

NORTHEAST LINCOLN COUNTY FIRE DISTRICT

CHANDLER, OKLAHOMA

JULY 1, 2007 THROUGH
DECEMBER 31, 2008

SPECIAL AUDIT



Oklahoma State Auditor
& Inspector

NORTHEAST LINCOLN COUNTY FIRE DISTRICT

CHANDLER, OKLAHOMA

SPECIAL AUDIT REPORT

JULY 1, 2007 THROUGH DECEMBER 31, 2008

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STATE AUDITOR AND INSPECTOR

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June 1, 2009

Mr. Ricky Taylor, Chairman
Lincoln County Board of County Commissioners
Mr. Paul Eugene Bell, Chairman
Northeast Lincoln County Fire District
811 Manvel Avenue, Ste 4
Chandler, Oklahoma 74834

Transmitted herewith is the Special Audit Report of the Northeast Lincoln County Fire District, Chandler, Oklahoma. We performed our special audit in accordance with the requirements of **74 O.S. § 227.8**.

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

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

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

Sincerely,

A handwritten signature in blue ink, reading "Steve Burrage", is positioned below the "Sincerely," text.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

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BOARD MEMBERS

Mr. Paul Eugene Bell Chairman

Mrs. Cynthia Niccum Member

Mr. Scott Chastain Member

Jacque Martin Member

Larry D. Myrick..... Member

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Board Members
Northeast Lincoln County Fire District
811 Manvel Avenue, Ste 4
Chandler, Oklahoma 74834

Dear Members:

Pursuant to the Lincoln County Board of County Commissioners' request and in accordance with the requirements of **74 O.S. § 227.8**, we performed a special audit with respect to the Northeast Lincoln County Fire District, for the period July 1, 2007 through December 31, 2008.

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

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of Northeast Lincoln County Fire District for the period July 1, 2007 through December 31, 2008. Further, due to the test nature and other inherent limitations of a special audit report, together with the inherent limitations of any internal control structure, there is an unavoidable risk that some material misstatements may remain undiscovered. This report relates only to the accounts and items specified above and do not extend to any financial statements of the Authority taken as a whole.

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

Sincerely,

A handwritten signature in blue ink, reading "Steve Burrage", is positioned above the printed name.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

February 12, 2009

INTRODUCTION

The Northeast Lincoln County Fire District ("District") was a corporate fire department originally created under the provisions of **18 O.S. § 592**. On November 5, 2007, the District converted to a Title 19 fire district under the provisions of **19 O.S. § 351**. The District is designed to provide fire protection services for residents of the district.

The District consists of a five (5) member local Board which is appointed by the Lincoln County Board of County Commissioners.

Pursuant to the Lincoln County Board of County Commissioners' request, the Oklahoma State Auditor and Inspector (OSAI) conducted an audit of the Northeast Lincoln County Fire District. The results of the audit are in the following report.

I. OBJECTIVE

Review the District's conversion from Title 18 to Title 19.

FINDING

The District originally formed and operated as a corporate fire department pursuant to Title 18 of the Oklahoma Statutes.

According to **18 O.S. § 592:**

The authority of persons associated together to become incorporated as a charitable corporation for the purpose of providing either a volunteer or full-time fire department for an unincorporated area or place is hereby ratified and confirmed. Such a corporate fire department shall have authority to provide fire protective service both to its members and to nonmembers, either within or without the unincorporated area wherein it is situated.

The District voluntarily petitioned to the county commissioners to become a fire district under Oklahoma Statutes, Title 19, to allow their firefighters to be included in the Oklahoma Firefighters Pension and Retirement System. On November 5, 2007, the Title 18 Northeast Lincoln County Volunteer Fire Department converted to a county Title 19 fire district.

19 O.S. § 351(D)(1) states in part:

A corporate fire department organized pursuant to the provisions of Section 592 of Title 18 of the Oklahoma Statutes or a county fire department organized pursuant to the provisions of subsection A of this section may petition to the board of county commissioners of the county in which the fire department provides protection to convert to a county fire department organized pursuant to the provisions of this subsection...

Operating as a Title 18 fire department does not require any oversight by the county commissioners; the District is basically autonomous. There does not appear to be any statutory guidelines or requirements for board members, board appointments, officer duties, record keeping, collections and expenditures, etc. However, Title 19 suggests that oversight responsibilities and authority over appointments, charges and collections are vested in the county commissioners. The District would no longer be autonomous.

According to **19 O.S. § 351(A):**

The board of county commissioners of each county of this state is hereby authorized to provide firefighting service in the county and for such purpose to use county funds to rent, lease or purchase firefighting equipment and to rent or construct and equip and operate fire stations and to employ necessary personnel to provide such service. The board of county

commissioners shall also have the authority to determine and collect charges for firefighting services performed by the county from any person to whom such services are provided.

19 O.S. § 351(D)(3) provides in relevant part:

[T]he board of county commissioners shall appoint five directors, one of which shall hold his or her respective office for a term of five (5) years, one of which shall hold his or her respective office for a term of four (4) years, one of which shall hold his or her respective office for a term of (3) years, one of which shall hold his or her respective office for a term of (2) years, one of which shall hold his or her office for at term of (1) year...Each year thereafter, there shall be appointed by the board of county commissioners for a term of five (5) years so many members as are necessary to replace all members whose terms are expiring on the board of directors for such county fire department.

The District cannot convert to a Title 19 fire district to qualify for pension benefits and at the same time follow Title 18 for general operations. This was confirmed by a legal opinion obtained by the county commissioners. The opinion of the district attorney's office is that once the District converted to Title 19, they lost the Title 18 classification.

After converting to a Title 19 fire district on November 5, 2007 and until December 2008, appointments for changes in Board members were performed by the District and not the county commissioners as required by **19 O.S. § 351(D)(3)**.

Upon becoming a Title 19 fire district, the District can no longer operate independent of the County. Accordingly, there would be no authority for the District to possess bank accounts outside of the County.

RECOMMENDATIONS OSAI recommends the three bank accounts operated by the District be closed and funds deposited with the county treasurer. Future collections should also be deposited with the county treasurer. All disbursements should be made through the county clerk utilizing purchase orders, and all disbursements should be ultimately approved by the county commissioners.

OSAI also recommends that the county commissioners appoint all District Board members and establish fees and charges in accordance with **19 O.S. § 351**.

II. OBJECTIVE

Determine if the District is maintaining appropriate records.

FINDING

All of the District's records were in a small box (approximately 10" x 16"). OSAI did obtain a check register and deposit register for the period July 2008 to December 14, 2008 from the county commissioners. The

contents of the box consisted mainly of invoices, bank statements for the three (3) bank accounts, membership contracts, and insurance information. There were virtually no records prior to July 2007. In a conversation with the former District chairman, it was indicated all the District records were surrendered. In the same conversation, OSAI learned he did not provide Board minutes and would not do so.

OSAI initially tried to match invoices with the check register. This was difficult and time consuming because a large number of the transactions involved reimbursements to individuals. OSAI compared the invoices with the check register for the 249 checks totaling \$108,909.75 for the audit period. Thirty-five checks totaling \$23,861.54 did not have supporting invoices. It should also be noted that there were 7 invoices totaling \$404.92 that could not be matched to any checks.

OSAI noted that there are actually 3 bank accounts. Bank of Cushing account # xxxxx24 had the majority of the activity. There are 2 accounts with Spirit Bank, #xxxxx74 and #xxxxx17, that had minimal activity. Payments made from these two accounts were made with counter checks.

RECOMMENDATIONS OSAI recommends the District Board take the necessary steps to ensure the District maintains complete and accurate records to prevent misappropriation of assets and to comply with the Oklahoma Open Records Act..

As previously recommended, all bank accounts outside of the County should be closed and deposited with the county treasurer.

III. OBJECTIVE	Review payments made to family members of the chairman and to himself
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FINDING This concern relates to the former District Board chairman, Ronald Lair. From a review of the check register and cancelled checks, there were payments to the former chairman and his family members. Instead of issuing payments directly to the vendors, the former chairman and three (3) of his family members purchased supplies, fuel, etc. from various vendors and were subsequently reimbursed. During our interview, the former chairman mentioned that two (2) of his family members also served on the Board. This practice places Board members in the position of approving reimbursements to themselves. The District is tax exempt meaning the District is not required to pay sales tax on direct purchases. The practice of reimbursing individuals for purchases results in the District unnecessarily paying sales tax.

RECOMMENDATION OSAI recommends that steps be taken to ensure the practice of purchasing items on a reimbursement basis is discontinued and the County's purchasing process be implemented.

IV. OBJECTIVE

Determine if the District is following appropriate purchasing procedures.

FINDING

While reviewing the check register and invoices, we noted an invoice from Wayest Safety Inc. in the amount of \$71,941.50 for the purchase of bunker gear. There was no documentation indicating bids were solicited.

According to **19 O. S. 1501 A)(3)(a)**:

A. The county purchasing agent:

3. Shall make purchases and rental or lease-purchase agreements only after following the bidding procedures as provided for by law, except:

a. when the purchase does not exceed Ten Thousand Dollars (\$10,000.00). All purchases made pursuant to this subparagraph shall be by a single purchase order. Splitting purchase orders which would result in paying an amount in excess of the limitations specified in this subparagraph is expressly prohibited. Any person convicted of violating the provisions of this subparagraph shall be guilty of a misdemeanor and such person shall forfeit the person's position or office,

OSAI also noted two (2) expenditures which did not contain adequate supporting documentation. Check number 137 was issued to Amy Lair in the amount of \$95.00. The documentation supporting this expenditure was a handwritten note which simply said "Notary for Pension \$95.00". The invoice supporting check number 171 for \$29.61 did not describe the item(s) purchased.

RECOMMENDATIONS

OSAI recommends the District take steps to ensure that purchases exceeding \$10,000 be competitively bid as required by **19 O.S. § 1501 (A)(3)(a)**.

OSAI recommends the District discontinue purchasing items that are not for fire protection services and procedures should be established which ensure expenditures contain adequate supporting documentation.

V. OBJECTIVE

Determine if there is an appropriate segregation of duties.

FINDING

In an interview, the former chairman of the District Board confirmed that he performed all the financial functions including preparing the billing, collections, depositing the funds, preparing the checks, cosigning the checks, and preparing the ledgers. In addition to these duties, he was

also the custodian of the records. Basically he acted as chairman, clerk and treasurer.

According to **19 O.S. § 351(D)(4)**:

4. The board of directors of a county fire department organized pursuant to this subsection shall select one of its members to serve as chair and shall appoint a clerk and a treasurer.

The apparent intent of **19 O.S. § 351(D)(4)** is that three (3) separate individuals hold the position of chairman, clerk and treasurer.

The condition in which one person virtually controls every aspect of recordkeeping could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of assets.

RECOMMENDATION OSAI recommends the District Board be aware of this condition and realize that concentration of duties and responsibilities resting in one individual is not desirable and should take the necessary steps to segregate the duties in accordance with **19 O.S. § 351(D)(4)**.

VI. OBJECTIVE

Determine if surety bonds are in place for officials.

FINDING

The purpose of a surety bond is to protect an entity against loss. A surety bond is basically a promise to pay damages or to cover against losses caused by an individual through nonperformance of their duties or through embezzlement. Therefore, it would be a good practice to purchase surety bonds for any individual involved in collections and deposits. From the records provided, OSAI could not locate any documentation indicating any officials were bonded. In the District's case, it is particularly critical to purchase a surety bond since the former Board Chairman performed virtually all fiscal functions of the District, serving as chairman, clerk and treasurer. Moreover, **19 O.S. § 351(D)(4)** appears to require the treasurer of the District be bonded.

19 O.S. § 351(D)(4) provides in relevant part:

The treasurer shall give an official bond, in an amount fixed and with the sureties approved by the board of county commissioners, conditioned upon the faithful accounting for all money pertaining to the county fire department and coming into his or her hands.

RECOMMENDATION OSAI recommends the District Board take the necessary steps to ensure the treasurer is bonded in accordance with **19 O.S. § 351(D)(4)**.

VII. OBJECTIVE **Review federal grant expenditures.**

FINDING This concern originated when the county commissioners learned that the District received a federal grant without their knowledge. They questioned how the District obtained a direct federal grant that was not passed through the county.

District records indicated the District obtained federal funds totaling \$84,645.00. The District obtained an 'Assistance to Firefighters Grant' through the Federal Emergency Management Agency. The Catalog of Federal Domestic Assistance indicates this grant can be awarded directly to fire departments and would not be required to be passed through the county.

We did note that the \$84,645.00 in federal funds was deposited in the District's primary operating account and commingled with other funds of the District. The accounting records did not reflect that the federal funds were accounted for separately.

RECOMMENDATION OSAI recommends federal funds be deposited in a separate account to prevent the commingling of funds and allow for proper reporting.

VIII. OBJECTIVE **Review the collection and deposit of membership dues and fees charged.**

FINDING **Membership Dues and Fees**

Based on the records provided, the Board of the District is determining the cost for membership dues and the amounts charged for fire protection services. In the records provided, OSAI obtained a copy of a letter that the Board of the District apparently issued to the residents, disclosing the new contract terms and fees to be charged. The letter states in part:

This is how the Fire Contract works, If you have a Residential or Agriculture Property the Cost of the Contract is \$100.00 per year

for each of your properties up to 160 acres of land, plus \$100.00 per fire run plus the cost of any materials used.

If you have Commercial, School, or Church Property the cost of the Fire Contract is \$200.00 per year plus \$100.00 per fire run plus the cost of any materials used (for the first 2 hours) and \$250.00 an hour for anytime over 2 hours.

19 O.S. § 351 provides in relevant part:

The board of county commissioners shall also have the authority to determine and collect charges for firefighting services performed by the county from any person to whom such services are provided.

Based on the provisions of **19 O.S. § 351**, the board of county commissioners is the entity authorized to establish the rates and charges for fire protection services for a Title 19 fire district. Accordingly, the Board of the District did not have authority to establish the cost of membership dues and amounts charged without the Board of County Commissioners' approval.

Collections and Deposits

In addition to establishing fees and charges, the District also collects the proceeds from membership dues and charges. However, **19 O.S. § 351** grants the county commissioners the authority to collect charges.

OSAI attempted to trace the District's collections to deposit. The letter sent to the residents contains language indicating that a contract is attached which should be completed and returned with payment. Based on the records provided, we noted fire contracts with seventy-nine (79) residents, meaning there should be deposits of at least \$100.00 for each of these contracts, or \$7,900.00. Since receipts were not issued for monies collected, contracts were the only source OSAI could use to determine what should have been collected. The contracts were dated from March 2008 through November 2008. The collections from fire contracts were deposited primarily in Spirit Bank account #xxxx74 with one deposit of \$100.00 in Bank of Cushing account #xxxxx24. From the deposit slips, OSAI could not determine the source of funds because only the dollar amounts were entered. Also, because of the limited documentation, OSAI could not trace each individual contract proceeds to deposit because names were neither listed on the deposit slips nor the ledger.

OSAI was able to use the ledger to determine whether deposits were for fire contracts. For the period March 2008 through November 2008, the deposits identified as fire contracts totaled \$9,700.00.

Collections based on the number of fire contracts provided by the District should be approximately \$7,900.00; however, actual deposits were \$9,700.00. Therefore, there was no reliable documentation specifying what should have been collected.

For the fire run deposits, OSAI found no supporting documentation such as a fire run log identifying the name and location of the fire or any billing information.

Based on the contracts on file, there were no contracts for any residents with the last name of Lair. Therefore, there was no documentation indicating the former Board chairman or any of his family members paid their membership fees. Because of the lack of Board minutes, OSAI could not confirm who was on the District Board during the audit period. Therefore, OSAI was unable to verify whether any of the other Board members paid membership dues.

RECOMMENDATION OSAI recommends that fees and charges be determined by the county commissioners and collections deposited with the county treasurer.

OSAI recommends records be maintained to reflect all fire runs, and receipts be issued for all funds received by the District. Accounting records should be maintained that reflect residents that have memberships and those that do not to ensure residents are properly billed for any fire runs. Any billing records for fire runs should also be maintained. Furthermore, contracts should be on file for all residents that paid membership dues.

DISCLAIMER Throughout this report there are numerous references to state statutes and legal authorities, which appear to be potentially relevant to issues raised by the Lincoln County Board of County Commissioners and reviewed by this Office. The State Auditor and Inspector has no jurisdiction, authority, purpose or intent by the issuance of this report to determine the guilt, innocence, culpability or liability, if any, of any person or entity for any act, omission, or transaction reviewed and such determinations are within the exclusive jurisdiction of regulatory, law enforcement, and judicial authorities designated by law.

The inclusion of cites to specific statutes or other authorities within this report does not, and is not intended to, constitute a determination or finding by the State Auditor and Inspector that the Northeast Lincoln County Fire District or any of the individuals named in this report or acting on behalf of the Northeast Lincoln County Fire District have violated any statutory requirement or prohibition imposed by law. All cites and/or references to specific legal provisions are included within this report for the sole purpose of enabling the Administration and other interested parties to review and consider the cited provisions, independently ascertain whether or not the Northeast Lincoln County Fire District's 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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