

SAGEBRUSH INC.
SAYRE, OKLAHOMA
BECKHAM COUNTY
SPECIAL AUDIT REPORT
MAY 1, 2002 THROUGH JUNE 30, 2003



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

February 19, 2004

Honorable Dennis A. Smith
District Attorney-District No. 2
P.O. Box 36
Arapaho, Oklahoma 73620

Transmitted herewith is the Special Audit Report of Sagebrush, Inc. located in Sayre, Oklahoma, Beckham County. We performed our special audit in accordance with the requirements of **74 O.S. 2001, § 212(H)**.

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 Sagebrush, Inc.

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. McMahon".

JEFF A. McMAHAN
State Auditor and Inspector

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BOARD OF DIRECTORS

Noel Patten President
Paul Currell Vice-President
Jane Etris Secretary
Bob Fisher Treasurer
Ed Ivester Member
Doris Kendall Member
Bette Prather Member

EXECUTIVE DIRECTOR

Dale Eagon



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Mr. Noel Patten, President
Sagebrush, Inc. Board of Directors
101 West Greer
Sayre, Oklahoma 73662

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 Sagebrush, Inc., located in Sayre, Oklahoma, Beckham County, for the period May 1, 2002 through June 30, 2003.

The objectives of our special audit primarily included, but were not limited to, the areas presented by the District Attorney, "misappropriation of equipment, funds and materials from Sagebrush, Inc." 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 Sagebrush, Inc. for the period May 1, 2002 through June 30, 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 Sagebrush, Inc. taken as a whole.

This report is intended to provide information to the District Attorney and the Board of Directors of Sagebrush, Inc. 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 black ink that reads "Jeff A. McMahon".

JEFF A. McMAHAN
State Auditor and Inspector

July 25, 2003

INTRODUCTION

Sagebrush, Inc. is a not-for-profit Oklahoma company which was incorporated on March 8, 1985. The corporation was formed to provide education, training and for the creation of work opportunities for the developmentally disabled persons in western Oklahoma.

The corporation is not organized for profit, does not have the power to issue certificates of stock or declare dividends, and no part of its net earnings may be used to benefit any member, director, trustee or individual.

Pursuant to the District Attorney's request of May 9, 2003, we have conducted a special audit of Sagebrush, Inc. located in Sayre, Oklahoma. This audit was performed in conjunction with an investigation conducted by the Oklahoma State Bureau of Investigation (OSBI). Our special audit and the OSBI's investigation were directed to determine if equipment, funds and materials had been misappropriated by employees of Sagebrush, Inc.

CONCERNS, FINDINGS AND RECOMMENDATIONS

CONCERN: *“/Misappropriation of equipment, funds and materials from Sagebrush, Inc.”*

FINDING: Certain items of equipment, which were paid for by Sagebrush, Inc., or acquired under Sagebrush’s name, appear to have been appropriated by the Director of Sagebrush for his personal benefit. Specifically, we found:

- A flatbed trailer acquired by Sagebrush was taken to the Director’s farm when two (2) new trailers were purchased by Sagebrush. The trailer was in the Director’s possession for approximately two years.
- Two (2) cordless drills were purchased from the business of one of the Sagebrush Board members. The Director retained one (1) and the other was given to a contractor who frequently does work for Sagebrush. The contractor agreed to reimburse Sagebrush for the cost of the drill by having Sagebrush deduct payments from invoice amounts he submitted to Sagebrush for work performed. A review of invoices submitted by the contractor indicated that Sagebrush subtracted \$25.00 from three (3) invoices over a two-year period. The last deduction was made from the invoice submitted by the contractor on July 5, 2002. The drills cost approximately \$200.00 each; however, only a total of \$75.00 was reimbursed to Sagebrush.

The Director installed, at his house boat mooring, a portable kitchenette (stove, sink and refrigerator) that Sagebrush had obtained from the State Surplus Property Division. On another occasion, he took two large tool boxes to his farm which were obtained by Sagebrush from Surplus Property. The acquisition of these items may be a violation of the agreement the recipient signs when surplus property is acquired from the State, which states in part:

“[I]f a nonprofit tax-exempt institution or organization, the property is needed for and will be used by the recipient for educational or public health purposes...The property is not being acquired for any other use or purpose, or for sale, or other distribution[.]”

The Director admitted to the above-conversions and returned the property to Sagebrush’s workshop.

We also noted that Sagebrush purchased 300 feet of rebar supposedly to provide support for trees that were planted at a house owned by Sagebrush. We were advised that only a small portion of the rebar was used for that purpose while most of the rebar was used for electric fencing on property leased by the Director.

During the course of our special audit, we noted what appeared to be attempts to charge items to State grants that were improper and – on the surface – would increase the costs of the grants to the State. We were informed that there may have been an attempt to falsify time charges by employees which also appeared to increase costs to the State. These irregularities were brought to the attention of the Director of Quality Assurance, OKDHS Developmental Disabilities Services Division (DDSD). An investigation by DDSD was completed on July 9, 2003. Their report reflected that, because Sagebrush was paid a flat rate per client, none of the irregularities we noted would have resulted in increasing State grant costs nor would they have been illegal expenditures of grant funds.