

**LeFLORE PUBLIC
SCHOOL DISTRICT
NO. 40I016**

LeFLORE COUNTY

**APRIL 1, 2005 THROUGH
JUNE 30, 2007**



**SPECIAL
AUDIT**



Oklahoma State Auditor
& Inspector



LeFlore Public School District
No. 40I016
LeFlore County
Special Audit Report
April 1, 2005 – June 30, 2007

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:

- ✓ The former Superintendent was paid \$25,156.56 for his unused vacation time that was unallowable. Also, he was overpaid \$124.05 for the five (5) days of work he claimed in July 2007. **Pgs 7 -9**
- ✓ The former Agriculture Educational Instructor had an extra-duty contract for the use of his personal vehicle. The vehicle was used for personal and business, but the use was not documented. The District did not report the amount paid to the Internal Revenue Service. **Pg 9**
- ✓ The former custodian/bus driver was overpaid \$617.17 for comp time earned and received an additional forty (40) hours a year sick leave for his bus driving duties. The District does not have a policy addressing overtime. The former custodian/bus driver was overpaid for 19.33 days of vacation time. **Pgs 10 &-11**
- ✓ The High School Principal received additional compensation in the amounts of \$2,100.00, \$2,300.00, and \$2,640.00 for fiscal years 2005, 2006, and 2007, respectively, for teaching driver education, without an extra-duty contract. The 2005 fiscal year payment was not reported on his W-2. The payments were made from subsequent years' appropriations. **Pgs 11 - 12**
- ✓ Employees received payments for extra-duty assignments from the activity fund, athletic sub-account, that had no withholding withheld nor was it reported on their W-2s. The Board did not approve this sub-account, its fund raisers, and the purpose of the expenditures as required by Statute. **Pg 12**
- ✓ During our review of activity fund expenditures, we noted that invoices were not always attached to the claims, documentation that the goods or services had been received was not always present, purchases were made prior to requisition being approved, and reimbursements were made to employees. **Pg 13**
- ✓ We noted current year's appropriations were used to pay prior year's expenditures for the fiscal years 2005-06, 2006-07, and 2007-08 in the amounts of \$34,949.95, \$20,940.29, and \$2,845.22, respectively. **Pg 14**

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.



LeFlore Public School District
No. 401016
LeFlore County
Special Audit Report
April 1, 2005 – June 30, 2007

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 (cont'd):

- ✓ On June 14, 2005, the Board accepted a bid for the purchase of a new vehicle for the Superintendent. The former Superintendent did not obtain sealed quotes for the vehicle as required by the District's policy. The vehicle was purchased during one fiscal year and paid with subsequent year appropriations. **Pg 15**
- ✓ A Miller portable gasoline welder owned by the District could not be found and there is no documentation of the disposition of the equipment. **Pg 16**
- ✓ The former Superintendent's daughter and son-in-law lived in the District owned house for approximately three (3) months. and left owing the District a total of \$315.51 in rent and utilities. **Pgs 16-17**
- ✓ The District provided the former Superintendent with an automobile for the exclusive use in the performance of his duties. Fuel was put into the vehicle during times the former Superintendent was on vacation and during times the school was out for breaks. The personal use of the automobile and the benefit was not reported to the Internal Revenue Service. **Pg 18**
- ✓ The former Superintendent used the District cellular telephone assigned to him to make personal calls. **Pgs 19-20**
- ✓ Discrepancies regarding travel reimbursements to District employees were noted including :
 - not always supported by an itemized receipt,
 - per diem was paid for a 24 hour period when the employees were not in overnight status,
 - agendas for called meetings were not always attached,
 - reimbursement for meals received when not on overnight status were not properly reported to the IRS,
 - reimbursed for food purchased for volunteer workers, and
 - mileage claimed did not always document the date, purpose, and beginning and ending odometer reading. **Pgs20 & 21**

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.



LeFlore Public School District
No. 40I016
LeFlore County
Special Audit Report
April 1, 2005 – June 30, 2007

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 (cont'd):

- ✓ An employee was reimbursed \$241.80 mileage for a trip to the Nike Championship Basketball Camp in Robinsville, Mississippi, in violation of the District's policy. **Pg 22**
- ✓ The Board entered into a lease purchase contract for the amount of \$70,000.00 for the replacement of the elementary roof without following the Competitive Bid Act of 1974. The former Superintendent hired a construction company to install the roof without obtaining the required insurance and bond. **Pgs 23-24**
- ✓ The District has entered into lease purchase agreements for the purchase of Flavor Burst Unit (ice cream machine), playground equipment, and stock trailer. The former Superintendent entered into a forty-eight (48) month purchase agreement for the Flavor Burst Unit prior to the Board approving a lease purchase agreement. Further, the Board did not renew the lease purchase agreements each fiscal year. **Pgs 25-26**
- ✓ The District does not maintain an accurate inventory list of all equipment purchased. Items were visually verified from the invoices, but were not listed on the District's inventory. **Pgs 26- 27**

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.

**LEFLORE PUBLIC SCHOOL DISTRICT No. 40I016
LEFLORE COUNTY
SPECIAL AUDIT REPORT
APRIL 1, 2005 THROUGH JUNE 30, 2007**

This publication is printed and issued by the State Auditor and Inspector as authorized by 74 O.S. § 212(H). Pursuant to 74 O.S. § 3105(B), 35 copies have been prepared and distributed at a cost of \$84.00. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Steve Burrage, CPA
State Auditor and Inspector

August 18, 2008

Honorable Jeffrey C. Smith
District Attorney – District No. 16
P.O. Box 880
Poteau, Oklahoma 74953

Transmitted herewith is the Special Audit Report of the LeFlore Public School District No. 401016, LeFlore County, Oklahoma. We performed our special audit in accordance with the requirements of **74 O.S. 2001, § 212(H)** for the period April 1, 2005 through June 30, 2007.

A report of this type tends to be critical in nature. Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

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 insure 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 blue ink that reads "Michelle R. Day".

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

table of contents

	page
BOARD OF EDUCATION.....	4
STATE AUDITOR AND INSPECTOR'S REPORT	5
INTRODUCTION	6
OBJECTIVES, FINDINGS AND RECOMMENDATIONS	7

**BOARD OF EDUCATION
AS OF JUNE 30, 2007**

Toney Patterson.....President
Mike Cox.....Vice-President
Betty Robinson.....Member
Doylene HealtonMember
Daniel Adams.....Clerk

**SUPERINTENDENT
Jim Caughern**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Steve Burrage, CPA
State Auditor and Inspector

Mr. Toney Patterson, President
Board of Education
LeFlore Public School District No. 40I016
P.O. Box 147
LeFlore, Oklahoma 74942-0147

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 the LeFlore Public School District No. 40I016, LeFlore County, for the period April 1, 2005 through June 30, 2007.

The objectives of our special audit primarily included, but were not limited to, the areas noted in the District Attorney's request. 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 LeFlore Public School District No. 40I016 for the period April 1, 2005 through June 30, 2007. 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 the District Attorney, the Board of Education and the District's Administration and should not be used for any other purpose. This report is also a public document pursuant to the **Oklahoma Open Records Act (51 O.S. 2001, § 24A.1 et seq.)**, and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Michelle R. Day".

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

January 23, 2008

INTRODUCTION

The Independent District No. 40I016, LeFlore County, Oklahoma, (LeFlore Public 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 LeFlore 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 LeFlore Public School District are subject to the provisions of the **Oklahoma School Code**.

The LeFlore Public School District No. 40I016 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 (OSAI) conducted a special audit of the records of the LeFlore Public School District, primarily those records relating to the District Attorney's concerns. The results of the special audit are in the following report.

OBJECTIVES, FINDINGS AND RECOMMENDATIONS

OBJECTIVE

Review for possible irregularities in expenditures.

FINDING

Beginning October 2005, the LeFlore School District (the District) started paying Toney Patterson's (Board of Education member) health insurance. The other Board members were not enrolled in the health insurance plan nor did they receive any compensation. Mr. Patterson reimbursed the District for the additional amount owed for coverage for his spouse and child.

The District paid a total of \$9,548.92 in health insurance premiums for the Board member, Mr. Patterson, of which he reimbursed the District \$2,495.64, leaving a net cost paid by the District of \$7,053.28. Further, OSAI noted that the reimbursement for the February 2007 insurance premium in the amount of \$150.36 was not remitted by Mr. Patterson.

70 O.S. § 5-117 states in part:

A. The board of education of each school district shall have power to:

* * *

8. a. Insure the school district or its employees against any loss, damage or liability as defined by Sections 702 through 708 of Title 36 of the Oklahoma Statutes, or other forms of insurance provided for in Title 36 of the Oklahoma Statutes.

* * *

c. As used in this subsection, "employee" means any person who has acted in behalf of a school district, whether that person is acting on a permanent or temporary basis with or without being compensated or on a full-time or part-time basis. Employee also includes all elected or appointed officers, members of governing bodies of a school district, and persons appointed, and other persons designated by a school district to act in its behalf.

70 O.S. § 5-117.5 states in part:

A. The board of education of each school district in this state shall provide a health insurance plan for the employees of the school district. School districts may obtain health and dental insurance coverage as provided for in the State and Education Employees Group Insurance Act or may obtain other health insurance coverage.

RECOMMENDATION

OSAI recommends the Board of Education establish policies and procedures to assure all monies due to the District are paid in a timely manner.

FINDING

The former Superintendent, James Caughern, submitted his resignation, effective July 6, 2007, to the Board of Education at the July 5, 2007 meeting. The District paid him \$25,156.56 for accumulated vacation and \$1,612.60 for the five (5) days worked in July 2007. In addition to the

payment received by the former Superintendent for the vacation time, he also received a benefit of \$1,893.50, which the District paid to his retirement as a fringe benefit. The former Superintendent's contract states that he shall be compensated for all unused vacation at full pay; however, the District's policy states that a twelve (12) month employee is not entitled to reimbursement of unused vacation.

Superintendent's contract states:

Leave and Vacation:

District agrees that the Superintendent shall receive 14 days annual vacation, with pay which shall vest at the commencement of the contract period, and if unused shall carry over and accrue from year to year, and in the event of termination, dismissal, non-renewal, resignation or other cessation of employment, Superintendent shall be compensated for all unused vacation at full pay;

District agrees that Superintendent shall be granted emergency and personal leave consistent with Board Policy and State Law governing other professional administrative employees;

District further agrees that Superintendent shall receive 12 days annual sick leave which shall vest at the commencement of the contract period, and if unused shall carry over and accrue from year to year[.]

Board policy states:

VACATION

School District personnel who work on a twelve (12) month basis shall be the only personnel entitled to paid vacation. Such personnel shall be granted 10 (days of vacation on an annual basis, accruing at the rate of (1) day per calendar month. A maximum of six (6) vacation days earned in one school year may be carried over to a subsequent school year.

- a. The scheduling of vacation days must be approved in writing in advance by the Superintendent.
- b. All vacation days not utilized or carried over will be forfeited, provided that in the event the Superintendent was unable to approve the scheduling of vacation days as requested by the employee or was unable to schedule an alternate time, the employee shall be reimbursed at the rate of pay for each day he/she would lose.
- c. In no event shall an employee be entitled to reimbursement for unused vacation days upon termination of employment.

The District policy does not allow the payment to the employee for unused vacation days upon termination; therefore, the payment to the former Superintendent for unused vacation appears to be unallowable as reflected in **70 O.S. § 5-141(B)**, which states in part:

B. Each school district shall file within fifteen (15) days of signing the contract, the employment contract of the superintendent of the school district with the State Department of Education. The Department shall keep all such contracts available for inspection by the public. 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 and shall not pay administrators any amounts for accumulated sick leave that are not calculated on the same formula used for determining payment for accumulated sick leave benefits for other full-time employees of that school district and **shall not pay administrators any amounts for accumulated vacation leave benefits that are not calculated on the same formula used for determining payment for accumulated vacation leave benefits for other twelve-month full-time employees of that school district.** (ea)

* * *

D. For purposes of this section the term "administrator" shall include **employees who are employed and certified as superintendents, assistant superintendents, principals, and assistant principals and who have responsibilities for supervising classroom teachers.** (ea)

Also, OSAI noted in calculating the payment for the former Superintendent's salary for the five (5) days worked in July, a total of 240 working days in a year was used. Based on the calculation, there are 260 working days in a year and the former Superintendent should have received \$1,488.55 instead of \$1,612.60, which reflects the former Superintendent was overpaid by \$124.05.

RECOMMENDATION

OSAI recommends the proper authorities review this finding to determine what action, if any, may be required. Further, OSAI recommends the Board of Education seek reimbursement of these funds.

FINDING

During the review of expenditures, OSAI noted that the District entered into an extra-duty assignment contract with Waco Hamlin, Agriculture Education Instructor, for school years 2005-06 and 2006-07 for the use of his vehicle. The contracts states:

"The teacher will be paid \$450.00/month for the use of his vehicle said vehicle to be no less than a crew cab three quarter ton or larger full size pickup and \$150.00/month fuel allowance. The teacher will be responsible for keeping full coverage insurance on the vehicle at all times and will also be responsible for tagging the vehicle."

During the audit period, Mr. Hamlin received the following payments for the extra-duty contract for the use of his vehicle:

Fiscal Year	Lease payment	Fuel allowance	Reimbursement for fuel	Tires paid for by District
2006	\$5,400.00	\$1,800.00	\$2,155.33	\$768.72
2007	\$5,400.00	\$1,800.00	\$ 0.00	

Also, OSAI noted that the District paid \$768.72 to Trans-American Tire Company for tires put on the "ag truck" in November 2005.

The vehicle was driven from the teacher's residence to the school, which would be personal use. There was no documentation to support when the vehicle was used for personal or school business. During the audit period, the District did not issue Internal Revenue Service Form 1099 to Mr. Hamlin for the contract amount, reimbursement for fuel in excess of

the monthly allowance, and the payment of the tires placed on the vehicle, nor was it reported on his W-2 form as a benefit.

RECOMMENDATION OSAI recommends the Board of Education take corrective action to assure all taxable benefits, past and current, are reported to the Internal Revenue Service.

FINDING During the examination of expenditures, OSAI noted that Curtis Ray Loyd was paid \$1,994.85 for comp time. OSAI reviewed Mr. Loyd's employment contract which reflects he was hired as the custodian with additional compensation for other duties; therefore, the bus driving duties were part of his employment contract and not an extra-duty assignment. OSAI obtained his sign in/time sheets for fiscal years 2006 and 2007 to determine if the hours paid for comp time were accurate and documented. During a conversation with the Superintendent's secretary, she stated that she believed the time sheets reflect only time worked as the custodian and not the time for driving the bus. OSAI found no time sheets for the hours he spent driving the bus, although hours reflected on the custodial time sheets overlapped during the time the bus routes were being made. Based on this information, it appears the time sheets submitted by Mr. Loyd do not represent the total hours worked.

Mr. Loyd was paid for his comp time based on his custodial salary, a seven (7) hour work day and two hundred forty (240) days per year. OSAI calculated the comp time payment using an eight (8) hour work day, as per the District's policy stated below, two hundred sixty (260) days in a year (52 weeks x 5 days per week), and

	District's Calculation	SA&I Calculation per District policy
Base salary	\$22,911.00	\$22,911.00
Other		6,485.00
Total	\$22,911.00	\$29,396.00
Days per year	240	260
Hours per work day	7	8
Salary per hour	20.46	14.13
Comp time hours per leave report @ time and one-half	97.5	97.5
Amount paid	\$ 1,994.85	\$ 1,377.68

his total salary, base and other. The schedule reflects both calculations, which reflects Mr. Loyd was overpaid \$617.17 for his comp time. The District multiplied both overtime hours and salary by time and one-half.

The District's policy states:

Support personnel assigned to duties other than secretarial and teacher aid positions will follow an 8 hour per day schedule, 7:40 a.m. to 4:10 p.m. except those driving buses.

After reviewing his time sheets and employee leave reports, OSAI noted the following:

- vacation time accrued and taken was based on a seven (7) hour work day
- he received forty (40) hours per year for sick leave for bus driving duty
- vacation time was taken on all days that the teachers were required to be at school, but the students were not
- vacation time balance was in excess of the allowable time the District policy allowed
- four (4) ten-hour days per week were worked during the months school was out.

The District's policy does not address overtime hours worked or how comp time is to be paid or taken.

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required. Also, OSAI recommends that the Board establish policies and procedures governing overtime and seek reimbursement for any amounts overpaid.

FINDING The District's vacation policy grants twelve (12) month employees ten days of paid vacation leave on an annual basis, which will accrue at the rate of one (1) day per month. A maximum of six (6) vacation days earned in one school year may be carried over. While reviewing the leave reports for Curtis Ray Loyd, OSAI noted that he had a balance of 43.02 days at June 30, 2003, which were carried forward to the 2003-04 school year. Using the maximum allowable vacation days that could be carried over to the next fiscal year, each year's accruals, vacation days taken per leave report or the employee's sign in/time sheets, we calculated the allowable vacation time due Mr. Loyd to determine if the vacation time paid to him complied with the District's policy from July 1, 2004 through July 31, 2007. Based on the calculation, it appears Mr. Loyd was paid for 19.33 days of vacation time in excess of vacation time accrual under the District's policies.

Also, the policy states that vacation time is accrued at the rate of one (1) day per month, but ten (10) days per year would be accrued at a rate of 0.8333 days per month.

RECOMMENDATION OSAI recommends the Board of Education seek reimbursement for any vacation time taken in excess of that allowed under District policies. Further, OSAI recommends the Board review all twelve (12) month employees' leave reports to assure accrued vacation time complies with policies and procedures. The Board should clarify the vacation policy to be consistent with their intentions.

FINDING During the review of expenditures, OSAI noted the payments in the table below to L.D. Boatright, High School Principal, for teaching driver education. These payments were for drivers' education classes taught May 16 through June 30, 2005, May 19 through June 30, 2006, and May 21 through June 29, 2007.

Mr. Boatright's employment contracts reflect that he is an eleven (11) month employee beginning August 1 through June 30 each year as the high school principal. OSAI found no documentation to support Mr. Boatright was assigned extra-duty as the driver education instructor.

Date	Warrant no.	Amount
09/13/05	277	\$2,100.00
08/07/06	138	2,300.00
07/09/07	19	2,640.00

Due to the lack of an extra-duty contract and that the classes were taught during Mr. Boatright's regular work hours, OSAI found no authority for the additional compensation paid to Mr. Boatright. The receipt of these payments appears to be a violation of **21 O.S. § 341**, which states:

Every public officer of the state ... 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 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; or

Second: Knowingly keeps any false account, or makes any false entry or erasure in any account of or relating to any moneys so received by him, on behalf of the state ... or the people thereof, or in which they are interested; or

Third: Fraudulently alters, falsifies, cancels, destroys or obliterates any such account, shall, upon conviction, thereof, be deemed guilty of a felony and shall be punished by a fine of not to exceed Five Hundred Dollars (\$500.00), and by imprisonment in the State Penitentiary for a term of not less than one (1) year nor more than twenty (20) years[.]

Also, OSAI noted that the payment of \$2,100.00 made on September 13, 2005 was not included on Mr. Boatright's W-2 or reported on IRS form 1099 and was made from subsequent years' appropriations.

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required. Also, OSAI recommends the Board of Education seek reimbursement of monies paid to the former Principal in excess of his contract.

FINDING During the examination of the activity fund expenditures, OSAI noted payments from the athletic fund sub-account to District employees for extra-duty services, including keeping the clock and books at basketball games and officiating basketball and baseball games. OSAI reviewed the minutes of the Board of Education to confirm that all activity fund sub-accounts, fund raising events, and the purpose for which the monies collected in each sub-account can be expended as required by **70 O.S. § 5-129**. OSAI found no documentation that the Board approved the athletic sub-account, its fund-raisers, and the expenditures allowed as

required by statute; therefore, OSAI found no authority for expenditures from athletic fund sub-accounts.

There were no withholdings from the extra-duty service payments to employees and it was not included on their W-2 form. In addition, there does not appear to be any authority to pay payroll expenditures from the activity fund.

The payment of extra-duty services to District employees is a repeat finding, which was noted in the OSAI Special Audit Report dated January 31, 2002.

70 O.S. § 5-129(A), states in part:

A. ... 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. Provided, the board of education may direct by written resolution that any balance in excess of the amount needed to fulfill the function or purpose for which an account was established may be transferred to another account by the custodian.

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required. Also, OSAI recommends the Board of Education comply with State Statutes. Further, OSAI recommends the District issue corrected W-2 forms to all employees who received payment for extra-duty services.

FINDING OSAI performed a cursory review of activity fund expenditures from July 1, 2005 through June 30, 2007 to determine compliance with applicable Statutes and District policies and procedures. OSAI noted the following exceptions:

- Some claims were not supported by an invoice.
- Some expenditures did not have supporting documentation to verify the goods or services had been received.
- Purchases were made prior to the requisition being approved.
- Some expenditures were reimbursement to school employees for supplies, which included reimbursements to Mr. Boatright, High School Principal. These requisitions were approved by Mr. Boatright only.
- A portion of money in the senior class subaccount was given to the students, in cash, when they went on their class trip.
- The purpose of all expenditures was not approved by the Board of Education as required by **70 O.S. § 5-129**.

RECOMMENDATION OSAI recommends the District pay no expenditures from the activity fund, whose purpose has not been approved by the Board or is not supported by a properly itemized invoice. All claims shall be approved as required

by Board policy prior to items being purchased and supported by documentation that the goods or services have been received. All expenditures, except travel related expenses, shall be paid directly to the vendor.

FINDING

OSAI reviewed July and August purchase orders and supporting documentation for Fiscal Years 2005-06, 2006-07, and 2007-08 to determine if goods and/or services purchased had been paid from the fiscal year's appropriation in which the purchase was made, excluding utility services and payroll. Comparing the invoices to the encumbrance register and purchase orders for each fiscal year, OSAI noted that during Fiscal Years 2005-06, 2006-07, and 2007-08 payments for prior year expenditures totaled \$34,949.95, \$20,940.29, and \$2,845.22, respectively. In addition, OSAI noted invoices dated prior to the purchase orders, which reflects appropriations were not encumbered prior to the purchase as required by **70 O.S. § 5-135(D)**.

The Oklahoma Supreme Court has ruled the "General fund monies of a specific year cannot be used for payment of obligations of a prior fiscal year." (48 P.2d 312). Invoices pertaining to obligations incurred in the prior fiscal year were carried over and paid from current year appropriations.

The Special Audit Report dated January 31, 2002 shows the District was paying prior year expenditures with current year appropriations and purchasing goods and/or services prior to the issuance of a purchase order for the Fiscal Years 1999-00, 2000-01, and 2001-002. Based on the reoccurrence of this finding, it appears the former Superintendent did not adhere to the State Statutes and District policy. Further, the payment of these expenditures may be subject to the provisions of **70 O.S. § 5-125(A)** which states, in part:

A. Every member of the board of education...who shall hereafter vote for the payment of any money...in settlement of any claim known to such member to be fraudulent or void, or in pursuance of any unauthorized, unlawful or fraudulent contract or agreement made or attempted to be made, for any school district, by any officer or officers thereof, and every person having notice of the facts with whom such unauthorized, unlawful or fraudulent contract shall have been made...shall be liable in damage to all innocent persons in any manner injured thereby and shall be liable to the school district affected for double the amount of all sums of money so paid[.]

70 O.S. § 5-135(D) states:

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.

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required.

FINDING At the June 14, 2005 Board of Education meeting, bids for a new one-half ton gasoline powered truck for the Superintendent were accepted. Mr. Caughern presented the Board with four (4) different bids, which had been faxed to him from the dealerships. The Board accepted the bid from Dunn Ford in the amount of \$22,566.00. OSAI obtained purchase order no. 8, dated July 12, 2005, to Dunn Ford for the purchase of the vehicle. Attached to the purchase order was an invoice/purchase agreement dated June 15, 2005 signed by Mr. Caughern.

The documentation obtained reflects the vehicle was purchased during Fiscal Year 2004-05 and paid with appropriations from Fiscal Year 2005-06. Also, Mr. Caughern did not obtain sealed bids as required by the District's policy for competitive negotiations, which states:

Any purchase of materials, equipment or supplies, except for use in a public construction project, which exceeds the sum of \$7,500, shall be made by competitive negotiation. Under competitive negotiation, ***the Superintendent shall obtain sealed quotations*** from at least three vendors for supply of the goods or services sought. Quotations shall be considered offers to provide goods or services to the District upon the terms set forth. The Superintendent shall evaluate the quotations and shall make a recommendation to the Board of Education, taking into consideration price and all other relevant factors. The Board of Education may accept or reject any or all quotations or use the quotations as a basis for further negotiation. (ea)

The Board minutes reflect Toney Patterson, Board Vice-President, voted to purchase the vehicle from Dunn Ford, where he is an employee as a mechanic. During conversation with Mr. Patterson, he stated that he received no compensation for the sale of the vehicle.

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required.

OBJECTIVE Determine whether there is a possible conflict of interest.

FINDING It was brought to the attention of OSAI that the District might be doing business with companies owned by the former Superintendent or his relatives. OSAI reviewed the warrant register to determine if any companies were noted in the previous Special Audit Report to determine if the District continued to do business with them. The only company noted that was listed in the previous Special Audit Report and on the warrant register was Eastern Oklahoma Copier Service. In the last Special Audit Report, OSAI found no documentation to support the former Superintendent was affiliated with this company. Further, the Oklahoma

Statutes pertaining to conflict of interest is directed to the Board of Education members' business relationships and not the Superintendent.

RECOMMENDATION No recommendation necessary.

OBJECTIVE Review for the possibility of missing property.

FINDING It was alleged that a District-owned Miller portable gasoline welder on a trailer and a gun safe were missing. OSAI reviewed purchase orders and obtained the agriculture department's inventory list, which has the signature of L.D. Boatright, High School Principal, dated June 17, 2003. The inventory sheet does not list a Miller portable gasoline welder nor does it list the serial numbers for the items. OSAI conducted a physical inventory at the agriculture building to determine if a Miller portable gasoline welder was on school premises, but not recorded on the inventory list. OSAI noted several Miller welders, but no portable gasoline welder was found. Also, OSAI found no documentation that the District purchased a gun safe.

During a conversation with the former agriculture teacher, the teacher stated that prior to his retirement there was a portable welder on school premises that was being used by the custodian. OSAI found no documentation in the Board minutes for the disposition of a Miller portable gasoline welder. Further, the District does not maintain a central inventory listing as to the location, serial number, date purchased, and purchase price of the items.

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required. Further, OSAI recommends the Board develop equipment and inventory policies and procedures to assure accountability for all District assets and that such be physically verified on a regular basis.

OBJECTIVE Determine whether personal use of District-owned property existed.

FINDING The District owns property with a house on it in the Town of Leflore. The Superintendent's report in the June 12, 2006 Board minutes states in part:

The school house is now available to rent. Mr. Caughern would like to rent it to a school employee for about \$300.00, if the board is okay with that amount. Mr. Caughern asked the board if they wanted this to be an agenda item to vote on and he received no response, except the board did agree that only a school employee should be able to rent the home.

The house was rented to Shawn Wilcox, maintenance personnel, for \$300.00 per month plus utilities. The January 8, 2007 Board minutes reflect that Mr. Wilcox moved out and "Mr. Caughern has rented the home to his daughter Jackie Jo and her husband Isaac". OSAI found no contract for rental of the school property. OSAI reviewed the District's receipts to verify rental payment had been received from Mr. Caughern's daughter, but no receipts were found for the daughter's rental payments. Payment history was obtained for the water meter located at the District-owned house, which reflects April and May 2007 bills, totaling \$64.51, had been paid by the District. The April and May water bills are for March and April usage. The propane was delivered to the house on January 10, 2007, at a cost of \$155.00 which was paid by the District. It appeared that there was no documentation indicating the Board approved the lease of the house to an individual that was not a school employee.

OSAI was provided with a Home Depot invoice dated January 29, 2007, in the amount of \$382.14 for the purchase of a dishwasher. This invoice was given to the District in lieu of rent payment on the house because Mr. Caughern's daughter had to replace the dishwasher in the District-owned house. Also, we were provided with a copy of a personal check written on Mr. Caughern's account dated April 13, 2007 for the amount of \$300.00 noting that it was for "April rent Jackie Jo". Based on the information OSAI obtained, it appears Mr. Caughern's daughter lived in the District-owned house for approximately three (3) months, February through April 2007.

The District should have received \$900.00 in rental payments from the former Superintendent's daughter and \$64.51 in water payments, made by the District, for a total of \$964.51. The District received a total of \$649.00 in rental payments which included both the cost of the dishwasher, sales tax not included, and a \$300.00 rent payment for the month of April. Based on the information obtained, Mr. Caughern's daughter did not pay the District a total of \$315.51 in rent and utilities, which appears to be a violation of **21 O.S. § 1451**, which states in pertinent part:

A. Embezzlement is the fraudulent appropriation of property of any person or legal entity, legally obtained, to any use or purpose not intended or authorized by its owner, or the secretion of the property with the fraudulent intent to appropriate it to such use or purpose...

* * *

5. Where any person diverts any money appropriated by law from the purpose and object of the appropriation [.]

Embezzlement does not require a distinct act of taking, but only a fraudulent appropriation, conversion or use of property.

* * *

C. Any county or state officer, deputy or employee of such officer, who shall divert any money appropriated by law from the purpose and object of the appropriation, shall, upon conviction, be guilty of a felony punishable by imprisonment in the State Penitentiary for a term not less than one (1) year nor more than ten (10) years, and a fine equal to triple

the amount of money so embezzled and ordered to pay restitution to the victim [.]

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required.

FINDING The employment contract between the District and Mr. Caughern, former Superintendent, states:

District agrees to provide the Superintendent an automobile for the exclusive use of the Superintendent in the performance of his duties as Superintendent and further that the District pay and be responsible for the automobile expenses, gas, repairs, maintenance, insurance, and tag on said vehicle;

On June 15, 2005, the District purchased a 2005 Ford F-150 crew cab pickup from Dunn Ford Company, mainly for Mr. Caughern's use for school business. OSAI reviewed the fuel logs for the Superintendent's pickup noting the following:

- September 1, 2005 – fuel put into vehicle while Mr. Caughern was on vacation.
- November 21, 2005 – fuel put into vehicle during Thanksgiving break.
- November 28, 2005 – 23 gallons of fuel put in vehicle on Monday following Thanksgiving break.
- December 20, 2005 – fuel put into vehicle during Christmas break.
- December 30, 2005 – fuel put into vehicle during Christmas break.
- March 13, 2006 – fuel put into vehicle during Spring break.
- October 16, 2006 – fuel put into vehicle while Mr. Caughern was on vacation.
- December 22, 2006 – fuel put into vehicle during Christmas break.
- December 28, 2006 – fuel put into vehicle during Christmas break.
- April 24, 2007 – 25 gallons of fuel put into vehicle day prior to Mr. Caughern taking vacation.
- April 26, 2007 – 23 gallons of fuel put into vehicle while Mr. Caughern was on vacation.

The vehicle was purchased new on June 15, 2005 and on July 9, 2007, when the new Superintendent took possession, the fuel logs reflected that a total of 41,672 miles had been driven. Mr. Caughern had possession of the vehicle for 751 days, which equates that the vehicle was driven an average of 55.48 miles per day.

Mr. Caughern used the school vehicle for commuting to and from his residences to the school, which is using school property for personal use. The Superintendent's contract provides for the use of a school vehicle in the performance of his duties, but does not allow for the personal use of the District's vehicle by the Superintendent. The personal use of the vehicle is a taxable benefit. However, Mr. Caughern's W-2s, do not reflect the benefit was reported to the Internal Revenue Service. Also, it appears the personal use of school property is a violation of **Article 10 §**

15 of the Constitution of Oklahoma, 21 O.S. § 1451, and 70 O.S. § 5-141(B).

Article X, § 15 of the Constitution of Oklahoma states in pertinent part:

Except as provided by this section, the credit of the State shall not be given, pledged, or loaned to any individual ... or political subdivision of the State[.]

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required. OSAI recommends the Board take corrective action to assure all taxable benefits, past and current, are reported to the Internal Revenue Service.

FINDING OSAI received signed affidavits from several concerned citizens stating they saw the following individuals driving the District's vehicle, which Mr. Caughern had in his possession.

- Mrs. Caughern was seen driving the vehicle on a Sunday.
- Mr. Caughern's son was seen driving the vehicle after school hours.
- Mr. Caughern was seen driving the vehicle pulling a fishing boat.
- Mr. Caughern was seen in an individual's hay meadow on several occasions.
- Mr. Caughern's son-in-law was seen driving the vehicle.
- After Mr. Caughern turned in his resignation, he was seen loading items from the school into the District's suburban.

There does not appear to be any authority for Mr. Caughern's wife, son, or son-in-law to drive the District's automobile provided to him. Further, the personal use of the vehicle by Mr. Caughern and his family members appears to be a violation of **Article 10 § 15 of the Constitution of Oklahoma** and **21 O.S. § 1451**.

The use of the District's vehicle for personal use was a finding reported in the Special Audit Report dated January 31, 2002. It appears the Board or the former Superintendent neglected to take any corrective action on the previous finding.

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required. Also, OSAI recommends the Board establish policies and procedures to assure the District's vehicles are not used by unauthorized or non-District employees to protect the District from possible liabilities.

FINDING The District has three (3) different cellular telephone plans with a total of eleven (11) different telephone numbers. The District receives funding for the cellular telephones through the Federal E-Rate program, which is administered by Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC). OSAI reviewed some of the billing statements for the telephone assigned to Mr. Caughern, former

Superintendent. The former Superintendent's telephone was used during the weekends, and school holidays. OSAI confirmed some of the numbers called to determine if the telephone was being used for personal business. Calls were made to family members and businesses not associated with the District. Based on the information obtained, it appears Mr. Caughern used the District's telephone to conduct personal business, which appears to be a violation of **21 O.S. § 341** and **Article 10 § 15** of the **Constitution of Oklahoma**. The personal use of the cellular telephone funded with Federal monies could be a violation of Federal rules and regulations.

Mr. Caughern's contract does not include any provision to provide him with the use of a telephone; therefore, the personal use of the District's cellular telephone appears to be a violation of **70 O.S. § 5-141(B)**, which 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[.]

OSAI visually verified the cellular telephones to determine who had possession of them. Of the eleven (11) telephones, there were six (6) located in the bus barn and two (2) located in the Superintendent's office that were not being used or assigned to any employee. The remaining three (3) were in possession of the current Superintendent, current Principal and elementary secretary.

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required. OSAI further recommends the Board develop policies and procedures regarding the use and assignment of cellular telephones.

OBJECTIVE Review for possible irregularities in travel expenses.

FINDING OSAI reviewed travel expenditures for the former Superintendent and various other employees during the audit period noting the following exceptions.

- Several meal invoices were not itemized as required by **70 O.S. § 5-135**.
- The Superintendent and employees received per diem for a full day, 24 hours, when they were not on overnight status. There was no documentation of their departure and return times, which would allow the correct calculation of the per diem amount to comply with Board policy. The receipt of the per diem amount in excess of the allowable amount appears to be a violation of **21 O.S. § 1451**.

- Some expenditures were not supported by an itemized invoice.
- The Superintendent was reimbursed for the rental of a vehicle used in the driver education class.
- Agendas for called meetings were not always attached to the purchase order.
- Meal reimbursements and per diem allowances were paid to employees who were not on overnight travel status and the amounts were not reported on their W-2's as a benefit as required by IRS regulations. Also, there was no documentation of the departure and return times when per diem amounts were paid; therefore, OSAI was unable to determine if the per diem amount paid was in accordance with the District's policy.
- The former Superintendent and High School Principal submitted reimbursements for meals that included other school employees and Board members.
- The former Superintendent was reimbursed \$80.93 for food purchased for volunteers working on the livestock building on February 24-25, 2006.
- Mileage claimed did not always document the date, purpose, and beginning and ending odometer reading.

Travel policy:

It is the policy of the board of education that official school travel for board members must be approved in advance by the board and travel for employees will be approved in advance by the building administrator or the superintendent. Requests and arrangements for employee travel will originate from the appropriate building administrator's office. Travel requests will be made as early as possible.

The school will reimburse reasonable costs, subject to the availability of funds, for approved and documented travel. Lodging expense will be reimbursed at actual cost for a single occupancy room not to exceed \$75.00 per night, (unless rooms are reserved by event (i.e. OSSBA Conference, National School Board Conference, upon approval by board of education, when no other hotels are available.)). The board may approve payment of lodging expenses on a per diem basis rather than requiring lodging expenses to be itemized and documented. Per diem rates will not exceed \$25.00 per day for in state travel, \$26.00 per day for out of state travel. Reimbursement for each ¼ day (3-6 hours) will be \$6.25 for in state and \$6.50 for out of state.

Documented meal costs will be reimbursed in an amount not to exceed \$15.00 per meal or \$45.00 per day when appropriate receipts are provided. The costs of meals and incidental expenses for group meetings conducted for the general improvement of the school system may be approved as a separate item by the board. The board may approve payment of meal expenses on a per diem basis rather than requiring meal

expenses to be itemized and documented. Per diem rates will not exceed those provided in the 74 O.S. §500.8: \$25.00 per day for in state travel, \$26.00 per day for out of state travel.

Reimbursement for each ¼ day (3-6 hours) will be \$6.25 for in state and \$6.50 for out of state.

Expenses for registration, parking, toll charges, and similar expenses will be reimbursed when documented by receipt or notarized affidavit.

School vehicles, when available, may be used for official business only. Private vehicles may be used when school vehicles are not available. If a school gasoline credit card is used, mileage will not be reimbursed. Mileage expense will be reimbursed at 31 cents per mile using the most recent map available when a school gasoline credit card is not used.

Claim forms for travel expenses are available in the superintendent's office. The forms will be completed and approved in the respective building and hand-delivered to the business office for payment.

RECOMMENDATION OSAI recommends the District adhere to their established travel policy. Also, OSAI recommends the Board take corrective action to assure all taxable benefits, past and current, are reported to the Internal Revenue Service. Further, OSAI recommends that reimbursements for travel expenses be supported by documentation of the date, nature of school business, beginning and ending odometer reading or map miles, the departure and return time (if claiming per diem). OSAI recommends the proper authorities review the finding to determine what action, if any, may be required.

FINDING Billy Deleplank and Curtis Curry attended the Nike Championship Basketball Clinic in Robinsville, Mississippi held May 19-21, 2006. The District's Suburban was driven by Mr. Curry to the clinic and Mr. Deleplank drove his personal vehicle and was reimbursed \$241.80 for mileage. The employees arrived at the motel on May 18, 2006 and departed on May 21, 2006. Registration for the clinic was held from 1:00 pm to 9:00 pm on May 19 and continued from 7:30 am to 12 noon May 20.

Based on the District's policy, OSAI found no authority for Mr. Deleplank to be reimbursed for miles traveled to the clinic since a District vehicle was available for the trip.

RECOMMENDATION OSAI recommends the Board adhere to their written travel policies. OSAI recommends the proper authorities review this finding to determine what action, if any, may be required.

OBJECTIVE

Review for possible irregularities in lease-purchase agreements.

FINDING

At the September 13, 2005 Board of Education meeting, the Board approved Resolution No. 9132005, hiring First Security Leasing Inc. to secure financing for the elementary building roof replacement. The Resolution was for an amount not to exceed \$100,000.00 at a rate of 6.5% per annum and not to exceed ten (10) years, but it did not include the vendor's name. The minutes reflect:

Mr. Caughern explained to the board that this document is a resolution to lock in 6.5% interest on the upcoming lease purchase we will need to repair the elementary roof. No name is listed on the resolution because we haven't taken any bids yet for the repair work. He is estimating that we will probably need around \$60,000 to complete this project.

The lease-purchase agreement between First Security Leasing, Inc. was signed by Mr. Caughern, Superintendent, on November 10, 2005. The agreement was for the roof replacement for school facilities not to exceed \$70,000.00. The agreement bears an interest rate of 6.10% per annum with semi-annual payments of \$4,726.88 commencing May 10, 2006 for a term of ten years. The total payment for the elementary building roof project is \$94,537.60, which consists of the principal amount of \$70,000.00 and interest of \$24,537.60.

The District published an advertisement for quotes for work on the elementary roof system, materials only, on October 11, 2005, which were to be opened and read publicly at 7:00 pm October 13, 2005. The minutes of the October 13, 2005 Board meeting reflected that Mr. Caughern stated they had received two (2) sealed bids, one from Alford Metal and one from United Structures of America. The bid was awarded to Alford Metal for \$40,286.23.

Based on the Superintendent's report in the Board minutes, the roof project was delayed because he was unable to get the plans back from the architect for the Fire Marshal's approval, so a new architect was hired in March 2006 and also, the individual hired to do the labor did not show up and a new contractor had to be hired. The shipping reports reflect the materials were received in October 2006 and the Superintendent's report in the April 9, 2007 minutes states the roof project is completed. The following schedule documents the construction cost.

LEFLORE PUBLIC SCHOOL DISTRICT NO. 401016
LEFLORE COUNTY
SPECIAL AUDIT REPORT
APRIL 1, 2005 THROUGH JUNE 30, 2007

Date	Vendor	Amount	Purpose
05/26/06	Isabel Engineering Group	\$2,250.00	letter to State Fire Marshal
06/27/06	Wynn Associates	4,800.00	consulting fee
11/08/06	Alford Metals	43,970.30	Materials
03/14/07	Junior Lloyd Construction Company	19,500.00	Labor
05/24/07	Farmers Cooperative	66.95	t-post and ties
	George Ollie's Lumber Company	167.92	ceiling tile
	George Ollie's Lumber Company	342.18	anchors, caulk, screws, lumber
	Arrow Bolt & Screw Company	103.27	lag screws
	Alford Metals	239.18	double faced MBI tape
	George Ollie's Lumber Company	479.00	ceiling tile
	George Ollie's Lumber Company	311.35	ceiling tile
	Rexel Summers	132.44	electrical supplies
06/20/07	Harber A/C & Refrigeration	535.30	repair of a/c and heating units
Total		\$72,897.89	

The Superintendent obtained the financing for the project, which was approved by the Board, prior to advertising bids. Also, the Superintendent stated at the Board meeting, he anticipated the cost for the roof replacement would be \$60,000.00, but proceeded with seeking bids for the materials to complete the project. Based on the information, it appears Mr. Caughern, former Superintendent, and the Board were aware the cost of the project would be in excess of \$25,000.00 at which time they proceeded without complying with **62 O.S. § 430.1** and the District's policy pertaining to construction contracts.

The former Superintendent hired Junior Lloyd Construction Company for the labor to erect the elementary building roof without obtaining the required insurance and bond as set forth in the **Public Competitive Bidding Act of 1974**.

Board Policy:

Construction contracts exceeding \$7,500 for the purpose of making public improvements or for the purchase of supplies or materials for use in making improvements must be let to the lowest responsible bidder following the procedures set forth in the Oklahoma Competitive Bidding Act, Okla. Stat. tit. 61, §§ 101 et seq. Bidders bidding pursuant to the Competitive Bidding Act must attach a sworn non-collusion statement to the bid.

62 O.S. § 430.1

A. The governing board of any county, city or town, or school district is authorized to rent on a monthly basis real or personal property as authorized by the governing board and to pay the rental charges thereon for usage during any fiscal period, or portion thereof, out of appropriations made and approved for such purposes for, or during, such fiscal year. Any such rental contract extending beyond June 30 of the fiscal year shall contain provisions for mutual ratification of renewal under the conditions provided in this section.

B. As used in this section, the term "personal property" shall include, but not be limited to:

1. Portable, or otherwise moveable, buildings and structures;
2. Prefabricated metal buildings and structures, along with necessary utility services for such buildings or structures;
3. Roofs placed over existing roof structures; provided, lease-purchase of retrofit metal roofs shall be awarded by competitive bids and the governing board of any county, city or town, or school district shall comply with the Public Competitive Bidding Act of 1974 where total payments of principle and interest provided by the lease-purchase contract are anticipated to exceed Twenty-five Thousand Dollars (\$25,000.00); and
4. Other structures or property that can be disassembled after installation and removed without permanent physical damage to existing property.

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required.

OBJECTIVE Review for possible irregularities in lease-purchase agreements.

FINDING The following lease-purchase agreements were reviewed to determine if they had been properly executed.

- At the September 10, 2002 Board meeting, the Board of Education approved the lease-purchase agreement on a flavor burst ice cream machine, although on August 26, 2002, Mr. Caughern had already signed a sales order for the purchase of Flavor Burst Unit (ice cream machine) with Taylor of Oklahoma. The agreement term was for forty-eight (48) months with a \$1.00 buyout option, no down payment, with a payment of \$157.00 per month for a total cost of \$7,536.00 and no option for annual renewal. The lease-purchase agreement approved by the Board with Patriot Public Financing, was signed by Mr. Caughern on September 23, 2002 for forty-eight (48) months at \$157.80 per month for a total cost of \$7,574.80.
- On August 8, 2003, Mr. Caughern signed a lease-purchase agreement, approved by the Board on July 8, 2003, with Sale Leasing, LLC in the amount of \$23,550.00 for playground equipment as described below:

Playworld Challenger Playstructure and Climb Across to include: 1 pw superdome ZZXX0400, 1 lettered bench ZZXX1426 and 1 funhoop.

The agreement term was sixty (60) months with semi-annual payments of \$2,462.00 and an initial payment of \$5,000.00 that included a \$250.00 processing fee for a cost of \$23,550.00

principal, and \$5,820.00 interest. The contract was assigned to Mainifest Funding Services.

- On October 23, 2003, the Board President entered into a five (5) year lease-purchase agreement with BancFirst, Stratford, for a 20 ft. stock trailer. Payments of \$2,225.00 were due October 15 of each year with a final payment of \$1.00 for a total cost of \$11,126.00.

The lease-purchase agreements were not renewed by the Board each fiscal year. Further, Mr. Caughern entered into a forty-eight (48) month sales contract with Taylor of Oklahoma, with no option to renew each fiscal year, for a Flavor Burst Unit, obligating subsequent years' appropriations for the equipment. Based on the information, it appears Mr. Caughern entered into a contract committing subsequent years' appropriation when purchasing the Flavor Burst Unit that appears to violate **62 O.S. § 430.1**, which states:

A. The governing board of any ... school district is authorized to rent on a monthly basis real or personal property ... and to pay the rental charges thereon for usage during any fiscal period ... out of appropriations made and approved for such purposes for, or during, such fiscal year. Any such rental contract extending beyond June 30 of the fiscal year shall contain provisions for mutual ratification of renewal...

B. As used in this section, the term "personal property" shall include, but not be limited to:

* * *

4. Other structures or property that can be disassembled after installation and removed without permanent physical damage to existing property.

[S]uch personal property shall retain its status as personal property and shall not be deemed to become attached to the real estate for the duration of the lease-purchase agreement.

RECOMMENDATION OSAI recommends the proper authorities review this finding to determine what action, if any, may be required. Further, OSAI recommends the Board approve lease-purchase agreements each fiscal year. OSAI recommends that lease-purchase agreements not be signed by the Superintendent prior to Board approval.

OBJECTIVE

Review for possible irregularities in grant funds.

FINDING

OSAI attempted to verify computer equipment purchased with Federal funds/grants. The District maintains an inventory list that shows the teacher that has the equipment, type of equipment, brand name, serial number, and total. The list does not document the date purchased or funds used to purchase the item. OSAI reviewed the purchase orders in an attempt to document the items purchased. Using the invoices, we

were able to document the quantity, brand name and model for the items, but no serial numbers were listed on the invoices.

OSAI visually verified the computer equipment by the total number shown purchased on the invoices, brand and type, but we could not confirm that these were the actual items purchased since serial numbers were not listed on the invoices and the District did not properly document the items received. Also, the following equipment was not on the District's inventory list:

- two (2) VSX 7000 E video conference units with 27" Sony televisions;
- two (2) IBM Lenovo Thinkcentre E50 with 17" flat screen monitors and accessories; and
- one (1) HP LJ 1018 Laser printer.

OSAI reviewed the District's policies to determine the requirement for the accounting of equipment purchased and received. There was no Board policy establishing procedures on maintaining an inventory of items purchased. Although the District has no inventory policy, the Federal Department of Education, **Title 34 of the Code of Regulations, (CFR) § 80.32 (d)(1)(2)(3)** prescribes the following procedures:

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that includes a description of the property, a serial number or other identification number, the source of property, who holds the title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of property. Any loss, damage, or theft shall be investigated.

In the previous Special Audit Report, dated January 31, 2002, the same finding was reported. Therefore, it appears the Board and the former Superintendent did not take corrective action since the 2002 audit.

RECOMMENDATION

OSAI recommends the proper authorities review this finding to determine what action, if any, may be required. Further, OSAI recommends that the Board establish policies and procedures to assure the protection of the District's assets.

DISCLAIMER

Throughout this report there are numerous references to State Statutes and legal authorities which appear to be potentially relevant to issues

raised by the District Attorney 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 District 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 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.



**OFFICE OF THE STATE AUDITOR AND INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896**

WWW.SAI.STATE.OK.US