



# Town of Pocola LeFlore County Special Audit Report March 1, 2003 – August 10, 2004

## Audit Summary:

- ✓ Purchases made with the Town's credit cards showed; no itemized invoices attached, invoices not signed by individuals making purchases, sales tax paid on purchases, finance and late charges paid, and items purchased for personal use. **Pg 7**
- ✓ The Board of Trustees allowed the payment of the credit card invoices without examining the supporting invoices and determining whether they are legal, as required by law. **Pg 7**
- ✓ The former Clerk received per diem for meals and at the same time, used the Town's credit card to purchase meals. **Pg 8**
- ✓ The former Clerk used the Town's credit card to pay for her vacation expenses. **Pg 9**
- ✓ An employee's personal cellular telephone was obtained through a contract in the Town's name. **Pg 9**
- ✓ A terminated employee received payment for vacation and comp time prior to those payments being approved by the Board of Trustees as required by law. **Pg 10**
- ✓ The former Clerk was hired to help the new Clerk without the approval of the Board of Trustees. **Pg 10**
- ✓ The former clerk was paid \$605.50 for accumulated sick leave. Payment of unused sick leave is not allowed by the Town's policies and procedures. **Pg 10**
- ✓ Employees received salary advances in violation of state law. **Pg 11**
- ✓ Payroll expenditures made without approval of the Board of Trustees as required by State Statutes. **Pg 11**
- ✓ Sales tax proceeds were not transferred to the proper funds on a timely basis. The Municipal Fire Department fund and Streets and Alley fund received \$3,292.43 and \$89.64, respectively, more than their 1% allocation. **Pg 11**
- ✓ It appears the Board of Trustees violated the Open Meeting Act by failing to properly maintain minutes. **Pg 12**

**JEFF A. McMAHAN, CFE**

OKLAHOMA OFFICE  
OF THE  
STATE AUDITOR & INSPECTOR

### Why the audit was performed

In accordance with the  
Board of Trustees' request

**74 O.S. 2001, § 227.8**

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

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

**TOWN OF POCOLA**

**LEFLORE COUNTY**

**SPECIAL AUDIT REPORT**

**MARCH 1, 2003 THROUGH AUGUST 10, 2004**

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This publication is printed and issued by the State Auditor and Inspector as authorized by 74 O.S. 2001, § 227.8. Pursuant to 74 O.S. 2001, § 3105(B), 35 copies have been prepared and distributed at a cost of \$36.00. 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

August 29, 2005

Town of Pocola  
P.O. Box 397  
Pocola, Oklahoma 74902-0397

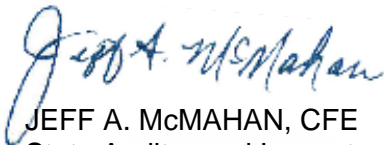
Transmitted herewith is the Special Audit Report of the Town of Pocola, LeFlore County, Oklahoma. We performed our special audit in accordance with the requirements of 74 O.S. 2001, § 227.8.

A report of this type is critical in nature; however, we do not intend to imply that our report failed to disclose commendable features in the present accounting and operating procedures of the Town.

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

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

Sincerely,

  
JEFF A. McMAHAN, CFE  
State Auditor and Inspector

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**index of specific concerns**

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

- I.      **CONCERN:** *Possible irregularities in credit card expenditures* ..... 7
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- III.    **CONCERN:** *Possible misappropriation of sales tax revenue* ..... 11

**BOARD OF TRUSTEES  
MARCH 1, 2003 THRU AUGUST 10, 2004**

**BOARD OF TRUSTEES**

John Evans ..... March 1, 2003 until April 17, 2003  
Glenn Steen ..... March 1, 2003 until April 17, 2003  
Rick Fowler ..... March 1, 2003 until April 17, 2003  
Don Lairamore ..... March 1, 2003 until May 13, 2003  
Eric Kannady ..... March 1, 2003 through August 10, 2004  
Donna Williams ..... April 17, 2003 through August 10, 2004  
Robert Poole ..... April 17, 2003 through August 10, 2004  
Les Morton ..... April 17, 2003 through August 10, 2004  
Henry Hickman ..... June 18, 2003 through May 17, 2004

**CLERK/TREASURER**

Brenda Allen ..... March 1, 2003 through July 29, 2004  
Marsha Crossland ..... August 10, 2004 through May 12, 2005

**CURRENT BOARD OF TRUSTEES**

Jerl Mitchell ..... Mayor  
Donna Williams ..... Vice-Mayor  
Robert Poole ..... Trustee  
Bud Williams ..... Trustee  
Melinda Frick ..... Trustee

**CURRENT CLERK/TREASURER**

Sharon Nugent



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan  
State Auditor and Inspector

Mr. Jerl Mitchell, Mayor  
Town of Pocola  
P.O. Box 397  
Pocola, Oklahoma 74902

Dear Mr. Mitchell:

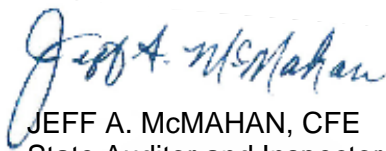
Pursuant to the Board of Trustees' Resolution No. 2004-3, and in accordance with the requirements of 74 O.S. 2001, § 227.8, we performed a special audit with respect to the Town of Pocola, LeFlore County, for the period March 1, 2003 through August 10, 2004.

The objectives of our special audit primarily included but were not limited to, the areas noted in the index of specific concerns and are presented in their entirety in italics as they were communicated to us. Our findings and recommendations related to these procedures are presented in the accompanying report.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the Town of Pocola for the period March 1, 2003 through August 10, 2004. Further, due to the test nature and other inherent limitations of a special audit report, together with the inherent limitations of any internal control structure, there is an unavoidable risk that some material misstatements may remain undiscovered. This report relates only to the accounts and items specified above and do not extend to any financial statements of the Town taken as a whole.

This report is intended to provide information to the Board of Trustees and Administration of the Town. This restriction is not intended to limit the distribution of the report, which is a matter of public record when released.

Sincerely,

  
JEFF A. McMAHAN, CFE  
State Auditor and Inspector

July 21, 2005

## INTRODUCTION

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

**11 O.S. 2001, § 12-101**, states:

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

Private independent auditors audit the Town of Pocola annually. In addition, the Town prepares an annual financial statement, presenting the financial condition of the Town at the close of the previous fiscal year, in accordance with the requirements of **68 O.S. 2001, § 3002**.

Pursuant to the Board of Trustees' Resolution No. 2004-3, the State Auditor and Inspector conducted an audit of the records of the Town of Pocola, primarily those records relating to the concerns listed in the “index of specific concerns” noted in the table of contents. The results of the audit are in the following report.

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**CONCERNS, FINDINGS AND RECOMMENDATIONS**

**I. CONCERN:** *Possible irregularities in credit card expenditures.*

**FINDING 1:** We reviewed purchases made with the Town's credit cards, MasterCard, Wal-Mart, and Sam's, to determine if the items purchased were for Town use. Various Town employees used the credit cards for travel expenses and the purchase of supplies. The former Town Clerk kept possession of the cards until needed by the employee at which time it would be given to the employee and there was no documentation maintained which employee had possession and use of the card and the purpose for which it was being used. We obtained the billing statements and supporting documentation to the items purchased, we noted expenditures for the MasterCard, Sam's, and Wal-Mart totaling \$9,281.64, \$5,360.45, and \$555.37, respectively. The following exceptions were noted:

**MASTERCARD:**

- No itemized invoice attached - \$4,481.12
- Invoice not signed by individual making purchase - 1,848.71
- Sales tax paid on purchases - 92.91
- Finance and late charges - 73.64
- Cigarettes - 3.29

**SAM'S:**

- No itemized invoice attached - \$2,145.60
- Invoice not signed by individual making purchase - 2,473.81
- Sales tax paid on purchases - 364.20
- Finance and late charges - 141.04
- Candy and drinks - 98.56
- Plates, bowls, cutlery - 80.20

**WAL-MART:**

- No itemized invoice attached - \$246.52
- Invoice not signed by individual making purchase - 308.52
- Sales tax paid on purchases - 44.71
- Finance and late charges - 0.33
- Candy and drinks - 8.73
- Meat tray and bread - 34.10
- Shampoo - 2.37

We noted that the gasoline purchases made at the pump had no documentation of who made the purchase or what the reason for the purchase was. There was no documentation of the business conducted when meals were purchased. Also, it appears some meals were purchased when the employee was not on overnight travel status. Further, we noted that some of the credit card purchases included sales tax.

During conversation with the former Clerk, she stated that the candy was purchased for the office and that the Trustees allowed her to use the credit card to put fuel in her personal vehicle because she would use her vehicle to run errands for the Town. Also, she stated that the Board of Trustees approved payment of the credit card expenditures and never questioned



the purchases that were made. The minutes of the Board of Trustees reflect approval for payment of accounts payable.

When approving invoices for payment, it appears the Board of Trustees did not comply with **62 O.S. 2001, § 310.1 (B)**, which states:

“B. After satisfactory delivery of the merchandise or completion of the contract, the supplier shall deliver an invoice. Such invoice shall state the supplier's name and address and must be sufficiently itemized to clearly describe each item purchased, its unit price, where applicable, the number or volume of each item purchased, its total price, the total of the purchase and the date of the purchase. The appropriate officer shall attach the itemized invoice together with delivery tickets, freight tickets or other supporting information to the original of the purchase order and, after approving and signing said original copy of the purchase order, shall submit the invoices, the purchase order and other supporting data for consideration for payment by the governing board. All invoices submitted shall be examined by the governing board to determine their legality. The governing board shall approve such invoices for payment in the amount the board determines just and correct.”

The billing statements for MasterCard were available for all months within the audit period; however, there were several months billing statements for Sam's and Wal-Mart that we were unable to locate. We obtained a list of the checks issued to the Sam's and Wal-Mart during our audit period to determine the actual expenditures. We compared the totals on billing statements to the checks issued. We noted that the checks issued were greater than the expenditures on the Sam's and Wal-Mart billing statements, by \$655.82 and \$1,373.21, respectively. We requested copies of the statements from Wal-Mart, but they advised us that it could take up to 60 days before we might receive them. At the time of the exit conference on August 25, 2005, the statements had not been received.

**RECOMMENDATION:** We recommend that the Board of Trustees establish policies and procedures to assure all credit cards are used solely for town business. Procedures should include a signed itemized receipt for each and every purchase made when the card is used and the nature of business being conducted. Also, we recommend that the Board of Trustees fulfill their duty and examine all invoices submitted to determine the legality of the expenditure prior to payment as required by **62 O.S. 2001, § 310.1 (B)**. Further, we recommend that the sales tax not be paid on the Town's purchases.

**FINDING 2:** The former Town Clerk attended classes in Midwest City from May 17, 2004 through May 21, 2004. During this time, we noted credit card purchases at the following restaurants in Oklahoma City and Midwest City:

• Santa Fe Cattle Company	\$ 39.22
• China Olive	37.97
• Zio's Italian Kitchen	31.05
• Pelican's Restaurant	<u>21.00</u>
<b>Total</b>	<b><u>\$129.24</u></b>

On May 17, 2004, a purchase order was issued to the former Clerk in the amount of \$125.00 for OLETS training in Oklahoma City and on the same day, check no. 58717 was issued to her and cashed. During conversation with the Vice-Mayor, she stated that it was her understanding that employees received \$25.00 per day per diem when attending a meeting that included staying overnight. We did not find Board policies and procedures addressing the reimbursement or payment of travel expenses. During an interview with the former Clerk, she stated that she used the Town's credit card to purchase meals while attending the meeting and she received \$125.00 per diem for trip related expenses and that she would be happy to pay it back.

Based on the documentation, the former Clerk submitted a claim and received the \$125.00 travel allowance for meals while attending class and at the same time used the Town's credit card to purchase meals totaling \$129.24. Therefore, the use of the Town's credit card to purchase meals appears to be a violation of **21 O.S. 2001, § 341**.

**RECOMMENDATION:** We recommend the proper authorities review this finding to determine whether further action is necessary. Also, we recommend that the Board of Trustees establish policies and procedures for the reimbursement of travel expenses.

**Finding 3:** We noted that the former Clerk was on vacation April 23-30, 2004. The credit card statement reflected expenditures in Branson, MO and Ft. Smith, AR during this time. The motel receipt shows the former Clerk arrived in Branson on April 23, 2004 at 2:32 pm and departed April 30, 2004. We noted the following expenditures charged to the Town's credit card:

• Melody Lane Inn	\$ 5.12
• McGuffey's Steakhouse	68.90
• Baldknobbers Concession	85.00
• 76 Conoco	28.00
• Z Mart	<u>15.13</u>
<b>Total</b>	<b><u>\$202.15</u></b>

During an interview with the former Clerk, she stated that she thought she was using her personal credit card and mistakenly used the Town's credit card to make the purchases. Also, she stated that she thought she had made reimbursement to the Town for these charges. We reviewed the Town's receipts and found no documentation of the reimbursement of these expenses.

Based on the documentation, the former Clerk's use of the Town's credit card to make personal purchases totaling \$202.15 while on vacation appears to be a violation of **21 O.S. 2001, § 341**.

**RECOMMENDATION:** We recommend the proper authorities review this finding to determine whether further action is necessary.

## **II. Concern:** *Possible irregularities in payroll and hiring practices.*

**FINDING 1:** We reviewed the payroll register noting that a Police officer had a deduction for "phone" being withheld from his check. We obtained telephone bills in the name of the Town of Pocola for two (2) wireless telephones to this individual. The first statement noted for the telephone service reflected a bill date of February 24, 2004 and the last statement had a bill date of January 24, 2005. At the January 27, 2005 special Town Board of Trustees' meeting, the Board voted "to cancel the contract with Alltel for John Hancock's personal cell phones." We reviewed the Board of Trustees' minutes prior to the first bill and found no documentation approving John Hancock to use the Town's name to enter into a cellular telephone contract for personal telephone service. The Town was unable to provide us a copy of the cellular telephone agreement.

The total telephone charges were \$1,086.80 and the total deductions from the Police officer's payroll was \$1,069.54 leaving a balance of \$17.26 owed to the Town.

The contract between the Town and the telephone company providing a personal telephone to the Police officer appears to be a violation of **Article 10 § 17** of the **Constitution of Oklahoma**.

**RECOMMENDATION:** We recommend the proper authorities review this finding to determine whether further action is necessary.

**FINDING 2:** On January 11, 2005 the Board of Trustees terminated the Chief of Police, and subsequently, on January 13, 2005 he was issued check no. 12589 in the amount of \$3,944.85 for the payment of his comp and vacation time. The Chief stated that he told the former Clerk, that based on policy and procedures, he was entitled payment of his comp and vacation time and was given the check two (2) or three (3) days after he was fired. The check was signed by the Vice-Mayor and the former Town Clerk at the time, which was the period August 20, 2004 through May 12, 2005. At two (2) separate Board meetings, February 11 and May 10, 2005 the Board of Trustees denied the payment of the Chief's comp time and then subsequently approved the payment at the June 14, 2005 meeting.

Based on the information, it appears the Board of Trustees as required by 62 O.S. § 304.1 did not approve the payment prior to issuance of the check.

**RECOMMENDATION:** We recommend the Board of Trustees establish policies and procedures to prevent payment of any claim prior to approval by the Board of Trustees as required by State Statute.

**FINDING 3:** The former Clerk resigned the office of Clerk/Treasurer and Office Manager effective July 29, 2004. The resignation was accepted at the Board of Trustees' meeting of August 10, 2004. We noted payments to the former Clerk for service after July 29 in the amounts of \$400.00 and \$233.12 from the General and Sewer accounts, respectively. During an interview with the former Clerk, she stated that she was hired by two (2) Trustees to help the new Clerk. Also, during an interview with the Vice-Mayor, she stated that the former Clerk had been hired to help the new Clerk and the Board approved.

We reviewed the minutes of the board of Trustees and found no documentation that the Board approved hiring the former Clerk to help the new Clerk.

**RECOMMENDATION:** We recommend the Board of Trustees adopt policies and procedures to ensure that employees do not begin work until they are formally hired by the Board.

**FINDING 4:** We noted that the former Clerk/Treasurer, received payment for fifty (50) hours of accumulated sick leave on her last payroll check, issued July 29, 2004. We found no documentation in the policy and procedures manual that allows the payment of accumulated sick leave at the time of an employee's resignation or termination.

Based on the available documentation, it appears the former Clerk/Treasurer, received \$605.50 for payment of sick leave that is not allowed according to the Town's policies and procedures.

**RECOMMENDATION:** We recommend the Board of Trustees review this finding to seek recovery of this payment.

**FINDING 5:** We noted a purchase order dated August 6, 2004 issued to the former Clerk for payment of overpaying back her salary advances in the amount of \$200.00. We reviewed payroll reports and the check register for payments to the former Clerk. Based on these documents, it appears that the former Clerk had deductions from her salary \$200.00 more than the salary advances received. The former Clerk approved the purchase order after her resignation.

Also, we noted that other employees were receiving advances on their salary, which is contrary to policies and procedures, which state, "pay advances are not granted" and **Article 10 § 17** of the **Constitution of Oklahoma**.

**RECOMMENDATION:** We recommend the illegal practice of advance salary payments stop immediately. Also, we recommend the proper authorities review this finding to determine if further action is necessary.

**FINDING 6:** During our review of expenditures, we noted the Board of Trustees' minutes reflect the approval of "accounts payable". The list of accounts payable approved does not include payroll. Therefore, the Board is not approving the payroll expenditures, which appears to be a violation of **62 O.S. 2001, § 304.1**

**RECOMMENDATION:** We recommend the Board of Trustees comply with State Statutes.

### **III. CONCERN:** *Possible irregularities sales tax revenue.*

**FINDING:** The Town of Pocola has adopted a three per cent (3%) sales tax. The ballot called for the revenue to be distributed among the General fund, municipal fire department fund, and street and alley fund which each fund receiving one per cent (1%). We obtained the Town's General fund bank statements for March 2003 through August 2004, reflecting the total sales tax received from the Oklahoma Tax Commission. The sales tax amount for the Municipal Fire Department and Street and Alley funds were calculated and verified to the deposits in their respective bank account.

We noted that the transfer of sales tax proceeds from the General fund bank account to the Municipal Fire Department and Street and Alley accounts were not always done during the month the revenue was received. The Municipal Fire Department's allocation for March and May 2003 was deposited the following month and June, July, and August 2004 proceeds were deposited in October 2004 and Street and Alleys' allocation for March and May 2003 and July 2004 was deposited the following month. Also, based on our calculations and amounts deposited, we noted that the Municipal Fire Department and Street and Alley funds received \$3,292.43 and \$89.64, respectively, more than their 1% allocation.

**RECOMMENDATION:** We recommend the Board of Trustees establish policies and procedures to insure that the sales tax revenues are timely and properly transferred. Also, we recommend that adjustment be made in future transfers to correct the over allocation of the sales tax proceeds.

### **OTHER FINDINGS**

**FINDING 1:** We noted a purchase order, dated August 9, 2004, issued to Mid Town Café for a finger sandwich and vegetable tray in the amount of \$135.94 and the purchase of cokes, totaling \$28.12, with the Sam's credit card. Both expenditures included sales tax.

During conversation with the former Clerk, she stated that she thought they purchased the food for a speaking at Town Hall. Also, the Vice-Mayor stated that she thought the food was purchased for a speaking at Town Hall. We were unable to locate the accounts payable list to determine if the Board approved the expenditure.

**RECOMMENDATION:** We recommend the proper authorities review the finding to determine if further action is necessary.

**FINDING 2:** During our review of the Board of Trustees' minutes, we were unable to locate minutes for June 8, 14, and 30 and July 19, 2004 meetings. The unavailable minutes of the Board of Trustees appears to be a violation of the Open Meeting Act as stated in **25 O.S. 2001, § 312 (A)**, 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."

**RECOMMENDATION:** We recommend the proper authorities review the finding to determine if further action is necessary.