



Wanette Public School Pottawatomie County Special Audit Report July 1, 2004-December 31, 2005

JEFF A. McMAHAN, CFE

OKLAHOMA OFFICE OF THE
STATE AUDITOR & INSPECTOR

Why the audit was performed

The District Attorney requested
the audit pursuant to
74 O.S. 2001 § 212(H).

Audit Summary:

- ✓ Approximately \$82,000.00 of 2004-05 general funds and approximately \$10,000.00 of 2004-05 child nutrition funds were misrepresented to the local Board of Education as 2005-06 expenditures. The Board subsequently approved the payment of these expenditures from the 2005-06 general funds and the 2005-06 child nutrition funds. **Pgs 8-11**
- ✓ By rolling the 2004-05 general fund expenditures into the 2005-06 school year, it appeared the school had a carryover of \$25,000.00. However the school had exceeded 2004-05 general fund appropriations by approximately \$57,000.00. **Pgs 8-11**
- ✓ The Board approved pay increases for the 2005-06 school year based on affirmation by the superintendent that the school was in good financial condition. These affirmations were made to the Board during the same time period that prior year expenditures were being misrepresented to the Board as current year expenditures. **Pgs 8-11**
- ✓ Activity funds were used for purposes other than previously approved by the Board. **Pgs 11-13**
- ✓ An SA&I Form 307 was altered and filed with the County Clerk without the Board's approval. **Pgs 14-15**
- ✓ A lease/purchase agreement in the amount of \$65,000.00 for a modular building was improperly handled. The lending institution relied on documentation provided by the school to release more funds than the cost of the modular building. **Pgs 15-19**
- ✓ There were changes to employment contracts outside of Board meetings that included signatures being affixed, amounts being changed and extra duty contracts being prepared. There were overpayments to employees as follows: \$8,410.00 to the elementary school principal; \$2,410.00 to the high school principal and \$3,500.00 to the superintendent. **Pgs 20-27**
- ✓ A portion of the salaries of the elementary and high school principals were coded as non-taxed housing allowances and subsequently were not reported as taxable income. The superintendent's housing allowance was coded as a non-taxed payment. **Pgs 20-27**

**WANETTE PUBLIC SCHOOL DISTRICT NO. 631115
POTTAWATOMIE COUNTY, OKLAHOMA
SPECIAL AUDIT REPORT
JULY 1, 2004 THROUGH DECEMBER 31, 2005**

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 \$78.00. 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

July 25, 2006

Honorable Richard Smothermon
District Attorney, District No. 23
331 N. Broadway
Carnegie Building
Shawnee, OK 74801

Honorable District Attorney Smothermon:

Transmitted herewith is the Special Audit Report for the Wanette Public School District No. 631115, Pottawatomie County, Oklahoma. We performed our special audit pursuant to a request from the District Attorney under 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 Wanette Public School District No. 631115, Pottawatomie County, Oklahoma.

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,

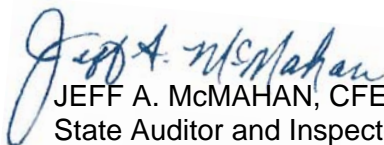

JEFF A. McMAHAN, CFE
State Auditor and Inspector

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index of specific concerns

The following concerns are presented in their entirety in italics as they were communicated to us:

- I. CONCERN:** *Possible irregularities in purchasing procedures and the payment of expenditures..... 7*
- II. CONCERN:** *Possibility that the school owes penalties and back taxes to the I.R.S..... 19*
- III. CONCERN:** *Possible irregularities regarding employment contracts (payments made not included in the contracts, contracts not properly executed by the Board, changes to contracts without Board approval,) and possibility that paid benefits were not reported to the I.R.S. and the Oklahoma Tax Commission... 20*

BOARD OF EDUCATION

Note: The members rotate serving in various Board positions. These are the positions they were serving as of October 10, 2005.

Nancy MulderPresident
(member 2001-present)

Gary HouletteVice-President
(member 1998-January 2006)

Curtis ComptonClerk
(September 2004-present)

Lynda Fullingim Deputy Clerk
(August 15, 2005-present-replaced Larry Stevenson)

Edward Williamson Member
(member from August 16, 2004-present)

Others members who served during the audit period:

Larry Stevenson
(February 2004-July 2005)

SUPERINTENDENT

Glenn Haswell (August 1994-June 30, 2006)

Jan Schilling –Elementary Principal (July 1995-January 2006)
(Acting Superintendent-January 2006 through present)

TREASURER

Candy VanSchuyver (February 1986 –April 2005)

Lisa Hensley (May 2005-Mid July 2005)

Carol Hunt (Mid July 2005 to present)

ENCUMBRANCE CLERK

Debbie Weatherford (July 1999-December 2005)

Lisa Hensley (January 2006-present)



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

Mr. Rick Riggs, Acting Superintendent
Wanette Public School District No. 631115
P.O. Box 161
Wanette, Oklahoma 74878-0161

Dear Mr. Riggs:


Pursuant to a request by District Attorney Richard Smothermon, and in accordance with the requirements of **74 O.S. 2001, § 212(H)**, we performed a special audit with respect to the Wanette Public School District No. 631115, Pottawatomie County, for the period of July 1, 2004 through December 31, 2005.

The objectives of our special audit primarily included, but were not limited to, the areas noted in the "index of specific concerns" and are presented in their entirety in italics as they were communicated to us. 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 Wanette Public School District No. 631115 for the period of July 1, 2004 through December 31, 2005. 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 do not extend to any financial statements of the District taken as a whole.

This report is intended solely for the information and use of District Attorney Richard Smothermon, Wanette Board of Education and Administration of the District and should not be used for any other purpose. This report is also a public document pursuant to the **Oklahoma Open Records Act (51O.S. 2001, § 24A.1 et seq.)**, and shall be open to any person for inspection and copying.

Sincerely,


JEFF A. McMAHAN, CFE
State Auditor and Inspector

May 2006

INTRODUCTION

The Independent District No. 631115, Pottawatomie County, Oklahoma, (Wanette School) is an integral part of the Oklahoma State System of Public Education as described in **70 O.S. 2001, § 1-101 et seq.**, the **Oklahoma School Code**. The Board of Education of the Wanette Public School District is responsible for the supervision, management and control of the District as provided by **70 O.S. 2001, § 5-117**. Both the Board of Education, composed of five (5) elected members, and the Wanette Public School District are subject to the provisions of the **Oklahoma School Code**.

The student body consists of Pre-K through grade 12. The District currently has an enrollment of 238 students. The appointed superintendent is the executive officer of the District.

The Wanette Public School District No. 631115 is audited annually by private independent auditors, and such audit reports were available for our review. The District Board of Education prepares an annual financial statement, presenting the financial position of the District as of the close of the previous fiscal year in accordance with the requirements of **68 O.S. 2001, § 3002**. The financial information presented was prepared from the District's records provided to us by the District Administration.

The State Auditor and Inspector conducted a special audit of the records of the Wanette Public School District, primarily those records relating to the District Attorney's concerns listed in the "index of specific concerns" noted in the table of contents. The results of the special audit are in the following report.

CONCERNS, FINDINGS AND RECOMMENDATIONS

I. CONCERN: *Possible irregularities in purchasing procedures and the payment of expenditures.*

Summary of Findings (1 - 10):

- Lack of segregation of duties and internal controls
- Encumbrances not properly recorded
- Purchase orders issued after the services/work received/performed
- Expenditures misrepresented to the local Board of Education
- Approximately \$92,000 current year (2005-06) appropriations used to pay for prior year (2004-05) expenditures without the knowledge of the Board
- 2004-05 General Fund appropriations exceeded
- Activity funds used for purposes other than previously approved by the Board
- General funds used for capital expenditures
- SA&I Form 307 altered
- Lease Purchase Agreement improperly handled

Findings 1-6: *Lack of segregation of duties and internal controls; encumbrances not properly recorded; purchase orders issued after the fact; expenditures misrepresented to the Board; appropriations exceeded and prior year expenditures paid with current year appropriations.*

We reviewed internal controls and determined the following:

2004-05 School Year

We reviewed the agendas, meeting minutes and encumbrance registers and other documentation presented to the school Board at Board meetings. We reviewed the encumbrance and payment registers. We reviewed one hundred thirty-two (132) of the five hundred forty-nine (549) purchase orders and supporting documentation (invoices, receipts, etc) that were issued during the months of July and part of August 2004 to determine if the encumbrances were for expenditures for the current fiscal year and if the expenditures were properly encumbered.

We noted twenty-five (25) instances wherein expenditures occurred in the prior year but were paid with current year funds. However, twenty-three (23) of the twenty-five (25) expenditures occurred toward the end of June 2005. The two remaining instances indicate that expenditures occurred in May-June and April-June, respectively. We noted thirty-nine (39) instances wherein the encumbrance for funds was done after the work/services had been completed. We noted three (3) instances wherein the general fund reimbursed the activity fund for expenditures that should have been previously encumbered with general funds.

2005-06 School Year:

We reviewed the encumbrance registers (purchase order numbers 1 through 136) provided to the Board during Board meetings on June 20, 2005, July 18, 2005 and August 15, 2005. We then reviewed the purchase orders listed on these reports to the purchase orders and

supporting documentation (invoices, encumbrance requests, etc) to determine if prior year expenditures were paid with current year funds.

On **June 20, 2005**, the Board approved salary increases for the elementary principal and the high school principal for the 2005-06 school year. The increases appear to have been approved based on affirmations to the Board from the superintendent that the school was in good financial condition. More specifically, the Board was advised that they would have a 2004-05 carryover of funds and that the 2005-06 funds would support the increases.

During this meeting, the Board was provided with the general fund encumbrance register dated June 20, 2005. This encumbrance register listed 2005-06 purchase orders dated 7-1-05. However, after reviewing the supporting documents (receipts and invoices) of the purchase orders listed on this encumbrance register, it appears that approximately \$45,000.00 of the expenditures was from the 2004-05 school year. In addition, we reviewed encumbrance registers presented to the Board on July 14, 2005 and on August 15, 2005, and noted that during these meetings the Board was provided with encumbrance registers for 2005-06 that included 2004-05 expenditures. It appears that approximately \$82,000.00 of prior year (2004-05) general fund expenditures were listed on the 2005-06 encumbrance registers and presented to the Board as current year expenditures that were subsequently approved by the Board and paid from current year (2005-06) general funds. It appears that these payments included obligations incurred from December 2004-June 2005. Examples of some of the expenditures included utility bills, labor, psychological services, speech and pathology services, e-rate costs, analog card, transporting services, copier charges, schools supplies, etc.

While reviewing the purchase orders and supporting documentation, it appears that numerous encumbrance forms had been initially completed and dated during 2004-05 and subsequently changed to reflect that the expenditures were encumbered during the 2005-06 school year.

The school designated approximately \$780.00 in reserves to pay the outstanding 2004-05 expenditures of approximately \$82,000.00. According to the school's financial statement prepared by the independent auditor, it appears the school had a lapsed balance of unencumbered appropriations totaling \$25,162.33, with a 2004-05 general fund cash balance on hand of \$31,201.28 as of June 30, 2005. By rolling the expenditures into the next school year (2005-06) and paying the expenditures from the current year general funds, it appeared that the school did not exceed appropriations. And, it appeared that the school had a carryover of funds. However, the school did exceed appropriations in that the expenditures were incurred during the 2004-05 school year and pushed into the 2005-06 so that it would appear appropriations had not been exceeded and there was a carryover of funds. The table below sets out the amount that appropriations were exceeded:

2004-05 General Fund

Appropriations	\$2,198,155.18
Warrants Issued	\$2,172,212.33
Reserves (for outstanding expenditures)	\$ 780.52
 Total Expenditures Reported	 \$2,172,992.85
 Lapsed Balance of Encumbrances (appropriations minus expenditures reported)	 \$ 25,162.33
 2004-05 expenditures incurred during 2004-05 rolled forward into the 2005-06 year	 \$ 81,889.65
 Appropriations Exceeded during 2004-05	 \$ (56,727.32)

Child Nutrition Fund

The school did not reserve any 2004-05 funds to pay outstanding obligations and the school only had a lapsed balance of unencumbered funds in the amount of \$613.00. The invoices attached to purchase orders paid from 2005-06 child nutrition funds appear to be for expenses incurred in 2004-05. The total amount of 2004-05 obligations paid from the 2005-06 funds totals \$10,520.97. The expenditures appear to be for appropriate food and non-food items. The expenditures were presented to the Board at the June 20, 2005 meeting on a child nutrition 2005-06 encumbrance register.

Employees' title and duties indicated internal controls were in place and indicated that there was a segregation of duties. However, the encumbrance clerk, at the direction of the superintendent, initially completed the requisition forms and coded such for funding and then she was later advised by the superintendent to sign her name to the purchase orders. She stated she did not perform the prescribed statutory duties of entering the encumbrances into the school accounting system and first determining that the encumbrance would not exceed the balance of the appropriations to be charged.

It appears that the superintendent authorized and approved incurring indebtedness that had not first been approved by the encumbrance clerk. It appears that the treasurer performed some of the functions of the encumbrance clerk. It also appears that the school employee who held the title of treasurer from May 2005 through July 2005, at the direction of the superintendent, entered encumbrances into the accounting system *after* expenditures had been incurred, issued purchase orders and warrants to pay for prior year obligations with current year (2005-06) general funds.

It appears that during the months of June, July and August 2005, the Board was not aware that they had approved 2005-06 general funds to pay for prior year expenditures. It appears that during Board meetings, the Board was provided encumbrance registers. The encumbrance registers listed the fund year, the fund, the purchase order number, the name of the vendor, a

description of the service/item, the date of the purchase order and the amount. There is no information on the encumbrance registers to indicate to the Board that the encumbrances were prior year bills/invoices. The Board relied on the information provided to them by the superintendent to approve these encumbrances as current year expenditures. In addition, the elementary principal stated she was present during these Board meetings and she stated there was no indication to her or the Board that any of these expenditures were from the prior year.

70 O.S. Supp. 2003, § 1-117(A) states in part:

“The general fund of any school district is hereby defined as a current expense fund and shall consist of all revenue or monies that can legally be expended within a certain specified fiscal year[.]”

70 O.S. Supp. 2004, § 5-184 states in part:

“Any school district officer willfully or knowingly contracting, incurring, acknowledging, authorizing, allowing, or approving any indebtedness or any officer issuing, drawing, or attesting any check, warrant or certificate or indebtedness in excess of the estimate made and approved by the excise board for such purpose for the current fiscal year or in excess of the specific amount authorized for such purpose by a bond issue, shall be deemed guilty of a misdemeanor and, upon conviction, shall be punished by a fine of not less than One Thousand Dollars (\$1,000.00) or by imprisonment in the county jail for not to exceed one (1) year or both the fine and imprisonment, and shall forfeit and be removed from office pursuant to state law.”

70 O.S. Supp. 2003, § 5-106(A) states in part:

“The governing board of each school district in Oklahoma is hereby designated and shall hereafter be known as the board of education of such district. Except as otherwise provided in this section, the superintendent of schools appointed and employed by the board shall be the executive officer of the board and shall perform duties as the board directs.”

The **Constitution of Oklahoma, Article 10 § 26(a)** states in part:

“Except as herein otherwise provided, no ... school district, or other ... subdivision of the state, shall be allowed to become indebted, in any manner, or for any purpose, to an amount exceeding, in any year, the income and revenue provided for such year without the assent of three-fifths of the voters thereof[.]”

70 O.S. § 5-135 states in part:

“* * *

B. The encumbrance clerk and treasurer of the school district shall each enter the authorized amounts in the various appropriation accounts of the funds to which this system is applied. The authorized amounts of appropriations shall be the general fund and building fund appropriations approved by the county excise board and such additional amounts as may be applied in the manner provided by law, the amount received for deposit in a special cash fund where such special cash fund is authorized by law or required by the person or agency providing such funds, or the amount of the net proceeds realized from the sale of bonds of the school district and any other income due such fund.

* * *

D. Prior to the issuance of a purchase order, the encumbrance clerk must first determine that the encumbrance will not exceed the balance of the appropriation to be charged. The

encumbrance clerk shall charge the appropriate appropriation accounts and credit the affected encumbrances outstanding accounts with the encumbrances. Encumbrances must be submitted to the board of education in the order of their issuance on a monthly basis, subject to a monthly business cycle cut-off date determined by the board of education. Approved encumbrances shall be listed in the minutes by the minute clerk.

E. Before any purchase is completed, a purchase order or encumbrance must be issued. No bill shall be paid unless it is supported by an itemized invoice clearly describing the items purchased, the quantity of each item, its unit price, its total cost and proof of receipt of such goods or services. The bill and/or invoice shall be filed in the encumbrance clerk's official records.

F. The encumbrance clerk shall debit the encumbrances outstanding account and credit the accounts payable account for the amount of the approved bill. The board of education shall determine the extent such costs may fluctuate without additional board action. Minor adjustments not requiring additional board approval shall be referenced to the original encumbrance.

G. An approved bill may be paid by issuing a warrant or check against the designated fund only after ascertaining that proper accounting of the purchase has been made and that the files contain the required information to justify the expenditure of public funds, except as otherwise provided in subsection I of this section. The warrants or checks so issued shall be recorded in an orderly numerical system established by the district. The encumbrance clerk shall charge the warrant or checks against the accounts payable account and credit it to the warrants or checks issued account. Provided, if payment is to be made immediately and the board of education deems it advisable, the postings to the accounts payable account may be omitted and the payment of the approved bill may be credited directly to the warrants or checks issued account. The warrant or check shall show on its face the name of the school district, the date of issue, the payee, the amount, the expenditure classification code, and such other information as may be necessary or desirable. The president and clerk of the board of education shall each sign the warrant or check, or approved facsimile thereby denoting to the public that the warrant or check is for the purpose and within the amount of the appropriation charged.

H. The treasurer shall register the warrant or check in the warrant or check register, charging the appropriation account and crediting the warrants or checks outstanding account of the designated fund. Provided, no warrant or check shall be registered in excess of the appropriation account's balance. All warrants or checks shall be registered in the order of their issuance."

RECOMMENDATION: We recommend the school implement procedures that establish internal controls and segregation of duties for the positions of the encumbrance clerk and the treasurer as prescribed by statute. We recommend the Board of Education of the school district prescribe, administer and regularly review appropriate internal controls regarding the purchase procedures. We recommend the District Attorney review these findings and proceed with further action if deemed appropriate. We recommend that the State Board of Education review these findings and proceed with further action if deemed appropriate.

Findings (7&8): Activity funds used for purposes other than authorized by the Board and funds used for capital improvements

While reviewing general fund expenditures for the 2004-05 and the 2005-06 school year, we noted that fifteen (15) purchase orders and three (3) purchase orders, respectively had been issued to the Wanette High School Activity Fund.

The following represents the purchase orders, items and amounts paid from the general fund to the activity fund:

PO #68	Paint and handbook typing	\$ 307.85
PO #91	Start up petty cash	200.00
PO #117	Reimbursement for trusses	4,836.00
PO #132	Filing fee for notary	25.00
PO #149	Reimbursement for academic fee	75.00
PO #150	Handrails	1,196.00
PO #162	Reimbursement petty cash	62.32
PO #172	Reimbursement for salary correction	1,601.89
PO #197	Reimbursement petty cash	7.79
PO #248	Reimbursement petty cash	206.19
PO #267	Newsletters	150.86
PO #303	Reimbursement petty cash	112.22
PO #354	Reimbursement petty cash	63.22
PO #435	Reimbursement petty cash	197.98
PO #515	Drug free key chains	191.64
PO #2	Reimbursement for student labor	213.80
PO #110	Petty cash start up	200.00
PO #135	Reimbursement for meals, batting cage, & concrete	\$ <u>2,221.95</u>
Total.....		\$ <u>11,869.71</u>

During the 2004-05 school year, purchase order number 68 was for a reimbursement to the activity fund (high school account) for a \$157.85 payment to the high school principal for paint and knife blades and a \$150.00 payment to school support personnel (network administrator) for contract labor to type the high school handbook. Purchase order number 117 was for a reimbursement to the activity fund (high school annual/yearbook fund for supplies) in the amount of \$4,836.00. However, the payment was for trusses for the high school and does not appear to be related to the annual/yearbook fund. It also appears that purchase order number 150 was for a reimbursement for \$1,196.00 to the activity fund (high school annual/yearbook fund for supplies). However, the payment was to build handrails, weld parking lot pipe and install two backboards on the playground. The expenditure does not appear to be for the annual/yearbook. The annual/yearbook source of revenue appears to be from the sale of annual/yearbook advertisements.

During the 2005-06 school year, purchase order number 2 was for a reimbursement to the activity fund (annual/yearbook fund) for \$213.80 paid for contract labor. This expenditure does not appear to be related to the annual/yearbook. Purchase order number 135 was for a reimbursement to the activity fund (high school and athletics funds) for \$2,221.95 that included expenses related to the newsletter, insurance, in-service meals, academic team registration and a batting cage. The batting cage and concrete for the batting cage were prior year expenditures that had been paid with prior year activity funds. However, the general fund current year funds reimbursed the activity fund for these prior year expenditures. The amount of this prior year expenditure paid with current year funds is included in the above-referenced section. In addition, it appears that when the general fund reimbursement was credited back to the activity fund accounts that incorrect amounts were posted to the accounts. It appears that approximately \$936.00 should be credited to the athletic account from the high school account.

We also noted on August 3, 2005 an activity fund (annual/yearbook) purchase order was issued to an employee in the amount of \$1,064.00 for contract labor. The general fund later reimbursed this amount. However, this was not an annual/yearbook related expenditure.

The Board approved the school activity fund sub accounts. The account titles restrict the use of these subactivity accounts. For example, some of the subaccount titles are: athletics, FFA, annual/yearbook, class of 2005, student council, academic team, etc.

It appears the high school principal authorized the activity account payments and the activity fund secretary processed the payments as directed by the high school principal. It appears that activity accounts were used for purposes other than their intended use, the expenditures were not processed directly through the general fund but were presented to the Board after the fact for reimbursement. Some of these reimbursements from the general fund included payments for capital expenditures (trusses, handrails, parking lot pipe). All of the expenditures and reimbursements to and from the activity accounts appear to have been approved with the knowledge of the superintendent.

We also noted that the Alumni Association donated \$503.00 to the Wanette F.F.A. for the purchase of a new trailer. The check was delivered to the superintendent. The check was receipted to the general fund account on June 3, 2004. However, to date there has not been an F.F.A. trailer purchased.

70 O.S. Supp. 2004, § 5-129 states in part:

"A. The board of education of each school district shall exercise control over all funds and revenues on hand or hereafter received or collected, as herein provided, from student or other extracurricular activities or other revenue-generating sources listed in subsection B of this section that are conducted in the school district. Such funds shall be deposited to the credit of the account maintained for the benefit of the particular activity within the school activity fund... Disbursements from each of the activity accounts shall be by check countersigned by the school activity fund custodian and shall not be used for any purpose other than that for which the account was originally created. The board of education, at the beginning of each fiscal year and as needed during each fiscal year, shall approve all school activity fund subaccounts, all subaccount fund-raising activities and all purposes for which the monies collected in each subaccount can be expended.

B. The board of education of each school district may designate that any of the following revenue be deposited for the use of specific school activity accounts, or to a general activity fund within the school activity fund:

1. Admissions to athletic contests, school or class plays, carnivals, parties, dances and promenades;
2. Sale of student activity tickets;
3. Concession sales, including funds received from vending concession contracts and school picture contracts approved by the district board of education, and cafeteria or luncheon collections;
4. Dues, fees and donations to student clubs or other organizations, provided that membership in such clubs or organizations shall not be mandatory;

5. Income or revenue resulting from the operation of student organizations or club projects, provided, such revenue is not derived from the lease, rental or sale of property, supplies, products or other assets belonging to the school district. When approved by the board of education, student organizations or club projects may include fund-raising activities, the revenues from which may be used for the purpose of purchasing goods or services otherwise considered to be general fund expenditures;

6. Deposits for or collections for the purchase of class pictures, rings, pins, announcements, calling cards, annuals, banquets, student insurance and other such personal items; provided the cost of such items shall not be charged against other school funds; and

7. Other income collected for use by school personnel and other school-related adult functions.”

70 O.S. Supp. 2003, § 1-117 states in part:

“A. [E]xpenditures from the general fund shall be noncapital in nature.

* * *

C. [A] capital expenditure shall be an expenditure which results in the acquisition of fixed assets or additions to fixed assets. Capital expenditures shall include, but shall not be limited to, purchases of land or existing buildings, purchases of real property[.]”

RECOMMENDATION: We recommend the school implement internal controls so that the activity accounts are utilized for intended purposes as established by the Board of Education and as prescribed by statutes. We recommend capital expenditures be made from the proper funds as established by statute. We also recommend the District Attorney’s Office review these findings and proceed with further action if deemed appropriate. We recommend the State Board of Education review these findings and proceed with further action if deemed appropriate.

Finding (9): Altered SA&I Form 307

Pursuant to Oklahoma statutes, the school is required to submit certain documentation at any time when the school increases or decreases appropriations. If and when it becomes necessary to increase appropriations due to the receipt of additional revenue, the Board may approve an SA&I Form 307 to include the additional revenue. This form is certification that these funds are in addition to and in excess of the funds previously appropriated for the school district. By submission of this Form, the Board is requesting the school’s appropriations be increased by the amounts included on this form. It appears that on September 19, 2005 the Board, in an open meeting, approved and signed an SA&I Form 307 to increase their appropriations by \$109,776.76. The form appears to have been signed by the Board president and the clerk.

It appears that some time after the Board members signed this form to increase appropriations, the superintendent approached a school employee and requested that the employee alter (increase) the amount of revenue and alter (increase) the appropriations on the original SA&I Form 307 that had previously been signed by the president and the clerk. The school employee refused to alter the numbers on the original document. It appears that after the employee refused to alter the document, the superintendent directed another school employee to alter the document. The school employee, at the direction of the superintendent, altered the numbers as requested by the superintendent and then returned the altered original form to him. It appears that the altered SA&I Form 307 was filed with the Pottawatomie County Clerk on December 5, 2005, almost two and a half months after the Board had approved this in an open meeting.

It does not appear after reviewing the Board meeting minutes and interviewing the Board members whose original signatures appear to be on the altered document, that the members had any knowledge that the original document they had signed had been changed. Neither of these individuals gave any person the authority to increase the numbers. The changes appear to have been done outside of any scheduled Board meeting and were not approved by the Board.

21 O.S. -§ 463 Offering False or Forged Instruments for Recordation

“Any person who knowingly procures or offers any false or forged instrument to be filed, registered, or recorded in any public office within this state, which instrument, if genuine, might be filed or registered or recorded under any law of this state or of the United States, shall be guilty of a felony.”

RECOMMENDATION: We recommend the District Attorney’s Office review these findings and proceed with further action if deemed appropriate. We recommend the State Board of Education review these findings and proceed with further action if deemed appropriate.

Finding (10): The school improperly handled the purchase of a modular building; the payment of a vendor; and a lease/purchase agreement.

The school purchased, installed and remodeled a modular building to be used as an administration building. The following is a list of events surrounding the lease-purchase of a modular building:

- 7-19-04 Board meeting minutes reflect that the Board toured a building for possible office space for a boardroom and administration building. The Board set a special meeting for July 29, 2004 “to discuss the board/administration building and putting the building on a lease/purchase”.
- 7-23-04 contractor’s invoice which appears to be a proposal from a construction company hereinafter referred to as vendor, to Wanette Public Schools in the amount of \$38,000.00 to pay for purchase, transportation and placement of a used 28X60 modular building.
- 7-29-04 the Board approved the purchase of the modular building for the Board of Education and Administration Offices but took no action on the lease/purchase agreement.
- 8-2-04 purchase order number 80 issued to the vendor in the amount of \$20,000 for the “1st draw on modular building”.
- 8-5-04 purchase order above was approved by the superintendent.
- 8-5-04 special meeting minutes indicate that the Board approved the \$20,000 payment to the vendor.
- 8-5-04 construction agreement, unsigned, stating the first payment is due on August 5, 2004 to cover partial payment of the building and the transportation of the building which was to be delivered on August 6, 2004. This agreement states that the second payment is due at the completion of the following tasks: setting, blocking, and leveling the building.
- 8-5-04 Warrant number 102 issued to the vendor in the amount of \$20,000.00 and endorsed by the payee.

- 8-16-04 regular meeting. The Board reviewed proposals for the financing of the building and stated that they should select a preferred financier for the funding of the lease. The encumbrance register presented to the Board at this meeting did not list purchase order number 140 to the vendor in the amount of \$18,000.00.
- 8-16-04 purchase order number 140 issued to the vendor in the amount of \$18,000.00. The supporting documentation attached to the purchase order included an agreement signed by the vendor and the superintendent. The agreement stated it was the second agreement between the vendor and the school stating that the setting, blocking and leveling of the building had been completed.
- 8-16-04 warrant number 173 in the amount of \$18,000.00 was issued to the vendor.
- 8-16-04 Board meeting minutes reflect that they are to employ a financial advisor to obtain lease/purchase to finance equipment and other personal property.
- 8-16-04 the school Board entered (signed) a lease/purchase agreement for \$60,000.00 for the purchase of a modular building. The Board also signed a schedule of payments agreement, a lease purchase amortization schedule and an escrow agreement for the \$60,000.00.
- Subsequent to the signing of the lease/purchase agreement, the escrow agreement and schedule of payments, the leasing company was contacted by the superintendent stating that the amount needed to be increased to \$65,000.00
- 9-15-04 the superintendent signed the lease/purchase amortization schedule for \$65,000.00
- 9-20-04 a new schedule of payments agreement for \$65,000.00 was signed by the leasing company and the superintendent.
- 9-22-04 the \$65,000 was deposited in escrow with Legacy Bank.
- 11-4-04 contractor's invoice from the vendor in the amount of \$73,000.00. This invoice itemized the modular building, installation and all work on the building for a total of \$56,400.00. The remaining balance of the \$16,600.00 was for work done at the school on other projects.
- 11-4-04 contractor's invoice from the vendor in the amount of \$66,000.00 for the modular building, installation and interior and exterior work. (This is a second invoice for the modular building).
- 11-12-04 the superintendent's signature appears on the disbursement authorization to the escrow company. The bank was also provided with the invoice for \$66,000.00 as referenced above.
- 11-15-04 a cashier's check was issued from the escrow agent to the vendor in the amount of \$65,127.56.
- 11-23-04 a cashier's check was issued to Wanette Public Schools from the vendor in the amount of \$30,127.00 for overpayment.

The school issued general fund warrants to a vendor for the purchase and installation of a modular building in the amount of \$38,000.00 (paid \$20,000.00 and then \$18,000.00). It does not appear that the school advertised through the competitive bidding process. It appears that subsequent to the first payment of \$20,000.00, the school entered into a lease/purchase agreement in the amount of \$65,000.00 for the purchase of "1 modular building". The \$65,000.00 proceeds from the lease/purchase agreement were put in escrow to be released when the project was completed. The vendor was paid the initial \$38,000 for the purchase and installation of the building, which included vendor-provided materials, labor to install skirting around the building, a 6X66 deck with steps and ramp, installed two gable roofs that tied in to the existing building and remodeled the interior of the building, and installed a wall, cabinets,

shelves and closets for an additional cost of \$18,400.00 for a total cost for this building of \$56,400.00. In addition to modular building and related projects, the vendor performed work on other projects at a charge of approximately \$16,600.00, for a total of \$73,000.

See table below:

MODULAR BUILDING

Purchase and installation	<u>\$ 38,000.00</u>	
Additional work on building	\$ 1,500.00	
	\$ 11,900.00	
	\$ 1,500.00	
	\$ 3,500.00	
Total additional work to building	<u>\$ 18,400.00</u>	
Total cost of the building	<u>\$ 56,400.00</u>	
Additional projects not Associated with the building	\$ 8,900.00	
	\$ 5,100.00	
	\$ 1,100.00	
	\$ 1,500.00	
Total additional projects cost	<u>\$ 16,600.00</u>	
Total invoice from vendor for modular building And other projects	<u>\$ 73,000.00</u>	
Payments to and from vendor		
Paid from general funds	<u>\$ 38,000.00</u>	
Paid from lease purchase for building	\$ 18,400.00	
Paid from lease purchase for other projects	<u>\$ 16,600.00</u>	
	<u>\$ 35,000.00</u>	} Total lease/purchase
Paid from lease purchase to vendor	<u>\$ 30,127.56</u>	} \$65,127.56 funds
		} Paid to vendor
Total paid to vendor	<u><u>\$103,127.56</u></u>	
Amount reimbursed by the vendor and receipted to the general fund	30,127.00	
Total amount paid to vendor	<u>\$ 73,000.56</u>	

The vendor submitted an itemized invoice to the superintendent dated November 4, 2004, in the amount of \$73,000.00. The vendor stated that after he submitted this invoice, which included the modular building and other projects not associated with the modular building, that the superintendent requested he submit a second invoice dated the same date to show that the building cost was \$66,000.00.

It appears that the superintendent signed the acceptance certificate acknowledging delivery, installation and receipt in good condition and accepting the "equipment" (being 1 modular building) on November 8, 2004.

On November 12, 2004 the superintendent signed a disbursement of authorization to release the \$65,000.00 to the vendor. After the escrow institution (Legacy Bank) received the \$66,000.00 invoice (the invoice the superintendent requested be prepared) and received the disbursement of authorization form stating in part "...the equipment and or services described on the attached invoice(s) is all or a portion of the equipment ...and has been delivered and installed in accordance with Lessee's specifications and has been accepted by the Lessee..." the bank issued a cashier's check to the vendor in the amount of \$65,127.56 (the amount of the lease agreement plus earned interest).

The itemized invoice for \$73,000.00 listed the total cost for the building and remodeling to be \$56,400.00. However, the superintendent submitted the second invoice for \$66,000.00 to the escrow institution so that they would release the entire amount of funds to the vendor instead of reduce the amount of the lease purchase price by the amount of the actual cost of the modular building.

On November 22, 2004, the vendor had a cashier's check issued to the Wanette Public Schools in the amount of \$30,127.00, which was receipted by Wanette Public School on November 23, 2004. The funds were not used to reduce the amount of the lease/purchase agreement but were deposited into the general fund and expended during the school year.

The purpose of entering into a lease/purchase agreement is to enter into an agreement whereby the lessor incurs all expenses related to acquiring the property and the school district (lessee) incurs obligations for the payments of the lease/purchase agreement. This lease/purchase agreement was for a total of \$65,000.00 plus \$8,667.34 in interest for a total of \$73,667.35 to be paid back in five (5) payments, one payment each year in the amount of \$14,733.47, with the first payment being due on the 10th day of September, 2005 (2005-06 school year) and the final payment being due on the 10th day of September 2009. Had this been handled properly, the only cost to the school for the purchase of this modular building would have been for the amount of the first payment of \$14,733.47.

Instead of this transaction costing the school the initial payment of \$14,733.47 in September 2005 (2005-06 school year), the transaction cost the school the \$38,000.00 paid to the vendor and \$30,127.00 of reimbursed funds that were deposited and obligated (spent, in that the school exceeded appropriations during 2004-05 as referenced above).

It appears that the vendor dealt directly with the superintendent regarding the invoicing, the overpayment and the reimbursement of funds to the school. It does not appear that the school Board had knowledge that the vendor had been overpaid and that these funds had been deposited with the school. It does not appear that any documents were submitted to the Board during Board meetings reflecting the other projects and payments of \$16,600.00 to the vendor.

These projects were not processed through the encumbrance and purchase order procedure but were paid with lease agreement funds intended for the use of the modular building.

70 O.S. Supp. 2003, § 1-117 states in part:

“A. [E]xpenditures from the general fund shall be noncapital in nature.

* * *

C. [A] capital expenditure shall be an expenditure which results in the acquisition of fixed assets or additions to fixed assets. Capital expenditures shall include, but shall not be limited to, purchases of land or existing buildings, purchases of real property[.]”

70 O.S. Supp. 2004, § 5-135 states in part:

“A. The board of education of each school district shall use the following system of initiating, recording and paying for all purchases, salaries, wages or contractual obligations due from any of the funds under the control of such board of education.

* * *

D. Prior to the issuance of a purchase order, the encumbrance clerk must first determine that the encumbrance will not exceed the balance of the appropriation to be charged. The encumbrance clerk shall charge the appropriate appropriation accounts and credit the affected encumbrances outstanding accounts with the encumbrances. A copy of the encumbrance or purchase order may be used as the authority for the designated school personnel to complete the purchasing process. Encumbrances must be submitted to the board of education in the order of their issuance on a monthly basis, subject to a monthly business cycle cut-off date determined by the board of education. Approved encumbrances shall be listed in the minutes by the minute clerk.

* * *

G. [A]fter ascertaining that proper accounting of the purchase has been made and that the files contain required information to justify the expenditure of public funds ... The encumbrance clerk shall charge the warrant or checks against the accounts payable account and credit it to the warrants or checks issued account.

H. The treasurer shall register the warrant or check in the warrant or check register, charging the appropriation account and crediting the warrants or checks outstanding account of the designated fund. Provided, no warrant or check shall be registered in excess of the appropriation account's balance.”

RECOMMENDATION: We recommend the District follow proper procedures for entering into lease/purchase agreements. We recommend the District Attorney review these findings and proceed with further action if deemed appropriate. We recommend the State Board of Education review these findings and proceed with further action if deemed appropriate.

II. CONCERN: *Possibility that the school owes penalties and back taxes to the I.R.S*

Finding (11): *The school was assessed penalties for payroll taxes.*

We reviewed W-2 statements, purchase orders and supporting documents and interviewed current and former school treasurers, the Board president and the interim superintendent.

It appears that during the 2004-05 school year, the school was late in reporting their payroll expenditures during the months of April, May and June 2005. In addition, the school reported third quarter payroll expenditures in the second quarter. Due to the late reporting and reporting in the wrong quarter, the Internal Revenue assessed the school an unpaid balance, accrued

interest and penalties of \$4,713.28. After the school completed the corrected documentation to reflect the amount of payroll issued to the respective quarters, the Internal Revenue reduced the amount of penalties and interest. As of the writing of this section of the report, the school appears to be current on the reported payroll earnings taxes.

RECOMMENDATION: It appears the school has corrected this and paid the assessed penalty. We recommend the school report their payroll earnings as required by the Internal Revenue Service to avoid the assessment of penalties.

III. CONCERN: *Possible irregularities regarding employment contracts (payments made not included in the contracts, contracts not properly executed by the Board, changes to contracts without Board approval,) and possibility that paid benefits were not reported to the I.R.S. and the Oklahoma Tax Commission.*

Summary of Findings (11-13):

- **Changes to contracts without Board approval**
- **Paid benefits not included in employment contracts**
- **Paid benefits not reported on W-2 wage and tax statements**

We selected employment contracts to review to determine if the employees had properly executed employment contracts. We compared the employment contracts on file at the school at the time of our review, to copies of contracts provided to our office that had been retrieved from the school at a prior date. We compared the superintendent's employment contract in the school file with the contract on file with the State Department of Education. We compared the contracts to payroll registers, detailed payment data, payroll authorization forms and payment registers to determine if the amounts paid were authorized by the Board. We reviewed the amounts of wages paid to the employees to amounts reported on the W-2 tax statements. We also reviewed agendas, meetings minutes, interviewed former and current Board members and current and former employees. We reviewed the process of how payroll warrants were provided to the Board during meetings.

It appears that during Board meetings, the Board was provided with non-negotiable and negotiable warrants. The non-negotiable warrants appear to be for direct deposit payments. These warrants have a non-negotiable stamp affixed to the signature blocks. These warrants were not signed by the Board but were available at the Board meetings. These warrants show the gross salary calculation for the pay period, voluntary deductions and district paid fringes. It appears that most of the payroll warrants for the district appear to be for direct deposit.

Some time either during late October or early November 2005, a school employee made copies of certain employee contracts and provided them to a member of the Board. According to the independent auditor, he performed 2004-05 financial audit test work at the school on December 14 and 15, 2005. The independent auditor stated that in preparation of the audit, and approximately two to three days before arriving at the school, he notified the school of some of the items he would be reviewing for this audit. This included numerous areas that would be reviewed and included "fiscal year earnings report and school district employee contracts, including extra duty contracts..."

We noted during our audit work that some of the contracts that had been copied from school employment files during the end of October/November 2005 did not match some of the

contracts provided to the financial auditor in December 2005. We noted that some of the contracts provided to our office by the Board member were not in the contract files. It appears after interviewing former and current school employees that, prior to the independent auditor going to the school, employment contracts were reviewed and compared to earnings audit statements. If there were differences, changes were made and/or extra duty contracts were prepared, prior to the financial audit, to insure that the contracts matched earnings audit reports. According to school personnel, these instructions were carried out at the direction of the superintendent. The following is a summary of the contracts tested:

Position: Teacher

2005-06: It appears the teacher signed her initial contract at the beginning of the school year. She stated that she received a copy of this contract at this time but did not receive a copy of the extra duty contract. Sometime during the second week of December 2005, she was contacted by the elementary principal and advised that she had been overpaid. The elementary principal directed her to the administration office. When the teacher arrived at the administration office, the superintendent, high school principal and elementary principal were present. The teacher advised the administrators that she had not been overpaid per her agreement with the school. She was told by the superintendent that she must sign another extra duty contract to prevent her from owing an overpayment. She stated that the superintendent handed her an extra duty contract and that she was advised by the elementary principal and the superintendent "not to date the contract". She stated she signed the extra duty contract in mid December 2005. She stated that the extra duty contract in her file dated March 2005 was the contract she had signed in December 2005. She also provided a copy of her initial contract signed at the beginning of the year. The contract she provided listed her base salary of \$31,515.00. The contract in her personnel file has handwritten changes to the base salary amount changed to \$31,815.00 with notations "GH 5% sp ed" written next to the changes.

Position: Elementary School Principal

2003-04: The contract appears to be the same as the contract copied at the school during October/November 2005. During this contract year, in addition to the monthly payroll, the principal was paid an extra \$3,180.80 (for a total of 13 payments received during the school year). This extra payment is coded as "special" payroll and appears to be for the extra duty payment of grant work that was performed in 2002-03 (prior year obligations).

On June 21, 2004, the Board extended the 2003-04 employment contract for an additional 30 days to either be worked in June or July. The payment for the additional 30 days was paid from the 2004-05 school year and paid with 2004-05 general funds as referenced below.

2004-05: The employee received the 2003-04 additional payment in the months of July and August 2004 for a total of \$4,450.70 (which was calculated using the 04-05 contract base of \$45,407.00 divided by 10 months and not by using the 2003-04 contract base).

2005-06: At the beginning of the 2005-06 school year, the elementary principal submitted an invoice to the superintendent for grant work performed in 2003-04 and 2004-05 in the amount of \$10,324.60. This amount was paid to her as part of her payroll for the 2005-06 school year. After reviewing what her base contract should have been and including the invoice for 2002-03 and 2003-04 grant work she submitted for payment, it appears that she should have received approximately \$68,254.00. In that there appeared to have been an error in the amount that she

was being paid through December 2005, we extended our test work to include payments made to this employee throughout the end of this contract year. It appears that she received, through payroll (excluding a fringe benefit and stipend), approximately \$64,234.00 and received, through separate payments titled "housing allowance", approximately \$12,430.00 for a total of \$76,664.00, which appears to be an overpayment received of \$8,410.00. It appears the overpayment was due to:

04-05 extra month calculated on \$12,000 principal base instead of \$10,200...	\$1,800.00
05-06 extra month calculated on \$12,000 principal base instead of \$10,200...	\$1,800.00
05-06 extra month to extend contract one month into the summer	<u>\$4,810.00</u>
Total overpayment.....	\$8,410.00

In addition, the elementary principal received a stipend in the amount of \$1,225.00 that was not included in her contract and not approved by the Board.

The Board meeting minutes do not indicate that the Board increased the principal base salary to \$12,000.00 for this employee. The extra month payment was calculated into this contract based on the employee working an extra month at the end of the 2005-06 school year. However, the employee left employment at the end of May 2006 and did not extend her contract by one month. The payment for this additional month was included in her monthly payroll throughout the year.

The \$12,430.00 of the elementary principal's salary was coded as a non-taxable housing allowance. The elementary principal stated that the superintendent advised her that coding part of her salary as a housing allowance and coding it as non-taxable was authorized and legal. The elementary principal stated that after the independent auditor came in December 2005, he advised her that this amount should have been taxed. The principal indicated that she did not report the amounts received during the 2005 calendar year on her 2005 taxes and had not at the time of our interview amended her 2005 tax return to reflect the \$5,922.75 paid to her during 2005 as a non-taxed housing allowance.

Subsequent event: It appears that sometime in February 2006 the elementary principal directed the school payroll clerk to code this payment as a taxable item for the remainder of the school year.

Position: Computer Technician

2004-05: It appears that in October/November 2005 there was not a 2004-05 contract in the employee's personnel file. However, when the independent auditor arrived at the school in December 2005, there was a 2004-05 contract in her file. The contract provided to the independent auditor during December 2005 appears to have been signed by the employee, the superintendent and the clerk of the Board (hereinafter referred to as clerk). The superintendent and the employee are husband and wife. The contract is dated June 21, 2004 and the agenda and meeting minutes indicate that the Board approved the contract on this date. However, the clerk, whose signature appears on this 2004-05 contract, was not serving on the Board on June 21, 2004. After interviewing the clerk whose name appears on this contract and other school employees, it appears that approximately one to two days prior to the scheduled December 2005 financial audit, the clerk stated he was at a school function and was approached by the superintendent and two school employees. He stated the superintendent advised him that he was getting some documents in order for the upcoming audit and needed a signature on this

contract. The clerk advised the superintendent that he was not on the Board at the time the contract was approved by the Board. He asked the superintendent if it was all right for him to sign because he was the current Board clerk. He stated the superintendent advised the clerk that the original contract had been "misfiled or lost and that he needed to get a new one signed". He stated the superintendent said "I would never ask you to do something that could get you into trouble". The clerk then signed this contract and two other employees' contracts. However, the clerk stated he could not recall the names on the other two contracts. We did, however, view a second contract on another employee. The contract dated June 21, 2004, was not signed by the employee and was signed by the superintendent and this clerk only.

2005-06: The base salary of this employee for 2003-04 and 2004-05 school years appears to be \$15,000.00. The base salary of this contract is \$25,000.00. The May 2005 meeting minutes indicate that the employee was rehired but there is nothing to indicate an increase to the amount of the contract from the prior year. According to the Board members, they did not recall approving a \$10,000.00 a year pay increase for the employee. They stated that during meetings, the contracts would be in a stack and they would be signed at the same time. Their signatures appear on the signed contract showing a base salary of \$25,000.00. According to a former employee, after the Board rehired this employee, the superintendent instructed her to complete four (4) contracts for this employee for four different amounts (one contract being for the same amount as the previous years (\$15,000.00) and the other three contracts were for amounts greater than the \$15,000.00 contract. The employee stated that she did not recall the Board approving a raise for this employee.

Position: High School Principal

2005-06: It appears that there were three contracts in the employee file for this year. These contracts appear to be the same as the three contracts retrieved from the employee file during October/November 2005. Two of the contracts are dated February 21, 2005 for an annual compensation of \$47,207 and a notation of a housing allowance of \$6,000.00. The third contract is dated *May 20, 2005* with an annual compensation of \$49,507.00 and a housing allowance of \$6,000.00 changed to \$5,000.00 and \$4,531.00 under the notation of the housing allowance with a notation "04-05 extra month"

It appears the July 2005 payroll and housing payment are consistent with the contract dated February 2005 showing a base salary of \$47,207 and a housing allowance of \$6,000.00. There is a document in this employee's file entitled "July payroll". The worksheet lists this employee's salary as \$47,407.00 with a \$6,000.00 housing allowance. It appears that \$6,000.00 of this employee's salary was coded as a non-taxable housing allowance which reduced the employee's taxable income.

It appears the August 2005 payroll and housing payment are consistent with the contract dated May 20, 2005 showing a base salary of \$49,507 with handwritten notations of the housing allowance as \$10,531.00 then changed to a housing allowance of \$9,531.00. This increase appears to have been coded as a non-taxable housing allowance which reduced the amount of taxable income. There is also a handwritten document (appears to be the same handwriting as the changes on the contract) in the employee's file that appears to be a worksheet on how these figures were derived. There is also a handwritten (appears to be the same handwriting as the changes on the contract) document entitled "August 05-06" that lists the amount of increases and with instructions on how to increase the payroll and housing allowance. Although this

contract is dated May 20, 2005, these changes all appear to have been completed after May 20, 2005.

It appears the employee resigned before the end of her contract and the superintendent calculated the amount she was paid as due for her contract. After reviewing the amount paid to the amount that she should have been paid, it appears the employee was overpaid approximately \$2,410.00. It appears the employee's monthly payments included the extra 30 days to be worked at the end of the contract. The employee left before the end of the 2005-06 contract year and did not work the additional 30 days at the end of the contract.

Position: Superintendent

2003-04: The superintendent's contract included payment for a salary of \$58,538.00 and a housing allowance of \$7,421.00. The superintendent received \$59,948.48 in full time salary pay. It appears the school paid the superintendent's retirement. This amount does not appear to be included in his contract. The superintendent received a \$7,421.00 housing allowance that was part of his employment contract. However, it does not appear that this amount was included on his W-2 tax statement.

2004-05: The superintendent's contract included payment for a salary of \$58,538.00 and a housing allowance of \$14,821.00. The school paid for the superintendent's retirement and his salary included a teacher retirement offset. The teacher retirement offset was not included in his contract. In addition to the amount processed through regular payroll, the superintendent received \$14,821.00 in a housing allowance and \$1,250.00 for an extra duty for a total of \$16,071.00. It does not appear that these payments were included on his W-2 tax statement.

2005-06: On January 10, 2005, the Board rehired the superintendent. On January 21, 2005, the State Department of Education received a copy of the signed contract dated January 10, 2005. The employment contract reflects a base salary of \$58,538.00 with a housing allowance of \$14,821.00. It appears that in March 2005, the Board approved paying the superintendent \$1,250.00 for an extra duty contract. During October/November 2005, an employee made a copy of the employee's 2005-06 contract located in the personnel file at the school. This contract appeared to be the same contract that had been sent to the State Department of Education in January 2005 and it had an extra duty contract for \$1,250.00 attached.

In conflict with the contract sent to the State Department in January 2005 and the contract copied from the file in October/November 2005, it appears that when the independent auditor went to the school in December 2005 there were handwritten changes to the contract. The handwritten changes on the contract state "extra duty 1,400.00, 1,700.48 mandated state raise added to housing". In addition to the extra duty contract for \$1,250.00 there was a second extra duty contract for \$150.00 (a total of \$1,400.00). There does not appear to be any indication that the Board approved an additional extra duty contract for \$150.00. There does not appear to be any type of state-mandated raise.

We reviewed the payments made to the superintendent and the following is what appeared to have occurred:

A handwritten document in the file listed the superintendent's payroll the same and housing of "\$1339.25 X 12" and "July pro dues \$290.00 one time pay".

In July 2005 the superintendent received, as part of his payroll, \$290.00 for CCOSA (Cooperative Counsel of School Administration) dues and received a teacher retirement offset of \$117.54 (\$117.54 per month for 12 months totals \$1,410.48) for a scheduled combined total to be received of \$1,700.48 for the contract year. Neither of the payments are included in the superintendent's initial contract that was submitted to the State Department of Education. However, the total of the two payments is the same as the "\$1,700.48 mandated state raise" written on the contract.

Teachers/administrators are responsible for paying their contribution to the Oklahoma Teachers' Retirement System for their portion of teacher retirement. However, the school is responsible for reimbursing the teacher/administrator for a portion of this retirement. The reimbursement portion is referred to as a "teacher retirement offset". The retirement offset payment is based on years of service. If the school opts to pay 100% of the teacher's/administrator's portion of the retirement, there is no requirement to pay the employee an additional offset amount. It appears the school paid 100% of the superintendent's retirement contribution and it appears that he received the retirement offset, which is referenced above and was written in on the 2005-06 contract.

In addition to the superintendent being paid the \$290.00 CCOSA dues as part of his July 2005 salary payment, it appears the \$290.00 CCOSA dues were paid to him with his July 2005 housing allowance payment.

There was an August 05-06 worksheet in the file that indicated: "state mandated raise of \$2,205.00 add to housing allowance 11 time pay". It appears the August housing allowance was increased by this amount. There is nothing to indicate that there was a state mandated raise approved by the Board.

Following the completion of the independent auditor's work, the superintendent instructed the treasurer to reduce the amount of his contracted salary by \$2,255.40 for the remaining five months (\$451.08 per month). After she ran this payroll, she stated the superintendent instructed her that he intended to have the amount reduced over the period of the remaining five months and not as one payment reduction. The next three months of payroll were reduced by \$451.08 per month for a total reduction of \$1,353.42.

It appears that from July through December 2005, the superintendent was paid for items that were not approved in the contract which totaled approximately \$2,286.00. In that it appeared there had been an overpayment, we extended our test work to determine additional payments beyond our audit period. Based on this, it appears that from January through April 2006, he was paid approximately \$1,270.00, not in his contract for a total of approximately \$3,555.00. More specifically set out as follows:

CCOSA dues.....	\$ 580.00—	not in contract
Teacher retirement offset.....	\$1,175.40—	not in contract
Raise.....	\$1,804.50—	raise unsupported and not in original contract
Total	\$3,559.90	

It appears the \$15,196.55 paid to the superintendent was not included as taxable income. **70 O.S. 2001, § 5-141(B)** states in part:

"The school district shall not be authorized to pay any salary, benefits or other compensation to a superintendent which are not specified in the contract on file[.]"

21 O.S. Supp. 2002, § 341 states as follows:

"Every public officer of the state or any county, city, town, or member or officer of the Legislature, and every deputy or clerk of any such officer and every other person receiving any money or other thing of value on behalf of or for account of this state or any department of the government of this state or any bureau or fund created by law and in which this state or the people thereof, are directly or indirectly interested, who either:

First: Receives, directly or indirectly, any interest, profit or perquisites, arising from the use or loan of public funds in the officer's or person's hands or money to be raised through an agency for state, city, town, district, or county purposes;

* * *

Third: [S]hall, upon conviction, thereof, be deemed guilty of a felony[.]"

Pursuant to AG opinion 87-080 states in part:

"The powers of the local school board are set forth at 70 O.S. 5-17 (1981)...A. The board of education of each school district shall have the power to:

a. contract with and fix the duties and compensation of physicians, dentists, optometrists, nurses, attorneys, superintendents, principals, teachers, bus drivers, janitors, and other necessary employees of the district..."

The position of district superintendent of schools is defined in the **Oklahoma School Code at 70 O.S. 1-116(2)** as follows:

"Superintendent: A superintendent of schools shall be the executive officer of the board of education and the administrative head of the school system of a district maintaining an accredited school, provided he or she holds an administrator's certificate recognized by the State Board of Education."

There is no further delineation of the duties of a district superintendent of schools. There are no provisions in the **Oklahoma School Code** which would vest district superintendents with any authority to determine how or in what amounts a teacher should be compensated. As provided by **70 O.S. 5-117- (A) (15)** of the **Oklahoma School Code**, the authority to contract with and fix the duties and compensation of teachers lies solely with the local board of education. A district superintendent has no authority to determine how or in what amounts a teacher may be paid.

21 O.S. Supp. 2002, § 531 Destruction or falsification of records

"Any sheriff, coroner, clerk of a court, constable or other ministerial officer, and every deputy or subordinate of any ministerial officer who mutilates, destroys, conceals, erases, obliterates or falsifies any record or paper appertaining to his office shall be guilty of a felony."

21 O.S. 2001, § 463 Offering forged or false instruments for record

"Any person who knowingly procures or offers any false or forged instrument to be filed, registered, or recorded in any public office within this state, which instrument, if genuine, might be filed or registered or recorded under any law of this state or of the United States, shall be guilty of felony."

RECOMMENDATION: We recommend the school code all payroll and wage related payments in their accounting system so the employee will be charged the appropriate taxes. We recommend the Internal Revenue Service and the Oklahoma Tax Commission review the amounts paid to employees and the amounts reported by employees to determine if there are taxes due the state and/or the federal government. We recommend the Board adopt internal controls and policies regarding employment contracts and payroll to insure that amounts being paid to employees are consistent with their employment contracts. We recommend the District Attorney's Office review these findings and proceed with further action if deemed appropriate. We recommend the State Board of Education review these findings and proceed with further action if deemed appropriate.

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Throughout this report there are numerous references to state statutes and legal authorities, which appear to be potentially relevant to issues raised and 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 Wanette Public School District No. 631115 or any of the individuals named in this report or acting on behalf of the 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 the 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.