



City of Snyder Snyder Public Works Authority Special Audit Report July 1, 2000 – June 30, 2004

Audit Summary:

Budgeting and Reporting

- ✓ The City was and continues to be in noncompliance with municipal budget laws. **Pg 7**
- ✓ According to the City's regular FY2004 audit report, the City's general fund expenditures exceeded its appropriation by approximately \$13,000. **Pg 8**

Purchasing

- ✓ Amendments to the City Code have resulted in some confusion regarding purchasing procedures and bid requirements. **Pg 13**
- ✓ The City Council appears to have violated its own bid ordinance in awarding two contracts for the re-roofing of the community building and library. **Pg 14**
- ✓ Many vendor invoices or tickets were not signed by any city official or employee acknowledging receipt of the goods or services purchased. **Pg 16**
- ✓ The petty cash fund has been used frequently for travel reimbursements. **Pg 17**
- ✓ The ordinance to create a city administrator position appears to conflict with statutes for administering the city's form of government. **Pg 21**

Inventory

- ✓ Some police department equipment items are missing. **Pg 23**

Timesheets

- ✓ There were some errors and some abuse in the timesheet reporting for city employees. **Pg 24**

Meter Deposits and Service Billings

- ✓ There appears to be a cash balance in the Meter Deposit Fund in excess of the total meter deposits indicated for active accounts. **Pg 27**
- ✓ There was no policy or procedure for writing off unpaid utility bills. **Pg 30**

JEFF A. McMAHAN, CFE

OKLAHOMA OFFICE

OF THE

STATE AUDITOR & INSPECTOR

Why the audit was performed

The audit was conducted in response to a request by the Snyder City Council pursuant to 74 O.S. 2001, § 227.8.

To view a copy of the entire report, please visit our website at: www.sai.state.ok.us.

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

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
KIOWA COUNTY
SPECIAL AUDIT REPORT**

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 \$114.00. 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 24, 2005

Honorable Dale Moore, Mayor
Snyder City Council
721 E Street
Snyder, Oklahoma 73566

Transmitted herewith is the Special Audit Report of the City of Snyder, Kiowa County, Oklahoma, and the Snyder Public Works Authority. 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 City.

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 that 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

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

table of contents

	page
City Officials	4
State Auditor and Inspector's Report	5
Introduction	6
Findings and Recommendations - CITY OF SNYDER	7
Findings and Recommendations - SNYDER PUBLIC WORKS AUTHORITY	26
Appendix A - General Fund: Seven-Year Comparison	32
Appendix B - Discussion of Funds, Departments and Appropriation Accounts	34

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

CITY OFFICIALS

Dale Moore.(elected July 27, 2004) Mayor
Allen Ford..... Vice-mayor
Marie Thompson Council member
Evelyn Allen Council member
Robert Batty (resigned, effective October 24, 2004)... Council member
Faye Dwyer City Clerk-Treasurer



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

Honorable Dale Moore, Mayor
Snyder City Council
City of Snyder
721 E Street
Snyder, OK 73566

Pursuant to your request and in accordance with the requirements of **74 O. S. 2001, § 227.8**, we conducted a special audit with respect to the City of Snyder, Kiowa County, Oklahoma, and the Snyder Public Works Authority, for the period July 1, 2000 through June 30, 2004.

The objectives of our special audit primarily included, but were not limited to, purchasing procedures, equipment inventory, contracts and employee timesheets. 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 City of Snyder or the Snyder Public Works Authority (SPWA) for the period July 1, 2000 through June 30, 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 does not extend to any financial statements of the City of Snyder or the Snyder Public Works Authority taken as a whole.

This report is intended to provide information to the citizens, Mayor, City Council and Administration of the City of Snyder and the Snyder Public Works Authority. 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. McMahan".

JEFF A. McMAHAN
State Auditor and Inspector

February 17, 2005

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

INTRODUCTION

The City of Snyder, Oklahoma is organized as a statutory strong mayor-council form of government, as outlined in **11 O.S. 2001, § 11-101, et seq.**

11 O.S. 2001, § 11-101, states:

“The form of government provided by Sections 11-101 through 11-125 of this title shall be known as the statutory strong mayor-council form of government. Cities governed under the statutory strong mayor-council form shall have all the powers, functions, rights, privileges, franchises and immunities granted, or which may be granted, to cities. Such powers shall be exercised as provided by law applicable to cities under the strong mayor-council form, or if the manner is not thus prescribed, then in such manner as the council may prescribe.”

The City of Snyder operates its water, sewer and trash utility services through the Snyder Public Works Authority (SPWA), a public trust established in accordance with **60 O.S. 2001, § 176, et seq.** The mayor and city council serve ex officio as the chairman and board of trustees for the SPWA.

Under **11 O.S. 2001, § 17-105**, the City is required to have an audit done whenever General Fund revenues equal or exceed \$25,000. Audit reports were filed for the City of Snyder during the audit period. In accordance with **60 O.S. 2001, § 180.2**, audit reports were filed for the Snyder Public Works Authority during the audit period. These reports were available for our review.

The State Auditor and Inspector conducted a special audit of the records of the City of Snyder and Snyder Public Works Authority, primarily those records relating to the issues listed in the State Auditor and Inspector’s Report, page 5. The results of the special audit are in the following report.

CITY OF SNYDER

FINDINGS AND RECOMMENDATIONS

The objectives of our special audit primarily included, but were not limited to, purchasing procedures, equipment inventory, contracts and employee timesheets. Findings #1 through #15 are directly or indirectly related to purchasing issues.

The City Clerk-Treasurer utilizes two common software programs for her accounting and financial reporting. Report comments concerning “accounting software” and “computer spreadsheets” refer to Quickbooks Pro and Microsoft EXCEL, respectively.

Finding #1: The City was and continues to be in noncompliance with municipal budget laws.

Prior to Fiscal Year 2003, the City had filed its General Fund budget with the Kiowa County Excise Board, under the ordinary budget provisions of **68 O.S. 2001, § 3001, et seq.** Beginning with Fiscal Year 2003, the City elected to file its budget under the provisions of the Municipal Budget Act, **11 O.S. 2001, § 17-201, et seq.**

There are certain benefits or advantages to using the Municipal Budget Act, including the ability to budget 100% of the revenue the municipality reasonably expects to receive in the proposed budget year. Under **Title 68**, the municipality can only budget 90% of revenue actually received in the prior budget year.

However, there are also specific and expanded reporting requirements included in the Municipal Budget Act, and the City is NOT in compliance with these provisions of **Title 11**. The City was notified of the noncompliance of its FY2003 budget by a letter from the State Auditor and Inspector, dated July 2, 2002. The City did not respond, and has not filed its budgets for FY2004 and FY2005 with the State Auditor and Inspector, as required by **11 O.S. 2001, § 17-209**.

The following deficiencies were cited in the July 2, 2002 SAI letter to the City:

- ❑ There was no budget summary, as required by **11 O.S. 2001, 17-206**.
- ❑ There was no budget message, as required by **11 O.S. 2001, 17-206**.
- ❑ The budget filed did not contain information of the immediate prior fiscal year (2000-2001). The Municipal Budget Act requires financial information be presented from three fiscal years: the immediate prior fiscal year, the current fiscal year and the proposed budget fiscal year.

CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004

- ❑ The budget was not departmentalized within each fund, as required by **11 O.S. 2001, 17-213**.
- ❑ The budget document filed did not include a copy of the Notice of Public Hearing and Proposed Budget, as published.

In addition, prior to FY2003, older budgets filed with the Kiowa County Excise Board under the provisions of **Title 68**, were also not in compliance. These budgets were also NOT departmentalized, but were filed with lump sum amounts for “personal services”, “maintenance and operation” and “capital outlay”. According to **68 O.S. 2001, § 3011**, the non-departmentalized option is only available to smaller municipalities operating under the statutory town board of trustees form of government. The City of Snyder does not qualify for this option.

The City’s current budget (FY2005) fails to meet the requirements of the Municipal Budget Act for basically the same reasons cited above, and the City is operating without valid appropriations for its General Fund and Street and Alley Fund.

Recommendation: *We recommend the Mayor and City Council take steps to file a lawfully compliant budget, in accordance with either of the budget options provided for municipalities under Title 11 or Title 68.*

Finding #2: *According to the City’s regular FY2004 audit report, the City’s general fund expenditures exceeded its appropriation by approximately \$13,000.*

According to the City’s regular FY2004 audit report, the City Council appropriated \$460,175 for the General Fund, but expended \$473,034, an excess expenditure of \$12,859. Technically there was no approved budget for FY2004, and the full \$437,034 was in excess of the legal appropriation because of the failure to file a proper budget with the State Auditor and Inspector.

This is significant in that statutes, such as **11 O.S. 2001, § 17-104, § 17-211** and **62 O.S. 2001, § 310.2, § 310.3 and § 479**, prohibit expenditures “for any account in excess of the appropriation available” and provide penalties, such as removal from office and personal liability for amounts “in excess of the appropriation available.” These statutes make the penalties applicable to board members, as well as other public officers, such as city clerks and treasurers.

Recommendation: *We recommend the City review its budgeting/appropriation/expenditure reporting procedures and make appropriate changes to insure that expenditures do not exceed legal appropriations for its General Fund and Street and Alley Fund.*

Finding #3: Review of the accounting software used for the City financial system indicated there is a budgeting module included, but it is not being utilized.

The City Clerk-Treasurer has created some computer spreadsheets and attempted to record and track appropriation balances using these spreadsheets. The effort is worthwhile, but it can be subject to errors in manually transferring information from the accounting software used for the general ledger to the computer spreadsheets.

Our review found the accounting software program has a budgeting module included, but it is not being utilized. The City Clerk-Treasurer indicated she was not aware of this capability.

Recommendation: *We recommend the City review the accounting software's budgeting program and consider whether this capability could be more beneficial than the computer spreadsheets. Additional training in the accounting software is available from local technology centers, and/or some computer vendors also offer training in these popular programs.*

Finding #4: The decline in the City's General Fund cash balance was not as large as indicated in the initial concerns of council members.

Several council members expressed concern relating to the declining cash balance for the City's General Fund. It was implied that the General Fund had at sometime in the past had considerably more cash in the bank and that much of it had been squandered and/or misappropriated during the three-year time period (April 1999 to April 2002) when the City had hired a city administrator.

We obtained audit reports for the City for a seven-year period that included complete fiscal years prior to and after the period of the city administrator ([see Appendix A](#)). The City General Fund did decline significantly during the time period in question. The audit reports indicated the General Fund cash balance was \$187,447 at June 30, 1998 and \$206,590 at June 30, 1999, near the start of the three years of the city administrator. The balance had dropped to \$111,044 at June 30, 2002, shortly after the city administrator's contract was cancelled.

However, the declining cash balance can more appropriately be attributed to the cost of the city administrator's position itself, as created and approved by the City Council. The administrator's salary during the 3-year period, plus fringe benefits, plus additional travel expenses, can be conservatively estimated to have cost at least \$115,000. In addition, during the same time frame, there were purchases of equipment totaling over \$75,000 in the fiscal years ended 2000 and 2001.

There were no new revenue sources for the General Fund. There were some increases in cash transfers from the SPWA. The increase in General Fund expenditures for the city administrator position and equipment purchases explains the decline in the General Fund cash balance, rather than fraud or misappropriation.

CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004

In the past fiscal year, the General Fund has also been impacted by the loss of two significant Snyder retail businesses in the summer/fall of 2003 and a resultant decrease in sales tax revenue:

Fiscal Year ended June 30	2003	2004
Total Sales Tax Received	\$200,357	\$183,323
Average per Month	\$16,696	\$15,277

Given the above, the decline in the General Fund cash balance from FY1999 to FY2004 does not appear unreasonable.

Finding #5: The chart of accounts for the City and SPWA is a confusing mixture of commingled revenues, expenditures and operating transfers in need of some reorganization.

The City's chart of accounts runs for 8½ pages, including 2 pages of "income" accounts and 6 pages of "expense" accounts. Expense accounts include titles that are normally "departments", such as police, fire, sewer, cemetery, library, as well as individual accounts, such as "school" expense accounts for individual employees, such as "Brandon, Ruben & Greg", "Dale", "David", "Faye", "Evelyn", "Evelyn & Marie", etc. There are expense accounts for individual equipment purchases, such as "radio", "taser gun", "tables", "heater", "water pump", "water truck", "dump truck", etc.

Many of these accounts appear to have been set up for rare events, occurring a few times a year, or maybe even for one-time occurrences. When asked, the City Clerk-Treasurer indicated that some of the accounts were set up to track certain expenses and purchases at the direction of the City Council. Also, there was an effort to keep track of individual equipment purchases for the various departments by using the expense accounts.

All payroll expenditures are reported in the City General Fund in a non-departmentalized, generic "payroll expenses" account, including all the personnel costs for the SPWA administration, water and sewer departments. In order to have the money to pay these SPWA costs, the City's General Fund is reimbursed by the SPWA through operating "transfers" of SPWA cash.

There is a \$1.00 monthly fee added to the **trash revenue** charged to all active utility accounts for a "fire department" fee. The fire department is part of the General Fund, but the fee is collected as part of utility revenue billed through the SPWA, and then deposited to the General Fund bank account. This finding will be more fully explained in the Snyder Public Works Authority section of this report.

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

In addition to the above \$1.00 "fire department" fee deposited directly into the General Fund, the City Council also approved rate increases several years ago of \$2.00 per water account, \$1.00 per sewer account and \$1.00 per trash account. The increases were designated for the City General Fund, and the revenue from these rate increases is manually calculated and transferred monthly to the General Fund, along with a lump sum transfer of \$15,000 per month.

Interest revenue from various special revenue and SPWA accounts, although relatively insignificant, is being transferred monthly to the General Fund to provide more cash to pay General Fund expenditures and the commingled SPWA payroll and administrative costs. These interest transfers, although legal and common to many governmental entities, appear to be more of a nuisance (due to the small amounts involved), rather than accomplishing anything significant in helping the General Fund cash balance.

Also, under **11 O.S. 2001, § 35-102.1**, interest revenue from the Meter Deposit Fund is required to be deposited to "...the fund from which the operation and maintenance expenses of the utility...are paid." For Snyder, this would be the SPWA "water and sewer" operating account, not the City General Fund.

Up until FY2004, the Meter Deposit Trust Fund was being included and reported in the City of Snyder funds. These utility deposits relate to the SPWA utility services, and should have been transferred to the SPWA many years ago. In FY2004, the audit report was issued under new GASB 34 requirements that combined both the City and SPWA into one report.

Much of the above appears to be the result of conflicting directives by the City Council, poor planning, inadequate training and "that's the way we've always done it" inertia.

We noted the accounting software has an "item list" module included. The "item list" allows the use of items established and preset by the City, such as "seminar fee", "chlorine", "water meter", "professional services", "regular gas" or "diesel". The item list can be used for data entry purposes in the accounting software purchase order and accounts payable bill entry modules.

Recommendations:

- *We recommend the chart of accounts for both the City of Snyder and the SPWA be departmentalized, standardized and simplified to present a clear and consistent structure that only varies from department to department by accounts that are significant and unique to the individual department. (See Appendix B for further discussion of funds, departments, and statutory expenditure accounts. See also Finding #17, as it relates to accounting for fixed asset/equipment inventory items.)*
- *Rather than using cash transfers to reimburse the General Fund for payroll costs of the SPWA, we recommend these costs, as much as possible, be directly allocated to the various departments of the SPWA and paid directly by the SPWA.*

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

- *We recommend use of the “item list” to promote quicker, more standardized and reliable data entry that would also allow for greater flexibility with more detail in the reporting capabilities of the accounting software. Additional training in the accounting software is available from local technology centers and/or some computer vendors also offer training in these popular programs.*
- *We recommend interest revenue from the Meter Deposit Fund be transferred to the SPWA “water and sewer” operating account, not the City General Fund, in order to comply with 11 O.S. 2001, § 35-102.1.*

Finding #6: The City Clerk-Treasurer’s monthly treasurer’s report was outdated and in need of revision.

The monthly treasurer’s report provided by the City Clerk-Treasurer to the City Council was a manual report that was inadequately designed for the various funds of the City and SPWA, as they exist today. The bottom half of the report reported ONLY the various tax revenues for the General Fund and Street and Alley Fund, even though this section was titled “TREASURER’S COLLECTIONS FROM ALL SOURCES”. No revenue was being reported for the utility services or other non-tax revenues of the various funds on this report. Consequently, the revenues reported in the bottom half of the report did not match the deposits to the funds in the top half of the report.

To compensate for the manual report, the City Clerk-Treasurer also presented additional information using some computer spreadsheets for the SPWA accounts. However, by error or inadvertent omission, the two different types of reports could present seemingly contradictory information.

During an interview, the City Clerk-Treasurer indicated she was not aware that she could revise the monthly treasurer’s report and was continuing what she had been taught by the prior City Clerk-Treasurer.

The City Clerk-Treasurer was provided with a computer spreadsheet template by our staff that more appropriately fits the City’s current situation. We also noted the accounting software has a large number of pre-set, but modifiable, financial report formats.

Recommendations:

- *We recommend the computer spreadsheet template, or some version of it, be used instead of the outdated manual treasurer’s report currently in use. As the City’s circumstances and/or fund structure changes over time, the computer spreadsheet report will be easier to revise and keep up-to-date.*

CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004

- *We recommend a variety of the accounting software financial reports be printed and presented as examples to the Mayor and Council for their review and recommendation as to which reports they would prefer to see on a monthly or other periodic basis, if any. This recommendation would be more beneficial following the reorganization and departmentalization of the City/SPWA's chart accounts discussed in Appendix B.*

Finding #7: Amendments to the City Code have resulted in some confusion regarding purchasing procedures and bid requirements.

There are no statutes directing when a municipality should use competitive bids, except for **61 O.S. 2001, § 101 et seq.**, requiring competitive bidding for “public construction contracts” in excess of \$25,000.

Competitive bids for municipalities are controlled mainly by their own city codes.

The original *Snyder City Code of 1987, Section 1-50*, indicated:

“The Mayor or other City official designated by the City Council as a purchasing officer may contract for and purchase, or issue purchase authorization for supplies, materials, equipment, or contractual services which do not exceed five hundred dollars (\$500) in a single transaction without competitive bidding.”

Section 1-51 required competitive bidding for purchases and contracts in excess of \$500. The two sections gave consistent direction for what to do, depending on the estimated cost of the item to be purchased.

In 1992, *Section 1-51* was amended, and the bid threshold was raised to \$7,500. In 1994, *Section 1-51* was amended again, and the \$7,500 threshold was limited to “public construction contracts” ONLY, with NO competitive bid required for “*any supplies, materials, equipment or contractual services*”.

In 1992, when the competitive bid threshold was raised to \$7,500, the clause “*without competitive bidding*” was dropped from *Section 1-50*. With respect to what happened between \$500 and \$7,500, the code was basically silent. In 1999, *Section 1-50* was amended to raise the noncompetitive purchase authorization to \$1,000. However, the city code is still silent concerning what the procedure should be when there is no competitive bid required for “public construction contracts” between \$1,000 and \$7,500, or for non-construction purchases exceeding \$1,000.

Currently, the City Clerk-Treasurer has been authorized, apparently by Council motion, to purchase up to \$500 and the Mayor to purchase up to \$1,000, as per *Section 1-50*. The City has operated with an unwritten rule that any purchases in excess of these two limits must be pre-approved by the

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

Council. However, that rule is not explicit in the city code, and the Council has created some exceptions, such as payment of certain vendors prior to Council approval, even in excess of the \$1,000 limit, as noted in Finding #8.

The Mayor and Council should also be aware that the bid statute for the Snyder Public Works Authority is broader in scope than their local ordinance for City bids. Under 60 O.S. 2001, § 176 (H), public trust authorities are required to bid "contracts for construction, labor, equipment, material and repairs" in excess of \$25,000. This would include the SPWA contract for trash hauling, which amounts to more than \$60,000 per year.

Recommendations:

- *We recommend the Mayor/Council review current purchasing ordinances and policies to determine whether any additional clarification is warranted or whether any ordinance needs revision.*
- *We recommend the Mayor/Council consider whether some of the unwritten rules and directives that are scattered through months and years of the Council minutes, motions and resolutions should be compiled into a policy and procedures manual. A policy and procedure manual would be easier than the City Code to review for consistency, and to amend and update.*

Finding #8: The City Council appears to have violated its own bid ordinance in awarding two contracts for the re-roofing of the community building and library.

During discussions with the council members requesting the audit, the issue of two roofing contracts was presented as an area of concern. The roofing projects were first discussed at the March 15, 2004 meeting, and initially, the discussion concerned repairs to the flat tar and paper roofs of the community and library buildings. An estimate of \$3,990 for such repairs to the community buildings was discussed. It was decided that "quotes" or "suggestions" for metal roofs were to be requested from a local contactor for the April meeting.

At the April 19, 2004 meeting, the City Council selected an Altus, Oklahoma contractor and awarded a contract for the community building roof in the amount of \$17,500 and a contact for the library roof in the amount of \$12,125.

In discussion with the council members requesting the audit, the primary issues seemed to be that there was an unreasonable delay in the final payment to the contractor. They also questioned the legality of the new mayor paying the contractor \$2,000 from his personal funds until the confusion/disagreement was cleared up. According to the mayor, the contractor repaid the mayor after the City made its final payment of \$3,700 to the contractor in August 2004.

With regard to these roofing projects, we observed the following:

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

- ❑ The pitched metal roofs were at a cost that exceeded the City's \$7,500 bid threshold for "public construction contracts".
- ❑ Audio tapes of the two meetings, the minutes to the two meetings and the local newspaper's account of the April 19 meeting all agree. The roofing contracts were awarded on the basis of an informal "quote" process, not the formal sealed bid process required by Section 1:51 of the City Code.
- ❑ The motions to award the two projects included substantial advance payments or "deposits" to the contractor for "materials," with no apparent specified restrictions or limitations, other than the completion of the projects.
- ❑ There were no contracts for the roofing projects, other than single page "quotes".
- ❑ There was no consulting architect, engineer or even building inspector retained by the city for the two roofing projects.

Counties and municipalities generally contract an architect or engineer to provide construction reviews and professional approvals whenever percentage of completion or other interim payments are part of a project.

Recommendations:

- *In addition to reviewing current purchasing ordinances, we recommend the Mayor and Council review the City's procedures for soliciting, advertising, reviewing and awarding bids. Title 61 O.S. 2001, § 101 et seq., the "Public Competitive Bidding Act of 1974" would be a good place to begin the review. The Oklahoma Municipal League should also have training or study materials for the bid process.*
- *We recommend the City Clerk-Treasurer obtain a "bid packet" and other bid record forms used by the Kiowa County Clerk to document the county's bids. The packet could be reviewed and adapted to better document the City's bids.*
- *We recommend the use of individual files for each bid of the City or SPWA to include the bid specifications, bid notices, related advertising and proofs of publication, all bid proposals returned, plus the bid bonds and affidavits, etc. Some governmental entities keep individual bid records together in 9x12 or 10x13 manila envelopes, with the bid numbers and bid dates on the envelopes.*
- *In the future, we recommend avoiding advance payments, unless some system of review is established to insure the reasonable completion of the project. For smaller projects without an architect or engineer, we believe a reputable contractor should be able to obtain short-*

CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004

term financing to purchase materials (based on the City's bid award,) with an estimated cost of financing included in the contractor's bid price.

Finding #9: There can be some confusion caused by the use of one check to pay multiple purchase orders to the same vendor.

The independent audit report for FY2004 indicated there were 27 instances out of the purchases tested where multiple PO's to the same vendor were paid with one check. The report recommended, "One purchase order should be prepared for each check." We also observed these types of payments. The City Clerk-Treasurer generally files her paid PO's by PO number, so there were occasions when multiple PO's paid by a single check could be scattered through the file folder. The City Clerk-Treasurer did try to indicate other PO numbers paid on each PO that was part of a group.

The city code is silent concerning blanket purchase orders. The Council has not allowed their use, although blanket PO's are specifically permitted by **62 O.S. 2001, § 310.8**. The Council has permitted the payment (prior to Council approval) of certain purchases, such as electric and gas utilities, and certain vendors, such as Farmers Coop to take advantage of vendor discounts and/or avoid vendor penalties for late payment, a policy that is even more permissive than the use of blanket PO's. The Council has even approved the use of electronic fund transfers (EFT's) for the payment of electric and gas utility bills and various loan payments of the SPWA.

It appears at least inconsistent to prohibit the use of blanket PO's, while allowing the more permissive payment prior to approval and electronic fund transfer policies. Title **62 O.S. 2001, § 310.8** authorizes the use of blanket purchase orders for:

"...recurring purchases of goods or services if a maximum authorized amount for all purchases pursuant to a blanket purchase order is specified in the order and approved by the governing board;"

The use of blanket purchase orders for routine purchases and routine vendors would likely eliminate most, if not all the situations of multiple purchase orders to the same vendor in the same month, accomplishing the same purpose of "one check" per purchase order while still streamlining the payment process. At each monthly meeting, the Council could approve blanket purchase orders for specified amounts, such \$2,500, and place a time limit (such as 30 days) on blanket purchase orders for routine vendors like Altivia, City of Altus, Farmers Coop, etc.

The approved blanket purchase orders could be closed and processed for payment approval prior to the next council meeting. New blanket purchase orders for the following month could be prepared for board approval at the same meeting.

Recommendation: *We recommend the Mayor and Council consider the use of blanket purchase orders as a means of implementing the FY2004 audit report's recommendation.*

Finding #10: Many vendor invoices or tickets were not signed by any city official or employee acknowledging receipt of the goods or services purchased, as required by 62 O.S. 2001, § 310.1a.

Title **62 O.S. 2001, § 310.1a** states:

“The officer, deputy or employee receiving satisfactory delivery of merchandise shall acknowledge such fact by signing the invoice or delivery ticket and no purchase order shall be approved for payment by the governing board unless the required signed invoices or delivery tickets are attached thereto.”

Many of the invoices, statements or tickets attached to the City’s purchase orders had no signature of an official or employee acknowledging the receipt of the goods or services for the City. In other cases, there would be a delivery ticket signed by an employee attached along with an unsigned invoice. This statute requires an approved signature as a necessary control to assist a local government board in verifying that the purchase orders and bills presented are reasonable and legitimate.

Recommendation: *We recommend the Council implement a policy requiring the appropriate official, department head or employee with personal knowledge of the transaction to review and sign any invoice, statement or ticket, thereby acknowledging the City’s receipt of the goods and/or services.*

Finding #11: The petty cash fund has been used frequently for travel reimbursements.

A review of the petty cash claims for reimbursement indicated that as much as half of the charges to the City’s petty cash fund were reimbursements for travel expenses. A travel-mileage log form with attached receipts documented the travel charges where applicable. However, the travel log form had no place to indicate the relationship of the travel to City business.

Municipalities are authorized to have petty cash funds under **11 O.S. 2001, § 17-102(D)**. However, petty cash funds generally are designated for use in making small purchases that would otherwise be inefficient to process using normal purchasing procedures.

For most local governments, claims for travel reimbursement are submitted on some type of claim form attached to an ordinary purchase order or a travel voucher form designed for that purpose. The travel reimbursements are submitted to the governing board for approval just like other

purchase orders.

The city code is silent as to both petty cash policy and travel reimbursements for city officials and employees. There is no statute that specifically addresses the kinds of charges that can be paid from petty cash or the manner in which municipalities are to reimburse travel expenses.

Recommendations:

- *We recommend that petty cash be used for small purchases, according to common business practice. Using petty cash to reimburse travel expenses should be avoided.*
- *We recommend a travel voucher or purchase order be used for travel reimbursements. The travel form should document (describe) the nature of the travel in relation to City business.*
- *We recommend the policy and procedures for petty cash and travel reimbursement be reviewed and considered for inclusion in a policy and procedure manual.*

Finding #12: Reimbursements to replenish the petty cash fund did not charge the correct funds and accounts that incurred the expenditure.

The purchase orders processed to replenish petty cash were charged to a generic sub-account titled "Petty Cash" under the General Fund expense account titled "Reimbursements". Petty cash charges should have been allocated to the correct fund and to the activity, expense or department incurring the expenditure.

Recommendations:

- *Reimbursements to petty cash should properly allocate the petty cash expenditures to every City and SPWA fund and department utilizing the petty cash fund.*
- *If there are petty cash charges to multiple funds, such as the City General Fund and the SPWA operating fund, we recommend purchase orders to replenish petty cash be issued from each fund.*

Finding #13: "White-out" was used to cover up parts of purchase orders and new information was recorded on the altered purchase orders.

During the course of our review of purchasing, we noted a number of instances of purchase orders being issued, then vendor and/or other purchase information being covered with "white-out" and new information being recorded on the forms. These purchase orders had invoices and supporting documentation consistent with the new information and the check payments that cleared the bank. When interviewed, the City Clerk-Treasurer indicated that she was trying to save money by reissuing purchase orders that, for whatever reason were not going to be needed or further

processed.

In our review, nothing came to our attention to indicate that the altered purchase orders were used for any unauthorized or illegitimate purpose.

The accounting software has a module for purchasing that includes printing and recording purchase orders. The purchase order form designed for the accounting software can be modified to include additional information required by statute. Separate forms can be created for the City and the SPWA.

Recommendations:

- *If a purchase order is to be altered, we recommend the incorrect information be "lined out", rather than covered up entirely. If a different vendor is going to be used, it is a better practice to void the original form and issue a new purchase order.*
- *We recommend the City administration consider the purchasing module capability of the accounting software for use in its overall budgeting/purchasing/accounting procedures.*

Finding #14: Expenditures for the Oklahoma Department of Corrections contract likely increased due to inadequate planning, rather than misappropriation.

In 2002, the City contracted with the Oklahoma Department of Corrections for inmates to perform work on various City jobs and projects. The contract was renewed until the City Council voted to cancel the program early in 2004, amid allegations of a lack of supervision and increased costs for the food and upkeep of the inmates.

Initially, the City contracted for two inmates. According to interviews with City officials, at the beginning, the inmates were picked up at 8:00 A.M. at the Frederick Community Work Center and returned at 5:00 P.M. The inmates had already been fed breakfast; they were provided with a sack lunch by ODOC; and they were back at the correctional center for dinner. An interview with ODOC staff indicated that these were the normal procedures for inmates in the work/release program.

According to interviews, at some point after the initial few weeks or months of the contract, the City obtained a van, increased the number of inmates being picked up from 2 to generally 4 to 6 a day, and began picking up the inmates at 7:00 A.M. and returning them sometime after 5:00 P.M. This new schedule prevented the inmates from being fed breakfast, plus the ODOC sack lunches were not ready by the new pick up time. Apparently, a former mayor made the decision to extend the inmate work hours in the belief that the additional costs would be offset by the additional work done during the extended hours.

Food purchases were made from local area vendors, and routinely amounted to several hundred

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

dollars per month. Occasionally, a local civic club would provide lunch to the inmates. The Oklahoma Department of Corrections billed the City monthly for inmate labor.

We confirmed with the Oklahoma Department of Corrections that the City of Snyder had been authorized for "5" inmates. Estimating 2 meals a day for 5 inmates and 5 days a week, the City/SPWA was conservatively providing from 150 to 200 meals per month. Based on this estimate, the amount of expenditures for food did not appear unreasonable. It would also appear the logistics

problem of providing meals to the inmates likely resulted in more trouble, distraction and expense than it was worth versus the extra labor obtained.

We noted the contract with ODOC placed several restrictions on the use of inmates including:

- The prisoners were supposed to "be utilized as a group...and not as individuals";
- The prisoners were not "to supervise other inmates or prisoners, nor to operate any motor vehicles";
- Work shifts were to be "no longer than eight working hours and to utilize prisoners for no more than eight hours per shift."

Recommendations:

- *If the City should renew its contract with ODOC, we recommend a careful review of the contract provisions, more careful planning for the use of the inmates and limiting the number of inmates utilized to no more than two, due to the small number of City/SPWA employees available for "close" supervision of inmates.*
- *We also recommend utilizing the normal procedures, including paying ODOC for the transportation of inmates and operating on a normal work schedule that allows ODOC to provide the breakfasts and sack lunches.*

Finding #15: Inadequate segregation of duties.

Inadequate segregation of duties is a common problem in small towns and cities, small school districts, rural ambulance districts and rural water districts where there is often only one person who does ALL or most of the bookkeeping and a board to oversee the office. It is a basic premise of internal controls for financial transactions to have a segregation or separation of duties.

Whenever one individual has control over the entire accounting transaction (e.g. authorization, recording, reporting and payment of purchases), internal controls are weak. Ideally, the duties of cash receipts, bank deposits, bank reconciliations and cash disbursements should be done by

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

different people. This usually is not possible in a small entity with only one or two office staff.

There were some mitigating factors, such as the requirement of three signatures on the City/SPWA checks. The Mayor or Vice-mayor, City Clerk-Treasurer and Deputy Clerk provided the required signatures.

Another mitigating factor is the bank statements provided images of checks cleared by the bank, rather than the actual cancelled checks. This helps to prevent substitution of bogus checks for the cleared checks and/or the alteration of cancelled checks after they have cleared.

Recommendations:

- *We recommend having the bank statements mailed directly to the Mayor or other board member by the bank. The Mayor or other board member would open the bank statements and review the check/EFT transactions for any unusual amounts or vendors. The bank statements could then be delivered to the City Clerk-Treasurer for performing the bank reconciliations.*
- *Since the City has two office employees, we recommend some cross training and the occasional rotation of some job duties to help with this issue.*

The objectives of our special audit primarily included, but were not limited to, purchasing procedures, equipment inventory, contracts and employee timesheets. Findings #16 through #25 are concerned with various issues that were NOT directly or indirectly related to purchasing.

Finding #16: The ordinance to create a city administrator position appears to conflict with statutes for administering the city's form of government.

The City of Snyder is organized as a statutory strong-mayor-council form of government. Title **11 O.S. 2001, § 11-101** indicates that "powers" of the city "shall be exercised as provided by law applicable to cities under the statutory strong-mayor-council form, or if the manner is not thus prescribed, then in such manner as the council may prescribe."

Various sections of **11 O.S. 2001, § 11-101, et seq.** describe the duties of city officials, specifically the mayor, the council, the city clerk and the city treasurer in a statutory strong mayor-council form of government. Also, **Section 11-117** states:

"...there shall be a police department, a fire department, a department of law headed by a city attorney, and such other administrative departments, offices and agencies as the council may establish."

In July 1998, the City Council passed an ordinance #1998-2 adding section #1-48 to the city code and creating the position of City Administrator. The ordinance references **11 O.S. 2001, § 11-108**, apparently referring to the section of that statute that allows the Council to:

"Create, change and abolish offices, departments and agencies other than those established by law, and assign additional functions and duties to offices, departments and agencies established by this article." (emphasis added)

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

In section #1 of the ordinance, it states:

“The Council shall appoint the City Administrator for an indefinite term, by a vote of a majority of all its members.”

In section #2 of the ordinance, it states:

“The Council may suspend or remove the City Administrator at any time by a vote of a majority of all its Members.”

Both of the above sections appear to directly conflict with **11 O.S. 2001, § 11-106**, which states the Mayor shall:

“Appoint, and when necessary for the good of the service, remove, demote, lay off or suspend all heads or directors of administrative departments and all other administrative officers and employees of the city in the manner provided by law.”

In section #4 of the ordinance, the duties assigned to the City Administrator are virtually identical to the duties assigned to the mayor by statute, except for ceremonial duties and the power to grant pardons for violations of city ordinances. Section #4 also states:

“The City Administrator shall be Chief Administrative Officer and head of the administrative branch of the Municipal Government.”

However, **11 O.S. 2001, § 11-106** clearly indicates:

“The mayor shall be chief executive officer and head of the administrative branch of the city government.”

On April 15, 2002, following the termination of the city administrator discussed in Finding #3, a motion to rescind the city administrator ordinance #1998-02 failed by a vote of 3 to 2. However, the city administrator position has been vacant since April 2002.

The office of mayor is the chief executive officer and head of the administrative branch for the City of Snyder. The ordinance creating the city administrator position appears to directly conflict with **11 O.S. 2001, § 11-106**.

The City of Snyder does not have sufficient population to qualify for adopting its own municipal charter under **11 O.S. 2001, § 13-101**. Therefore, it must operate under one of the statutory forms of government prescribed for cities and towns: aldermanic, council-manager, strong mayor-council or town board of trustees. A statutory council-manager form of government is authorized by **11 O.S. 2001, § 10-101 et seq.** Under **11 O.S. 2001, § 18-101**, the Council must call for an election to change its form of government.

Recommendation: *We recommend the City's legal counsel review the validity of the ordinance creating the city administrator position, and the City take action accordingly.*

Finding #17: *Some police department equipment items are missing.*

One of the concerns mentioned to auditors involved some police department equipment that was alleged to be missing following the termination and/or resignation of the former police chief and one or more former police officers. Oklahoma Statutes do not address the issue of municipalities keeping an inventory of equipment or other fixed assets. The Administration and Management chapter of the City Code did not address the issue. There was no apparent policy concerning the recordkeeping for fixed assets and no comprehensive system is in place to account for equipment inventory.

The City Clerk-Treasurer had attempted to keep some record of equipment and capital outlay items using computer spreadsheets. Some of the entries date back as far as 1996 for the police department. However, the completeness and accuracy of the spreadsheets could not be easily verified. There was no procedure in place at the City to periodically verify or inventory the City's equipment. There was no procedure or recordkeeping done to require employees/police officers to sign for equipment issued to them, or to record equipment items turned in when the employees/police officers left the City.

At the time of fieldwork, the current assistant police chief was in the process of trying to determine just what assets the police department had which are now unaccounted for. However, there is at least one laptop computer and some other equipment items confirmed missing. The assistant police chief has implemented some new forms and obtained signed receipts for equipment issued to current police officers. He is also in the process of notifying former police officers of equipment items believed to be in their possession. If that notification fails to produce the equipment, further legal action is being considered.

The accounting software has a "fixed asset list" included under its "Lists" module. This software has the capability to record, track and report fixed asset information, including: asset name/number, asset account (could be used for department), purchase description, new or used, purchase information including date, cost, vendor and P.O. number, asset description, location (could be used for department or employee assignment), serial number and a field for other notes or comments. If the City wishes to modify the data fields already preset, the accounting software permits the addition of customized fields to the fixed asset listing.

Recommendations:

- *We recommend the Council consider creating some formal policy and procedures for fixed asset/equipment inventory and including such in a policy and procedure manual.*

CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004

- *Following the implementation of the policy, we recommend department heads or other designated officials or employees perform periodic (semi-annual or annual) inventories to verify the equipment for which they are responsible. The equipment inventories should be documented, dated and filed with the City-Clerk Treasurer.*
- *We recommend the administration evaluate the use of the accounting software program instead of the computer spreadsheets currently used for recording, tracking and reporting City assets. As noted previously, additional training in the accounting software program is available from local technology centers, and/or some computer vendors also offer training in these popular programs.*

Finding #18: There were some errors and some abuse in the timesheet reporting for city employees.

Although our report covered the four year period ending June 30, 2004, this particular concern extended beyond that date into the present fiscal year. Council members presented auditors with examples of timesheet errors and possible abuse. For example, in one instance a former police chief reported “26 hours” on his timesheet for the day of August 3rd, 2004. He also reported 22.50 hours for August 4th, 19 hours for August 5th and 19.50 hours for August 6th, for a total of 87 hours worked during a 96-hour period.

A new time clock was installed in August. The new mayor made it a policy requirement that all employees clock in and out to document hours on the job. Time cards are calculated and reviewed prior to processing the city’s biweekly payroll.

The new mayor is also trying to formulate some personnel policies addressing issues of scheduling for the police department and other employees, along with reasonable compensation for being “on call” versus “on duty”. Some of the hours claimed by the police chief and police officers were not duty hours, but “on call” hours.

Following review of payroll procedures and records, it appeared the actions taken by the new mayor were reasonable and appropriate to the situation.

Labor laws change as the result of legislation and court decisions. Much of the City’s personnel policy is included in various ordinances in the City Code. It may be better to have personnel policies established in a policy and procedure manual that would be less cumbersome to amend and keep up-to-date.

County governments have established personnel handbooks that are approved by the Boards of County Commissioners. There are also employee handbooks available from other larger

CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004

municipalities. The Oklahoma Municipal League has legal staff that can provide some assistance for establishing personnel policies and procedures.

Under **11 O.S. 2001, § 11-119**, a statutory strong-mayor-council government is required to have a "personnel board" consisting of three members appointed by the City Council. There has not been a personnel board for the City of Snyder for many years, if ever.

Recommendations:

- *We recommend the City include a chapter or chapters for personnel policies and procedures in a policy manual or handbook.*
- *We recommend a newly constituted personnel board be implemented to assist the Mayor in developing and maintaining reasonable and up-to-date personnel policies and procedures.*

Finding #19: The land lease contract for the sewer lagoon and water plant properties did not appear unreasonable when compared with school lands leased in 2004.

Council members were concerned about a citizen leasing the land surrounding the sewer lagoons and some acres of pasture adjacent to the water plant location. Apparently, the lease had been renewed automatically for a number of years, without the opportunity for others to bid for the land. According to the City Clerk-Treasurer and the lease contract, the current lessee has been paying \$120 annually, since 1995.

The two properties included in the lease total approximately 10 acres. The annual lease price would be \$12 per acre, more or less. We went to the Commissioners of the Land Office (CLO) website and obtained Kiowa County lease auction results for 2004. The CLO manages school land properties set aside since statehood for the purpose of generating income for the state's public schools. The website listed 21 Kiowa County properties auctioned in 2004. All were quarter section and half section properties.

The lease amounts obtained in the CLO 2004 auction ranged from a low of \$13.13 per acre to a high of \$21.56 per acre. Considering that the 21 CLO properties were likely more attractive properties with more utility value, the \$12 per acre the City is receiving for its sewer lagoon and water plant properties does not appear unreasonable.

The City is also leasing 12.25 acres to the local Farmers Coop for only \$100 per year, yet nothing was mentioned about this lease. If the City Council wants to bid the lease(s) at the next contract renewal, this would be something for them to decide. Any additional value received may be diminished by legal and advertising costs.

SNYDER PUBLIC WORKS AUTHORITY

FINDINGS and RECOMMENDATIONS

The Snyder Public Works Authority is a public trust established in accordance with **60 O.S. 2001, § 176, et seq.** The mayor and city council serve ex officio as the chairman and board of trustees for the SPWA. Because the SPWA is a public trust, there are not as many statutes applicable to the trust's operations. Consequently, the findings and recommendations included here pertain mostly to general internal controls and management recommendations, rather than statutory controls.

Finding #20: We found nothing unusual or illegitimate concerning a maintenance contract with Pureline Treatment Systems, LLC.

Council members expressed concern over the increase in costs for the water treatment plant resulting from a contract with Pureline Treatment Systems, LLC. The City has been billed \$2,083.33 per month since early 2003. Documentation provided by the company and the City's water plant operator indicated the monthly contract price covers the costs of equipment, chemicals and ongoing maintenance for treating the water supply for trihalomethanes (THMs).

Trihalomethanes are a group of compounds that form as a result of organic matter coming into contact with chlorine. In other words, the THMs are a byproduct of the City's chlorine disinfection treatment of the lake water being received at its treatment plant. The Federal Environmental Protection Agency has determined that THMs are carcinogenic and has implemented regulations to reduce the amount of THMs in the nation's water supply. The old standard used to be no more than 100 parts per billion. A new standard of 80 parts per billion has been published and became effective for the first time for small surface water and all ground water systems in December 2003.

Prior to the Pureline contract, the City/SPWA had been out of compliance on THMs for some years. Readings were taken at four locations in the Snyder water system in September 2002. ALL exceeded 100 ug/L, and the sample taken at City Hall was 221 ug/L, more than double the standard. Micrograms per liter (ug/L) is the equivalent of parts per billion. Following the installation of the Pureline system to reduce THMs, the readings dropped significantly. Although the readings will vary and still sometimes exceed even the old standard of 100 ug/L, the City/SPWA is much nearer to being in compliance than before.

The documentation presented indicated the Pureline contract to be a necessary addition to the water treatment plant capabilities (and costs), an addition required by both state and federal water quality standards.

Finding #21: There appears to be a cash balance in the Meter Deposit Fund in excess of the total meter deposits indicated for active accounts.

The City/SPWA office is in the process of converting to a new utility billing software system. The meter deposit report for the new system indicates the total amount of meter deposits for approximately 700 active accounts is \$26,585. This includes meter deposits made years ago that are substantially less than the current deposit required, which is \$75.00. The information on the new system was from data transferred from the older system and is believed to be reasonably accurate for current active accounts.

During our audit, we obtained bank confirmations for the bank account balances of the City's and SPWA's various funds. The Meter Deposit Fund totaled \$46,848.29, more than \$20,000 in excess of what would be anticipated, based on the total of the meter deposit report above.

The most likely explanation for the excess cash is the accumulation of interest and the residual balances of deposits that were either not transferred as revenue to the utility operating account or not refunded to customers following the computation of final bills. This accumulation likely developed over a period of many years, if not decades.

Recommendations:

- *Following the complete implementation of the new utility billing software system, we recommend the City Clerk-Treasurer and Deputy Clerk review the status of all active and inactive accounts and attempt to verify an accurate amount of service deposits that should be on deposit in the bank. Comparisons should be done between the service deposit receipt copies and the meter deposit report.*
- *If possible, we recommend former billing clerks and former City Clerks be interviewed to determine how the excess cash balance may have developed.*
- *Once an accurate amount of service deposits has been determined, we recommend refunds be made to any customers that can be confirmed as being owed refunds. Any remaining excess balance in the Meter Deposit Fund may be forfeited and transferred to the SPWA operating account by following procedures outlined at 11 O.S. 2001, § 35-107.*
- *After the disposition of the excess cash, we recommend the Meter Deposit Fund balance in the bank be periodically compared and reconciled to the amount of meter deposits recorded in the utility billing system. Any variance should be investigated and corrected promptly.*

Finding # 22: Receipts for utility service (meter) deposits were a printed form with a blank line for the receipt number.

The City office is using a receipt form for utility service deposits that is not pre-numbered. The form has a blank line where a receipt number is manually written. Sequential control of documents such as receipts, check forms and purchase order forms is an important internal control measure. Forms that are not pre-numbered weaken this control and permit the possibility of accidental and/or intentional omission of meter service receipts from utility records.

Recommendation: *The receipt form for utility service deposits should be revised to be pre-numbered.*

Finding #23: Cash composition was not being reported on SPWA and General Fund bank deposit slips due to the commingled collection of a "fire department fee" for the General Fund.

During our review of bank statements, we noted that the composition of currency, coin and checks was not being recorded on many bank deposit slips. On some bank deposit slips, the amount of currency was recorded. Usually, the deposits that did record currency were for small amounts, such as \$10 or \$20, while other deposits of hundreds or several thousands of dollars were lumped in a single amount titled "list".

We also reviewed some utility bill stubs received with customer payments and found that the stubs/receipts were being marked for the mode of payment with "cash" or a check number, if paid by check. However, the totals for cash and check were not being recorded on most deposit slips.

Interviews with the City Clerk-Treasurer and Deputy Clerk indicated that the usual procedure for depositing the daily receipts was to balance the drawer, manually calculate the amount of a "fire department fee" that was collected as part of the utility billing, and split the daily deposit with the fire department fee being deposited to the General Fund and the utility collections being deposited to the SPWA water and sewer account. "List" was used on both deposit slips, because of the added difficulty in allocating "cash" and "check" to the \$1.00 per account fire department fee being collected along with the water, sewer and trash revenues.

The smaller deposits that recorded "cash" were from miscellaneous receipts that did not include utility bill collections. Therefore, it was easy to segregate the cash received for these miscellaneous receipts and accurately report the cash amount on the bank deposit slips.

Interviews with the Vice-mayor/Fire Chief and the City Clerk-Treasurer indicated that this "fire department" fee was implemented by the City Council some years ago to provide the fire department with some revenue to purchase either a truck or some equipment. The \$1.00 fee was simply added onto the trash utility service charge and included in the total bill to utility customers. It

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

had been so long since the fee was begun that they could not be definite on what the original purpose was.

Although designated for the fire department, the fee was never segregated in a separate special revenue fund, but was simply commingled with other General Fund revenues in the General Fund bank account. No record (current balance, collections or expenditures) was kept on the fire department fee.

Cash composition on bank deposit slips is an extremely important internal control for cash receipts. Failure to accurately record "cash" and "check" amounts being deposited significantly weakens internal controls and increases the possibility of misappropriation of cash receipts with "check for cash substitution" and "lapping" schemes.

The new Deputy Clerk indicated that she believed the new software system would allow an additional line for the \$1.00 fire department fee. This would permit the fee to be separately accounted for in the utility collections and not have to be included in the trash service fee.

Recommendations:

- *We recommend all collections from utility bills be deposited in the SPWA operating account. This eliminates the need to separately allocate the fire department fee on deposit slips to the General Fund bank account.*
- *We recommend the amounts for "cash" and "checks" recorded on the SPWA daily bank deposit slips be reconciled and agreed to all utility and SPWA miscellaneous receipts from each day's business.*
- *At the end of the month, we recommend the total fire department fees be manually calculated and transferred by a bank debit transaction or by check to the General Fund bank account.*
- *Following the completed implementation of the new utility billing system, we recommend the fire department fee and the other General Fund charges described in Finding #5 be billed as separate line items on SPWA customer bills. At the end of the month, the City Clerk-Treasurer should be able to obtain the collections for these fees from the utility billing reports and make the transfer to the General Fund.*
- *Since the original purpose for the \$1.00 fee was to fund fire department equipment purchases, we recommend the City Council consider whether this fee should be segregated in a separate special revenue fund for the fire department. If not, perhaps it should just be titled a "General Fund" fee along with the other General Fund charges described in Finding #5.*

Finding # 24: Inadequate segregation of duties for the utility billing/collections.

The Deputy Clerk position performs all the functions of billing for the water, sewer and trash utilities, receiving customer payments, depositing customer payments, receipting and depositing the meter deposits for utility services, and preparing final bills. Whenever one individual has control over the entire accounting transaction (e.g. authorization, recording and custody), internal controls are weak. Ideally, different people should handle the duties of billing/accounts receivable, collecting cash receipts, reconciling cash receipts and bank deposits.

“Lock box” arrangements, wherein a bank, business or individual is contracted to receive the payments billed by others, are used successfully for many businesses and public sector entities. Costs for the service would be minimal, when compared to hiring additional personnel to achieve an adequate segregation of duties. The service would provide a strong internal control, separating the duty of billing/accounts receivable from the duty of collecting and depositing payments for the City utility services.

The local tag agency provides similar collection services for numerous governmental, public utility and private sector companies, including the Oklahoma Department of Public Safety and the Oklahoma Tax Commission. Many of the customers seen by the tag agent are also city utility customers.

Recommendations:

- *We recommend the City Council consider a “lock box” arrangement for payments on the City’s utility bills. Even a partial lock box that results in a significant number (but not necessarily all) of the utility payments being collected somewhere other than the City office would be a major strengthening of internal controls for the utility revenue collections.*
- *Since the City has two office employees, we recommend some cross training and the occasional rotation of some job duties to help with this issue.*

Finding #25: There was no policy or procedure for writing off unpaid utility bills. The prior utility billing clerk was allowed to write off unpaid final bills without any supervisory review or approval.

Interviews concerning the procedures for final bills and meter deposit refunds indicated that there was no official policy or procedure concerning the disposition of final bills that exceeded meter deposits, but were never collected. Periodically, the former deputy/billing clerk would file the unpaid bill information in the city vault and close the customer accounts. The bills “written off” were not reviewed and/or approved by any supervising official.

This is another segregation of duties issue. The ability to write off uncollected accounts receivable

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

should be segregated from the ordinary billing and collecting of accounts receivable. Otherwise, there is the potential for an employee to collect payments on final bills, misappropriate some or all of a final payment, not post the amount misappropriated, then “write off” the “unpaid” balance.

Recommendations:

- *We recommend the City Council establish a policy for unpaid final bills. Periodically, in accordance with the policy, all unpaid final bills should be reported to the Mayor and/or to the full City Council, reviewed and approved for write off.*
- *We recommend the approval should be documented with a signature or signatures and dated. Uncollected bills should be filed and reviewed from time to time to see if any of the bills are from customers who may have returned to town.*
- *We recommend the policy and procedures for processing final bills be included in a policy and procedure manual.*

Throughout this report there are numerous references to state statutes and legal authorities that appear to be potentially relevant to issues 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 City or any of the individuals named in this report or acting on behalf of the City 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 City 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.

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

APPENDIX A (continued)

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
General Fund Revenues:							
Nonproperty Taxes	235,913	241,771	245,125	257,900	221,551	250,142	231,957
Services	103,937	111,460	21,436	21,508	16,176	16,192	12,085
Penalties and Fines	13,520	17,426	10,335	22,158	17,184	8,916	18,029
Rent	3,545	1,695	1,103	1,533	1,875	2,108	2,620
Transfers from SPWA	110,128	118,098	138,455	167,510	217,728	219,455	181,288
Interest	5,958	5,517	6,284	4,860	1,040	819	706
Cemetery Plots	-	1,710	1,020	2,273	830	1,365	520
Insurance Reimb	-	4,234	21,169	19,900	2,878	13,615	5,371
Grants	12,578	-	-	4,600	23,174	4,275	2,302
Miscellaneous	2,001	2,754	3,708	3,955	9,506	1,033	4,414
Total revenues:	487,580	504,665	448,635	506,197	511,942	517,920	459,292
General Fund Expenditures:							
Personal Services	228,387	227,294	285,540	281,422	351,227	253,315	243,613
Maintenance and Operations	44,587	54,483	39,633	104,564	74,360	87,252	97,936
Capital Improvements	31,216	-	25,102	50,221	-	-	2,547
Ambulance Service	50,493	51,751	52,660	53,685	46,366	47,978	46,111
Insurance	41,822	46,323	37,527	52,287	50,258	52,928	51,922
Office Supplies/Postage	8,290	10,231	12,380	6,914	12,896	4,357	8,303
Utilities, Telephone	16,166	16,646	15,822	22,547	12,659	8,266	8,570
Trash Hauling	62,013	67,641	-	-	-	-	-
Miscellaneous	12,227	5,454	4,260	9,584	3,204	8,465	5,041
Professional Fees	-	-	-	-	-	-	8,991
Total expenditures:	495,201	479,823	472,924	581,224	550,970	462,561	473,034
Excess of Expenditures (Over) Under Revenues:	(7,621)	24,842	(24,289)	(75,027)	(39,028)	55,359	(13,742)
Other Financing Sources:							
Transfers in:	496	372	2,950	-	3,350	467	209
Transfers out:	100	-	-	-	-	-	-
Fund balance 6-30-Prior Year	197,962	190,737	215,951	194,612	119,585	83,907	139,733
Fund balance 6-30-Current Year	190,737	215,951	194,612	119,585	83,907	139,733	126,200

Note: Reported amounts are for fiscal years ending June 30.
Source: City of Snyder audit reports filed with the State Auditor and Inspector.

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

APPENDIX A

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
General Fund Assets:							
Cash	187,447	206,590	189,096	129,131	111,044	153,617	127,542
Accts Receivable (Trash, see note #2)	7,683	8,043	-	-	-	-	-
Taxes Receivable	17,847	18,422	17,812	17,119	16,278	20,931	17,576
Total Assets:	<u>212,977</u>	<u>233,055</u>	<u>206,908</u>	<u>146,250</u>	<u>127,322</u>	<u>174,548</u>	<u>145,118</u>
General Fund Liabilities & Fund Balance:							
Check/Warrants Outstanding	3,741	659	279	558	605	28	6,640
Accounts Payable	18,500	16,445	12,017	26,107	42,810	34,787	12,278
Fund Balance	190,737	215,951	194,612	119,585	83,907	139,733	126,200
Total Liab & Fund Balance:	<u>212,978</u>	<u>233,055</u>	<u>206,908</u>	<u>146,250</u>	<u>127,322</u>	<u>174,548</u>	<u>145,118</u>

Note #1: Reported amounts are for fiscal years ending June 30.

Note #2: The trash utility was moved from the General Fund to the Snyder Public Works Authority starting with FY2000.

Source: City of Snyder audit reports filed with the State Auditor and Inspector.

Appendix A

**City of Snyder
General Fund Balance Sheet Accounts
Seven-Year Comparison**

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
General Fund Assets:							
Cash	187,447	206,590	189,096	129,131	111,044	153,617	127,542
Accts Receivable (Trash, see note #2)	7,683	8,043	-	-	-	-	-
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Note #1: Reported amounts are for fiscal years ending June 30.

Note #2: The trash utility was moved from the General Fund to the Snyder Public Works Authority starting with FY2000.

Source: City of Snyder audit reports filed with the State Auditor and Inspector.

Appendix A
City of Snyder
General Fund Revenue, Expenditures and Fund Balance
Seven Year Comparison

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
General Fund Revenues:							
Nonproperty Taxes	235,913	241,771	245,125	257,900	221,551	250,142	231,957
Services	103,937	111,460	21,436	21,508	16,176	16,192	12,085
Penalties and Fines	13,520	17,426	10,335	22,158	17,184	8,916	18,029
Rent	3,545	1,695	1,103	1,533	1,875	2,108	2,620
Transfers from SPWA	110,128	118,098	138,455	167,510	217,728	219,455	181,288
Interest	5,958	5,517	6,284	4,860	1,040	819	706
Cemetery Plots	-	1,710	1,020	2,273	830	1,365	520
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Miscellaneous	2,001	2,754	3,708	3,955	9,506	1,033	4,414
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Trash Hauling	62,013	67,641	-	-	-	-	-
Miscellaneous	12,227	5,454	4,260	9,584	3,204	8,465	5,041
Professional Fees	-	-	-	-	-	-	8,991
Total expenditures:	<u>495,201</u>	<u>479,823</u>	<u>472,924</u>	<u>581,224</u>	<u>550,970</u>	<u>462,561</u>	<u>473,034</u>
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Other Financing Sources:							
Transfers in:	496	372	2,950	-	3,350	467	209
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Fund balance 6-30-Prior Year	197,962	190,737	215,951	194,612	119,585	83,907	139,733
Fund balance 6-30-Current Year	190,737	215,951	194,612	119,585	83,907	139,733	126,200

Note: Reported amounts are for fiscal years ending June 30.
Source: City of Snyder audit reports filed with the State Auditor and Inspector.

APPENDIX B

Discussion of Funds, Departments and Appropriation Accounts

The financial operations of governmental entities, such as counties, municipalities and schools are organized by funds. The Municipal Budget Act lists eight different types of funds, including a general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, trust and agency funds, internal service funds and two types of "account groups". The account groups are for fixed assets and long-term debt liabilities.

Most Oklahoma municipalities operate their revenue producing utility services, such as water, sewer and trash, through a public trust, the same as the City of Snyder does through the Snyder Public Works Authority. The operating account for the SPWA would be considered an "enterprise" fund, since its operations resemble those of a business. The SPWA also has some debt service funds related to its water bond issue and Farmers Home Administration loan. As mentioned in the report, the Meter Deposit Fund should also be part of the SPWA and would be considered a "trust" fund, since the meter service deposits are held in trust for the utility customers until the final bills are calculated.

The City of Snyder has a General Fund and a Street and Alley Fund. Occasionally, there may be other special revenue funds or capital project funds opened for a temporary time to account for state or federal grants.

As noted in Finding #4, whether operating under the **Title 68** (county excise board) budget statute or the **Title 11 Municipal Budget Act** statute, the City of Snyder is required to departmentalize its budget.

Typical departments for a city would include, but not be limited to: mayor & council, city clerk, city treasurer (or the combined clerk-treasurer), city attorney, municipal court, police, fire, street, parks, library, etc. Most counties and many municipalities also have a "general government" department that accounts for expenditures that cannot be easily allocated to the other departments.

Typical departments for the Snyder Public Works Authority could include, but not be limited to: administration, water, sewer and trash (or sanitation). Some municipal public trusts break out water and sewer into more defined activities, such as water plant, sewer plant (or lagoons), water maintenance, sewer maintenance, etc.

Under **68 O.S. 2001, § 3010 & 3011**, the items of appropriation within a departmental budget would typically include: personal services, maintenance & operation, and capital outlay. A sinking fund would also have "debt service" which could be further identified as principal and interest.

Under the **Municipal Budget Act of Title 11**, the items of appropriation are more explicitly defined in **11 O.S. 2001, § 17-213**:

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

Each fund shall be made up of accounts for classifying revenues and expenditures. Revenues shall be classified separately by source. Expenditures shall be departmentalized within each fund and shall be classified into at least the following accounts:

1. **Personal services**, which may include expenses for salaries, wages, per diem or other compensation, fees, allowances or reimbursement for travel expenses, and related employee benefits, paid to any officer or employee for services rendered or for employment. Employee benefits may include employer contributions to a retirement system, insurance, sick leave, terminal pay or similar benefits;

2. **Materials and supplies**, which may include articles and commodities which are consumed or materially altered when used, such as office supplies, operating supplies and repair and maintenance supplies, and all items of expense to any person, firm or corporation rendering a service in connection with repair, sale or trade of such articles or commodities;

3. **Other services and charges**, which may include all current expenses other than those listed in paragraphs 1, 2, 4, 5 or 6 of this section, such as services or charges for communications, transportation, advertising, printing or binding, insurance, public utility services, repairs and maintenance, rentals, miscellaneous items and all items of expenses to any person, firm or corporation rendering such services;

4. **Capital outlays**, which may include outlays which result in acquisition of or additions to fixed assets which are purchased by the municipality, including machinery and equipment, furniture, land, buildings, improvements other than buildings, and all construction, reconstruction, appurtenances or improvements to real property accomplished according to the conditions of a contract;

5. **Debt service**, which may include outlays in the form of debt principal payments, periodic interest payments, or related service charges for benefits received in part in prior fiscal periods as well as in current and future fiscal periods; and

6. **Fund transfers**, which may include permanent transfers of resources from one fund to another.

Whether operating under **Title 68** or **Title 11**, many counties and municipalities may also include other items of appropriation for activities that they prefer to identify separately, such as "travel", or in the case of Snyder Public Works Authority, "contract trash hauling" would be a very significant item.

A departmental budget may include a debt service appropriation account for the payments on a lease-purchase for that department, such as a police car or dump truck.

To summarize, the following are some examples of how fund and departmental budgets for the City/SPWA could be set up in the City's chart of accounts. This list is NOT intended to be an exhaustive or complete chart of accounts but to provide an indication of how it should be structured:

CITY OF SNYDER
 SNYDER PUBLIC WORKS AUTHORITY
 SPECIAL AUDIT REPORT
 JULY 1, 2000 THROUGH JUNE 30, 2004

GENERAL FUND

(bank account)

TAXES

(account)

Sales tax revenue	99,000
Franchise tax revenue	10,000

(sub-account)

CHARGES FOR SERVICE

License fees	1,000
Inspection fees	1,000

INTERGOVERNMENTAL REVENUE

Federal Grant – CDBG	25,000
State Grant – REAP	2,500

MISCELLEANEOUS REVENUE

Interest income	1,000
Insurance reimbursement	1,000
Fines and forfeitures	2,500
Sale of equipment or property	1,000
Other miscellaneous revenue	2,500

NON-REVENUE RECEIPTS

Transfers from SPWA	90,000
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CLERK-TREASURER

(account)

Personal services	15,000
Maintenance & operation	2,500
Capital outlay	1,000

(sub-account)

POLICE DEPARTMENT

Personal services	50,000
Maintenance & operation	6,500
Capital outlay	2,000

GENERAL GOVERNMENT

Personal services	10,000
Maintenance & operation	5,000
Capital outlay	8,000

CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004

STREET & ALLEY FUND

TAXES	
OTC Motor Vehicle Collections	2,500
STREETS	
Maintenance & operation	25,000
Capital outlay	5,000
Debt service (lease purchase)	20,000

SPWA OPERATING ACCOUNT

CHARGES FOR SERVICE	
Water revenue	99,000
Sewer revenue	25,000
Trash revenue	25,000
Meter hookup fees	1,000
INTERGOVERNMENTAL REVENUE	
Federal Grant – CDBG	
State Grant – REAP	
MISCELLEANEOUS REVENUE	
Interest income	1,000
Insurance reimbursement	2,500
Sale of equipment	2,500
Other miscellaneous revenue	1,000
ADMINISTRATION	
Personal services	10,000
Maintenance & operation	5,000
WATER PLANT	
Personal services	18,000
Utilities (electricity)	24,000
Pureline contract services	25,000
Maintenance & operation	15,000
Capital outlay	1,000
TRASH	
Contract trash hauling	60,000

**CITY OF SNYDER
SNYDER PUBLIC WORKS AUTHORITY
SPECIAL AUDIT REPORT
JULY 1, 2000 THROUGH JUNE 30, 2004**

TRANSFERS

Transfers to City General Fund	90,000
Transfers to Debt Service Funds	25,000

Unique accounts, such as the trash hauling contract or the Pureline contract, should be held to a minimum in order to maintain a high level of consistency in appropriation accounts from fund to fund and department to department. Consistency in the structure of the chart of accounts helps with planning and budgeting and with comparisons from year to year.

As noted in our report, the accounting software has other ways to record and report more detailed information for issues, such as fixed asset/equipment inventory and specific supplies and charges, such as chlorine, fuel, parts, legal services and other common expenditures that the City Council may wish to have reported to them.