



TOWN OF HALLETT

Investigative Audit Report

August 14, 2019

Cindy Byrd, CPA
State Auditor & Inspector

**Town of Hallett
Pawnee County, Oklahoma**

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TO THE HONORABLE MIKE FISHER, DISTRICT ATTORNEY, DISTRICT 10

Presented herein is the investigative audit report of the Town of Hallett. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is addressed to, and is for the information and use of, the District Attorney as provided by statute. This report is also a public document pursuant to the Oklahoma Open Records Act, in accordance with **51 O.S. §§ 24A.1, et seq.**

Sincerely,



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR





Town of Hallett

Investigative Audit Report

Why We Performed This Audit

In accordance with 74 O.S. § 212(H), we were engaged at the request of former District Attorney Rex Duncan to perform an investigative audit of the Town of Hallett's municipal finances. Upon taking office, current District Attorney Mike Fisher chose to honor this request.

Audit Objectives

We made inquiries and reviewed records, for the period of July 1, 2016 through June 30, 2018, to address the following concerns for the Town of Hallett (Town) and the Hallett Public Works Authority (PWA).

1. Were elections conducted according to statute and were results properly reported?
2. Were Rural Economic Action Plan grant funds managed properly?
3. Were payroll payments appropriate and properly documented?
4. Were Christmas party expenditures allowable?
5. Were Town expenditures properly approved, documented, and for appropriate purposes?
6. Was there evidence of nepotism?
7. What were the contents of the Town's safety deposit box?

Summary of Findings

- Although elections were held in accordance with statute, election results and changes to the record of elected officials due to resignations were not consistently reported to the Pawnee County Election Board.
- The Town ordinance authorizing payment for the clerk/treasurer was out-of-date resulting in payments to the previous and current clerk/treasurers that exceeded the approved monthly salary amount by \$250.
- The Town did not have a contract with the current water operator or an ordinance defining the water operator's pay and job duties.

- The quality of records submitted by the water operator in support of work performed was of such poor quality that it was not possible to ascertain whether mileage and hourly payments made between July 2016 and June 2018, totaling \$7,011.23, were appropriate.
- The Town’s use of *General Fund* money to pay for *PWA* Christmas parties in 2016 and 2017 was improper. The parties were funded in the amount of \$1,692.43 in December 2016 and \$946.31 in December 2017.
- Expenditures reviewed were properly authorized and for appropriate Town purposes but were not encumbered in a timely manner.

Details on What We Found

1. Were elections conducted according to statute and were results properly reported?

No Finding *Elections were held in accordance with statute.*

The Town of Hallett is governed by three Board of Trustee (Board) members and a clerk/treasurer all elected by the citizens under the Oklahoma Town Meeting Act as defined in 11 O.S. §§ 16-301 *et seq.* We reviewed election procedures and the reporting of election results for elections conducted in April 2017 and April 2019. Both elections were properly set by Board resolution, and a notice of each election was properly published in the Cleveland American newspaper.

Finding *Election results and changes to the record of elected officials were not consistently provided to the Pawnee County Election Board.*

Although elections were held in accordance with statute, election results, and changes to the elected official composition due to resignations, were not always reported properly to the Pawnee County Election Board. Title 16 O.S. § 309 requires:

The municipal clerk shall file with the secretary of the county election board a list of the names and addresses of the municipal officers elected and shall notify the secretary of the county election board of any changes in the list as filed.

The Election Board had only received election results for the 2009 and 2017 elections. They were not notified when elected officials resigned or when they were replaced by an appointee for the remainder of a term. The Town e-mailed election results for the 2019 election to an old inactive e-mail address resulting in the 2019 results not being officially communicated to the Election Board.

Citizens voiced concerns that an election for the position of mayor had not been held. As per 11 O.S. § 12-104, the position of mayor is not elected by the citizens but is elected by the members of the Board. The statute states in part:

The board of trustees shall elect from among its members a mayor. The mayor shall be elected in each odd-numbered year at the first board of trustees meeting held after trustee terms begin, or as soon thereafter as practicable. The mayor shall serve until his successor has been elected and qualified.

2. **Were Rural Economic Action Plan grant funds managed properly?**

No Finding ***Both FY 2017 and FY 2018 Rural Economic Action Plan grant funds were disbursed appropriately and documented properly.***

We obtained all Rural Economic Action Plan (REAP) grant related documentation from both the Town as well as the Central Oklahoma Economic Development District (COEDD), the agency that maintains oversight for REAP grants awarded to the Town.

The Town received two REAP grants, one in FY 2017 for \$42,000 to paint the outside of the water tower, and one in FY 2018 for \$5,500 to repair the lagoon road. The Town maintained adequate records documenting that payments made to contractors were for allowable grant expenditures. COEDD also noted no exceptions in the management of these projects.

The Town used only \$17,987 of the FY 2017 grant. Town officials were not aware they could have requested the use of the remaining grant balance of \$24,013 for another project. As such, these funds were retained by COEDD.

3. **Were payroll payments appropriate and properly documented?**

Clerk/Treasurer

Finding ***The Town ordinance authorizing payment for the clerk/treasurer was out-of-date resulting in payments to the previous and current clerk/treasurers that exceeded the approved monthly salary amount by \$250.***

Town ordinance number 33, dated March 26, 2007, established the Town clerk/treasurer salary at \$750 per month. The current clerk/treasurer, in office since August 2015, received a salary of \$1,000 per month, \$250 more than the amount approved by ordinance. The previous clerk/treasurer was also paid a salary of \$1,000 per month.

We also reviewed four travel payments and all monthly payroll checks issued to the clerk/treasurer during the audit period. All payments reviewed were paid from the proper bank account, properly approved, and adequately documented.

Town officials indicated that the ordinance defining clerk/treasurer pay would be updated at the August 2019 Board meeting.

Water/Wastewater Operator¹

Finding ***The Town did not have a contract with the current water operator or an ordinance defining the water operator’s pay and job duties.***

The current water operator received \$1,000 per month in salary from the PWA, a \$40 per month cell phone allowance, and \$12.50 per hour for extra PWA related job duties. Since there was no contract in place, it could not be determined what job duties were to be considered part of the \$1,000 monthly salary versus what job duties should be paid as “extra” at the \$12.50 hourly rate. The water operator was allowed to report what he considered to be work that qualified for the \$12.50 hourly rate, and the Board approved payment for this work in addition to his monthly \$1,000 salary.

On May 8, 2017, the Board also approved paying the water operator \$10 per hour, for up to 40-hours per month, for General Fund related maintenance work. Hours reported for this work never exceeded 22-hours per month and all payments were made from the General Fund at \$10 per hour.

In addition to his monthly salary, the water operator received a total of \$7,011.23 (net) in non-payroll² payments during the audit period. These payments consisted of \$5,629.88 for PWA related “extra” work duties and related mileage, and \$1,381.35 for General Fund related maintenance work.

The Board and the water operator entered into a contract at the July 8, 2019, Board meeting to define the job duties of the water operator. This contract was almost identical to the contract signed by his predecessor who received the same payments.

Finding ***The quality of records submitted by the water operator in support of work performed was of such poor quality that it was not possible to ascertain whether mileage and hourly payments were appropriate.***

¹ Hereinafter referred to as the water operator.

² Hourly pay for extra job duties and travel payments.

We reviewed all 36 non-payroll related payments made to the water operator totaling \$7,011.23. Detailed mileage logs were not available and supporting documentation for hourly pay was either missing and/or lacked specificity. The absence of an employment contract coupled with the poor quality of these records made it difficult to ascertain whether mileage and hourly payments were appropriate. However, it is important to note that the Board approved all of these payments.

4. Were Christmas party expenditures allowable?

Finding ***The Town's use of General Fund money to pay for the PWA Christmas parties in 2016 and 2017 was improper.***

According to Board minutes dated October 25, 2016, and October 9, 2017, the Board authorized the expenditure of \$1,500 each year from the General Fund to pay for an annual PWA Christmas party.

Purchase orders and invoices reflected the Town spent \$1,692.43 for the December 2016 Christmas party and \$946.31 for the December 2017 Christmas party. The purchases included food, party supplies, small gifts, gift cards, and other miscellaneous items. The Christmas party related purchase orders were approved by the Board and paid from the General Fund bank account instead of the PWA bank account.

According to a Town official, the annual Christmas party invitations were sent out in the utility bills. Since all Town residents do not have PWA accounts all residents were not invited to the Christmas party. Therefore, using General Fund monies to pay for the PWA Christmas party would be considered improper.

The Town was also informed of this situation by their independent auditor in December 2018. As a result, \$940.36 was transferred from the PWA bank account to the General Fund bank account to cover the costs of the 2018 Christmas party.

While the use of PWA funds for a Christmas party may be allowable, the Town should evaluate whether a Christmas party is the best use of PWA resources.

5. Were Town expenditures properly approved, documented, and for appropriate purposes?

Finding ***Expenditures reviewed were properly authorized and for appropriate Town purposes but were not encumbered in a timely manner.***

We obtained all Town bank account records directly from the bank. We identified high dollar expenditures as well as other non-recurring expenditures to determine whether these costs were properly authorized, legal, and appropriate. We identified twelve checks and three cash withdrawals for further analysis.

The three cash withdrawals were transfers of water/sewer deposit funds from one Town account to another. The bank handles these transfers like a cash withdrawal and an immediate cash deposit. The cash never leaves the teller's hands.

The twelve expenditures reviewed were properly authorized, legal, and for appropriate Town purposes. However, funds were not encumbered prior to purchases occurring as required by 62 O.S. § 310.1 which states in part:

Unless otherwise provided by ordinance, officers, boards, commissions and designated employees of cities and towns...having authority to purchase or contract against all budget appropriation accounts as authorized by law shall submit all purchase orders and contracts prior to the time the commitment is made...

6. Was there evidence of nepotism?

No Finding ***There was no evidence of nepotism.***

We found no evidence that nepotism existed between Town employees and Board members. There are two siblings that are currently *elected* Town officials, one trustee and the Town clerk/treasurer. Nothing in statute prohibits two *elected* officials from being related. Title 11 O.S. § 8-106 defines nepotism as follows:

No elected or appointed official or other authority of the municipal government shall appoint or elect any person related by affinity or consanguinity within the third degree to any governing body member or to himself or, in the case of a plural authority, to any one of its members to any office or position of profit in the municipal government. The provisions of this section shall not prohibit an officer or employee already in the service of the municipality from continuing in such service or from promotion therein.

Prior to the clerk/treasurer being *elected*, she was appointed as the clerk/treasurer in a 'Special Town Meeting' on August 18, 2015. At the time she was appointed there was no relationship between the clerk/treasurer and any of the sitting Board members.

7. *What were the contents of the Town's safety deposit box?*

We conducted a visual inspection and inventory of the Town's safety deposit box on June 28, 2019. The box had not been accessed since signatories had been updated on August 14, 2018. The bank currently requires the presence of two of the four signatories to gain access to the safety deposit box.

The contents of the safety deposit box were as follows:

- A loan agreement to purchase a police car from 2002;
- Three certificates of deposits (CD), two current and one matured; and
- One quit claim deed for a parcel of property donated to the Town.

Final Thoughts

Inherent in any small town, the lack of segregation of duties prohibits the existence of an internal control system to properly protect the assets of the entity. As a result, the Board should be vigilant in their oversight of the Town's financial activities and should be transparent in their dealings with the citizens of Hallett.

In the interest of transparency, Town officials requested guidance regarding what information could be released as per the Open Records Act (Act).³ Based on citizen concerns and specific questions voiced by Town officials, we recommend the Town, at a minimum, take the following actions:

- 1) Include complete bank statements⁴ in their monthly Board packets and make those statements available to citizens upon request.
- 2) Release utility billing records as provided for in § 24.A.10.D of the Act which requires the Town to provide public access to records including records of the address, rate paid for services, charges, consumption rates, adjustments to the bill, reasons for adjustment, the name of the person that authorized the adjustment, and payment for each customer.

³ 51 O.S. §§ 24A.1 *et seq.*

⁴ With any information redacted as required by the Open Records Act.

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