ACCOUNTANT'S AUDIT REPORT

RUSH SPRINGS
MUNICIPAL IMPROVEMENT
AUTHORITY

JUNE 30, 2012

BY

Rush Springs Municipal Improvement Authority
Rush Springs, Oklahoma
For the Fiscal Year Ended June 30, 2012

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FURRH
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rush Springs Municipal Improvement Authority
Rush Springs, Oklahoma

We have audited the accompanying financial statements of Rush Springs Municipal Improvement Authority (a component unit of Town of Rush Springs, Oklahoma) as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

608 NW Ft. Sill Blvd, Lawton, OK 73507 Telephone (580) 355-7100 Fax (580) 355-7102

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position—modified cash basis of the Rush Springs Municipal Authority, as of June 30, 2012, and the change in financial position—modified cash basis, and the cash flows—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Rush Springs Municipal Authority and do not purport to, and do not present fairly, the financial position of the City of Rush Springs, State of Oklahoma, as of June 30, 2012, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

FURRH & ASSOCIATES, PC
Lawton, Oklahoma
September 22, 2014

Rush Springs Municipal Improvement Authority

Statement of Net Assets
(Modified Cash Basis)
Year Ended June 30, 2012

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 54,737	
Restricted Cash and Cash Equivalents	73,307	
Restricted Investments	33,000	
Total Current Assets		$ 161,044
Noncurrent Assets:		
Land	10,000	
Vehicles	112,400	
Building Improvements	39,783	
Machinery and Equipment	51,000	
Water and Sewer System	3,988,606	
Accumulated Depreciation	(2,809,634)	
Total Noncurrent Assets		1,392,155
Total Assets		$ 1,553,199
LIABILITIES		
Current Liabilities:		
Refundable Meter Deposits	$ 81,711	
Notes Payable- Current Portion	78,152	
Payroll Liabilities	1,148	
Total Current Liabilities		$ 161,011
Noncurrent Liabilities:		
Due to Rush Springs Economic Development	10,000	
Notes Payable	536,826	
Total Noncurrent Liabilities		546,826
Total Liabilities		707,837
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	777,177	
Restricted	63,103	
Unrestricted	5,082	
Total Net Assets		845,362
Total Net Assets and Liabilities		$ 1,553,199

Please see accompanying notes to the financial statements.

Rush Springs Municipal Improvement Authority

Statement of Revenues, Expenses, and Changes in Net Assets
(Modified Cash Basis)
Year Ended June 30, 2012

Operating Revenue:				
Water	$	211,166		
Sanitation		187,909		
Sewer		74,372		
Miscellaneous		6,738		
Total Operating Revenue			$	480,185
Operating Expense:				
Depreciation		161,590		
Salaries and Benefits		159,408		
Sanitation Services		128,251		
Administration		44,954		
Maintenance and Operations		37,075		
Total Operating Expense				531,278
Net Operating Loss				(51,093)
Nonoperating Revenue (Expense):				
Transfer In		11,996		
Transfers Out		(60,201)		
Interest Income		757		
Interest Expense		(17,619)		
Net Nonoperating Revenue (Expense)				(65,067)
Net Change in Net Assets				(116,160)
Total Net Assets, June 30, 2011				961,522
Total Net Assets, June 30, 2012			$	845,362

Please see accompanying notes to the financial statements.

Rush Springs Municipal Improvement Authority
Statement of Cash Flows
(Modified cash Basis)
For Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Revenues Received	$ 490,122	
Vendors and Others Paid	(320,896)	
Net Cash Provided By Operating Activities		$ 169,226
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	757	
Interest Expense	(17,619)	
Net Cash Used By Investing Activities		(16,862)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Debt	(62,934)	
Purchase of Fixed Assets	(12,029)	
Transfers, Net	(48,205)	
Net Cash Used By Financing Activities		(123,168)
Net Decrease in Cash and Cash Equivalents		29,196
Cash and Cash Equivalents, July 1, 2011		131,848
Cash and Cash Equivalents, June 30, 2012		$ 161,044

As shown on Statement of Net Assets - Modified Cash Basis	
Cash and Cash Equivalents	$ 54,737
Restricted Cash and Cash Equivalents	73,307
Restricted Investments	33,000
	$ 161,044

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$ (51,093)
Adjustments:	
Depreciation	161,590
Increase in Payroll Liabilities	1,148
Increase in Customer Deposits	9,937
Decrease in Due From Others	47,644
Total Adjustments	220,319
Net Cash Provided by Operating Activities	$ 169,226

Please see accompanying notes to the financial statements.

Note 1 – Summary of Significant Accounting Policies

These financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from generally accepted accounting principles in the United States of America. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board pronouncements. The modified cash basis of accounting is an acceptable method of accounting under the budgetary laws of the State of Oklahoma.

A. Reporting Entity

The Rush Springs Municipal Improvement Authority was created pursuant to a Trust Indenture as authorized by Title 60, Oklahoma Statutes 1984, section 176-180.3, inclusive and the Oklahoma Trust Act. The governing body of the Authority is the Board of Trustees comprised of five elected members. The Authority is a component unit of its beneficiary, the Town of Rush Springs. Rush Springs Municipal Improvement Authority (RSMIA), is a proprietary fund that accounts for activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections systems and pump stations.

B. Basis of Accounting

Proprietary funds are accounted for using the cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid and retirement contributions not remitted are recorded as liabilities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Rush Springs Municipal Improvement Authority's are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The Authority is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the Authority's financial statements.

C. Assets, liabilities, and net assets or equity

Deposits and investments
For purposes of the statement of cash flows, the Authority considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents. Public trusts created under Oklahoma Statutes Title 60 are not subject to investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Restricted assets
Resources required to be set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable loan covenants. Amounts held for customer utility deposits are also reported as restricted assets.

Capital assets
Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sewer systems). Capital assets are defined by the government as assets with an initial individual cost of more than $500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Water System	25
Vehicles	5
Machinery and equipment	10

Long-term obligations
Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Net assets
Net assets are divided into three components:

- *Invested in Capital Assets, net of related debt* – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Restricted Net Asset* – consist of net assets that are restricted by creditors through debt covenants or customer utility deposits.
- *Unrestricted Net Assets* – all other net assets are reported in this category.

Note 2 – Deposits, Investments, and Collateral

Deposit Custodial Credit Risk
Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority policy regarding custodial credit risk requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2012, the bank balance was $117,819. This entire amount was insured and collateralized.

At year end, the Authority's investments were held as certificates of deposits.

Unrestricted cash and cash equivalents include the following accounts:

First National Bank & Trust - Chickasha, OK		
Municipal Improvement Authority	$	44,512 *
Certificate of Deposits		10,225 *
Total	$	54,737

* Interest Bearing Accounts

The above accounts are covered by F.D.I.C. insurance or collateral pledge. The Authority has investments in Certificates of Deposit totaling $43,225 with interest rates from .55% to .70%.

Restricted Cash and Cash Equivalents include the following:

First National Bank & Trust - Chickasha, OK		
MIA Debt Services Account	$	5,441
Meter Deposit Account		34,039
Waste/Wastewater Emergency Account		3,724
Meter Deposit CD		33,000
Bank of Oklahoma		
Debt Service Reserve Account		30,103
Total	$	106,307

Note 3 – Fixed Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets, not being depreciated:				
Land	$ 10,000	$ -	$ -	$ 10,000
Capital assets, being depreciated:				
Vehicles	112,400	-	-	112,400
Machinery and Equipment	89,783	1,000	-	90,783
Water and Sewer System	3,977,577	11,029	-	3,988,606
Total	4,179,760	12,029	-	4,191,789
Less Accumulated Depreciation	(2,648,044)	(161,590)	-	(2,809,634)
Total Capital Assets, net of Depreciation	$ 1,541,716	$ (149,561)	$ -	$ 1,392,155

Total depreciation expense for the year of $161,590 was charged to current operations.

Note 4 – Insurance and Bond Coverage of Contingencies

The Authority carries the following insurance coverage as protection against possible loss contingencies:

Workers Compensation and Employer Liability
Commercial Property & Equipment Breakdown
Comprehensive Auto Liability
Automobile Physical Damage
Building and Contents Physical Damage
Employee Bond – John Morrow

Note 5 – Supplemental Disclosure of Cash Flow Information

Interest expense paid by the Authority for the year ended June 30, 2012, was $17,619, which was charged to current operations.

Note 6 – Long Term Debt

Oklahoma Water Resources Board Notes Payable

The Rush Springs Municipal Improvement Authority has entered into a note payable with Oklahoma Water Resources Board dated December 1995 in the amount f $320,000, for the construction of a water tower. Principal payments are due in February and August. The effective interest rate is 1.54%. The required Debt Service Reserve Fund was fully funded in the amount of $30,103.

The following is a schedule of principal and interest requirements at June 30, 2012:

	Total	Interest	Principal
06/30/13	$ 15,570	$ 2,370	$ 13,200
06/30/14	$ 16,799	$ 2,549	$ 14,250
06/30/15	$ 17,666	$ 2,266	$ 15,400
06/30/16	$ 18,676	$ 2,026	$ 16,650
06/30/17	$ 19,817	$ 1,767	$ 18,050
2018-2022	$ 109,740	$ 4,140	$ 105,600
Total	$ 198,268	$ 15,118	$ 183,150

The Rush Springs Municipal Improvement Authority has entered into a note payable with Oklahoma Water Resources Board dated August 1996 in the amount of $605,150, for water and sewer improvements. Semi-annual payments are due in March and September. The effective interest rate is 2.98%, and administration fee of 0.5%.

The following is a schedule of principal and interest requirements at June 30, 2012:

	Total	Interest	Principal
06/30/13	$ 38,928	$ 5,810	$ 33,118
06/30/14	$ 39,005	$ 4,708	$ 34,297
06/30/15	$ 39,179	$ 3,662	$ 35,517
06/30/16	$ 39,360	$ 2,586	$ 36,774
06/30/17	$ 39,550	$ 1,459	$ 38,091
2018-2022	$ 19,846	$ 297	$ 19,549
Total	$ 215,868	$ 18,522	$ 197,346

The Rush Springs Municipal Improvement Authority has entered into a note payable with Oklahoma Water Resources Board dated June 2004 in the amount of $380,000, for water improvements. Payments are due semi-annually in March and September. As of June 30, 2012, total principal drawn down on the loan is $322,014.70. The effective interest rate is 3.01% plus administration fees of 0.5%

The following is a schedule of principal and interest requirements at June 30, 2012:

	Total	Interest	Principal
06/30/13	$ 19,860	$ 6,093	$ 13,767
06/30/14	$ 20,192	$ 4,735	$ 15,457
06/30/15	$ 20,153	$ 5,383	$ 14,770
06/30/16	$ 20,219	$ 4,936	$ 15,283
06/30/17	$ 21,320	$ 4,474	$ 16,846
2018-2022	$ 103,745	$ 14,597	$ 89,148
2023-2025	$ 49,091	$ 2,047	$ 47,044
Total	$ 254,580	$ 42,265	$ 212,315

Provisions for the Oklahoma Water Resources Board which are pertinent to the financial statements are as follows:

The notes are secured by the fixed assets and service revenues of the Authority.

Revenues generated from the operation of the system will be used monthly, first to provide debt service on any indebtedness payable from such revenues. Second, to pay operation and maintenance expenses of the system, and third, to make payments, if required, to replenish any amount drawn from any OWRB debt service reserve fund.

The Authority will maintain, at all times, schedules of rates or charges for services rendered through the mortgage property sufficient to provide net revenues available for debt service equal to at least 125% of the maximum annual amount required for debt service on all obligations.

The Authority was not in compliance with the debt coverage ratio at June 30, 2012. See following calculations:

Net Revenues Available for Debt Service:	
Operating Revenue	$ 480,185
Less Sanitation Revenue	(187,909)
Total Operating Revenue	292,276
Operating Expenses	531,278
Less Sanitation Expenses	(128,251)
Less Depreciation Expense	(161,590)
Total Operating Expenses	241,437
Interest Revenue	757
Net Revenues Available for Debt Service	$ 51,596

Maximum Annual Debt Service Requirement @ 125%

Year 16-17	$ 95,499
Coverage	54%
Coverage Requirement	125%

Other Notes Payable

The Rush Springs Municipal Improvement Authority has entered into a note payable with First National Bank in the amount of $29,000, for purchase of City Hall. Monthly payments of $500 and interest rate of 6.50%. The Town of Rush Springs will transfer funds to the Municipal Authority for repayment of the debt.

	Total	Interest	Principal
06/30/13	$ 19,000	$ 933	$ 18,067
06/30/14	$ 4,124	$ 24	$ 4,100
Total	$ 23,124	$ 957	$ 22,167

During 2009-2010 the Rush Springs Municipal Improvement Authority received $10,000 in a transfer from Rush Springs Economic Development Authority (RSEDA), which is recorded as Due To RSEDA.

Changes in long-term liabilities

	Beginning Balance	Additions	Dispositions	Ending Balance	Due Within One Year
Notes Payable	$ 677,912	$ -	$ 62,934	$ 614,978	$ 78,152
Long Term Liabilities	$ 677,912	$ -	$ 62,934	$ 614,978	$ 78,152

FURRH
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Rush Springs Municipal Improvement Authority
Rush Springs, OK 73082

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Rush Springs Municipal Improvement Authority, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise Rush Springs Municipal Improvement Authority's basic financial statements, and have issued our report thereon dated September 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rush Springs Municipal Improvement Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Rush Springs Municipal Improvement Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not find any deficiencies that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiencies 11-2, 11-8, 11-9, 12-2, 12-3 and 12-4 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rush Springs Municipal Improvement Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 11-3 and 12-1.

Rush Springs Municipal Improvement Authority's Response to Findings

Rush Springs Municipal Improvement Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Rush Springs Municipal Improvement Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Furrh & Associates, PC
Lawton, Oklahoma
September 22, 2014

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
Year Ended June 30, 2012

Reportable Conditions of Internal Control, Compliance and Other Matters

Uncorrected Prior Year Audit Findings:

11-2 Condition – The Authority lacks segregation of accounting duties.

Criteria – Segregation of duties is necessary to ensure internal accounting controls. A) The cashier should not open the mail. B) The Accounts Payable Clerk should not have access to signature stamps. C) The cashier should not post adjustments to customer accounts.

Cause and Effect – Small number of employees results in a lack of segregation of duties that can cause internal controls to be compromised.

Recommendation – The Authority should consider ways to segregate accounting functions to establish adequate controls.

Management response – Procedures will be implemented to achieve segregation of duties.

11-3. Condition – The Authority did not meet the required debt service coverage ratio of 125% of Net Revenue Available for Debt Service to Maximum Annual Debt Service Expense for fiscal year ending 06/30/2011, as required by the note payable agreements with Oklahoma Water Resources Board.

Criteria – The Authority should maintain a rate schedule sufficient to cover the required debt service coverage ratio.

Cause and Effect – The current rates charged are not sufficient to provide the 125% coverage needed; therefore, the Authority is not in compliance with their debt covenants.

Recommendation – We recommend that the Authority conduct a rate analysis to determine a rate schedule that would provide the needed debt service coverage.

Management response – Management agrees.

11-8. Condition –Our testing noted utility adjustments that were not properly approved.

Criteria – The internal controls surrounding utility adjustments require approval prior to posting of adjustments to customer accounts, and someone other than the cashier should post the adjustments.

Cause and Effect – Lack of internal controls surrounding utility adjustments.

Recommendation – All utility adjustments should be properly approved.

Management response – Management agrees.

11-9. Condition – Our testing showed four of thirty employee utility accounts were delinquent at June 30, 2011 and two of thirty employee accounts were not charged late fees on the delinquency.

Criteria – Accounting policies and procedures should specify the appropriate treatment for uncollectible accounts.

Cause and Effect – Inadequate design and implementation of policies resulted in no attempt to collect past due accounts.

Recommendation – We recommend that a utility aging report be provided monthly to the board for review.

Management response – Management agrees.

Current Year Audit Findings:

12-1. Condition – The Authority did not meet the required debt service coverage ratio of 125% of Net Revenue Available for Debt Service to Maximum Annual Debt Service Expense for fiscal year ending 06/30/2012, as required by the note payable agreements with Oklahoma Water Resources Board.

Criteria – The Authority should maintain a rate schedule sufficient to cover the required debt service coverage ratio.

Cause and Effect – The current rates charged are not sufficient to provide the 125% coverage needed; therefore, the Authority is not in compliance with their debt covenants.

Recommendation – We recommend that the Authority conduct a rate analysis to determine a rate schedule that would provide the needed debt service coverage.

Management response – Management agrees.

12-2. Condition – The Authority did not have fidelity bonds or position coverage on each if its officers, employees, agents, or other representatives who handle OWRB funds. The only employee who has a bond is the City Clerk, John Morrow.

Criteria – According to the Oklahoma Water Resources Board debt covenants, the Authority is required to have fidelity bonds on each employee or position coverage who handles OWRB funds.

Cause and Effect – The Authority is not in compliance with the debt covenant.

Recommendation – We recommend that the Authority obtain either fidelity bonds on each employee who is not already covered or position coverage on each job position.

Management response – Management agrees.

12-3. Condition – Our testing noted that two of the employee utility accounts were allowed to become delinquent and were not disconnected, nor charged the disconnect and reconnect fees associated with this procedure.

Criteria – According to City Ordinance No. 326, water payments shall be due by the 10th of the month and services disconnected if not paid by the 21st of the month.

Cause and Effect – Inadequate internal controls surrounding employee receivables for utility accounts.

Recommendation – We recommend that a utility aging report be provided monthly to the Board for review. This report should include all Authority employees.

Management response – Management agrees.

12-4. Condition – Our testing noted that none of the Authority employees completed the Federal form I-9 before employment.

Criteria – According to the US Citizenship and Immigration Services, all U.S. employers must ensure proper completion of Form I-9 for each individual they hire for employment in the United States. The employee must also present his or her employer with acceptable documents evidencing identity and employment authorization.

Cause and Effect – Inadequate internal controls surrounding employee hiring procedures.

Recommendation – We recommend that all current employees complete the I-9 form and provide the needed documentation to be in compliance. All future employees should complete this before employment begins.

Management response – Management agrees.