

**TOWN OF RUSH SPRINGS**  
**GRADY COUNTY**  
**SPECIAL AUDIT REPORT**  
**JULY 1, 2001 THROUGH FEBRUARY 28, 2003**

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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

October 3, 2003

Citizens and Petitioners  
Rush Springs, Oklahoma

Transmitted herewith is the Special Audit Report of the Town of Rush Springs, Grady County, Oklahoma. We performed our special audit in accordance with the requirements of 74 O.S. 2001, § 212.

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 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 cursive script that reads "Jeff A. McMahan".

JEFF A. McMAHAN  
State Auditor and Inspector

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**Index of specific concerns**

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

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**BOARD OF TRUSTEES**

Kathy Kaiser ..... Mayor/Chairperson  
resigned 9/16/03

Kenneth McAdoo ..... Vice-Mayor  
resigned 9/16/03

Fern Bennett ..... Trustee

Charles Birchell ..... Trustee

Linda Nichols ..... Trustee

Sharon Fleener ..... Town Clerk/Treasurer



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

Honorable Mayor and Board of Trustees  
Town of Rush Springs  
P.O. Box 708  
Rush Springs, Oklahoma 73082

Pursuant to a citizens' petition and in accordance with the requirements of 74 O. S. 2001, § 212, we performed the procedures enumerated below with respect to the Town of Rush Springs, Grady County, Oklahoma, for the period July 1, 2001 through February 28, 2003.

The objectives of our special audit primarily included, but were not limited to, the items listed in the "index of specific concerns" noted in the table of contents. 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 Rush Springs for the period July 1, 2001 through February 28, 2003. 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 does not extend to any financial statements of the Town taken as a whole.

This report is intended to provide information to the citizens, Mayor, 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,

A handwritten signature in cursive script that reads "Jeff A. McMahon".

JEFF A. McMAHAN  
State Auditor and Inspector

August 26, 2003

## INTRODUCTION

The Town of Rush Springs, 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."

The Town and the Authority are audited by a private, independent audit firm. Audit reports were made available for our review.

The State Auditor and Inspector conducted a special audit of the records of the Town of Rush Springs, primarily those records relating to the petitioners' concerns listed in the "index of specific concerns" noted in the table of contents. The results of the special audit are in the following report.

## CONCERNS, FINDINGS AND RECOMMENDATIONS

### 1. CONCERN: *Possible conflict of interest.*

**FINDING:** The Town of Rush Springs' Mayor was employed on a grant that was being fiscally administered by the Town. The following is a synopsis of the events surrounding the grant and the Mayor's involvement:

The Oklahoma Employment Security Commission (OESC) provided "One Stop Coordinator" grant funds for local workforce projects. The grant operated on a reimbursement basis. In this case the money reimbursed by OESC was to pay the salary and fringe benefits to a person who was dedicated to the development of the local [Lawton] workforce system. The person responsible for bringing the grant to the attention of the Board, and the sole employee under the grant, was a member of the Rush Springs Board of Trustees. The Board of Trustees elected the staff person/Trustee to the position of Mayor on August 19, 2002, which was during the ten months the grant was administered by Rush Springs.

In the first two years of the grant, there were two (2) grantees/fiscal agents, the Association of Southern Oklahoma Councils of Governments (ASCOG) for FY 2001 and a public school for FY 2002. The public school declined the grant for FY 2003 and the staff person suggested to OESC that Rush Springs might administer the grant if her position as Trustee would not create a conflict of interest. She stated that the OESC advised her that if she did not vote on any issue regarding the grant, OESC did not believe a conflict would exist. The OESC Chief of Employment and Training stated in an e-mail that he did not believe a conflict would exist if the former Trustee/Mayor was not directly or solely involved in payments on her contract.

On July 9, 2002, the Town of Rush Springs entered into a grant agreement with the OESC to act as grantee/fiscal agent for a U.S. Department of Labor 'One Stop Coordinator Grant'. The grant period was from July 1, 2002 through June 30, 2003, and was in the amount of \$50,000. (The Town's Mayor who signed the grant agreement for the Town was not the same person involved in this issue.)

We noted that in the Special Meeting held by the Board on May 30, 2002, the Trustee/Mayor abstained from voting on the motion to accept the grant. However, in the June 17, 2002 Board meeting, she voted to approve the payment of \$50.00 per month for the former Town Clerk for administering the grant payments. The former Trustee/Mayor also voted to approve all purchase orders (P.O.'s) for payments to herself and to the former clerk until February 2003.

As Mayor, the grant employee had the responsibility of signing the Town's checks including her payroll check as a staff person employed through the grant. The relationship between the Mayor and her approval of the expenses being paid from grant funds, led the Town's independent auditor to advise the Board of Trustees that he believed a conflict of interest existed, and he recommended that the Mayor either resign from the Board or cease her employment under the grant. In February 2003, she resigned from the Board of Trustees but kept her position of employment under the grant. However, she had already filed for re-election as Trustee and it was too late to remove her name from the ballot. She was re-elected to the Board in April 2003, and continues to serve as a Trustee. When she assumed office, the OESC found Great Plains Tech Center to become grantee/fiscal agent of the One Stop Coordinator grant.

As far as we could determine, the grant did not provide any benefit to the citizens of Rush Springs. The major beneficiary of this grant was the City of Lawton. The money reimbursed by OESC was to pay the salary and fringe benefits to a person who was dedicated to the development of the local [Lawton] workforce system. Administrative costs to the grantee, Rush Springs, were reimbursed by paying the former Town Clerk additional pay. In accordance with the grant agreement Section 4.E, only actual expenditures will be reimbursed:

"All requests for funds should be submitted to the OESC during the period funded... Said claim shall be allowed only for reimbursement of actual expenditures..."

The claims we reviewed indicated that the only expenditures by Rush Springs that were claimed were salaries and administrative fees paid to the Trustee/Mayor and the Town Clerk.

In addition, the grant contains a no-covenant clause (Section 12.), which states:

"Grantee [Rush Springs] covenants that no officers, members or employees of its governing board have any interest, and that none shall acquire any interest, direct or indirect, that would conflict with full and complete execution of this agreement. Grantee further covenants that in the performance of this agreement, no person having any such interest will be employed by Grantee."

This clause possibly could be construed as barring the former Mayor and the Town Clerk from receiving payment from the grant.

We also noted that Rush Springs may have incurred a potential liability. Section 11 of the grant is a 'Hold Harmless Clause' which places all liability on the grantee (Rush Springs) for any damages or claims arising under the workers' compensation law or any other law.

**RECOMMENDATION:** The State Statutes we reviewed did not specifically address this situation, but the facts we obtained would suggest that the former Mayor, by approving and accepting payment from grant proceeds, did have a direct conflict of interest under the terms of the grant. The determination of whether or not an actual conflict did exist would be a legal question that should be determined by legal authorities. Therefore, we recommend the proper authorities review this finding to determine if a conflict of interest has occurred and what, if any, penalties are applicable.

**II. CONCERN:** *Possible irregularities in fixed assets.*

**FINDING:** This concern arose over two fixed assets that the concerned citizens alleged were missing from the Town's inventory. These were a video camera system for police vehicles and a grass trimmer.

The video camera system had been removed from a police car, which had been declared surplus, and was currently stored in the evidence room until it could be mounted in another police car. We obtained documents reflecting the purchase of the video system and verified that it was stored in the evidence room. The grass trimmer had been verbally reported stolen to the police, but no police theft report had been filed.

We did locate the P.O. for the purchase of the trimmer which has a serial number listed. We provided this to the police department in the event the trimmer is ever recovered.



The most serious irregularity in fixed assets is that the Town does not have an inventory system. This makes it impossible to determine whether assets are missing. This exception was also noted by the Town's independent auditor in his management letter to the Board of Trustees at the conclusion of the FY 2002 audit. He recommended an inventory be taken and maintained. This recommendation has not been implemented by the Board.

**RECOMMENDATION:** We recommend the Board of Trustees take and maintain an inventory of all assets owned by the Town.

**III. CONCERN:** *Possible irregularities in employee reimbursements.*

The Town of Rush Springs handles their payroll by issuing a P.O. for each employee rather than by issuing one P.O. for the payroll as a whole. We selected several months from the two year audit period and reviewed all P.O.'s for improper employee reimbursements as well as any irregularities in payments in general.

For our audit we selected the months of July and December 2001; April, August and October 2002; and January and March 2003. We reviewed 100% of all P.O.s and supporting documentation issued in these months. The following are the irregularities we noted:

**FINDING NO. 1, POSSIBLE CONFLICT OF INTEREST**

On April 29, 2003, the Town contracted with a construction company to construct an enclosure to the business office of the town hall. It appears the Chief of Police dealt with the contractor on the project even though the work was not done in the police station but at the Town hall. (The Chief of Police is not an elected official or a commissioner.) The owner of the construction company is the nephew of one of the Trustees of Rush Springs. The initial estimate for the work was \$1,266.60. This was reduced by the contractor to \$1,000, which is the maximum limit that can be approved by another Trustee who is commissioner of that town function. The P.O. is approved by the Board of Trustees as a whole at the next Board meeting. This contractor had performed other work for the Town prior to his uncle becoming a Trustee. There appears to be no Oklahoma law that prohibits a town from contracting with the nephew of a town trustee.

**FINDING NO. 2, POSSIBLE VIOLATION OF CONSTITUTION**

The Town made a payment of \$1,000 monthly to the Rush Springs E.M.S. No contract exists between the Town and the E.M.S. authorizing the payment. This payment has been made even when it appeared the E.M.S. did not have a shortage of funds. An examination of the bank statements for selected months reflected the following:

<u>Date of Payment From Town Funds</u>	<u>Amount Given</u>	<u>E.M.S. Bank Balance (date nearest transfer)</u>
July 20, 2001	\$1,000.00	\$30,840.30
Nov. 21, 2001	\$1,016.10	\$ 8,081.58
Mar. 22, 2002	\$1,000.00	\$47,291.42
June 21, 2002	\$1,000.00	\$68,476.36
Aug. 26, 2002	\$1,002.80	\$54,658.39
Oct. 25, 2002	\$1,000.00*	\$47,085.03

\*Actual payment was \$3,021.05 but included \$2,021.05 in sales & use tax.

The reason for the Town of Rush Springs gave the monthly stipend to the E.M.S. is not apparent. The E.M.S. appears to have been financially sound. The action by the Town of Rush Springs Board of Trustees appears to violate **Article X, § 17** of the **Oklahoma Constitution**, cited in part below:

"The Legislature shall not authorize any county or subdivision thereof, city, town, or incorporated district, to become a stockholder in any company, association, or corporation, or to obtain or appropriate money for, or levy any tax for, or to loan its credit to any corporation, association, or individual."

In effect, by giving the \$1000 per month without any contract or other documentation supporting the reason for giving the money, it would appear to be an unencumbered gift.

**RECOMMENDATION:** Refer to the proper authorities to review this finding.

**FINDING NO. 3, IRREGULARITIES IN PURCHASING PRACTICES**

During review of the Town's P.O. files we noted numerous payments that had been made that were not in accordance with the State purchasing statutes (cited below). A summary of the irregularities we noted are listed below:

- Documentation insufficient to support claim.
- Vendors paid from statement rather than invoice.
- No invoice attached to P.O.

In accordance with **62 O.S. § 310.1(B)(C)** the former clerk should have complied with the following statutes:

"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 municipal 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.

C. As an alternative to the provision of subsection B of this section, the governing body of a municipality may elect to pay claims and invoices pursuant to the provisions of subsection A of Section 17-102 of Title 11 of the Oklahoma Statutes, which provides for the adoption of a municipal ordinance to ensure adequate internal controls against unauthorized or illegal payment of invoices. In absence of such authority, the governing board shall approve payment."

Additionally we noted travel claim reimbursements that appeared to have been overpaid. For example, one employee claimed reimbursement for milage to Enid and return of 387 miles. The state milage chart shows the milage at 234 miles round trip. This same employee on a subsequent trip only claimed 256 miles. The Town apparently was overcharged \$55.85 for milage on the first trip and \$7.03 on the second. On another claim we noted the former Town Clerk charged milage and a meal for a "Crime Stopper" meeting. The Clerk was not a part of the Town's police force and

this meeting would appear to be outside her normal town duties and as such not reimbursable travel.

We also noted where an individual who was drawing worker's compensation would bring his check to the Town hall; the former Clerk would have him endorse the worker's compensation check over to the Town; and would then give the employee a payroll check in the amount he would have earned if he had not been drawing worker's compensation. It appears to us that the Town was unnecessarily incurring additional expense and negating the purpose of paying workers' compensation insurance payments.

The above irregularities we noted may have been prevented through better oversight by the Board of Trustees. The Town's ordinances permit oversight by one Trustee over purchases of \$1000 or less. By having one Trustee approve purchases, the other Trustees reduce their oversight responsibility and reduce the internal controls necessary to safeguard the Town's assets.

The Town's independent auditor noted in his management letter to the Board of Trustees;

"The size of the [Town's] accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

...To address this issue the Board of Trustees must remain involved in the financial affairs of the [Town] to provide oversight and independent review functions."

**RECOMMENDATION:** We recommend that all the Board members review all P.O.'s and question any expenditures that appear unusual. They also should refuse to sign P.O.'s for Town functions that have not been approved by the appointed responsible commissioner.