



**VIVIAN RURAL WATER
DISTRICT NO. 6
McIntosh County
Special Audit Report
July 1, 2003 – June 30, 2004**

JEFF A. McMAHAN, CFE
OKLAHOMA OFFICE
OF THE
STATE AUDITOR & INSPECTOR

Audit Summary:

- ✓ We were unable to substantiate the concern relating to District purchases being used for personal use. **Pgs 7 & 8**
- ✓ We identified one instance where the District was billed \$2,083.95 for supplies that were not received. **Pg 9**

Why the audit was performed

The McIntosh County District Attorney Requested the audit pursuant to 74 O.S. § 212(H).

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.

VIVIAN RURAL WATER DISTRICT NO. 6

McINTOSH COUNTY

SPECIAL AUDIT REPORT

JULY 1, 2003 THROUGH JUNE 30, 2004

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

December 9, 2004

Honorable Thomas Giulioli
District Attorney, District No. 25
P.O. Box 127
Eufaula, Oklahoma 74432

Transmitted herewith is the Special Audit Report for Vivian Rural Water District No. 6, McIntosh County. We performed our special audit in accordance with the requirements of 74 O.S. 2001, § 212(H).

A report of this type is critical in nature; however, we do not intend to imply that our report failed to disclose commendable features in the present accounting and operating procedures of the Vivian Rural Water District No. 6.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government, which is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our Office during the course of our special audit.

Sincerely,

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

JEFF A. McMAHAN, CFE
State Auditor and Inspector

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

Ms. Teresa Pratt, Chairman
Vivian Rural Water District No. 6
P.O. Box 430
Eufaula, Oklahoma 74432

Pursuant to the District Attorney's request and in accordance with the requirements of 74 O.S. 2001, § 212(H), we performed a special audit with respect to Vivian Rural Water District No. 6, McIntosh County, for the period July 1, 2003 through June 30, 2004.

Our audit focused on the area of concerns presented by the District Attorney's office, which included "embezzlement involving funds".

Because the 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 Vivian Rural Water District No. 6, for the period July 1, 2003 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 District taken as a whole.

This report is intended to provide information to the District Attorney, Vivian Rural Water District members and Administration of the District. 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, CFE
State Auditor and Inspector

December 1, 2004

VIVIAN RURAL WATER DISTRICT NO. 6
SPECIAL AUDIT REPORT
JULY 1, 2003 THROUGH JUNE 30, 2004

BOARD OF TRUSTEES
VIVIAN RURAL WATER DISTRICT #6
JULY 1, 2003 THROUGH JUNE 30, 2004

LARRY ARMSTRONG..... CHAIRMAN
(7/2/2003 – 2/2004)
MEMBER
(3/2004 – PRESENT)

TERESA PRATT..... VICE-CHAIRMAN
(7/2003 – 3/2004)
CHAIRMAN
(3/2004 – PRESENT)

RHONDA JONES..... SECRETARY

RANDAL BUCK..... MEMBER
(7/2003 – 2/2004)
VICE-CHAIRMAN
(3/2004)
RESIGNED
(3/2003)

WES SMITH..... MEMBER
(7/2003 – 2/2004)

CHARLES REHNBORG..... MEMBER
(2/2003 – PRESENT)

GAYLE CLARK..... MEMBER
(6/2003 – PRESENT)

**VIVIAN RURAL WATER DISTRICT NO. 6
SPECIAL AUDIT REPORT
JULY 1, 2003 THROUGH JUNE 30, 2004**

Introduction

Vivian Rural Water District No. 6 was formed in May 1967 under the provisions of the Rural Water District Act (82 Okl. St. Ann. § 1301-1321) by an order and decree of the McIntosh County Commissioners. The corporate powers of the Board are vested in the Board of Trustees.

The Board consists of five (5) members, all of whom are participating members of the District. At each annual meeting, the participating members elect, for a term of three years, the number of Trustees whose terms have expired.

The State Auditor and Inspector conducted a special audit of the records of the Vivian Rural Water District No. 6, primarily those records relating to the specific concerns of the District Attorney. The results of the special audit are in the following report.

CONCERN: *Possible irregularities in purchases of supplies and equipment appropriated for personal use*

Procedure:

We examined records for the period from July 1, 2003 through June 30, 2004 including cancelled checks, invoices for supplies and equipment and statements for services performed for the District. A listing of expenditures was provided to the Board for approval at the monthly meetings. We examined all payments made by the District for supplies and equipment and verified those payments to vendor invoices as well as for Board approval. Additionally we examined purchases for supplies and equipment and verified, where possible, that the items were either in inventory, in use or purchased for use of the District.

VEHICLE PARTS AND SUPPLIES:

One of the specific concerns expressed was the possibility of vehicle parts and equipment, specifically oil, filters and fuel treatment products, tires and wheels and a computer chip having been purchased by the District and used for personal use. We noted the following:

Expenditures for oil, filters, fuel treatment:

We examined invoices relating to the purchase of oil, oil filters, air filters and fuel treatment (*Tables A & B*) and noted the following:

- Nine (9) purchases for oil/air filters or related products in the total amount of \$287.21
- Six (6) purchases for fuel treatment products in the total amount of \$66.62

We examined invoices relating to the purchase of wheels and tires and noted the following (*Table C*):

- Two (2) tires and three (3) wheels for the backhoe trailer totaling \$425.00
- Ten (10) tires were purchased for the 1-ton truck in the total amount of \$966.82



During the audit we examined the 1-ton truck owned by the District. The odometer indicated the vehicle mileage as 45,089. We obtained an invoice indicating this vehicle was delivered on October 11, 2002. This invoice showed that service work was done on September 8, 2004 at a local dealership. At the time of the service work the mileage was listed as 41,380. This indicates an annual usage of about 20,000 miles per year.

We noted that the last set of six (6) tires was purchased on 2/4/2004 and 3/29/2004. On November 29, 2004 we examined the 1-ton truck and found that the tires appeared to be new. Additionally we also examined the personal vehicle of the District Manager and found those tires to be significantly worn.

We examined the trailer used to transport the District's backhoe. At the time of the examination the District Manager advised us that the trailer was overloaded and this was the reason for the wheel breakage and subsequent replacement of the wheels. We noted, at the time of the examination, that a trailer wheel was lying next to the trailer.

We noted that by visual appearance the trailer appeared to be significantly overloaded. We also noted that the trailer had two white wheels, one black wheel and one silver wheel that appeared to be new.



Performance "Chip":

One of the concerns expressed was the possibility of a "chip" having been purchased with District funds and used on the District Manager's personal vehicle. The purchase of the chip occurred outside of our audit period, however, we examined the transaction as this was a specific concern.

We noted an invoice for a "programmer" chip purchased on 4/11/2003 in the amount of \$449.95.

We interviewed the District Manager who stated that he did have the same "chip" on his personal vehicle and that he had purchased it from the same vendor on his personal account. Further, the District Manager stated that we could verify this purchase through the local vendor.

Subsequently we obtained an invoice from the vendor indicating the purchase of the same chip (part number 30021) by the District Manager, on his personal account, on 6/20/2003.

Other Vehicle Parts & Purchases:

We noted fifty-five (55) purchases from an automotive parts vendor in the total amount of \$1,814.98 (*Table D*). The majority of these purchases were for consumable products that cannot be clearly traced to a specific use. This includes purchases for items such as starting fluid, oil, washer fluid, hydraulic fluid, hand cleaner and paper towels.

Some of the items purchased can be identified as to what types of vehicles they may fit, although the same parts may fit a multitude of vehicles and equipment. We noted the following:

- On 10-28-2003 the purchase of a starter in the amount of \$234.00.
- On 11-5-2003 the purchase of disc brake parts in the amount of \$125.83.

We inquired about the vehicles and or equipment that these items would fit. According to the supplier the starter would fit several models of tractor/backhoes but appeared to be a part number primarily associated with Case brand products. The District owned a Case backhoe at the time of this purchase. The disc brake parts purchased would fit a Chevrolet 1-ton truck. The District owns such a vehicle. We inquired if these disc brake parts would fit the vehicle driven by the District Manager and were told that they would not.

WATER RELATED PARTS AND SUPPLIES:

Using a random sample of invoices for parts and supplies relating to the water lines and maintenance we asked the District Manager to provide an accounting and/or show where specific parts and supplies were used. This included 3" and 4" pipe, valves, clamps, tools, metering equipment and testing equipment.

In each instance we were able to verify the existence of what appears to be those items listed on the invoices.



Conclusion:

The majority of the items purchased from the auto parts vendor are for non-traceable consumable items as previously noted. In all instances we identified that invoices were provided to the Board and the Board has approved all purchases we examined. In the instances where a particular part could be identified as to vehicle type we found no exceptions.

We are unable to substantiate the concern.

EXCEPTIONS FOUND DURING AUDIT:

Concern: *The District paid for items that were not received.*

We noted that the District was invoiced for one hundred (100) boxes of one hundred (100) chlorine test pillows (10,000) in October 2003. The total purchase amount was \$2,105.00. We noted an invoice in December 2003, indicating the purchase of three (3) boxes of one hundred (300) chlorine test pillows in the total amount of \$63.15.

According to the District Manager the District uses about 35 test pillows per month. The purchase of 10,300 test pillows represents a supply for about 24 years.

We contacted the District Manager and asked how many of these test pillows were currently on-hand and he stated that he kept about one hundred (100) on-hand and that the invoice for one hundred boxes must be in error as he would have never ordered that many.

We contacted the vendor who stated that this invoice was in error. The order was placed for one hundred test pillows (one box) rather than one hundred boxes. The vendor had not credited the District for this error prior to our inquiry but stated that they would issue a credit memo to the District and provide us with a copy.

Subsequently we received, by fax, a credit statement from the vendor crediting the District in the amount of \$2,083.95 (99 boxes priced at \$21.05 per box).

Recommendation:

We recommend the District implement procedures to verify that items invoiced have been received.

**VIVIAN RURAL WATER DISTRICT NO. 6
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JULY 1, 2003 THROUGH JUNE 30, 2004**

Table A

| Oil Related Purchases | | | | |
|------------------------------|--------------------------------|--------------------|-----------------|------|
| 9/5/2003 | Oil filter & oil & supplies | Eufaula Auto Parts | \$52.46 | 8731 |
| 10/7/2003 | 2 qts oil, towels, 11oz wd | Eufaula Auto Parts | \$9.65 | 8751 |
| 10/22/2003 | Oil filter, 3 gals oil, towels | Eufaula Auto Parts | \$36.34 | 8751 |
| 10/30/2003 | Air Filter | Eufaula Auto Parts | \$25.30 | 8751 |
| 10/31/2003 | Oil Filter | Eufaula Auto Parts | \$12.10 | 8784 |
| 1/9/2004 | Ball Jnt, 6 gals oil | Eufaula Auto Parts | \$54.66 | 8840 |
| 2/19/2004 | Air Filter | Eufaula Auto Parts | \$25.30 | 8862 |
| 2/18/2004 | Lucas Oil, 1 qt SAE40 | Eufaula Auto Parts | \$12.94 | 8862 |
| 5/10/2004 | Oil & Air Filter & Oil | Eufaula Auto Parts | \$58.46 | 8967 |
| | | Total | \$287.21 | |

Table B

| Fuel Treatment Purchases | | | | |
|---------------------------------|----------------|---------------|----------------|------|
| 7/8/2003 | Fuel Treatment | Westside, Inc | \$9.00 | 8677 |
| 9/29/2003 | Fuel Treatment | Westside, Inc | \$4.50 | 8729 |
| 12/4/2003 | Fuel Treatment | Westside, Inc | \$4.50 | 8832 |
| 1/6/2004 | Fuel Treatment | Westside, Inc | \$4.50 | 8854 |
| 1/7/2004 | Fuel Treatment | Westside, Inc | \$4.50 | 8854 |
| 1/29/2004 | Fuel Treatment | Westside, Inc | \$39.62 | 8854 |
| | | Total | \$66.62 | |

VIVIAN RURAL WATER DISTRICT NO. 6
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Table C

| Wheel & Tire Purchases | | | | |
|-----------------------------------|-------------------------------|---------------|-----------------|------|
| 7/17/2003 | 1 heavy duty 16" wheel & tire | Westside, Inc | \$203.00 | 8677 |
| 9/26/2003 | 8x16" used wheel & mounting | Westside, Inc | \$35.00 | 8729 |
| 6/3/2004 | 1 16" Wheel | Westside, Inc | \$28.50 | 8981 |
| 11/12/2003 | Trailer tire | Westside, Inc | \$158.50 | 8805 |
| | | Total | \$425.00 | |
| | | | | |
| | | | | |
| 7/8/2003 | 4 235x85-R46 tires & mounting | Westside, Inc | \$479.52 | 8677 |
| 2/4/2004 | 4 Tires for 1-ton | Westside, Inc | \$302.20 | 8881 |
| 3/29/2004 | 2 tires 1-ton truck | Westside, Inc | \$185.10 | 8885 |
| | | Total | \$966.82 | |

**VIVIAN RURAL WATER DISTRICT NO. 6
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Table D

| | | | |
|------------|--------------------------------|----------|---|
| | Eufaula Auto Parts | | |
| 3/22/2003 | Supplies for cut off saw | \$29.66 | 12/22/2003 Misc Supplies \$5.58 |
| 5/29/2003 | Oil Filter, 3 gals oil, socket | \$38.05 | 1/2/2004 Hydraulic Fluid & Filter \$64.24 |
| 6/9/2003 | Armour All, towels | \$4.58 | 1/2/2004 Misc Supplies \$51.72 |
| 6/9/2003 | Starting Fluid | \$3.70 | 1/9/2004 Ball Jnt, 6 gals oil \$54.66 |
| 6/9/2003 | Gas can | \$12.61 | 1/12/2004 Lamp \$4.47 |
| 6/15/2003 | 2 hose ends, hydraulic fluid | \$47.16 | 1/12/2004 Misc Supplies \$2.43 |
| 6/20/2003 | 2 gals oil, oil filter, towels | \$23.75 | 1/31/2004 Starter \$234.00 |
| 6/23/2003 | Capscrew, nut, washer, pliers | \$39.43 | 2/4/2004 Wire Set, Battery Charger \$77.98 |
| 7/30/2003 | Hydraulic Fluid | \$21.99 | 2/9/2004 Starting Fluid \$3.70 |
| 8/13/2003 | Circuit Tester | \$7.99 | 2/18/2004 Misc Supplies \$28.78 |
| 8/18/2003 | WD fluid, starting fluid | \$5.27 | 2/18/2004 Lucas Oil, 1 qt SAE40 \$12.94 |
| 8/29/2003 | Towels, 1 Spark Plug | \$7.51 | 2/19/2004 Air Filter 2002 Chev 6.6L \$25.30 |
| 9/5/2003 | Oil filter & oil & supplies | \$52.46 | 2/26/2004 Misc Supplies \$23.77 |
| 9/8/2003 | O Rings - Hydraulic Fluid | \$22.37 | 2/26/2004 730-4962 "Steering" \$6.99 |
| 10/7/2003 | 2 qts oil, towels, 11oz wd | \$9.65 | 3/4/2004 Misc Supplies \$6.63 |
| 10/9/2003 | Brush, washer fluid | \$6.48 | 3/5/2004 Ratchet & Socket \$34.83 |
| 10/22/2003 | Fuse, Socket | \$7.60 | 3/8/2004 Misc Supplies \$18.49 |
| 10/22/2003 | Fuel filter, hand cleaner | \$10.69 | 3/8/2004 Misc Supplies \$6.88 |
| 10/22/2003 | Oil filter, 3 gals oil, towels | \$36.34 | 4/5/2004 Washer Fluid \$1.69 |
| 10/28/2003 | Starter | \$234.00 | 4/12/2004 Hook \$8.98 |
| 10/30/2003 | Air filter | \$25.30 | 4/12/2004 Pliers \$13.99 |
| 10/31/2003 | Oil Filter | \$12.10 | 4/21/2004 Battery \$74.95 |
| 11/4/2003 | Tractor Part | \$21.99 | 4/27/2004 SER pliers \$29.99 |
| 11/5/2003 | Disc Brakes | \$125.83 | 5/7/2004 Towels \$5.56 |
| 11/11/2003 | Fuel Filter & Socket | \$38.75 | 5/10/2004 Oil & Air Filter & Oil \$58.46 |
| 11/15/2003 | 2 Hex Key Sets, 13 pc ball | \$28.17 | 6/8/2004 10011 - WD 11oz \$3.89 |
| 11/26/2003 | Misc Supplies | \$10.17 | 6/8/2004 Repair Kit \$5.99 |
| 12/1/2003 | Misc Supplies | \$64.49 | <i>Sub Total</i> \$866.89 |
| | <i>Sub Total</i> | \$948.09 | |
| | | | Total \$1,814.98 |

Photos

