encumbrance clerk advised the Board President the school had not purchased any air conditioning equipment for several years. Prior to this meeting, OSAI had noted numerous payments to various heating and air vendors.

On April 27, 2006, purchase order 2006-21-3, in the amount of \$5,692.43, was issued to J & B Supply in Fort Smith, Arkansas for "Air Conditioners". OSAI went to J & B Supply and were advised the items purchased included a heat pump, \$1,902.50, and three (3) air conditioners both the inside and outside units, totaling \$3,789.93.

OSAI obtained "pick tickets" from the vendor reflecting the items were picked up by the Superintendent. Additionally the "pick tickets" included the serial numbers of the outside air conditioner compressor units.

OSAI examined the outside air conditioner units at the school and was unable to locate any of the outside compressor units with the same serial numbers provided by J & B Supply.

RECOMMENDATION: OSAI recommends the appropriate legal authority determine what action, if any, may be necessary.

OTHER QUESTIONABLE EXPENDITURES AND REIMBURSEMENTS

FINDINGS:

- **The school paid for the Superintendent's wife to travel to Arizona as part of a school conference the Superintendent attended.**
 - **Travel expenses were paid to the Superintendent in advance and based on estimations.**
 - **Supporting documents for a Hotel expense in the amount of \$1,027.00 could not be found.**
 - **The school payment of \$254.09 for rib-eye steaks is questionable.**
 - **Documentation supporting a \$4,800.00 payment to the Superintendent could not be found.**
-

Purchase order 2005-11-205 was issued to Superintendent Couch in the amount of \$2,127.00 for travel expenditures related to a trip to Phoenix, Arizona. The payment was based on the estimated cost and was issued prior to the travel dates of March 9-13, 2005.

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The payment amount was determined from two requisitions, both of which were approved by the Superintendent. One requisition was issued for a total of \$1,100.00, which included \$800.00 for two airline tickets and \$300.00 for a rental car. The second requisition for \$1,027.00 included \$927.00 for four nights lodging and \$100.00 for sales tax. OSAI noted the following findings related to this expenditure:

- The Superintendent was paid in advance based on estimated travel costs.
- The amount estimated for two airline tickets was \$800.00 when the actual cost was \$416.52. The second airline ticket was purchased for the Superintendent's wife. The airline ticket cost, less the price for the Superintendent's wife, was \$185.13 (\$162.01 + ½ of 46.25). It appears the Superintendent was over paid approximately \$614.87 for airfare.
- The amount estimated for rental car expenses was \$300.00 when actual cost was \$284.03. The difference in estimated and actual cost is \$15.97. As with the airfare, taxes were included in the cost. Taxes could have been avoided had the school made the purchases.
- Although the requisition for the lodging was issued to Doubletree Paradise Valley Resort Hotel, the Superintendent appeared to receive the \$1,027.00 in estimated lodging costs. Since there was no documentation supporting the lodging expense, we question the entire \$1,027.00.

Purchase order 2005-11-317 was issued to McQuicks Grocery in the amount of \$254.09 for thirty 1" thick Rib-eye steaks. The description of the purchase is "Food For Meeting". The requisition attached to the purchase order is blank with no signature for approval.

On February 11, 2003, warrant number 654 was issued to the Superintendent in the amount of \$4,800.00. Since no documentation for this payment could be located, OSAI was unable to determine the purpose.

Paying the Superintendent, in advance, for estimated travel related expenses appears to violate **Article X, § 15A** of the **Constitution of Oklahoma**, which states, in relevant part:

Except as provided by this section, the credit of the State shall not be given, pledged, or loaned to any individual, company, corporation, or association, municipality, or political subdivision of the State, nor shall the State become an owner or stockholder in, nor make donation by gift, subscription to stock, by tax, or otherwise, to any company, association, or corporation.

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

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 ...

* * *

An approved bill may be paid by issuing a warrant or check against the designated fund only after ascertaining that proper accounting of the purchase has been made and that the files contain the required information to justify the expenditure of public funds, except as otherwise provided in subsection I of this section.

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Additionally, the Superintendent's three-year contract (previously noted in this report) reflects the following related to reimbursement of school related expenses:

Reimbursement of Expenses – The Superintendent shall be entitled to reimbursement for necessary expenditures on behalf of the District pursuant to Oklahoma law and Board policy. The Superintendent shall provide adequate and appropriate receipts of expenses for which he seeks reimbursement.

RECOMMENDATIONS: The Board should implement procedures to ensure that payments are made only after proper documentation has been received and approved. Further, the Board should implement procedures to ensure that payments are not made in advance and not based on estimates.

OSAI recommends the appropriate legal authority determine what action, if any, may be required.

OPEN MEETINGS VIOLATIONS; LACK OF INTERNAL CONTROLS

FINDINGS:

- **Warrants issued without being presented to the Board.**
 - **Inadequate internal control—facsimile signatures printed on warrants, Board not signing or stamping the warrants, Superintendent delivered warrants to the Treasurer to obtain the Treasurer's signature and registration.**
 - **Failure to give notice to Board member of special meeting (July 12, 2007).**
 - **Restraining order filed against Board member Bolin which prohibited him from attending the Board meeting (August 20, 2007).**
 - **Failure to take executive session meeting minutes (August 27, 2007 & November 13, 2007).**
 - **Failure to vote to go into executive session (November 13, 2007).**
-

A school Board is not elected to serve the purpose of running the day-to-day operations of the District and must rely in a large degree on professionals, such as the Superintendent, for this purpose. The Board does have an obligation and duty, as well as a fiduciary responsibility, for the assets, finances and investments of the District. The Board must exercise good faith, due diligent care and caution in their role as the oversight body of the District.

When one Board member, Ramon Bolin, attempted, and was successful in some instances, to exercise his responsibility as a Board member, he was met with resistance, from the Superintendent, including legal proceedings to prevent him from attending a Board meeting.

In addition to the fiduciary responsibilities, the Board also has a responsibility to ensure compliance with applicable laws concerning its governance and actions.

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OSAI met with Mr. Bolin, who stated he received copies of warrant registers from the Treasurer and noticed payments had been made although not presented to the Board. OSAI showed Mr. Bolin a warrant register dated September 12, 2006, wherein warrant number 197 was issued to the Oklahoma Teachers' Retirement System for \$10,408.36.

The purchase order and supporting documentation indicates this payment was made on behalf of Superintendent Couch. Mr. Bolin stated this expenditure was never presented to the Board.

Mr. Bolin provided OSAI the material that had been provided to him at this Board meeting. The warrant register containing the \$10,408.36 payment was not included in his packet. Board members, Mary Cooksey and Timothy Farris, stated they did not authorize this payment and were not aware that this payment had been made. (The unauthorized payment is addressed in a separate section.)

All Board members verified they do not review warrants and that they are only provided warrant registers. The school's encumbrance clerk, Mary Brown, stated she had scanned the Board members' signatures into her computer and the signatures are printed on the warrants at the time the warrants are printed. The Board members do not see the warrants during the monthly meetings.

After the warrants were printed with the signatures affixed, she delivered the warrants to Superintendent Couch who then delivered the warrants to the Treasurer to be registered and signed. Based on the information provided, the Board members do not sign or see the printed warrants.

Mr. Bolin stated he was not given notice of a special meeting scheduled July 12, 2007. During this meeting, the Board discussed and approved "action on the State Audit Contract". Bolin said he received the meeting notice only after the meeting had occurred.

OSAI was present at a Board meeting when Mr. Bolin asked Superintendent Couch and minute clerk, Mary Brown that he be provided meeting agendas and notices of special meetings in advance. Mary Brown stated the school was not required to give him notice and that it was done as a courtesy.

Mr. Bolin requested a special meeting be set for August 20, 2007, at 7:00 pm. OSAI reviewed the agenda posted on the window of the administration building. Based on the agenda, it appeared that the purpose of the meeting was to discuss the employment status of the current Superintendent and consider the possible appointment of an interim superintendent.

Prior to the start of the meeting, Brian Drummond, an attorney for Rosenstien Fist and Ringold, advised those gathered for the meeting the following:

- Superintendent Couch had contacted Mr. Bolin and requested the meeting be postponed.
- Mr. Bolin refused to postpone the meeting.
- A temporary restraining order was issued against Mr. Bolin.
- The temporary restraining order prevented Mr. Bolin from attending the meeting.

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Mr. Drummond further stated that Superintendent Couch had taken the position that school policy requires that he approve all agendas and he was not given the opportunity to review this agenda.

Only one Board member showed up for the meeting. Due to the lack of a quorum no meeting was held.

On August 27, 2007, OSAI attended a school Board meeting wherein the Board entered into an executive session. The minute clerk, Mary Brown, was not present during the executive session. Mr. Bolin later advised that minutes were not taken during the executive session.

Failure to take minutes during an executive session appears to violate **25 O.S. § 312**, which states:

A. The proceedings of a public body shall be kept by a person so designated by such public body in the form of written minutes which shall be an official summary of the proceedings showing clearly those members present and absent, all matters considered by the public body, and all actions taken by such public body. The minutes of each meeting shall be open to public inspection and shall reflect the manner and time of notice required by this act.

B. In the written minutes of an emergency meeting, the nature of the emergency and the proceedings occurring at such meeting, including reasons for declaring such emergency meeting, shall be included.

C. Any person attending a public meeting may record the proceedings of said meeting by videotape, audiotape or by any other method; providing, however, such recording shall not interfere with the conduct of the meeting.

Oklahoma Attorney General Opinion 1996 OK AG 100, states, in part:

Accordingly, minutes of a public meeting must be kept. The Oklahoma Supreme Court has held that the requirement for minutes to be kept and recorded also applies to executive sessions.

After returning from the executive session, Ms. Cooksey asked for a motion to accept Superintendent Couch's resignation. However, she was unable to get a second. Although several audience members asked about the conditions of the Superintendent's resignation, it appeared Ms. Cooksey was reluctant to disclose the terms of the resignation.

During one exchange of questions from the audience, Ms. Cooksey stated, "we can pay him now or we can pay him later but we are going to have to pay him".

Later, Mr. Bolin advised OSAI that he would not vote for the terms of the resignation because it would have cost the school \$250,000.00.

A subsequent Board meeting was scheduled for November 13, 2007, at 7:00 p.m. The agenda included, but was not limited to, the resignation of Superintendent Couch and cancellation of the remainder of his contract for the school year 07-08 and 08-09. Also to be considered was a potential reimbursement to the school of monies with judgment interest as authorized.

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Also included on the agenda and discussed during the meeting was for the Board to authorize Rex Earl Starr, on behalf of Marble City School, to request the District Attorney, to bring the matter that is being investigated, this audit, to a conclusion as quickly as possible.

Prior to the Board meeting, OSAI personnel advised Board members Ms. Cooksey and Mr. Bolin that OSAI intended to question nearly \$1 million in expenditures. During this meeting, OSAI personnel observed the Board enter into executive session concerning agenda item 5, without taking a vote of the members to enter executive session.

25 O.S. § 307(E.2), states, in part:

E. No public body may go into an executive session unless the following procedures are strictly complied with:

. . .
The executive session is authorized by a majority vote of a quorum of the members present and the vote is a recorded vote...

During the executive session, OSAI noted that the minute clerk, Mary Brown, was outside among the other attendees. After the meeting concluded, Mr. Bolin advised OSAI that no minutes were taken during the executive session. Failure to take minutes during an executive session appears to violate **25 O.S. § 312** previously quoted in this report.

During the same meeting, the Board entered into a second executive session, related to agenda item 10, without a vote. Board Member Bolin advised us that no minutes were taken during this executive session. Mr. Bolin stated he advised Rex Earl Starr, the school's attorney, that minutes should be taken. Mr. Bolin stated Starr told him they did not have to take meeting minutes during an executive session.

Entering into an executive session without a vote and failure to take minutes during the executive session appears to violate **25 O.S. §§ 307(E.2), 312**, both previously quoted in this report.

The Board did not vote to accept Superintendent Couch's resignation or authorize Rex Earl Starr to act on the school's behalf.

After the November 13, 2007 Board meeting, OSAI auditors, along with District Attorney investigators advised attorney Rex Earl Starr that we anticipated questioning nearly \$1 million in expenditures.

A special Board meeting was set for November 28, 2007, at 3:30 p.m. The agenda items appear to be the same as the November 13, 2007, agenda. Prior to this meeting, Mr. Bolin received a letter written to Rex Earl Starr from Superintendent Couch's attorney, Fourth Scoufos. The letter states, in part, that if Marble City School Board of Education is willing to accept Larry Couch's outright resignation without any conditions or stipulations, accept an immediate \$100,000.00 lump sum payment and request the District Attorney to place Mr. Couch on a deferred sentence without further monetary obligation or penalty, then Superintendent Couch would be willing to immediately tender his resignation and pay restitution in the amount of \$100,000.00. The letter requested that a special meeting be set for the Board to make a

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formal resolution requesting the District Attorney to dispose of Mr. Couch's case with a deferred sentence, \$100,000.00 restitution and an immediate resignation.

Board Member Tim Farris was not present at the November 13, 2007, meeting when the other Board members were advised of the \$1 million in questioned expenditures. OSAI advised Farris prior to the start of the November 28, 2007, meeting. No action was taken during this meeting.

This special meeting was set one day before the State Board of Education was scheduled to hear a complaint and consider the revocation of Superintendent Couch's certificate.

At the hearing, the State Board of Education voted 6-0 to revoke Superintendent Couch's administration and teaching certificates. The license revocation is currently under appeal in the District Court of Sequoyah County, Oklahoma.

The issues addressed by the State Board of Education during the above-referenced revocation process are separate and in addition to the findings addressed in this report.

RECOMMENDATIONS: OSAI recommends the local Board of Education familiarize themselves with the statutory requirements of the Open Meeting Act. OSAI recommends the appropriate legal authority determine what action, if any, may be necessary.

ELIGIBILITY OF BOARD MEMBER COOKSEY

FINDING:

- **Board President Mary Cooksey may be ineligible to serve on the Board of Education.**
-

During OSAI's initial meetings with Board Member Bolin, he advised that certain bankruptcy records reflect the Board President, Mary Cooksey, attempted to discharge funds owed to the Cherokee Nation as a result of a criminal charge. OSAI obtained a docket report from the United States Bankruptcy Court, Eastern District of Oklahoma styled as Cherokee Nation, plaintiff and Mary Virginia Cooksey, defendant. OSAI obtained a related order, dated March 8, 2006, reflecting the following relevant parts:

3. The debtor entered a plea of no contest in the Cherokee Nation District Court to criminal charges and was ordered to pay restitution.
5. The debt owed to the Cherokee Nation by the debtor in this matter is excepted from discharge under 11 U.S.C.A §523(7) because the debt is the result of defalcation or embezzlement by the debtor while in the position of a fiduciary of the Cherokee Nation.
6. The debt owed to the Cherokee Nation by the debtor in this matter is excepted from discharge under 11 U.S.C.A. §523(7) because the debt is a fine, penalty, or forfeiture because it was ordered as part of a criminal plea agreement.

The order of the Court was as follows:

It is therefore ordered that the Cherokee Nation's Motion for Summary Judgment is granted and the debt of \$3,482.37 and \$60.00 in court costs owed to the Cherokee Nation is not dischargeable and the Cherokee Nation may take the appropriate legal action to enforce its judgment and plea agreement once the automatic stay is lifted in the debtor's Chapter 7 case.

26 O.S. § 5-105a, states, in part:

A person who has been convicted of a misdemeanor involving embezzlement or a felony under the laws of this state or of the United States or who has entered a plea of guilty or nolo contendere to such misdemeanor involving embezzlement or felony or who has been convicted of a crime in another state which would have been a misdemeanor involving embezzlement or a felony under the laws of this state or has entered a plea of guilty or nolo contendere to such crime shall not be eligible to be a candidate for or to be elected to any state, county, municipal, judicial or school office or any other elective office of any political subdivision of this state for a period of fifteen (15) years following completion of his sentence or during the pendency of an appeal of such conviction or plea.

51 O.S. § 8, states in relevant parts:

Every office shall become vacant on the happening of any one of the following events before the expiration of the term of such office:

* * *

Sixth. Upon entering of a plea of guilty or nolo contendere in a state or federal court of competent jurisdiction for any felony or any offense involving a violation of his official oath.

Based on the information obtained, it appears Board President Cooksey may be ineligible to serve as a Board member.

RECOMMENDATION: OSAI recommends the appropriate legal authority determine what action, if any, may be necessary.

ELIGIBILITY OF BOARD MEMBER FARRIS

FINDING:

- **Board member Tim Farris appears to reside in Heavener, Oklahoma, outside of the boundaries of the Marble City School district.**
-

70 O.S. § 5-107A(B)(2), provides, in relevant part:

If during the term of office to which a person was elected, that member ceases to be a resident of the board district for which the person was elected, the office shall become vacant and such vacancy shall be filled as provided in Section 13A-110 of Title 26 of the Oklahoma Statutes.

During this audit, Board Member Bolin advised OSAI that Board Member Timothy Farris did not live in the school district. OSAI was also advised that Mr. Farris was living in Heavener,

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Oklahoma, and had children attending the Heavener Schools. Heavener is located about sixty miles south of Marble City in LeFlore County.

OSAI obtained a "Declaration of Candidacy for Board of Education" dated December 4, 2006. The Candidacy form, sworn to by Timothy Farris, reflected his address as "RR 3 Box 625 Sallisaw, Ok".



OSAI obtained a map from the Sequoyah County Assessor's Office showing the location of this address. We then went to the location and found an empty lot where it appears a mobile home may have existed at one time. At the vacant lot, OSAI found an electric meter, number 4807135, belonging to Cookson Hills Electric Company. Through a subpoena, Cookson Hills Electric Company provided OSAI with records reflecting this meter did belong to Timothy Farris.

Records provided by the Cookson Hills Electric Company also reflected the service was disconnected August 30, 2005, due to non-payment.

On August 8, 2007, OSAI accompanied District Attorney investigators to Heavener, Oklahoma and determined that Farris' children do attend school in Heavener. According to school officials, Farris' daughter enrolled in school August 11, 2005.

OSAI visited Tim Farris' home located in Heavener, Oklahoma. At the time of our visit, Farris' wife and children were also at the home. It appeared Farris was living at this residence in Heavener.

The Declaration of Candidacy form we obtained contains the following language:

I, the undersigned, do hereby solemnly swear or affirm that the above mentioned facts are true and correct and that I am fully qualified to become a candidate for the office which I seek and that I will be fully qualified to hold said office.

The form, reflecting an address of RR 3 Box 625, Sallisaw, Ok., bears the signature of Timothy Farris. An attached testament also included Farris' signature and was dated December 4, 2006.

21 O.S. § 463, states:

Any person who knowingly procures or offers any false or forged instrument to be filed, registered, or recorded in any public office within this state, which instrument, if genuine, might be filed or registered or recorded under any law of this state or of the United States, shall be guilty of felony.

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RECOMMENDATION: OSAI recommends the appropriate legal authority determine what action, if any, may be necessary.

IMPACT AID.

FINDINGS:

- **The number of children claimed on impact aid forms could not be verified.**
-

As previously noted in this report, Impact Aid funds are Federal funds provided to assist local school districts that have lost property tax revenue or have an increase in expenditures due to the enrollment of Federally-connected children.

OSAI reviewed the reports provided by the County Treasurer to determine the amount of Impact Aid the school had received from July 1, 2002 through June 30, 2007. OSAI determined that the school received, from the 2002-03 school year through the 2006-07 school year, a total of \$1,402,807.00 in Impact Aid funds, as shown in the table at left.

School Year	Fund	Amount
2002-03	General	\$268,330.00
2003-04	General	\$275,319.00
2004-05	General	\$314,033.00
	Building	\$100,000.00
2006-07	General	\$212,695.00
	Building	\$100,000.00
	Total	\$1,402,807.00

OSAI, along with a District Attorney investigator, reviewed the Impact Aid documentation to determine the number of students claimed and to determine if the school had survey forms and/or source checks as supporting documentation.

Impact Aid Applications

2002-03, 2003-04: Neither applications nor any supporting documentation could be located.

2004-05: The Impact Aid application listed sixty-five (65) children as Federally-connected. The application states that survey forms were completed (by parents) to determine the number of children claimed. However, survey forms to support the numbers claimed could not be located.

The Superintendent's signature is the official authorized representative on the application. The certification states that the statements and all of the data included in the application are, to the best of his knowledge and belief, true, complete and correct.

2005-06: The Impact Aid application listed sixty-seven (67) children as Federally-connected. The application indicated that survey forms were completed (by parents) to determine the number of children claimed. However, survey forms to support the numbers claimed could not be located.

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The Superintendent's signature is the official authorized representative on the application. The certification states that the statements and all of the data included in the application are, to the best of his knowledge and belief, true, complete and correct.

2006-07: The Impact Aid application lists sixty-five (65) children as Federally-connected. The application stated survey forms and source checks were completed to support the number of children claimed. However, seven (7) of the survey forms we reviewed indicate that children attending grades 9-12 were counted. The Marble City School is a PreK-8 school. OSAI questions the ability of the school to claim these children when they do not attend school.

The special services director claimed twenty-five (25) "...students with disabilities that have current IEP's (individual education plan) and receive special education and related services at Marble City School". Also attached to the application is a student information report listing sixty-five (65) children, names, grades, dates of birth, verifications of IEP, parents' names, addresses, home phone, property location and property allotment numbers. The report lists eight (8) of the children as being in the 9th-12th grades. The signature of the County Assessor appears on this report.

The County Assessor verified her signature. However, she indicated that she did not prepare the report and that she could not verify the allotment numbers. She stated the only thing she could verify was that some of the children listed on the report lived in the township, range and section provided on the list. She stated based on the information on the report, she could not verify all the children. Accordingly, OSAI questions whether all of the children claimed are eligible to be counted by the school as Federally-connected.

The Superintendent's signature is the official authorized representative on the application. The certification states that the statements and all of the data included in the application are, to the best of his knowledge and belief, true, complete and correct.

In addition to reviewing the revenue, applications and supporting documentation, while reviewing purchase orders, OSAI noted the school paid for the Superintendent to attend an Impact Aid Application Workshop in December 2006, indicating that the Superintendent attended training provided by the Oklahoma Association Serving Impacted Schools regarding Impact Aid.

RECOMMENDATION: OSAI recommends the appropriate authority review the above findings to determine what action may be required.

* * *

Throughout this report there are numerous references to State Statutes and legal authorities which appear to be potentially relevant to issues raised by the District Attorney 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.

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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 District 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 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.



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