



Town of Gate  
Rural Water District No. 2  
Beaver County  
Special Audit Report  
July 1, 1999 – June 30, 2003

**JEFF A. McMAHAN, CFE**

OKLAHOMA OFFICE

OF THE

STATE AUDITOR & INSPECTOR

**Audit Summary:**

- ✓ Analysis of the Fire Department fuel purchases of the local co-op indicated that many charges did not coincide with Fire Department records of runs made. **Pg. 7**
- ✓ Segregation of duties of the functions as Town Clerk and RWD Clerk, were not adequate. **Pgs. 7, 14**
- ✓ Timely financial reports were not provided to the Town Trustees and to the Board of Directors of the RWD. No appropriation ledgers were maintained for the Town funds/budgets. **Pgs. 8, 15**
- ✓ Purchasing/expenditure patterns for the Town's General, Utility and Street and Alley Funds indicate that fund integrity for Town expenditures was not maintained. **Pg. 9**
- ✓ The Town's "non-departmentalized" budget for the General Fund included only appropriations for "maintenance and operation". No appropriations were made for "personal services" and "capital outlay" even though expenditures were made for such items. **Pg. 10**
- ✓ The cash balances and revenues received in its two special revenue cash funds were not subjected to the budget process. **Pg. 11**
- ✓ Invoices for goods and services were not signed as received, as required by law. **Pg. 11**
- ✓ The Town and RWD were not depositing their utility revenue daily, as required by law. **Pgs. 11, 15**
- ✓ Utility service deposits were commingled with utility revenue. Utility service deposits were not refunded after the Town's gas utility was sold. **Pg. 12**
- ✓ Record keeping and preservation of the Town Board minutes should be improved. Minutes for the RWD meetings were not signed by the Chairman. Some Town records have not been accounted for during the transition to the new Town Clerk. **Pgs. 12, 14, 17**
- ✓ The Town has been unnecessarily paying tax on fuel purchases. **Pg. 13**
- ✓ The Town failed to file an audit report in FY2000. **Pg. 13**

**Why the audit was performed**

The District Attorney for District No. 1 requested the audit.

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

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

**TOWN OF GATE**  
**BEAVER COUNTY RURAL WATER DISTRICT NO. 2**  
**BEAVER COUNTY**  
**SPECIAL AUDIT REPORT**  
**JULY 1, 1999 THROUGH JUNE 30, 2003**

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This publication is printed and issued by the State Auditor and Inspector as authorized by 74 O.S. 2001, § 212(H). Pursuant to 74 O.S. 2001, § 3105(B), 35 copies have been prepared and distributed at a cost of \$60.00. 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

November 4, 2003

Honorable James M. Boring  
District Attorney-District No. 1  
P.O. Box 849  
Beaver, Oklahoma 73932

Transmitted herewith is the Special Audit Report of the Town of Gate, Beaver County, Oklahoma and the Beaver County Rural Water District No. 2. 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 the Town and Water District.

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 black ink that reads "Jeff A. McMahon".

JEFF A. McMAHAN  
State Auditor and Inspector

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TOWN OF GATE  
BEAVER COUNTY RURAL WATER DISTRICT NO. 2  
SPECIAL AUDIT REPORT  
JULY 1, 1999 THROUGH JUNE 30, 2003

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**TOWN OFFICIALS**

Mike Dunsworth . . . . . Mayor  
(May 1999 to present)

Eldon DeWitt . . . . . Trustee  
(May 1995 to present)

Lance Richardson . . . . . Trustee  
(May 1999 to present)

Joyce DeWitt . . . . . Town Clerk  
(May 1999 to May 2003)

Julie Dome . . . . . Town Clerk  
(May 2003 to present)

Jim Stafford (Beaver County Treasurer) . . . . . Acting Town Treasurer

**BEAVER COUNTY RURAL WATER DISTRICT NO. 2**

**BOARD OF DIRECTORS**

Lance Richardson . . . . . Chairman  
(May 1999 to present)

Richard Patton . . . . . Secretary  
(1984 to present)

Mike Dunsworth . . . . . Member  
(May 1999 to present)

Eldon DeWitt . . . . . Member  
(May 1995 to present)

Doug Whisenhunt . . . . . Member  
(May 2000 to present)

Joyce DeWitt . . . . . Billing Clerk/Bookkeeper  
(May 1999 to May 2003)

Julie Dome . . . . . Billing Clerk/Bookkeeper  
(May 2003 to present)



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

Honorable Mayor and Board of Trustees  
Town of Gate  
P.O. Box 157  
Gate, Oklahoma 73844

Chairman and Board of Directors  
Beaver County Rural Water District No. 2  
P.O. Box 159  
Gate, Oklahoma 74034

Pursuant to the District Attorney's request and in accordance with the requirements of **74 O.S. 2001, § 212(H)**, we conducted a special audit with respect to the Town of Gate, Beaver County, Oklahoma and the Beaver County Rural Water District No. 2, for the period July 1, 1999 through June 30, 2003.

The objectives of our special audit primarily included, but were not limited to, "possible irregularities in the city finances." Our findings and recommendations related to these procedures are presented in the accompanying report.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the Town of Gate or the Beaver County Rural Water District No. 2 for the period July 1, 1999 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 the Town or the Rural Water District taken as a whole.

This report is intended to provide information to the District Attorney, Mayor, Board of Trustees and Administration of the Town and the Chairman, Board of Directors and Administration of Beaver County Rural Water District No. 2. This restriction is not intended to limit the distribution of the report, which is a matter of public record when released.

Sincerely,

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

JEFF A. McMAHAN  
State Auditor and Inspector

July 30, 2003

## INTRODUCTION

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

The three members of the Town Board of Trustees comprise the majority of the 5-member board of trustees for the Beaver County Rural Water District No. 2, in accordance with the bylaws for that District. The Town Clerk also serves as the billing clerk/bookkeeper for the Rural Water District.

**11 O.S. 2001, § 12-101**, states:

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

Under **11 O.S. 2001, § 17-105**, the Town is required to have an audit prepared when General Fund revenues equal or exceed \$25,000. No audit reports were filed for the Town of Gate during the audit period even though one should have been for 2 of the 4 years reviewed. In accordance with **82 O.S. 2001, § 1324.18(C)**, the Beaver County Rural Water District No. 2 has a compilation and budget projection prepared by a private, independent CPA firm. Compilation reports were made available for our review.

The State Auditor and Inspector conducted a special audit of the records of the Town of Gate and Beaver County Rural Water District No. 2, primarily those records relating to the District Attorney's concerns. The results of the special audit are in the following report.

## FINDINGS AND RECOMMENDATIONS

### TOWN OF GATE

**FINDING NO. 1:** *Analysis of the Fire Department fuel purchases at the local co-op indicated that many charges did not coincide with Fire Department records of runs made.*

Fuel purchase records for the Town were obtained from the local Farmers Cooperative. The vendor uses a fuel card system to record purchases and bill its customers. These billing records were compared with the Fire Department's records of fire runs. Many of the charges for fuel did not occur within the time frames and dates of recorded fire runs.

In August 2002, one member of the fire department was suspended for alleged personal use of a fire department fuel purchase card. In the 10 months following (September 2002 to June 2003), there were only two (2) purchases of fuel. Summaries of the fire department's fuel purchases are included in the Appendix.

New procedures have been implemented that require the volunteer firefighters fueling the trucks to obtain a receipt from the pump, sign the receipt, staple the receipt to the fire run report and file the documentation at the fire station.

**RECOMMENDATION:** We recommend that the fire run reports and receipts be brought to the Town Clerk monthly to verify purchases against the vendors' billing statements.

**FINDING NO. 2:** *Inadequate segregation of duties.*

The Town Clerk performed all the functions of billing for the natural gas and trash utilities, receiving customer payments, depositing customer payments, preparing and processing purchase orders, invoices and checks for bills paid.

It is a basic premise of internal controls for financial transactions to have a separation of duties. Whenever one individual has control over the entire accounting transaction (e.g. authorization, recording and custody), internal controls are weak. Ideally, the duties of cash receipts, bank deposits, bank reconciliations and cash disbursements should be done by different people.

One mitigating factor in the Town of Gate was that most of the utility payments from customers were in the form of checks, with cash being used for payment only on relatively infrequent occasions. There have been no cash transactions in the first months since the new Town Clerk took office. Another mitigating factor was the requirement of two signatures on the Town checks. The Town Clerk plus the Mayor or another Board member provided the two required signatures.

A third mitigating factor was that the Beaver County Treasurer, in accordance with **19 O.S. 2001, § 645**, has been the acting treasurer for the Town and was providing some recording and reporting functions. However, this separation of duties was weakened by the failure to provide the reports to the Board for their review and approval as noted in **FINDING NO. 3**.

#### RECOMMENDATIONS:

- Being a governmental entity, the Town may not refuse cash if a customer insists. The Town should encourage an informal policy of accepting only checks or money orders wherever and



whenever possible. A "no cash" policy is a preventive measure against "check for cash" substitution frauds.

- Although it is customary for a municipal clerk to be a signatory on municipal checks, it is not advisable for a small town situation, since the Town Clerk does all the preparation of purchase orders, invoices, delivery tickets and checks. The Board should consider establishing a policy authorizing only the Mayor, other designated Board members and the acting treasurer to be on the bank signature cards and sign the checks, in accordance with **11 O.S. 2001, § 17-102(B)**. This policy would separate the duty of bill preparation and processing from the duty of authorization for the Town's cash disbursements.
- Implement a "lock box" arrangement with the First Security Bank, where the Town's Utility Fund investment account is located. With a "lock box" service, the Town would have a P.O. Box in Beaver as the address for customers to send payments. The bank would have the key to the P.O. Box, pick up the payments, deposit them to the Utility Fund investment account, and send a notice of deposit to the Treasurer and to the Town Clerk.

This arrangement is used successfully for many businesses and public entities. Costs for the service would likely be minimal, and the service would provide a strong internal control, separating the duty of billing/accounts receivable from the duty of collecting payments for the Town's Utility Fund.

**FINDING NO. 3:** *Failure to provide timely financial reports to the Town Trustees. No appropriation ledgers were maintained for the Town funds/budgets.*

During the audit period, the only financial report presented to the Board was the annual budget. No internal monthly reports, or copies of the treasurer's monthly printouts were presented to the Board for review or approval.

A basic requirement for Board oversight is the timely and accurate reporting of financial transactions, including a monthly report on appropriation balances and cash balances, by Fund. Without financial reporting, the Board is making decisions with incomplete knowledge of the Town's overall financial situation.

Since taking office, the present Town Clerk has been providing the Board with copies of the Treasurer's reports. This new policy should be continued.

**RECOMMENDATIONS:**

- In addition, a monthly budget report indicating beginning appropriations, expenditures made, and ending balances of budget appropriations for each Fund should be produced for the Board.
- The reports should be reviewed and approved by the Board in open meeting.

**FINDING NO. 4:** *Purchasing/expenditure patterns for the Town's General, Utility and Street and Alley Funds indicate that fund integrity for Town expenditures was not maintained, and there may be no functional reason to operate with the three currently separate funds.*

In municipal accounting, there are usually specific legal or accounting reasons to establish separate funds to account for different sources/categories of revenue and expenditures. Every

governmental entity has at least a "General" or an "Operating" fund. Some Oklahoma municipalities, including the Town of Gate, have a Street & Alley Fund to account for fuel taxes and motor vehicle taxes collected and distributed by the Oklahoma Tax Commission. The expenditures from these two sources of revenue are restricted to maintaining the streets and alleys of the municipality. A "utility fund" would be considered an enterprise fund primarily established to determine a profit or loss from the utility, usually in order to set utility rates sufficient to cover operating costs and debt service.

During the audit period reviewed, we noted:

1. Utility Fund expenditures that had nothing to do with the gas or trash collection utilities, but would more appropriately have been charged to the Town's General Fund, i.e. fire department expenditures, fuel for mowing, other Town supplies and repairs, etc.
2. Fire Department revenues from fire runs and donations were deposited into the Utility Fund. A Fire Department is more appropriately considered to be a department of the Town and its deposits are made to the Town General Fund.
3. The Street & Alley Fund was used only to pay the electric, water and sewer services for the Town. The electric bills included services for the Town Hall and Fire Department, in addition to the service for street lighting. The water and sewer services were for the Town Hall only. **Title 11 O.S. 2001, § 36-114** restricts the use of Street & Alley Funds "for construction, maintenance, repair, improvement, or lighting of streets and alleys." Town Hall and Fire Department expenses would more appropriately be charged to the General Fund.

**RECOMMENDATION:** The three Town operating funds could be combined into one General Fund, as provided for in **11 O.S. 2001, § 36-114 and 68 O.S. 2001, § 3011(2)**, while maintaining the various sources of revenue by account, but with separate departmental budget appropriations for the Town Board, Town Clerk, Fire Department, Park, Street & Alley and Trash Utility.

Combining the three funds would simplify the record keeping for the Town Treasurer and avoid having to separately appropriate the Street and Alley and Utility Fund for expenditure (see **FINDING NO. 6**). However, combining the funds could result in the Town's General Fund revenues being equal to or exceeding \$25,000, causing the Town to incur additional annual audit costs under **11 O.S. 2001, § 17-105**, (see **FINDING NO. 13**).

**ALTERNATIVE RECOMMENDATIONS:** Continue with the separate funds, but implement policies and procedures to ensure that fund integrity is maintained:

- Include Fire Department revenues in the General Fund, instead of the Utility Fund...OR create a separate fund for the Fire Department, since that has been an issue raised previously in the Town.
- Pay for Town Board, Town Clerk, Town Hall (General Government), and Fire Department expenditures from the General Fund. If there is insufficient revenue to pay these departmental costs, "operating transfers" of surplus utility funds could be budgeted for and made to the General Fund from the Utility Fund.
- The Street & Alley Fund should be used for street-related expenditures only, in accordance with **11 O.S. 2001, § 36-114**. The fuel for mowing, mowing tractor repairs, electric bills for street

lighting, etc. would be examples of allowable expenditures in the Street and Alley Fund. If the Street and Alley revenue is insufficient to pay for all of these costs, the additional costs should be charged to the General Fund.

- Only trash utility revenue, expenditures and operating transfers should be accounted for in the Utility Fund to facilitate the Board's evaluations for setting utility rates.

**FINDING NO. 5:** *The Town's "non-departmentalized" budget for the General Fund included only appropriations for "maintenance and operation". No appropriations were made for "personal services" and "capital outlay".*

**Title 68 O.S. 2001, § 3011(2)** permits a small town to file a non-departmentalized "short form" for its annual General Fund budget. "Non-departmentalized" means that the General Fund budget would not be divided into various departments, such as Town Board, Town Clerk, Fire, Police, Streets and Alleys, Park, General Government, etc. Although this statute allows the Town to not departmentalize its budget, there is still the requirement to show:

"in separate items the amounts of funds estimated and appropriated for the functions and purposes thereof, but defined as follows: 'personal services,' 'maintenance and operation' and 'capital outlay' as enumerated and defined in the preceding section" (**§ 3010**).

For the four (4) fiscal years reviewed (FY2000 - FY2003), there were no appropriations for "personal services" or "capital outlay", even though the Town expended funds for personal service payments to the Board and Town Clerk and purchased equipment and other capital expenditures that should have been charged to a "capital outlay" appropriation. In FY2003 alone, due to two sizable state grants, the amount of capital outlay charged to the "maintenance and operation" budget was at least \$53,949. The total of General Fund expenditures for the entire FY2003 was \$65,325, according to the Treasurer's warrant register.

Because expenditures were made for personal services and equipment and there were no appropriations for personal services and capital outlay, then **11 O.S. 2001, § 17-104** and **62 O.S. 2001, § 310.2, § 310.3 and § 479** may apply. They 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 town clerks and treasurers.

**RECOMMENDATIONS:**

- The Board should contact its budget maker and request FY2004 appropriations be made for at least the three basic items of appropriation specified in **68 O.S. 2001, § 3011(2)**.
- The budgeted appropriations for the three types of expenditures can be modified or amended through the budget year, if budget transfers or supplemental budgets become necessary. The Beaver County Clerk can assist the Town in filing the proper forms for making budget transfers.

**FINDING NO. 6:** *While the Town obtained and filed a budget for its General Fund, there was no process in place to appropriate for expenditure the cash balances and revenues received in its two special revenue cash funds (Utility and Street & Alley).*

The budget form filed for the Town contains the appropriations for the General Fund, but there is a separate process for submitting the Utility Fund and Street & Alley Fund cash balances and revenues received to the County Excise Board for appropriation. A form titled "Cash Fund Estimate of Needs and Request for Appropriation" is used periodically (monthly, bimonthly or quarterly) to request the appropriation of cash balances and revenue received for personal service, maintenance and operation and capital outlay.

Because there has been no process in place to appropriate the Utility and Street & Alley funds for expenditure, all the amounts paid out of these two funds were "in excess of the appropriation available."

**RECOMMENDATION:** The Town should seek the assistance of the Beaver County Clerk who is familiar with this process, and can assist in filing the proper forms with the County Excise Board. Then the Town will have legally authorized appropriations that can be expended for its two special revenue cash funds.

**FINDING NO. 7:** *Throughout the audit period, invoices for goods and services were not signed as received, as required by 62 O.S. 2001, § 310.1a.*

**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 in the Town's purchase order files had no signature of an official or employee acknowledging the receipt of the goods and/or services for the Town.

**RECOMMENDATION:** The Board should implement a policy requiring the appropriate official or employee with personal knowledge of the transaction to sign any invoice, statement or ticket acknowledging the Town's receipt of the goods and/or services. This will assist the Board in verifying that the purchase orders and bills presented are reasonable and legitimate.

**FINDING NO. 8:** *The Town was not depositing its utility revenue daily, as required by 11 O.S. 2001, § 12-110 (2) and 62 O.S. 2001, § 517.3(B).*

**62 O.S. 2001, § 517.3(B)** states in part:

"The treasurer of every public entity shall deposit daily, not later than the immediately next banking day, all funds and monies of whatsoever kind that shall come into the possession of the treasurer[.]"

It has been the practice of the former Town Clerk to accumulate the payments made for the gas utility, and more recently the trash utility, and deposit those customer payments, once per month with the Town Treasurer. Accumulating these payments over a period of days or weeks until making the one deposit per month increases the risk of theft or accidental loss or misplacement of the payments.

**RECOMMENDATIONS:**

- The “lock box” system described in **FINDING NO. 2** would also address this issue. If the Board prefers not to use the “lock box” system, then the following procedures are recommended.
- Since the vast majority (usually 100% each month) of payments are in check form, we recommend the deposits be made more frequently and mailed to the Treasurer. All check payments should be restrictively endorsed prior to mailing. Other arrangements should be made for those occasional deposits that include currency or coin.
- It is also a recommended procedure to make copies of customer checks being deposited to retain for record keeping and internal control purposes.

**FINDING NO. 9:** *Commingling of utility service deposits with utility revenue, rather than recording the utility service deposits in a separate trust fund or account.*

The Town has operated with three funds: General Fund, Utility Fund and Street & Alley Fund. Included in the Town’s Utility Fund are utility service deposits. Since final utility services are generally billed after the use of the service (gas, water, etc.), these deposits are amounts **held in trust** for utility customers to insure that final balances owed by terminating customers will be paid. Because these utility service deposits are NOT revenue to the Town until the customer has terminated service, the deposits should not be commingled with the Town’s Utility Fund revenue.

**RECOMMENDATION:** Deposits should be segregated in a separate trust fund: “Utility Deposits”. Records should be maintained that clearly indicate the amount of service deposit paid by and owed to each customer.

**FINDING NO. 10:** *Utility service deposits were not refunded after the Town’s gas utility was sold.*

Formerly, the Utility Fund included revenue from the Town’s natural gas and trash collection utilities. In the fall of 2001, the Town sold its natural gas utility. The Town Clerk’s one record of the utility service deposits indicates these deposits were for the natural gas utility. Following the sale of the natural gas utility, these deposits were not refunded to the gas utility customers.

**RECOMMENDATION:** The Town Board should refund the deposits to the utility customer or if a customer cannot be identified or located, their deposit should be transferred to the trash collection utility by motion or resolution of the Board.

**FINDING NO. 11:** *Record keeping and preservation of the Town Board minutes could be improved.*

The Town Board minutes were being typewritten but only one copy was made. For years, the one copy has been glued onto pages of a “record book”. Some minutes are becoming unglued and/or have just been “stuck” in between pages of the record book, increasing the risk of loss or damage to the Board minutes. Also, the minutes were not signed by the Mayor or attested by the Town Clerk.

RECOMMENDATIONS:

- Additional copies of the minutes should be printed and/or photocopied for members of the Board to keep for their personal review and record.
- The official minutes should be hole-punched and kept in a good quality binder for protection and preservation. The minutes (as well as any computerized financial records) should also be preserved in electronic media form and stored offsite for a backup.
- Board minutes are not an official record until they are approved by the Board, signed by the Mayor, and attested by the Town Clerk.

**FINDING NO. 12:** *The Town has been purchasing taxable diesel and gas for its fire trucks.*

The Town has been purchasing tax-exempt diesel for its mowing tractor. However, in our review of the fuel purchases of the Fire Department in **FINDING NO.1**, we noted that the Town was paying excise tax on diesel and unleaded gas it purchased for the fire trucks. As a municipal fire department, the Town is eligible for purchasing fuel that is exempt from excise taxes, in accordance with **68 O.S. 2001, § 500.10(7)**.

**RECOMMENDATION:** In order to save on fuel expense, the Town should make whatever arrangements are necessary to purchase tax-exempt fuel for its fire trucks, the same as it is currently doing for its mowing tractor.

**FINDING NO. 13:** *The Town failed to file an audit report in FY2000, when General Fund revenues exceeded \$25,000.*

According to **11 O.S. 2001, § 17-105**, the Town is required to order an audit "within 30 days of the close of each fiscal year" and file an annual audit report, if its General Fund revenue equals or exceeds \$25,000. Failure to file an audit could result in the withholding of the Town's share of fuel taxes by the Oklahoma Tax Commission.

In FY2000, the Town's revenue exceeded the \$25,000 threshold, due to a \$37,000 state grant deposited to the Town's General Fund. No audit was ordered or filed, as required by the above statute. In FY2001 and FY2002, the Town's General Fund revenues did not exceed \$25,000. In FY2003, the Town received two other state grants totaling \$53,949, a park improvements grant for \$21,850 and a fire equipment grant for \$32,099. These grants were deposited to the Town General Fund.

RECOMMENDATIONS:

- Since they are nonrecurring sources of revenue and usually restricted to specific purposes, state and federal grants are more appropriately accounted for in a special revenue grant fund separate from the General Fund.
- The Town should contact the pass through grantor (Oklahoma Economic Development Authority) to determine if there are audit requirements established by the grant contracts.
- The Town should make arrangements for an audit for FY2003. As noted in this report, this audit does not meet the standards required under **11 O.S. 2001, § 17-105**.

**FINDING NO. 14:** *Some town records have not been accounted for during the transition to the new Town Clerk.*

Present Town officials have indicated there were some Town records that they have not been able to locate. These records include an older minute book, maps of the water system and the Town ordinance book.

**Title 51 O.S. 2001, § 19** states:

“Upon the death, resignation, suspension or removal from office of any officer, or upon the expiration of his term, all public monies, books, records, accounts, papers, documents and property of other kind in his hands or held by him by virtue of his office, shall be delivered to his successor.”

**RECOMMENDATION:** We recommend an inventory be done of Town records and a formal letter be issued to the previous Town Clerk requesting all town records still in her possession, and/or information or assistance as to where these Town records may be located. **Title 51 O.S. 2001, § 22** makes the failure to comply with the above-cited statute a misdemeanor.

#### BEAVER COUNTY RURAL WATER DISTRICT NO. 2

The Beaver County Rural Water District No. 2 (RWD) operates under provisions of **Title 82 O.S. 2001, § 1324.1 Rural Water, Sewer, Gas and Solid Waste Management Districts Act** and its own bylaws filed with the Beaver County Clerk. The RWD is a public nonprofit corporation, there are not as many statutes applicable to the District's operations. The findings and recommendations included herein pertain mostly to general internal controls and management recommendations, rather than statutory controls.

**FINDING NO. 15:** *Inadequate segregation of duties.*

Since the Town Clerk also serves as the billing clerk/bookkeeper for the RWD, the same finding of inadequate segregation of duties again applies, (see also **FINDING NO. 2**). There was even less segregation or separation of duties in the RWD, since the same individual also had the meter reading duty and acted in the role of treasurer, receiving and reconciling the bank statements. (RWD funds are not in the custody of the Beaver County Treasurer, as was the case for the Town).

The RWD Board has since hired a part-time meter reader to perform that duty. This policy should be continued.

Most of the payments from water and sewer customers were in the form of checks, with cash being used for payment only on infrequent occasions. There have been no cash transactions for RWD payments in the first months since the new Town Clerk took over as billing clerk/bookkeeper.

RWD checks also required two signatures. In this case however, most of the RWD checks were already being signed by two Board members, even though the Town Clerk/RWD bookkeeper was and is authorized to sign RWD checks.

**RECOMMENDATIONS:**

- Being a public non-profit corporation, the RWD may not refuse cash if a customer insists. The RWD should encourage an informal policy of accepting only checks or money orders wherever

and whenever possible. A "no cash" policy is a preventive measure against "check for cash" substitution frauds.

- Establish a policy of that only authorizes the Chairman and other Board members to be on the bank signature cards and sign the checks, thereby separating the duty of bill preparation and processing from the duty of authorization for RWD cash disbursements.
- Consider implementing a "lock box" arrangement with First Security Bank, where the RWD has its bank accounts and investments. With a "lock box" service, the RWD would have a P.O. Box in Beaver as the address for customers to send payments. The bank would have the key to the P.O. Box, pick up the payments, deposit them to the Revenue account, and then send a notice of deposit to the Town Clerk/RWD bookkeeper.

As noted before, this arrangement is used successfully for many businesses and public entities. Costs for the service would likely be minimal, and the service would provide a strong internal control, separating the duty of billing/accounts receivable from the duty of collecting payments for the RWD water and sewer services.

**FINDING NO. 16:** *Failure to provide timely financial reports to the Board of Directors.*

During the audit period, the only financial report presented to the Board was the annual financial statement compilation and projected budget. No internal monthly reports were presented to the Board for review or approval.

A basic requirement for Board oversight is the timely and accurate reporting of financial transactions. Without financial reporting, the Board is making decisions with incomplete knowledge of the overall financial situation.

Since taking office, the present Town Clerk has been providing the Board with a monthly report of the bank account and investment balances for the RWD. This new policy should be continued.

**RECOMMENDATIONS:**

- In addition, a monthly report of revenue received, transfers made and expenses paid should be provided to the Board. The reports would be compiled on the immediate prior month's activity. For example, the August financial reports could be presented to the Board at their September meeting.
- The reports should be reviewed and approved by the Board in open meeting.

**FINDING NO. 17:** *The RWD was not depositing its utility revenue daily, as required by 62 O.S. 2001, § 517.3(B).*

**62 O.S. 2001, § 517.3(B)** states in part:

"The treasurer of every public entity shall deposit daily, not later than the immediately next banking day, all funds and monies of whatsoever kind that shall come into the possession of the treasurer[.]"

It has been the practice of the former Town Clerk/RWD bookkeeper, to accumulate the payments made for the water and sewer utilities, and deposit those payments once per month in the RWD



Revenue Account in First State Bank in Beaver, Oklahoma. Accumulating these payments over a period of days or weeks until making the one deposit per month increases the chances of theft, accidental loss or misplacement of the payments.

**RECOMMENDATIONS:**

- The "lock box" system described in **FINDING NO. 15** would also remedy this issue. If the Board prefers not to use the "lock box" system, then the following procedures are recommended.
- Since the vast majority (usually 100% each month) of payments are in check form, we recommend the deposits be made more frequently and mailed to the bank. All check payments should be restrictively endorsed prior to mailing. Other arrangements should be made for those occasional deposits that include currency or coin.
- We also recommend that copies be made of customer checks being deposited to retain for record keeping and internal control purposes.

**FINDING NO. 18:** *Some RWD bank accounts could be closed or consolidated.*

The RWD operates with four bank accounts: Revenue Account, Operating Account, Reserve Account and the Insufficient Funds Account. Currently, all revenues are deposited to the Revenue Account. At the end of the month, the monthly mortgage payment of \$284.10 is made to the mortgage company, 10% of the monthly mortgage payment (\$28.41) is transferred to the Reserve Account and the carryover balance from the prior month is transferred into the Operating Account. All of the District's operating expenses are paid from the Operating Account. The Insufficient Funds Account appears to have been inactive for years, carrying a balance of only \$55.34.

This group of accounts appears to be an outdated arrangement, probably originating from the time when Farmers Home Administration held the District's mortgage. The mortgage is now held by GMAC Commercial Credit Corporation, a private mortgage company that may or may not require these various operating accounts.

**RECOMMENDATIONS:**

- Presently, customer checks that are found to have insufficient funds are debited to the Revenue Account, not to the Insufficient Funds Account. Since the account is inactive and serves no purpose, we recommend the Insufficient Funds Account be closed and the remaining balance be transferred to the Operating Account.
- Contact GMAC Commercial Credit Corporation to determine if there would be any objection to consolidating the Revenue Account and Operating Account into one Revenue/Operating bank account. Consolidation would eliminate the awkward and unnecessary situation of depositing revenues to one account but paying expenses from another account.
- The Town files included a December 2000 mortgage report from GMAC. This report showed a \$0.00 balance for "Reserve Escrow," indicating that GMAC may not be aware of the Reserve Account and/or may not require the RWD to have a "Reserve" account for debt service contingencies. If not required, the Reserve Account should also be closed.

**FINDING NO. 19:** *Minutes for the RWD meetings were not signed by the Chairman.*

Although not signed by the Chairman of the Board of Directors, the Board member serving as Secretary for the Board signed all of the minutes reviewed.

**RECOMMENDATION:** As in other situations where a board of trustees or a board of directors is involved, we believe the Chairman should also sign the minutes.

\* \* \* \* \*

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 Town, the Rural Water District, or any of the individuals named in this report or acting on behalf of the Town or Rural Water District have violated any statutory requirement or prohibition imposed by law. All cites and/or references to specific legal provisions are included within this report for the sole purpose of enabling the Administration and other interested parties to review and consider the cited provisions, independently ascertain whether or not Town/Rural Water District 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.

## APPENDIX

TOWN OF GATE  
FIRE DEPARTMENT  
Fuel Purchaes by Card #  
July 1999 to August 2002

**First card series:**

Date Range	Card #	Fuel Type	Times Used	Average Quantity	Average Amount
07/22/99 12/03/99	1149	DSL	3	14.8	\$ 17.69
07/12/99 12/19/99	1149	UNL	16	11.4	\$ 13.57
07/29/99 09/25/99	1150	DSL	2	14.2	\$ 16.51
07/29/99 09/25/99	1150	UNL	0	0	\$ -

**Second card series:**

Date Range	Card #	Fuel Type	Times Used	Average Quantity	Average Amount
05/25/00 11/18/00	2202	DSL	2	6.6	\$ 10.03
01/03/00 12/23/00	2202	UNL	6	9.5	\$ 13.10
01/28/00 01/21/01	2203	DSL	9	20.6	\$ 30.16
01/22/00 01/21/01	2203	UNL	55	12.1	\$ 17.73
02/07/00 09/04/00	2436	DSL	4	11.4	\$ 17.13
01/19/00 01/01/01	2436	UNL	21	8.3	\$ 12.22
01/14/00 01/14/00	2437	DSL	1	21.9	\$ 27.62
01/06/01 01/01/01	2437	UNL	3	7.4	\$ 9.99

**Interim Period (purchase by ticket)**

02/27/01 03/01/01		UNL	5	12.1	\$ 17.45
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**Third card series:**

Date Range	Card #	Fuel Type	Times Used	Average Quantity	Average Amount
07/25/01 10/07/01	3866	DSL	4	14.3	\$ 20.33
04/12/01 08/09/02	3866	UNL	25	9.4	\$ 12.89
07/26/01 02/24/02	3867	DSL	3	10.5	\$ 13.73
04/06/01 04/25/02	3867	UNL	7	13.8	\$ 18.01
04/21/01 06/28/02	4033	DSL	9	19.4	\$ 27.73
03/10/01 07/24/02	4033	UNL	102	14.9	\$ 19.74
07/29/01 08/17/02	4034	DSL	6	13.1	\$ 17.80
07/30/01 03/28/02	4034	UNL	5	3.5	\$ 4.50

Number of fire runs reported from July 1999 to August 2002: 64

Number of diesel purchases and total amount: 43 \$ 952.60

Number of gasoline purchases and total amount: 245 \$ 4,129.84

Town of Gate  
 Fire Dept Fuel Purchases versus Fire Runs  
 July 1999 to August 2002

Mo/Yr	Number of Reported Fire Runs	Total of Units Involved	# of Fuel Purchases	Total Gallons of Fuel Purchased	Total Amount of Fuel Purchased
Jul-99	7	16	10	79.3	\$ 88.97
Aug-99	0	0	2	36.6	43.00
Sep-99	4	6	5	44.6	54.47
Oct-99	1	3	0	0	-
Nov-99	2	4	1	13.7	16.98
Dec-99	0	0	3	80.2	99.84
Jan-00	2	3	6	96.8	121.59
Feb-00	4	7	6	84.5	116.91
Mar-00	2	4	8	79.9	119.70
Apr-00	2	3	10	107.3	148.63
May-00	1	2	8	75.7	108.55
Jun-00	2	4	11	126.2	203.89
Jul-00	0	0	7	86.9	131.41
Aug-00	5	11	5	41.8	58.90
Sep-00	1	4	9	171.2	260.40
Oct-00	2	3	9	105.9	163.35
Nov-00	2	8	8	76.0	113.85
Dec-00	1	4	7	66.6	90.22
Jan-01	1	1	7	67.5	90.89
Feb-01	0	0	5	60.6	87.23
Mar-01	0	0	4	38.3	53.23
Apr-01	3	4	10	113.2	172.19
May-01	0	0	9	101.4	169.68
Jun-01	1	3	9	117.9	187.94
Jul-01	6	21	24	348.0	463.17
Aug-01	2	6	12	143.6	202.42
Sep-01	1	2	8	105.6	171.19
Oct-01	2	7	11	129.6	167.96
Nov-01	1	2	6	99.0	112.00
Dec-01	0	0	6	101.6	111.67
Jan-02	0	0	7	113.7	129.07
Feb-02	1	2	5	71.2	81.05
Mar-02	3	6	12	187.8	233.91
Apr-02	0	0	8	105.9	140.33
May-02	2	3	11	141.7	183.26
Jun-02	0	0	10	166.9	215.38
Jul-02	0	0	7	105.8	143.25
Aug-02	3	4	2	18.9	25.96
	64	143	288	3711.4	\$ 5,082.44

NOTES:

1. Six of the fire run reports did not indicate the units involved. For those six reports, an estimate of "2" units was used, which was the average number of units involved for the other 58 reports.
2. In August 2002, one member of the fire department was suspended for alleged personal use of a fire department fuel purchase card.
3. In the 10 months following (Sept 2002 to June 2003), there were only 2 purchases of fuel: one diesel purchase of 27.3 gallons in the amount of \$41.99; one gas purchase of 22.9 gallons in the amount of \$33.58.