

INVESTIGATIVE REPORT

TOWN OF MARLAND

MARLAND PUBLIC WORKS AUTHORITY

September 12, 2014



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

Town of Marland
Marland Public Works Authority
Investigative Audit
September 12, 2014

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Oklahoma State Auditor & Inspector

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September 12, 2014

The Honorable Brian Hermanson
District Attorney, District 8
399 Courthouse Drive #6
Perry, Oklahoma 73077

District Attorney Brian Hermanson:

Pursuant to your request and in accordance with the requirement of **74 O.S. § 212(H)**, we performed an investigative audit of the Town of Marland and the Marland Public Works Authority. Transmitted herewith is our report on that investigation.

The objectives of our investigation primarily included, but were not limited to, the areas noted in your request. Our findings and recommendations related to those objectives are presented in the accompanying report.

Because investigative 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 Town of Marland or the Marland Public Works Authority.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government while maintaining our independence as we provide this service to the taxpayers of Oklahoma.

This document is a public document pursuant to the Oklahoma Open Records Act, in accordance with **51 O.S. § 24A.12**.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

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CONCERNS

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Introduction

The Town of Marland (“Town”) is organized under the statutory Town Board of Trustees form of government as outlined in **11 O.S. § 12-101, et. seq.**, which states:

The form of government provided by Sections 12-101 through 12-114 of this title shall be known as the statutory town board of trustee’s form of government. Towns governed under the statutory town board of trustees form shall have all the powers, functions, rights, privileges, franchises and immunities granted, or which may be granted, to towns. Such powers shall be exercised as provided by law applicable to towns under the town board of trustees form, or if the manner is not thus prescribed, then in such manner as the board of trustees may prescribe.

The Town is governed by the Town Board of Trustees (Town Board), which consists of five members (town trustees) who are elected at large, “without regard to place of residence within the corporate limits.” The Board of Trustees elects one member to serve as mayor. The town clerk-treasurer is elected at large.

The Board of Trustees, as of March, 2013 consisted of:

- Rick Gilbert, Mayor
- Sally Buxton, Vice Mayor
- Louie Levings, Trustee
- Bob Kihega, Trustee
- Aileen Adams, Trustee

The Marland Public Works Authority (“PWA”) is the utility system that provides water and sewer services to the residents of the Town as well as providing water service to area residents who reside outside town borders. The PWA is overseen by the same governing board as the Town (e.g. the Board of Trustees).

District Attorney Brian Hermanson requested that the State Auditor and Inspector conduct an investigative audit because of issues raised concerning Town and PWA finances. The results of this special investigative audit are contained in the following report.

Background

Prior to our fieldwork, the former clerk for the Town and PWA alerted law enforcement authorities of possible issues related to the handling of Town and PWA finances.

In addition, the former town clerk requested specific records, pursuant to the Open Records Act, in order to confirm or refute certain suspicions. According to the former clerk, she was denied these records.

On September 9, 2013, the District Attorney's office notified town officials of the need to comply with the Open Records Request. The District Attorney's letter included the following:

Dear Town Board Members and Ms. Shultz:

Please be advised that this office has received information alleging a violation of the open records act, as set forth in Title 51 Oklahoma Statutes Section 24A.17. The request allegedly included a customer list, meter deposits, billing report and account paid (A/P) report for the months of May and June of this year.

According to the allegations, on or about July 15, 2013, a written request for records was submitted to Ms. Mary Shultz, Town Clerk, by Ms. Leanna Diamond.

...

To date, according to Ms. Diamond these reports have not been released.

The letter requested that the records be provided before September 23, 2013. On October 17, 2013, the District Attorney's office sent a follow-up letter to the Town Board of Trustees and Clerk Shultz. This letter included, in part:

This office has been provided copies of the documents released to Ms. Diamond based on her open records request in July. A report dated September 26, 2013 with a heading of "Report Criteria" looks to cover the "Customer List" for water bills. This report has been cut apart so that no names, addresses or account numbers are listed. In fact, there is no information listed on the report at all.

...

I appreciate the information which was released. However, the request made by Ms. Diamond covered specific dates which were not contained with the released reports.

This letter advised that the requested reports be provided by October 25, 2013.

We interviewed the former clerk on October 29, 2013. In spite of the repeated requests, including the two letters from the District Attorney, the reports requested were not provided.

The second letter from the District Attorney alludes to some concerns on behalf of the Town in regard to releasing records that contain private information. However, upon obtaining the requested reports, we found that none of the reports included what might be considered private information.

For example, the payment history reports contained account numbers and names on the accounts. The accounts receivable report contained account numbers and names, with no other personal identifiers. The customer history reports contained only account numbers and customer names.

While there appeared to have been some concern about the release of private records, we determined that the records requested by the former clerk in July 2013 did not contain social security numbers, dates-of-birth, or any other type of personal identifiers.

Concern

- **Have utility billing payments been misappropriated?**
-

Findings

- **A receipt to deposit test revealed \$9,227.75 was receipted and not deposited.**
 - **Additional funds, from unconventional receipts, may not have been deposited.**
 - **Questionable account adjustments were made to customer accounts.**
 - **Payments were not properly recorded to customer accounts.**
 - **Deposits were short cash.**
 - **Records indicated an on-going lapping scheme.**
 - **A ‘surprise’ cash count confirmed a lapping scheme.**
 - **The clerk admitted that she had been misappropriating money.**
 - **Inconsistencies were noted in the clerk’s statement relating to cash deposits in her personal account.**
 - **There were conflicting statements between the former clerk’s and current clerk’s statements.**
 - **Additional misappropriations may have occurred from stub receipted funds.**
 - **Additional misappropriations may have occurred from receipted funds for which all copies of the receipts were missing.**
 - **The clerk may have repaid some of the funds that she had misappropriated.**
-

Background

The Marland Public Works Authority (PWA) is responsible for providing utility services to customers both within city limits and outside of city limits. Monthly bills are prepared and mailed to PWA customers.

The PWA, like many public works authorities, relies on a two-part billing card. One portion of the card is retained by the customer. The other portion can be detached and returned with the customer’s payment, either by mail or in person.

The purpose of the returned portion, often referred to as a *billing stub* or *payment stub*, is to allow the PWA clerk to determine for which account the payment should be applied. The stub should be retained by the PWA clerk, as the stub serves as a receipt for the payment.

When a customer makes a utility payment and does not have a bill, a receipt is issued from a pre-numbered receipt book. Typically, receipt books contain an original receipt and one or more carbon copies. At least one of the carbon copies of the receipt is retained by the PWA clerk.

This dual method of receipting, although commonly used, presents inherent difficulties to providing an accurate accountability of funds collected.

A primary purpose for issuing pre-printed and pre-numbered receipts is to supply a means of accurately reconciling *payments received to deposits made* to the appropriate bank accounts. Pre-numbered receipt books provide a method to detect if receipts have been discarded or destroyed.

Unlike pre-numbered receipts, the payment stubs provide no such level of accountability. When a payment stub serves as the receipt, the amount collected can be misappropriated and the stub simply discarded with little chance of discovery.

If the *same person* prepares the utility bills, receives the utility payments, and makes adjustments to customer accounts via a utility billing computer system, all elements are present to carry out a long running and difficult to detect misappropriation. In this circumstance, we found all such elements present.

Finding

A receipt to deposit test revealed \$9,227.75 was receipted and not deposited.

In preparing a deposit, a *payment history report* is printed from the utility billing computer system. The payment history report reflects the amount and composition of the payments as well as the account on which the payment was recorded.

These reports are used to reconcile with the deposit made to the appropriate bank account, in this case, the “Town of Marland Public Works Authority” account (PWA account). Ordinarily, a test of this nature is conducted by comparing the total amount of receipts issued to the total amount of deposits made. However, because of the dual receipting used by the PWA, a receipt to deposit test is meaningless as the test would *not* include the amounts “receipted” from utility stubs that were discarded or destroyed.

In order to perform a meaningful test, we conducted a two-step process. We first obtained bank records reflecting all of the deposits made to the PWA account for the period August 1, 2010 through January 31, 2014. We found that payment history reports generally reconciled to the deposits.

Second, we compared the individual payments recorded on the payment history reports to the receipts from the receipt books that were provided.

From this test we identified fifty one (51) receipts, totaling \$9,227.75, which were not attributed to a payment history report and could not be traced to a deposit.

RECEIPT DATE 12-8-11 NO. 708465
 RECEIVED FROM Julia Fickett
 ADDRESS forty hundred + forty five 445 01
 FOR PWA
 ACCOUNT 445 01
 AMT. PAID 460 00
 BALANCE DUE 14 99
 HOW PAID CASH 460 00
 CHECK
 MONEY ORDER
 BY: Mary Shultz

Account #375 – Receipt issued reflecting payment received on December 8, 2011.

For example, receipt #708465 dated December 8, 2011, reflected the collection of \$445 for account #375 and was signed by Clerk Mary Shultz. A deposit was made on December 8, 2011, which included \$602 in cash. However, the \$602 cash was attributed to collections from various other accounts and no payment was recorded for account #375.

The next deposit was made on December 22, 2011, and included a cash deposit of \$892. The \$892 cash in this deposit also was attributed to other accounts and no payment was recorded for account #375.

| | | | | |
|------------|---|-------|-------|-------|
| 04/30/2012 | B | 10.25 | 15.00 | 10.00 |
| 04/24/2012 | L | | | |
| 04/01/2012 | B | 10.00 | 15.00 | 10.00 |
| 02/29/2012 | B | 18.65 | 15.00 | 10.00 |
| 02/14/2012 | L | | | |
| 01/31/2012 | B | 28.30 | 15.00 | 10.00 |
| 12/31/2011 | B | 10.00 | 15.00 | 10.00 |
| 11/30/2011 | B | 67.10 | 15.00 | 10.00 |

Account #375 – No payments, noted as “P,” recorded.

We obtained an account history for account #375 to determine when, or if, the \$445 was applied to the account. The account history reflected that *no payments*, noted as a “P,” were recorded on the account from June 2011 through September 2012.

In another example, receipt #945936 dated July 13, 2012, reflected the collection of \$400 cash on account #367. The \$400 cash was not deposited as part of the next deposit on July 24, 2012, which contained \$202 in cash. The \$202 in this deposit also was attributed to cash collections from other accounts.

The subsequent receipt, #945937, issued on July 23, 2012, reflected the collection of \$300 cash on account #118. The \$300 cash was not deposited as part of the following deposit made on July 24, 2012. The next deposit made to the PWA account was on July 31, 2012, and consisted of only checks and money orders.

When reviewing the account histories for these two accounts, we found that no payments were applied to account #367 from May 2012 through January 2013. The account history for account #118 reflected a \$50 payment in July 2012, and a \$50 payment in September 2012. The \$300 payment received on July 23, 2012, was not reflected on the customer’s account.

Exhibit #1 shows the fifty one (51) receipts totaling \$9,227.75 that we were unable to trace to a corresponding deposit.

Finding

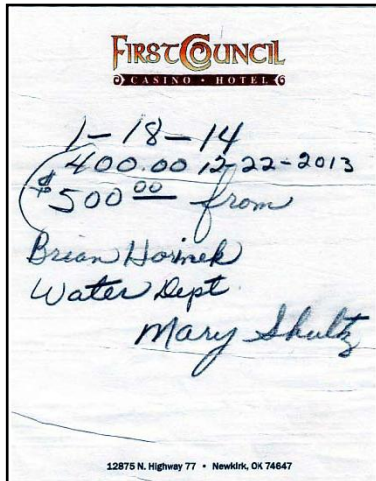
Additional funds from unconventional receipts may not have been deposited.

Based on a review of the account records, as well as questionable credit adjustments addressed later in this report, we interviewed PWA customers concerning their accounts and payments.

Account #330 held by Brian Horinek, reflected the collection of \$300 in cash, receipt #945724 dated November 7, 2012. We were unable to identify a recorded payment in the payment history reports during November 2012.

A credit adjustment report for FY13 showed that on April 2, 2013, a \$726.96 credit adjustment was made to the Horinek account:

| | | | | | | | | | | | | | |
|------------|---------------|---------|--------|--|------|------|------|------|------|------|------|----------|---------|
| 330 | BRIAN HORINEK | | | Billing Address: 514 N. Buffalo P. O. Box 214 Marland OK 74644 | | | | | | | | Meter #: | |
| 04/02/2013 | -601.10 | -111.86 | -14.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -726.96 |



On February 11, 2014, we met with Brian Horinek at his residence in Marland. Horinek said that he received a utility cut-off notice on December 23, 2013, and as a result, went to Clerk Shultz’s residence and paid her \$400 in cash. He then received another bill, and as a result, paid another \$500 in cash to Clerk Shultz on January 18, 2014.

Horinek said that when he made the \$500 payment on January 18, 2014, he told Clerk Shultz he wanted a receipt for both the \$400 payment in December as well as the \$500 payment. Horinek provided a “receipt” written on a pad of paper from First Council Casino and Hotel reflecting both payments, shown on the image to the left.

On February 19, 2014, we obtained an account history for the Horinek account. The account history did not reflect any payments made on the account since February 4, 2013. In addition to the noted adjustment of \$726 on April 2, 2013, another adjustment was made to the account on February 9, 2014, in the amount of \$885.45.

Neither the December \$400 payment nor the January \$500 payment was recorded on Horinek’s account history. Moreover, during the month of January, a total of only \$20 in cash was deposited into the PWA accounts.

The \$900 collection from Horinek was not included in the noted \$9,227.75 non-deposited amount because the Horinek collection was receipted on something *other* than the receipt books that were provided.

We have no means to identify how many other receipts may have been issued on other pads of paper or *unconventional* receipts.

Finding

Questionable account adjustments were made to customer accounts.

When funds are misappropriated from an account that is regularly billed, such as a utility account, it is not uncommon for account adjustments to be made to both conceal the misappropriation and to keep the customer's account balance correct. This type of account adjustment fraud can effectively conceal a misappropriation for a significant period of time.

The following is an example of how an account adjustment fraud can be implemented to conceal a misappropriation of funds.

Customer Smith pays \$100 in cash for her January utility bill. The clerk accepting the payment misappropriates the \$100 for personal use. Three effects can occur:

- If the \$100 is recorded as a payment, then the payment history report will reflect the payment and will not reconcile to the amount deposited.
- If the \$100 is not recorded as a payment, then the deposit will reconcile to the payment history report although the \$100 was misappropriated. However, the account will not reflect the \$100 payment. The next month when the Customer Smith receives a bill, her account balance will not reflect the \$100 payment.
- If the \$100 is not recorded as a payment, then it will not be reflected on the payment history report. The deposit will reconcile to the payment history report although \$100 was misappropriated. If a \$100 *account adjustment* is made, Customer Smith's account balance will be correct.

Because an *account adjustment* scheme is relatively common in cases in which utility billing accounts are misappropriated, one of the first reports we obtain from the billing computer system is an account adjustment report reflecting all of the adjustments made to the utility accounts.

When we asked Clerk Shultz for an account adjustment report for three fiscal years, she told us that she was unsure of how to print such a report. Shultz provided us with reports for FY11, FY12, and FY13 showing that no adjustments were made for these three fiscal years.

We then contacted the computer software company and asked for step-by-step instructions for printing adjustment reports. Using these instructions, we assisted Clerk Shultz in printing the adjustment reports that reflected the actual adjustments made.

Based on these reports, we selected *some* adjustments that appeared questionable and contacted the relevant customers. From these judgmentally selected accounts, the following represent some examples:

Receipt #708465 dated December 8, 2011, reflected the collection of \$445 cash from Julia Pickett, account #375. We previously noted that the payment was not recorded on this account. The account history showed that no payments were made to the account from July 2011 through September 2012. On October 30, 2012, an account adjustment was made in the amount of \$920.86.

Receipt #223479 which was undated, but likely issued between April 24 and April 30, 2012¹, reflected the collection of \$670 from Kathy Westcott, account #236. The receipt did not show if the collection was in cash or check. The account history reflected a payment on July 11, 2011. The next payment was recorded on October 2, 2012, for \$45.00. The \$670 payment was not reflected. On February 14, 2013, an account adjustment was made for \$1,382.96.

On January 23, 2014, we met with Kathy Westcott at a residence in Ponca City. Westcott said that she was told she owed \$900 for her water bill. Westcott also stated that she paid \$670 in cash to Mary Shultz. She questioned the additional \$300 owed and took all of her receipts to town hall.

According to Westcott, Shultz was unable to review her account records because of computer issues and she left her receipts with Shultz. Westcott, whose water service was cut off for non-payment, moved to Ponca City, did not ask for return of her receipts.

NOTES

RECEIPT DATE 3-13-13 NO. **945786**

RECEIVED FROM Melinda Wine

ADDRESS Six hundred & forty two

FOR MPWA

| ACCOUNT | | HOW PAID | |
|-----------------|---------------|-------------|---------------|
| AMT. OF ACCOUNT | <u>641.71</u> | CASH | <u>641.71</u> |
| AMT. PAID | <u>641.71</u> | CHECK | |
| BALANCE DUE | | MONEY ORDER | |


BY Mary Shultz

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Receipt #945786 dated March 13, 2013, reflected the collection of \$642 cash from Melinda Wine, account #316. We spoke with Wine on January 15, 2014, and confirmed that she paid \$642 in cash to Shultz, as shown in the image to the left.

¹ Previous receipt #223478 was dated April 24, 2012. Subsequent receipt #223480 was dated April 30, 2012.

No payment was recorded on the Wine account from October 2012 through April, 2013. On April 2, 2013, an account adjustment was recorded for -\$606.71:

| | | | | | | |
|------------|---|---------|---------|--------|---|---------|
| 04/02/2013 | A | -396.15 | -160.56 | -50.00 |  | -606.71 |
|------------|---|---------|---------|--------|---|---------|

Receipt #173451 dated August 5, 2013, showed the collection of \$1,000 cash from Eddie Clark, account #405. No payment was recorded during August 2013. On September 2, 2013, an account adjustment was made for \$1,000. We spoke briefly with Eddie Clark who told us that his wife actually made the payment. We made several attempts to speak with Ms. Clark, but were unsuccessful.

In the previous finding, we discussed a receipt written on a casino/hotel notepad and made out to Brian Horinek. The receipt reflected the collection of \$400 on December 22, 2013, and of \$500 on January 18, 2014. Horinek said that on both occasions he paid cash to Shultz. The account history for Horinek reflected that no payments were made from March 2013 through February 19, 2014. However, on February 9, 2014, an account adjustment was made for \$885.45.

As noted earlier, the questionable adjustments that we have cited in this report are based only on certain accounts that we judgmentally selected from the adjustment reports.

Finding

Payments were not properly recorded to customer accounts.

Ordinarily when funds are misappropriated from an on-going account, such as a utility account, we find that the account was adjusted in order to keep the account balance correct. We determined that questionable account adjustments were recorded; we also identified instances in which payments were not recorded and *no adjustments* were made to the accounts. The following are some examples:

Receipt #945936 dated July 13, 2012, reflected the collection of \$400 cash from Danny Bryer, account #367. The next subsequent deposit made on July 24, 2012, included \$202 in cash from other accounts, but did *not* include the \$400 received from Bryer.

The account history for the Bryer account did not show any payments made on the account from May 2012 through January 2013. The *only* payment reflected on the account during 2013 was recorded on February 4, 2013, for \$100. The \$400 collection from receipt #945936 was neither deposited nor recorded as a payment on the Bryer account and no

adjustment was made to the Bryer account to keep the account balance correct.

We met with Danny Bryer at his residence in Marland. Bryer said that he was having trouble with his bill because he would make a payment and the payment would not be recorded on his account. Bryer also stated that he currently does not have water at his residence, as it was cut off for non-payment.

Receipt #945725 dated November 7, 2012, reflected the collection of \$300 cash from Rennie James, account #393. Two deposits were made on November 7, 2012. The first deposit reconciled to a payment history report dated October 31, 2012. The second deposit reconciled to a payment history report dated November 7, 2012. Neither the October 31, 2012 report nor the November 7, 2012 report included a payment on account #393.

Three more deposits were made in November 2012. None of these deposits contained cash and the associated payment history reports did not reflect any payments that were applied to account #393.

Between June 2011 and January 2014, we identified twelve receipts that were issued showing payments on account #393. Of the twelve payments, totaling \$1,270, we found six recorded payments totaling \$515, for a variance of \$755, as reflected in the table below:

| Receipt Number | Account Number | Receipt Date | Receipt Amount | Deposit Report Date | Deposit Amount | Unrecorded Amount |
|----------------|----------------|--------------|----------------|---------------------|----------------|-------------------|
| 813354 | 393 | 6/6/2011 | \$ 100.00 | 6/7/2011 | \$100.00 | |
| 813441 | 393 | 8/3/2011 | \$ 100.00 | 8/4/2011 | \$100.00 | |
| 223453 | 393 | 3/19/2012 | \$ 50.00 | | | \$50.00 |
| 945932 | 393 | 7/9/2012 | \$ 60.00 | 7/31/2012 | \$60.00 | |
| 945973 | 393 | 8/29/2012 | \$ 80.00 | | | \$80.00 |
| 945725 | 393 | 11/7/2012 | \$ 300.00 | | | \$300.00 |
| 945756 | 393 | 1/18/2013 | \$ 100.00 | 2/11/2013 | \$100.00 | |
| 945794 | 393 | 4/3/2013 | \$ 100.00 | | | \$100.00 |
| 173404 | 393 | 5/6/2013 | \$ 80.00 | 5/8/2013 | \$80.00 | |
| 173429 | 393 | 6/4/2013 | \$ 75.00 | 7/3/2013 | \$75.00 | |
| 173450 | 393 | 8/5/2013 | \$ 125.00 | | | \$125.00 |
| 945832 | 393 | 1/6/2014 | \$ 100.00 | | | \$100.00 |
| | | | \$ 1,270.00 | | \$515.00 | \$755.00 |
| | | | | \$755.00 | | |

On reviewing the account history for account #393, we identified that one adjustment for \$100 was made to the account between June 2011 and January 2014.

On January 9, 2014, we met with Rennie James. James said he was having difficulties with his utility bill because he would make payments, generally \$100 per month, but the payments would not show up on his account.

In addition to the payments for which *receipts* were issued, James provided copies of utility *stubs* reflecting other payments made to the account. For example, James provided a stub for the September 2013 billing that showed the handwritten notation "Cash Pd 100.00." Another stub included the notation "cash 7-3-13" and appears to represent the payment of \$100. The James account history reflected one payment in July 2013 of \$75. James stated that Shultz wrote these notes on the stubs when he paid his bill.

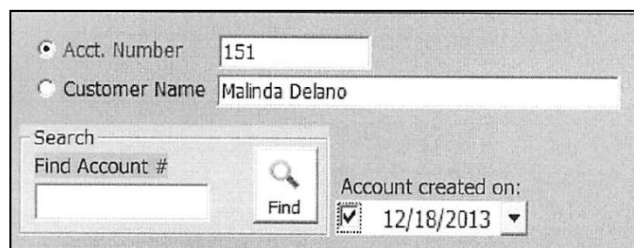
Based on the receipts reviewed, James made six payments totaling \$755 that were not recorded on his account. The \$755 does *not* include the two payment stubs provided by James which totaled \$200, which may increase the total of unrecorded payments to \$955.

In another example, receipt #945958 dated August 20, 2012, reflected the collection of \$150 cash from Amanda Goodman's account #102. The account history showed a payment recorded on May 8, 2012; the next payment recorded was made on May 14, 2013. The \$150 cash payment was neither deposited nor reflected on the account records. No adjustment was made to compensate for the unrecorded payment.

Receipt #945772 dated February 12, 2013, showed the collection of \$800 cash from Melinda Delano, account #151. On February 13, 2013, two deposits were made to the PWA account. The deposits reconciled to payment history reports dated February 11 and February 13, 2013. Neither of these reports included a payment on account #151.

Subsequent to February 13, deposits were made on February 14 and February 22, 2013. These deposits reconciled to payment history reports dated February 14 and February 21, 2013. Neither of these payment history reports reflected a payment on account #151. Moreover, the February 14 deposit did not include any cash and the February 22, 2013 deposit included \$314 cash which was attributed to collections from other accounts.

On January 16, 2014, we asked Shultz for an account history for account #151. Shultz told us that the account didn't contain anything because it had been "zeroed out." Shultz provided an account history reflecting that the account was established on December 18, 2013, and included one entry, a billing amount dated January 5, 2014.



The screenshot shows a search interface with the following elements:

- Radio button selected for "Acct. Number" with the value "151" entered in the adjacent text box.
- Radio button selected for "Customer Name" with the value "Malinda Delano" entered in the adjacent text box.
- A "Search" section containing a "Find Account #" text box, a magnifying glass icon, and a "Find" button.
- An "Account created on:" section with a dropdown menu showing "12/18/2013" and a downward arrow.

Although the account history provided by Shultz showed that the account was created on December 18, 2013, we identified payments on the account dating back to May 10, 2011.

The examples cited represent *only some* of the accounts for which receipts were written but payments were not properly recorded. In addition, the accounts were not adjusted to keep the account balances correct in an effort to conceal the misappropriation.

Finding

Deposits were short cash.

We reconciled the payment history reports to the deposits made to the PWA and other Town accounts. Over a three year period we found that the payment history reports generally reconciled to the deposits made, with two notable exceptions.

On July 10, 2013, a deposit of \$613.30 was made to the Town of Marland bank account; the deposit contained no cash. The deposit was made in error and should have been made to the PWA.

The deposit slip included 10 specific check amounts. We obtained the source documentation for the deposits and determined, based on the checks deposited, that the payments were recorded on a payment history report dated July 3, 2013, for eight (8) of the ten (10) checks deposited.

The payment history report that coincides with the eight (8) deposited checks, with respect to names and amounts, indicated a total collection amount of \$1,035.75. Of this amount, \$44 was recorded as cash with the remaining \$991.75 recorded as checks.

We question if the cash/check compositions recorded on the payment history report were correct. For example, one of the payments reflected on the report shows a \$130 payment by check, on account #405. Receipt #173435 was dated June 20, 2013, and reflected a payment of \$130 in *cash* on account #405.

The deposit on July 10, 2013, was the first deposit made after the issuance of receipts #173435 and #173438. We noted that checks #6408 and #6410 were included in the deposit, but neither were reflected on the payment history report. Both checks were written by Le Anna Diamond for \$50 each, and included the notation “#144” on the memo lines of the checks.

We reviewed the account history for account #144 and found that no payments were recorded in June 2013. One payment of \$50.00 was received on July 16, 2013, and recorded and deposited on July 17, 2013.

The two checks deposited on July 10, 2013, appear to have been inserted into the deposit, although the payments were not recorded. On September 23, 2013, we noted that a \$100 account adjustment was made to account #144.

Based on the payment history report and the two checks inserted into the deposit, the amount deposited was short \$522.45, although we are unable to determine if the shortage was entirely in cash.

On August 13, 2013, a deposit consisting of \$519.30 in checks was made to the PWA account. We found an associated payment history report dated July 25, 2013, representing a total collection amount of \$1,449.95, recorded as all check payments. A handwritten notation was made on the payment history report "869.45 short 8/13/2013 deposited 519.30." Based on the reported total amount collected, \$1,449.95, and the amount actually deposited, \$519.30, the calculated shortage was \$930.65 rather than \$869.45, noted in the report.

Although all of the payments were recorded in the report as checks, we question the report's accuracy. As noted for the July 10, 2013 deposit, some of the check payments recorded on the report correlated to *cash* receipts issued.

We found no receipts that correlated to this particular report. We compared historical payment compositions to the check payment recordings on this report and found:

- Account #118 showed an \$85.00 payment by check. We identified 31 other payments recorded for the account with 22 of the 31 made in cash.
- Account #156 showed a \$242.40 payment by check. We identified 18 total payments recorded for the account with 16 payments recorded as cash.
- Account #164 showed a \$71.40 payment by check. We identified 37 other payments recorded for this account with all 37 other payments recorded as cash.

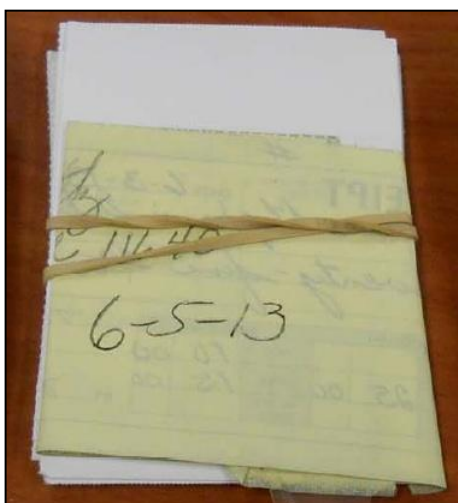
Regardless of the composition, the deposit made to the PWA account was short \$930.65.

Finding

Records indicated an on-going lapping scheme.

A *lapping scheme* or *deposit lapping scheme* is one method used to conceal a misappropriation of collected funds. A typical lapping scheme would involve a clerk receiving money from a transaction and then misappropriating some or all of the funds obtained. The misappropriated money is then *replaced* with funds received in future transactions.

Lapping schemes are usually only effective at covering misappropriations during the short term, especially if the individual continues to take money from current collections *as well as* attempts to use the current collections to cover past shortages.



In this case, the first indication of a lapping scheme revealed itself in the daily packets of receipts and payment stubs. The day's collections of receipts and stubs typically were bundled together by a rubber band with a handwritten date on the outside, as shown in the image at left.

The handwritten receipts were included in the bundles. In many cases, we noted that the receipts included in the bundles were not sequential. For example, the bundle labeled "1/15/13" included receipts #945747 and #945750. The two receipts reflected payments using a money order and a check.

The collections for the two receipts included in the bundle were recorded in the payment history report dated January 15, 2013, also deposited on January 15, 2013. The deposit contained no cash.

Between receipts #945747 and #945750 were receipts #945748 and #945749, dated January 10, 2013 and January 14, 2013, respectively. These receipts written for \$100 each, represented cash collections, but were not included in the January 15, 2013 deposit. Instead, the payments were recorded as received on February 4, 2013, recorded on a payment history report dated February 11, 2013, and deposited approximately one month after collection, on February 13, 2013.

With only a review of receipts and deposit dates of the receipts, a lapping scheme appears to have occurred. For example, the table below represents a series of five receipts, based on the dates of when the receipts were received and deposited:

| Rec Number | Receipt Date | Account # | Amount | Composition | Fund | Date Deposited |
|------------|--------------|-----------|-----------|-------------|-------|----------------|
| 945930 | 7/9/2012 | 154 | \$ 150.00 | Cash | Meter | 7/9/2012 |
| 945931 | 7/9/2012 | 137 | \$ 175.00 | Cash | PWA | 7/31/2012 |
| 945932 | 7/9/2012 | 393 | \$ 60.00 | Cash | PWA | 7/31/2012 |
| 945933 | 7/10/2012 | 127 | \$ 15.00 | Cash | PWA | 7/10/2012 |
| 945934 | 7/10/2012 | 227 | \$ 46.90 | Check | PWA | 7/10/2012 |

Although deposits were made to the PWA account on July 10 and July 12, the cash collections from the receipts dated July 9th were not deposited until July 31.

Finding

surprise cash count indicated a lapping scheme.

One of the procedures performed in cases for which the records indicate a lapping scheme is being used to misappropriate funds is referred to as a *surprise cash count*.

When this procedure is performed without advance notice, we will ask the person responsible for the collections/deposits to produce all cash, checks, and money orders that are currently on-hand. We then count all of the cash in addition to recording the checks and money orders that have not yet been deposited.

During fieldwork, we became concerned that a misappropriation was occurring *during the investigation*. On January 29, 2014, we went to town hall and made copies of the receipt book in current use.

Reviewing the receipt book copies, we noted receipts were issued from January 4 through January 13, including four receipts showing total cash collections of \$569. We also had obtained the receipt written on the casino notepad to Brian Horinek representing an additional \$500 cash payment made in January, according to Horinek.

On January 29, 2014, we obtained deposit records directly from the Town's banking institution. Based on these records, we determined that although receipts were issued between January 4 and January 18 totaling over \$1,000 in cash, only \$20 cash was deposited during the entire month of January.

We obtained the account histories for the four accounts represented by the receipts as cash payments. Payments were recorded on Sunday, February 9 for three of the accounts in the same amounts reflected on the receipts. The account history for the fourth account did not reflect any payments since December 2013. The account history for the Horinek account

showed that an adjustment was made on the same Sunday in the amount of \$885.45.

We were aware that the Town hired a second clerk to work at town hall on February 3, 2014. We met with the newly hired clerk, Christina Lackey, on February 12. Lackey told us that she trained as the PWA clerk on February 5 and 6, and that on Friday, February 7 she was supposed to meet Shultz at town hall to do the PWA billing process. Lackey waited for Shultz at town hall on Friday the 7, but Shultz never showed. Lackey was not present when the changes were made to the utility records on Sunday, February 9.

On February 18, we contacted bank officials and inquired if a deposit was made *after* Sunday, February 9. We were told no deposits were made to the PWA account.

On February 19, we waited for Shultz when she arrived at town hall that morning. After Shultz unlocked town hall and disabled the alarm system, we asked her to produce *all* cash, checks, money orders, or other payments currently on-hand.

Shultz retrieved, from a maroon zippered money bag, a collection of checks, money orders, and \$340 cash. The cash collections were attributed to accounts *other than* the accounts represented on the January cash receipts and the Horinek receipt.

Shultz provided a deposit which was prepared and dated February 13, 2014. The prepared deposit slip was attached to a collection of checks and money orders and reconciled to a payment history report dated February 13, 2014, with a \$2 error. The February 13 prepared deposit did not include cash.

Realizing the prepared and unprepared deposits did not include the cash collections from the January cash receipts or the Horinek receipt, we asked Shultz several times if what she provided represented *all* of the cash, checks, and money orders that were on-hand. She confirmed that this represented all of the collections on-hand.

A few minutes after the surprise cash count, we interviewed Shultz at the Marland Community Building across the street from town hall. Our interview with Shultz is discussed later in this report.

Following our interview and in our presence, Shultz wrote a letter of resignation which she then gave to Vice Mayor Buxton. Following Shultz's resignation, we told Buxton that we wished to perform another

count of the cash on-hand. Buxton retrieved the maroon zippered money that Shultz had placed in the vault.

On examining the contents of the bag, we discovered *another* deposit that was prepared and dated February 9, 2014. The prepared deposit slip reflected a total deposit of \$872.41, including \$614.06 in cash. The deposit slip showed six check or money order items totaling \$258.35. The corresponding checks, based on the amounts, were attached to the deposit slip. Also attached to the deposit slip was \$136 in cash. The deposit slip showed \$614.06 to be deposited. The prepared deposit was missing \$478.06 in cash.

The purpose of a *surprise cash count* is to identify if the current amount of on-hand cash reconciles to the amount of on-hand cash that *should be present* based on collection records.

Because of the manner in which a lapping scheme operates, eventually enough cash would be collected from *future* collections to make up for the \$478 missing cash and the February 9 prepared deposit would have then been taken to the bank and deposited.

Finding

The clerk admitted to misappropriation of funds.

Following our *surprise cash count* on February 19, 2014, we interviewed Shultz. The interview was video recorded.

Shultz said that she was elected as the town clerk and treasurer in April 2009. Shultz told us she was trained by the former clerk, Le Anna Diamond. Diamond continued to provide assistance through July 2013. In July 2013, Diamond ceased providing assistance. Also, in July 2013, the locks were changed at town hall as well as the locks to the vault inside town hall. Shultz stated that she was the only one that had a key to the vault after July 2013.

In addition to changing the locks, Shultz mentioned that a new computer system was purchased in either June or July 2013. Shultz said that the new computer system required a username and a password. Shultz maintained that she was the only individual that had a username and a password to access the new computer system.

Shultz confirmed that our methodology of reconciling the payment history reports to the deposits was valid. She also told us that she would only sometimes reconcile the payment history reports to the deposits that were actually made.

Shultz confirmed that on a typical day she collected and receipted money. We showed some of the receipts that we had reviewed containing the signature "Mary Shultz," and she confirmed that the signature was her signature.

Shultz also stated that her normal business hours at town hall were from 8:30am to 11:00am. If she left town hall during these hours, she would lock the doors. She confirmed that the security system at town hall was in place prior to 2009, and she was not aware of any burglaries or thefts that had occurred since 2009.

Shultz told us she would sometimes collect money at home for utility payments. When this happened she would write a receipt on a plain tablet and make a note that she would later bring to town hall in order to remind herself to record the payment.

Shultz stated that after July 2013, when she made adjustments to the account records, Vice Mayor Buxton would approve these adjustments; however, no written record was maintained of the approved adjustments. Prior to July 2013, there was no approval process and either Shultz or former clerk Le Anna Diamond would make account adjustments.

Shultz said that she gave a report to the governing board reflecting the balances owed, but she did not provide the report showing account adjustments.

We then showed Shultz receipt #173451 dated August 5, 2013, reflecting the collection of \$1,000 cash on account #405. Shultz agreed that the receipt reflected a utility collection, the \$1,000 should be included on the payment history report that corresponds to the deposit, and the cash should have been deposited in the PWA account.

We pointed out that this occurred after Le Anna Diamond stopped assisting Shultz. We explained to Shultz that we traced all of the deposits to the Town's accounts, were unable to locate the account in which the \$1,000 cash was deposited, and noted that there was a \$1,000 adjustment on the payment history for account #405 made on September 2, 2013.

At that point the following exchange took place:

Question: The receipt that I showed you is August 5 of 2013 and on September 2 of 2013 I see a \$1,000 adjustment to the account. That is in August, that [sic] is after Le Anna has left, and I cannot find where that money was deposited. Can you tell me where you think it might have went [sic]?

Response: I honestly can't.

Question Okay. Is [*sic*] there any other accounts that it could have went to?

Shultz: No, because I would have put it in, I would have deposited it to his water; I wouldn't have adjusted it out.

We showed Shultz the receipt that we obtained from Brian Horinek and discussed earlier in this report. Shultz confirmed that the writing on the receipt was her writing and the signature on the receipt was her signature.

We explained the issues with the January (2014) receipts that lead us to perform the surprise cash count which revealed a cash shortage. After some discussion Shultz told us there were some problems with the way she was handling the money for the town. Shultz acknowledged she might have improperly taken money.

The following exchange took place:

Question: Let me ask you this, has anybody... have you ever taken money, cash, that has been paid, that was paid on water bills, have you ever taken that for your personal use?

Answer: In that respect, yeah.

Shultz told us she had been taking money from the utility billing payments. She was unsure when she first started taking money but guessed it may have been around 2011.

Shultz stated she used the money to pay bills and was not depositing the money into her checking account. When asked if she was using cash at the casinos she answered, "Yeah, just what I had in my pocket."

Shultz was unsure of how much money she may have taken, but estimated maybe \$2,000 - \$3,000 from utility billing. She also stated she repaid at least some of what she took by writing checks to the PWA.

Shultz also confirmed that one of the methods she used for misappropriating money was a lapping scheme.

Finding

Discrepancies were noted in the clerk's statement relating to cash deposits in her personal account.

During our interview with Shultz, we inquired about her and her husband's finances. Shultz told us she and her husband had one bank

account, a checking account. Shultz said that the sources of deposits to their checking account consisted of direct deposits and the payroll checks from Marland. Shultz stated that there were no cash deposits to her personal account.

Noble County Sheriff's Investigator Jeremy Wingo, through the Oklahoma Attorney General's Multi-County Grand Jury Unit, obtained a subpoena for Shultz's bank account. Investigator Wingo provided us with copies of the bank records obtained by subpoena.

When cash is deposited into a bank account, the banking institution generates a "cash in" ticket reflecting the bank's accounting of the amount of cash deposited. We reviewed these "cash in" tickets obtained by Investigator Wingo and found that between November 2009 and January 2014, forty eight (48) cash deposits were made to the Shultz account, totaling \$12,800.

Finding

There were conflicting statements between the former clerk's and current clerk's statements.

During our interview with Shultz and prior to her admission of inappropriately taking money, Shultz said the responsibility for preparing deposits and physically depositing money was shared by herself and former clerk Le Anna Diamond. According to Shultz, Diamond also would take the deposits to the bank stating, "Most of the time she would take it up until I'd say like maybe the last year."

Subsequent to the Shultz interview, we interviewed former clerk Diamond. Diamond told us that Shultz took over the clerk duties in May 2009. For some period of time, Diamond trained Shultz on the procedures for collecting, recording, and depositing utility collections. Diamond's recollection was that she assisted Shultz between roughly May 2009 and May 2010. After May 2010, Diamond periodically would come in to assist Shultz with a particular issue, such as preparing the quarterly taxes.

Diamond stated that during the period she was training Shultz, she accompanied Shultz to the bank to make deposits the first couple of times. In response to a question asking if Diamond had ever taken a deposit to the bank on her own, she replied, "absolutely not." Diamond stated she trained Shultz how to do her job, but she did not do her job for her. Diamond also said while she had assisted Shultz during this training period, she (Diamond) never prepared a deposit on her own.

The documentation related to the deposits did not include a signature or indicate who actually prepared the deposits. In an effort to reconcile the

differences between the Shultz and Diamond statements, we reviewed the receipt books to identify who wrote the receipts.

The receipt book with receipts #762501 through #762600 were used from August 28, 2009 through October 28, 2009. We reviewed the receipts and determined the following:

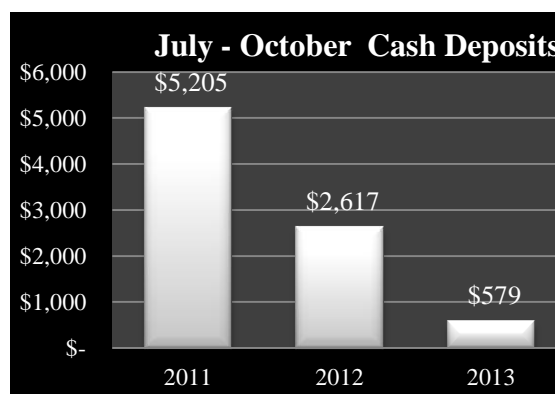
- 3 receipts were unsigned.
- 4 receipts were signed Le Anna Diamond.
- 93 receipts were signed Mary Shultz.

In addition to the receipt books, we also reviewed employee payroll records in an effort to determine how long Diamond may have continued to provide assistance to Shultz.

During FY10, Diamond received payments totaling \$1,673.84. These payments were made in July and August 2009. During FY11, Diamond received \$235.63. These payments were made during January, February, and May 2011. Diamond received no payments during FY12. During FY13, Diamond received \$381.59. The FY13 payments occurred in September and October 2012 and January 2013.

While there may be some dispute between Shultz's and Diamond's recollection concerning Diamond's involvement in preparing and taking deposits to the bank, Shultz and Diamond agreed that Diamond was no longer providing assistance after July 2013.

Throughout this report we have identified specific questionable transactions that occurred after July 2013, including the \$1,000 cash receipt and subsequent adjustment to account #405, the \$900 "casino receipt," and subsequent adjustment to account #330 and the issues related to the surprise cash count conducted on February 19, 2014.



Initially our investigation period concluded with records obtained through October 31, 2013. We prepared a comparative chart, as shown, reflecting the total cash deposited in the PWA account for the period July – October. We noted a significant drop in the amount of cash deposited during the

July – October four month time period of calendar years 2011, 2012, and 2013.

Finding

Additional misappropriations may have occurred from stub received collections.

We earlier noted that when a town uses the two-part billing stub system of receipting, whether alone or in concert with a pre-numbered receipt book, it is difficult to determine when funds were receipted on a payment stub that was later destroyed or discarded.

The day after Shultz resigned, town officials discovered a grey money bag containing various receipts and payment stubs. We recognized many of the receipts as receipts that represented collections that were not deposited.



In addition to receipts, we reviewed payment stubs found in the grey money bag. These stubs appeared to represent additional misappropriated funds not previously identified.

For example, one of the payment stubs reflected an \$80 cash payment made on June 6, 2013 for account #346. See image to the left. When we reviewed the account history, we found that no payment was recorded for June 2013.

Another payment stub reflected the collection of \$37.95 cash on September 9, 2013, account #175. When we reviewed the account history for account #175, we found that no record of payment was recorded in September 2013. An account adjustment in the amount of \$82.55 was posted to the account on September 26, 2013.

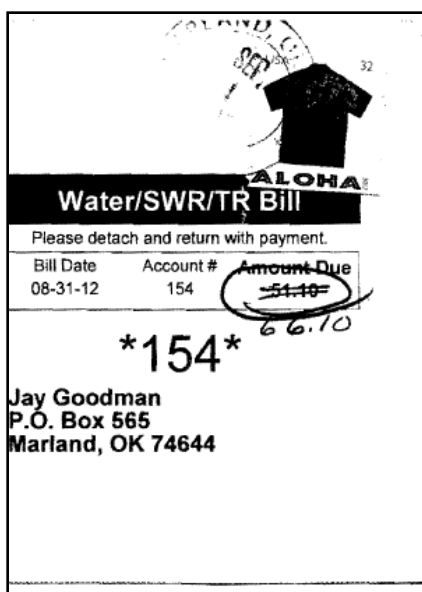
On reviewing the payment stub packets and comparing these stubs to the corresponding payment history reports, we found discrepancies between the amounts indicated on the stubs and the amounts reflected on the payment history reports.

The table below reflects examples of variances between the amount due on the utility stub and the amount paid, as reflected on the payment history reports:

| Report Date | Account # | Stub Amount Due | Amount Recorded |
|-------------|-----------|-----------------|-----------------|
| 9/26/13 | 195 | \$39.70 | \$45.00 |
| 9/19/13 | 117 | \$235.40 | \$100.00 |
| 9/12/13 | 218 | \$59.30 | \$30.25 |
| 9/5/13 | 141 | \$388.98 | \$100.00 |
| 7/17/13 | 226 | \$52.45 | \$60.00 |
| 4/9/13 | 144 | \$255.50 | \$100.00 |
| 4/22/13 | 201 | \$104.85 | \$144.85 |
| 5/31/13 | 201 | \$83.55 | \$99.00 |
| 10/11/12 | 222 | \$13.40 | \$50.00 |
| 8/6/12 | 148 | \$163.64 | \$100.00 |

These payment stubs showed no handwritten notations or indications that an amount, other than the amount due, was paid. A reason for the discrepancies may be that a different amount was collected than the amount that was actually due. For example, the stubs often included handwritten notations that appeared to reflect an amount collected that differed from the amount due.

In some cases, we were unsure of the amount that was actually paid and the amount we should consider for testing purposes because the notes on the stubs were unclear.



During our interview with Shultz, we showed her the payment stub reflected at the left, and asked her what amount was actually paid. Shultz told us the amount paid was \$66.10, although the amount due was \$51.10 according to the stub and the customer's history.

The associated payment history report reflected the amount actually paid was \$51.10. Shultz was unable to reliably determine how much was actually paid from the information contained on the payment stub.

Because of the aforementioned issues surrounding the payment stubs, we did not consider the stubs as receipts to be a reliable means of determining additional amounts that may have been misappropriated.

Finding Additional misappropriations may have occurred from collections for which all copies of the receipts were missing.

During our review of the receipt books for the period June 2009 through June 2012, we noted 16 instances in which the original and all copies of receipts were missing from the receipt books. Except for #223670, which was unsigned, the receipt books reflected that Mary Shultz was the individual issuing receipts during the time frame of each missing receipt.

| ## | Rec # | Receipt Date Prior | Receipt Date Post | Receipt Signature Prior | Receipt Signature Post |
|----|--------|--------------------|-------------------|-------------------------|------------------------|
| 1 | 223670 | 6/8/09 | 6/10/09 | Unsigned | Mary Shultz |
| 2 | 762606 | 10/30/09 | 11/2/09 | Mary Shultz | Mary Shultz |
| 3 | 762761 | 2/18/10 | 2/18/10 | Mary Shultz | Mary Shultz |
| 4 | 762765 | 2/19/10 | 2/23/10 | Mary Shultz | Mary Shultz |
| 5 | 762907 | 6/28/10 | 6/28/10 | Mary Shultz | Mary Shultz |
| 6 | 655913 | 9/22/10 | 9/27/10 | Mary Shultz | Mary Shultz |
| 7 | 655916 | 9/27/10 | 9/28/10 | Mary Shultz | Mary Shultz |
| 8 | 655944 | 10/20/10 | 10/20/10 | Mary Shultz | Mary Shultz |
| 9 | 655973 | 11/23/10 | 11/30/10 | Mary Shultz | Mary Shultz |
| 10 | 655980 | 12/6/10 | 12/6/10 | Mary Shultz | Mary Shultz |
| 11 | 813345 | 5/23/11 | 5/26/11 | Mary Shultz | Mary Shultz |
| 12 | 813353 | 6/6/11 | 6/7/11 | Mary Shultz | Mary Shultz |
| 13 | 708453 | 11/21/11 | 11/25/11 | Mary Shultz | Mary Shultz |
| 14 | 223409 | 1/26/12 | 1/31/12 | Mary Shultz | Mary Shultz |
| 15 | 223470 | 4/12/12 | 4/18/12 | Mary Shultz | Mary Shultz |
| 16 | 945921 | 6/25/12 | 6/25/12 | Mary Shultz | Mary Shultz |

If a receipt is “voided” or cancelled, all copies should be retained to document the voided transaction. Receipts in which the original and all copies are missing can be an indicator of actual collections, with the receipts being destroyed to conceal the misappropriation of those collections.

During our testing procedures, we identified receipts issued in amounts of up to \$1,000 cash. Consequently, 16 missing receipts could represent a significant amount of additional misappropriated collections. Because all copies were removed, we had no means to determine the true nature of the transactions, whether these were voided receipts or additional misappropriations.

Finding The clerk may have repaid some of the money that she had misappropriated.

During our interview with Shultz, she admitted to having misappropriated money. During discussions, Shultz told us that she repaid some of the money that she had taken stating, “Like if I cashed a check or whatever I would write a check...”

Noble County Investigator Jeremy Wingo obtained check images from the Shultz personal account and provided copies of these check images to us.

Between July 2009 and January 2014 (inclusive), 31 checks were written to the Marland PWA. These checks totaled \$4,001.42. Of the 31 checks, we correlated 17 to payments recorded on Shultz's utility account. The remaining 14 checks totaled \$2,247.08. Based on this review, it appeared that Shultz wrote checks to the PWA in an effort to repay some of the money she had misappropriated.

For example, one of the checks from the Shultz account that was not a payment for the Shultz' utility service, check #1846 was written for \$90.00. The check was processed on October 4, 2011.

NOTES

#123

RECEIPT DATE 9-21-11 NO. 813487

RECEIVED FROM Wilkins Eagle

ADDRESS Two hundred thirty three

FOR M.P.W.A.

| ACCOUNT | | HOW PAID | |
|-----------------|--------|-------------|--------|
| AMT. OF ACCOUNT | 240.39 | CASH | 233.39 |
| AMT. PAID | 233.39 | CHECK | 6.00 |
| BALANCE DUE | 2.00 | MONEY ORDER | |

BY Mary Shultz

Receipt #813487 dated September 21, 2011, reflected the collection of \$240.39 cash on account #123. On September 30, 2011, a \$240.00 payment was shown on account #123. The payment was recorded on the payment history as a payment by check, rather than by cash.

DEPOSIT TICKET

CASH 150.00

BY CHECK 90.00

DATE 10-3-11

TOTAL DEPOSIT 240.00

AMOUNT PAID 240.00

ACR BANK FINDER (800) 776-6261

On October 3, 2011, a \$240.00 deposit was made to the PWA account. The deposit slip reflected two items, \$150.00 cash and \$90.00 by check. In this case, it appeared that the Shultz check was used as a check for cash substitution of \$90 for the received cash from the collections related to receipt #813487.

Because a \$240 deposit was made, we did not take an exception to receipt #813487, therefore our previously reported \$9,277.75 amount would *not* be impacted by the check for cash substitution.

As another example, a personal check on the Shultz account in the amount of \$397.25 was processed by the bank on August 1, 2012. The payment did not correspond to a payment on the Shultz utility account.

On July 31, 2012, a deposit was made to the PWA account consisting of \$1,159.90 in checks, as shown in the image on the left. One of the check amounts listed on the deposit slip was for \$397.25. A corresponding payment history report also reflected collections totaling \$1,159.00 and showed all of the payments were made by check.

| Date | Account | Composition | Amount |
|--------------|---------|-------------|-------------------|
| 7/31/2012 | 116 | Check | \$47.65 |
| 7/31/2012 | 137 | Check | \$175.00 |
| 7/31/2012 | 140 | Check | \$100.00 |
| 7/31/2012 | 181 | Check | \$250.00 |
| 7/31/2012 | 183 | Check | \$62.25 |
| 7/31/2012 | 378 | Check | \$400.00 |
| 7/31/2012 | 393 | Check | \$60.00 |
| 7/31/2012 | 403 | Check | \$65.00 |
| Total | | | \$1,159.90 |

The payment history report included eight (8) payments totaling \$1,159.90, all listed as checks. We identified, based on the amounts, four of the deposit items as correlating to the amounts on the deposit slip; noting the \$47.65 amount for account #116 was incorrectly listed on the deposit slip as \$67.65².

On July 9, 2012, receipt #945931 was issued documenting the collection of \$175.00 in cash for account #137. Receipt #945932, also dated July 9, 2012, and reflected the collection of \$60.00 in cash for account #393.

The payment history report also reflected a payment by check on account #183, in the amount of \$62.25. However, we found a corresponding payment stub issued on July 21, 2012, showing a cash payment of \$62.25, as shown on the image to the left. The payment history report also showed a \$100.00 payment by check on account #140. We did not find a corresponding receipt or a payment stub for this payment.

By a process of elimination, the Shultz check for \$397.25 was most likely used to replace the cash payments of \$175 on account #137, of \$62.25 on account #183, of \$60 on account #393, and of \$100 on account #140.

Because all of these payments were eventually recorded and a corresponding amount was deposited, we did not take an exception. The alleged "repayment" of the \$397.25 does not impact our previously reported \$9,227.75 that was received, but not-deposited amount.

² We confirmed with bank officials the check amount was actually \$47.65.

We noted the collection of the \$175 and \$60 in cash were recorded on receipts #945931 and #945932, dated July 9, 2012. These receipts were not recorded on the customer's accounts until July 31, 2012. However, receipts #945933 and #945934, represented as payments by check, were recorded on the customer's accounts and deposited on July 10, 2012.

Based on the records, the timing of the recording of payments, and dates of the deposits, it appeared that Shultz held cash from utility payments for what amounts to a short term interest free loan program.

During our interview with Shultz, we asked about cash payments recorded as check payments. Shultz told us that if that was done, it was entirely by accident. We questioned the validity of this statement.

Summary

Although we identified \$9,227.75 in collections that were receipted and not deposited, this amount does not include collections that were receipted by means of a payment stub that easily could have been discarded or collections receipted on something other than the receipt books provided, such as the \$900 receipt written on the casino notepad. Moreover, the amount does not include funds that may have been collected from the 16 receipts for which the original and all copies were discarded.

Concern

- Can utility account balances be reliably determined?

Findings

- Due to the degree of account manipulation, we question if the account balances can be accurately determined.
- The Town may be put into a position of “writing-off” over \$27,000 in utility accounts.

Finding

Due to the degree of account manipulation, we question if the account balances can be accurately determined.

In this report we have noted two schemes used to conceal the misappropriation of funds from utility billing payments. These schemes included a deposit lapping scheme as well as an account adjustment scheme.

As noted in the previous section related to the misappropriation of utility payments, we cited instances for which payments on utility accounts were received, but not recorded. In one case, an account adjustment was made to compensate for a payment that was not recorded, thus maintaining the accuracy of the account balance *despite* the misappropriation.

| ACCOUNT | | HOW PAID | |
|-----------------|---------|-------------|---------|
| AMT. OF ACCOUNT | | CASH | 1000.00 |
| AMT. PAID | 1000.00 | CHECK | |
| BALANCE DUE | | MONEY ORDER | |

On August 5, 2013 receipt #173451, as shown in the image to the left, reflected the collection of \$1,000 on account #405 that was neither recorded on the account as a payment nor deposited in the PWA account.

| | | |
|------------|---|-----------|
| 09/02/2013 | B | 59.55 |
| 09/02/2013 | L | |
| 09/02/2013 | A | -1000.... |
| 08/08/2013 | B | 80.20 |
| 07/03/2013 | B | 50.30 |

We identified a corresponding \$1,000 adjustment was made to the account in September 2013, as shown in the image to the left. The \$1,000 adjustment was recorded to compensate for the missing \$1,000.

The effect of not properly recording payments and not adjusting the accounts to compensate for the unrecorded payments leaves an inaccurate account balance, reflecting that the customer owes more than is actually owed.

For example, two receipts were issued during November 2012, representing collections on account #301. The first receipt, #945720, reflected a payment of \$50.00 cash on November 5, 2012. The second receipt, #945737, reflected the payment of \$100 cash on November 30, 2012. The account history shows no payments on the account in either November or December 2012; no adjustment was made to the account in order to compensate for the unrecorded payments.

In some cases, we found that the *questionable* account adjustments were made for incorrect amounts to compensate for the unrecorded payments. For example, receipt #945786, dated March 13, 2013, reflected the collection of \$642 on account #316; the \$642 payment was not recorded. On April 2, 2013, an account adjustment was posted to the account in the amount of \$606.71.

We previously noted a casino notepad receipt that was provided by Brian Horinek. This receipt reflected payments in December 2013 and January 2014, totaling \$900. On February 9, 2014, an adjustment of \$885.45 was made to the Horinek account:

| | | | | | | |
|------------|---|---------|---------|---------|---|---------|
| 02/09/2014 | A | -615.45 | -150.00 | -120.00 | ➔ | -885.45 |
|------------|---|---------|---------|---------|---|---------|

Receipt #945724, dated November 7, 2012, was issued showing the collection of \$300 cash on the same account. No payment was recorded on the account from November 2012 through January 2013. On February 4, 2013, a \$200 payment was recorded.

On April 2, 2013, an account adjustment was made on the Horinek account in the amount of \$726.96:

| | | | | | | |
|------------|---|---------|---------|--------|---|---------|
| 04/02/2013 | A | -601.10 | -111.86 | -14.00 | ➔ | -726.96 |
|------------|---|---------|---------|--------|---|---------|

In one case, we found that a customer made a payment on their account that far exceeded the actual amount owed. Receipt #173406, dated May 6, 2013 reflected the collection of \$650 on account #235. According to the account history, the customer owed only \$70 at the time of issuance of the receipt. The \$650 payment was not recorded on the account and no subsequent adjustment was made to the account. We noted a *prior* adjustment on March 11, 2013, for \$637.50.

Another receipt, #173418, dated May 14, 2013, reflected the collection of \$140 on the same account, #235. When the \$140 payment was recorded the actual amount owed was only \$70.

We previously noted receipt #173451 dated August 5, 2013, reflected the collection of \$1,000 on account #405. We identified a corresponding account adjustment made on September 2, 2013, in the amount of \$1,000.

In addition to the unrecorded \$1,000 receipt, we found receipt #945789, dated March 19, 2013, was issued showing a \$200 payment on account #405. The payment was not recorded and we identified no corresponding adjustment to the account. On September 24, 2013, six months later, an account adjustment was made *adding* \$71.75 to the account balance.

Based solely on the receipts reviewed, we identified 20 accounts for which receipts were issued but no corresponding payment was recorded. Eight (8) accounts reflected that *no* adjustments were made following the dates of the payments shown on the receipts. Of the twelve (12) remaining accounts, adjustments were made, with the exception of the previously noted \$1,000 receipt and subsequent adjustment; *none* of the adjustments were in the amounts of the unrecorded payments.

With respect to each of these accounts we conclude only that the account balances are incorrect.

Finding

The Town may be placed in a position of “writing-off” over \$27,000 in utility accounts.

The accounts and adjustments noted in the preceding finding were indentified based *solely* on the receipts issued from the pre-numbered receipts books. However, due to unreliability of the payment stubs which also serve as receipts, we had no means to determine how many *other* accounts may have had additional payments that were not properly recorded.

Given the condition of the accounts and the amount of manipulation that occurred, we question if the PWA will be able to reliably determine the true customer account balances for *any* of the utility accounts. Should the PWA board conclude an accurate account balance *cannot* be determined; trustees may be placed in the position of effectively crediting all accounts that show overdue or outstanding balances.

In February 2014, an accounts receivable report showed an overall past due balance amount for utility accounts of \$17,890, with a past and current billing balance of \$26,600.

Concern

- Have meter deposit payments been misappropriated?

Findings

- A receipt to deposit test revealed that \$3,920 was receipted, but not deposited.
- The clerk stopped using the computer system to record meter deposit collections.
- The clerk told us she had misappropriated meter deposit collections.
- We question if the meter deposits can be properly attributed to the customers whose money is held in trust.

Background

Most, if not all, entities that provide utility services require a new user to pay a deposit on new accounts. These deposits are generally maintained in a separate account from town or PWA accounts.

The reason for this separate account is that the funds collected for a meter deposit represent collections that are *held in trust* for customers. These funds do not actually belong to a town or PWA, but rather belong to customers and, in some circumstances, may be returned to the customer when their account is terminated or after a certain time period of provided utility service.

Finding

A receipt to deposit test revealed that \$3,920 was receipted, but not deposited.

According to Clerk Shultz, when a deposit is made for a utility account, the collected funds are deposited in the meter savings account.

| Date | Description | Withdrawal | Deposit | Int. Credited | Balance |
|----------|----------------------|------------|---------|---------------|---------|
| 8-11-10 | Jatun Simpson #320 | | 150 00 | | |
| 8-11-10 | Galene Springer #131 | | 150 00 | gone | |
| 8-11-10 | Robert F. #362 | | 150 00 | | |
| 12-16-10 | Dwain Camp #137 | | 150 00 | | |
| 12-31-10 | Thomas Hage #308 | | 150 00 | | |
| 9-3-10 | Shannon Carne #192 | | 150 00 | | |
| 8-3-10 | Case Mitchell #185 | | 150 00 | | |

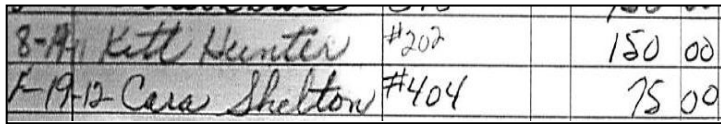
On December 4, 2013, we met with Clerk Mary Shultz and asked how she kept track of the meter savings account and funds. Shultz provided us with a handwritten checkbook register, much like one would use for a personal bank account. The register covered the period of 8/11/2010 through 12/4/2013.

Using the meter savings account bank records, we prepared a schedule of deposits for the period of 8/11/2010 through 9/6/2013. We then used the handwritten checkbook register provided by Shultz to reconcile the

deposits and determine the sources of the deposits. On reconciling the deposits shown on the handwritten register with the deposits made to the meter savings account, we noted that the total from this schedule was \$3,830.00.

As mentioned previously in this report, we obtained receipt books from Clerk Shultz that included receipts for payments made on the utility billing accounts. These receipt books also reflected collections received for new utility account meter deposits.

Although the checkbook register reconciled to the deposits made to the meter savings account, we found receipts were issued for meter deposit collections that were not shown on the checkbook register.



For example, the checkbook register reflected consecutive entries for Kitt Hunter on August 19, 2011 and Cara Shelton on January 19, 2012, as

| Rec # | Date | Name | Amount |
|--------|------------|----------------|-----------|
| 813435 | 7/29/2011 | Kitt Hunter | \$ 150.00 |
| 813440 | 8/2/2011 | Shannon Carney | \$ 150.00 |
| 813447 | 8/4/2011 | Michael Ward | \$ 70.00 |
| 813495 | 9/30/2011 | Tanner Young | \$ 150.00 |
| 708421 | 10/21/2011 | Tonia Buffalo | \$ 75.00 |
| 708457 | 12/1/2011 | Bruce Collins | \$ 150.00 |
| 223402 | 1/23/2012 | Eddie Clark | \$ 150.00 |
| -- | 2/1/2012 | Cara Shelton | \$ 75.00 |

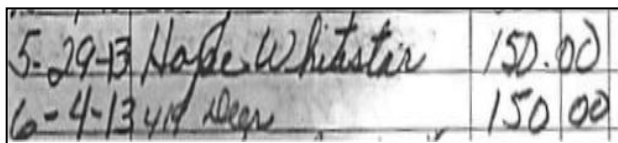
shown on the image to the left. However, between August 19, 2011 and January 19, 2012, we identified six (6) additional receipts that were issued for meter deposit collections, but not reflected on the checkbook register, as shown in the table at left.

The six receipts found between the Kitt Hunter and Cara Shelton entries were not deposited in the meter deposit account.

Overall, we identified fifty-one (51) receipts representing collections for meter deposits. The 51 receipts totaled \$7,040, while the checkbook register reflected only \$3,830 in meter deposit collections.

Between August 2010 and September 2013, twenty-six (26) receipts were issued totaling \$3,920 in meter deposit collections that were not deposited in the meter deposit account.

In addition to the receipts, we noted deposits made to the meter savings account for which there was no corresponding receipt. For example, the



checkbook register reflected collections of \$300 from Hope Whitstar and "419 Deer" on May 29, 2013 and June 4, 2013, respectively as shown on the image to the left.

During our reconciliation process between the checkbook register, the receipt books, and the actual deposits made to the meter savings account,

we identified six (6) instances in which a name and an amount appeared on the checkbook register and was traced to a deposit, but either no receipt was issued or a receipt was issued from something other than the receipt books provided.

We have no means to identify how many other meter deposit collections may have been received and either not receipted or receipted on something other than the receipt books provided.

Finding

The clerk stopped using the computer system to record meter deposit collections.

During an interview, former Clerk Le Anna Diamond stated that she had concerns about the meter deposit funds. According to Diamond, the utility billing computer system could be used to track money that was paid for meter deposits. Diamond also said that Shultz, at some point, stopped using the computer system to track meter deposit collections.

We obtained a computer generated report dated August 31, 2010, titled “Deposits Held.” The report reflected deposits from 116 accounts, totaling \$12,012.50.

On January 7, 2014, we asked Clerk Shultz to provide a current “Deposits Held” report. Shultz provided a report showing that the “Deposits Held” now consisted of 14 accounts, totaling \$1,955.00.

During our interview with Shultz, we asked about using the checkbook register as the accounting system for recording meter deposit payments. Shultz told us that she was never told or shown how to use the computer system to record deposits and that she was trained by Le Anna Diamond to use the checkbook register to record meter deposit payments.

We showed Le Anna Diamond the checkbook register used by Shultz and asked if this was the manner in which she trained Shultz to record meter deposits. Diamond said it was not how she trained Shultz and that she trained Shultz to use the computer system to record the deposits.

The previously noted “Deposits Held” report dated August 31, 2010, reflected deposit collections were received during the month of August 2010. Based on this report, we question the veracity of Shultz’s statement that she had never been trained or shown any other method to record meter deposit collections other than using the checkbook register.

Finding **The clerk told us she had misappropriated meter deposit collections.**

During an interview with Clerk Shultz, we asked if she had misappropriated any money from the meter savings account. Initially, Shultz denied taking any money from the meter savings account.

We then reviewed the schedules and testwork performed and after some discussion, revisited the meter deposit issue. Shultz then confirmed that she had taken meter deposit money.

We previously noted that after Shultz resigned, a number of receipts and payment stubs were found in a grey money bag in the desk used by Shultz. One of the receipts found in the money bag was receipt #173437 dated June 25, 2013, reflecting a meter deposit collection of \$75. During our testwork we identified this \$75 collection as one of the meter deposit payments that was not deposited.

Finding **We question if meter deposits can be properly attributed to the customers whose money is held in trust.**

As noted in the background of this section the money collected for meter deposits does not belong to the Town or PWA. The funds are held in trust by the PWA for the customers.

The January 7, 2014 deposits held report provided by Shultz, reflected that the PWA held \$1,955 in trust for 14 accounts. The only other documentation relating to meter deposit collections was the checkbook register. We determined the checkbook register did not accurately reflect the actual number of collections.

Because some deposits were made to the meter deposit account that were not receipted in the checkbook register and not listed on the January 7, 2014 meter deposit report, we question if the PWA has a reliable means to determine the customers whose money is held in trust.

Concern

- **Has the town clerk received unauthorized check payments?**
-

Findings

- **The clerk received \$3,860 in additional unexplained and unsupported payroll checks.**
 - **There was a lack of payroll oversight.**
 - **“Employee rewards” annual payments of \$500 were unsupported.**
 - **There was inadequate documentation to support mileage payments.**
-

Background

Mary Shultz was elected to the position of town clerk in 2009. In addition to the town clerk position, Shultz held and received compensation for the position of treasurer and PWA clerk, and for cleaning the office. The table to the right reflects the monthly authorized compensation for Shultz’s various positions.

| Authorized Pay Amounts | |
|------------------------|----------|
| Town Clerk | \$160.00 |
| Treasurer | \$160.00 |
| PWA Clerk | \$500.00 |
| Cleaning | \$20.00 |
| Monthly Total | \$840.00 |

In addition to the regular payroll related payments, Shultz was reimbursed for mileage which, in most cases, was included with regular payroll checks. Mileage is discussed in detail later in this section.

Finding

Town Clerk Mary Shultz received \$3,860 in additional unexplained and unsupported payroll checks.

From the town and PWA bank statements, we scheduled each payroll check issued to Mary Shultz for the period July 2009 through September 2013.

In order to determine the gross amounts of the payroll checks, as well as to identify and separate the mileage amounts included on the payroll payments, we obtained payroll reports from the Town’s independent auditor. We then prepared a schedule reflecting Shultz’s gross payroll compensation.

Typically, Shultz received two payroll checks each month, one from the Town and one from the PWA. The monthly payroll checks from the Town combined the gross compensation for office cleaning, town clerk and treasurer’s positions, totaling \$340.00. The monthly PWA payroll checks reflected the gross compensation of \$500.00 for the PWA clerk position.

In August 2013, Shultz received two payments of \$340.00 in gross compensation from the Town and two payments of \$500.00 in gross compensation from the PWA. On August 4, 2013, Shultz was issued check #4720 from the Town and check #9311 from the PWA, both countersigned by Sally Buxton. On August 19, 2013, Shultz also was issued check #4732 from the Town and check #9318 from the PWA, both countersigned by Rick Gilbert.

In May 2013, Shultz received three payments of \$340.00 in gross compensation from the Town and two payments of \$500.00 in gross compensation from the PWA. On May 3, 2013, Shultz was issued check #4644 from the Town and check #9228 from the PWA. On May 14, 2013, Shultz also was issued check #4646 from the Town and check #9245 from the PWA. On May 24, 2013, Shultz was issued check #4647 from the Town. All checks were countersigned by Louie Levings, with the exception of check #9245, countersigned by Rick Gilbert.

In December 2012, Shultz received two payments of \$340.00 in gross compensation from the Town and two payments of \$500.00 in gross compensation from the PWA. On December 7, 2012, Shultz was issued check #4550 from the Town and check #9101 from the PWA. On December 24, 2012 Shultz was issued check #9124 from the PWA and check #4564, dated December 26, 2012 from the Town. All checks were countersigned by Louie Levings, with the exception of check #9117, countersigned by Rick Gilbert.

In April 2012, Shultz received two payments of \$340.00 in gross compensation from the Town and two payments of \$500.00 in gross compensation from the PWA. On April 17, 2012, Shultz was issued check #4391 from the Town and check #8865 from the PWA. On April 15, 2012, Shultz was issued check #4380 from the Town and #8848 from the PWA. All checks were countersigned by Louie Levings.

In December 2011, Shultz received only \$500.00 in gross compensation from the PWA. The table below reflects a negative amount for this month because Shultz did not receive \$340.00 in gross compensation from the Town.

In November 2011, Shultz received \$340.00 in gross compensation from the Town; however, she received two payments of \$500.00 in gross compensation from the PWA. On November 9, 2011, Shultz was issued check #4303 from the Town and #8764 from the PWA. On November 25, 2011, Shultz was issued check #8772 from the PWA.

| Month | Gross Pay | Authorized Pay | Variance |
|---------------|-------------------|-------------------|-------------------|
| August 2013 | \$1,680.00 | \$840.00 | \$840.00 |
| May 2013 | \$2,020.00 | \$840.00 | \$1,180.00 |
| December 2012 | \$1,680.00 | \$840.00 | \$840.00 |
| April 2012 | \$1,680.00 | \$840.00 | \$840.00 |
| December 2011 | \$500.00 | \$840.00 | -\$340.00 |
| November 2011 | \$1,340.00 | \$840.00 | \$500.00 |
| Totals | \$8,900.00 | \$5,040.00 | \$3,860.00 |

Based on the payroll reports and the bank statements, Mary Shultz received \$3,860.00 in unexplained and undocumented compensation above the authorized \$840.00 monthly gross salary. The table reflects the amount of compensation Mary Shultz received above and below her authorized \$840.00 monthly salary.

Finding There was a lack of payroll oversight.

Based on an interview with Mayor Gilbert and the limited board minutes we were provided, it appeared that monthly payroll amounts were not presented to the Board. This lack of oversight would have allowed Shultz to issue payments to herself without the Board’s knowledge.

Although, payroll was not approved by the Board as a whole, all but two of the payroll checks issued to Shultz in the payroll periods questioned were countersigned by a board member. While reviewing records obtained from town hall, we noted a blank check for Mary Shultz that was signed by a board member. We also noted that a board member countersigned a blank check.



In some cases, we were able to trace Shultz’s payroll payments to a purchase order. Of the fifty (50) purchase orders that were provided, twenty-eight (28) were not signed by a board member, twenty-two (22) were not dated, six (6) did not reflect an amount and six (6) did not show the corresponding check number.

Finding “Employee rewards” annual payments of \$500 were unsupported.

We obtained payment records for FY11, FY12 and FY13. In each of the three years, Shultz received an additional December payment from the PWA in the amount of \$500.00, which was not included on the payroll reports. The following payments were noted:

- Check #9117 dated December 3, 2012, the memo line on the check was blank,

- Check #8785 dated December 6, 2011, appeared to be combined with the regular PWA payroll check, and
- Check #8484 dated December 7, 2010, the memo line on the check read, “personal service.”

The December 2010 and 2011, payments could not be traced to a purchase order and the purchase order for the December 2012 payment listed only employee names and check numbers as shown in the image to the right. There were no amounts or reasons for the payments listed on the unsigned, unapproved purchase order which is included as Exhibit #2 in this report.

| DESCRIPTION | UNIT PRICE | AMOUNT TO BE ENCUMBERED | ADJUSTMENTS | |
|----------------|---------------|-------------------------|-------------|-------|
| | | | AMOUNT | TOTAL |
| James Cummings | Maintenance | | # 9118 | |
| Dean Hays | Maintenance | | # 9115 | |
| Bob Larkin | Maintenance | | # 9116 | |
| Mary Shultz | Sec. Services | | 9117 | |

The December 6, 2010 PWA meeting minutes, mentioned approval of a bonus for employees under item #5B reading:

B. Bonus for all employees was voted and approved

The minutes provided no details, such as the amounts approved. The PWA meeting minutes for December 2011 and December 2012, were missing. Meeting minutes are discussed in detail later in this report.

In an interview, Mayor Rick Gilbert described the additional payments as employee rewards for “doing work above and beyond their regular duties.” Mayor Gilbert confirmed that Shultz was approved for the \$500.00 bonus. Although we could not trace the amount of the “employee rewards” to specific board approval, it appeared that the Board was aware that Shultz received the \$500.00 payments.

Finding

There was inadequate documentation to support mileage payments.

Shultz was compensated for mileage at a rate of .47 cents per mile. In some cases, the mileage reimbursement was issued on separate checks, as expected; however, in most cases, the mileage reimbursement amount was included with the regular payroll for the Town and PWA.

The annual compensation totals for mileage are summarized below:

- Fiscal Year Ending 2013 - \$3,978.60
- Fiscal Year Ending 2012 - \$3,336.99
- Fiscal Year Ending 2011 - \$5,878.97
- Fiscal Year Ending 2010 - \$3,211.04

Ordinarily, we review mileage reimbursements to determine if there is adequate documentation to provide assurance that the amounts reimbursed are true and accurate. We would expect to find a monthly mileage claim or some type of record signed by the employee and approved by a board member showing travel dates, destinations, and the number of miles documented to support the amounts paid for travel; however, no such documentation was provided.

In an interview, Shultz indicated that she documented her mileage on her desk calendar which was discarded at the conclusion of each month. Therefore, there was no documentation showing any type of breakdown of the miles claimed, other than the occasional purchase order which reflected only a mileage total for the month.

Of the fifty (50) purchase orders that were provided FY13,

| | |
|------------------------|---------------|
| <i>Sec/Treas.</i> | <i>548.00</i> |
| <i>Milage 275 @.47</i> | |

FY12 and FY11 we noted only four cases in which purchase orders reflected that the payment was for or included a reimbursement for mileage. These cases included only the total miles. The minimal information provided on the four purchase orders was of little value in verifying whether the amounts claimed for reimbursement were true and accurate.

Based on interviews, Shultz's mileage primarily should consist of trips to Ponca City to make bank deposits and purchase supplies. According to Mayor Gilbert, he expected the bank deposits and supply purchases to be completed in one trip. Shultz also made occasional trips to Perry and Enid. In a subsequent interview, Shultz indicated that she traveled to Enid twice in the fall of 2013.

The trip from town hall to the bank in Ponca City is approximately 14 miles each way. Rounded up to 30 miles, the reimbursement amount is \$14.10 per trip to Ponca City.

A total of 8,465 miles was claimed for FY13, for an average of 705 miles per month. If the reimbursement amount represented trips to the bank in Ponca City, the number of trips required was 282. During FY13 we found deposits for 49 days.

For FY12, a total of 7,110 miles was claimed for reimbursement, for an average of 593 miles per month. If the reimbursement amount represented trips to the bank in Ponca City, the number of trips required was 237. During FY12, bank deposits were made for 68 days.

For FY11, a total of 12,508 miles was claimed for reimbursement, for an average of 1,042 miles per month. If the reimbursement amount represented trips to the bank in Ponca City, the number of trips required was 417 or more than once per day for each calendar day of the year. During FY11, bank deposits were made for 89 days.

While we found the mileage reimbursements were questionable, the lack of adequate records prevented the determination of the amount of mileage reimbursements that may or may not have been authorized and approved for payment.

Concern

- **Determine if the Town/PWA complied with the Open Meeting Act.**
-

Findings

- **Town/PWA meeting minutes were in disarray and, in some cases, were missing.**
 - **Meeting minutes, when located, were vague and of little value.**
 - **The votes of each member were not recorded.**
 - **There was questionable use of the emergency meeting provisions.**
 - **Actions were taken during a meeting without a quorum present.**
-

Background

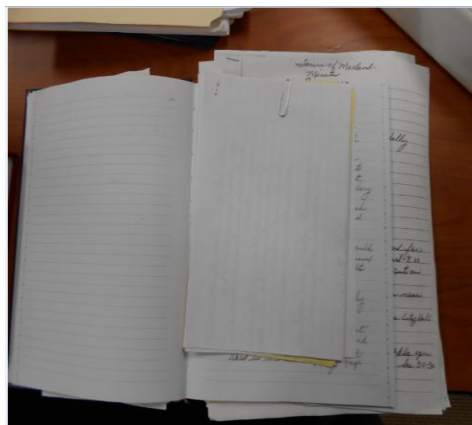
Meetings of the Town and PWA boards are governed by, and must conform to, the provisions of the Oklahoma Open Meeting Act. The primary purpose of the Open Meeting law is to “encourage and facilitate an informed citizenry’s understanding of the governmental processes and governmental problems,” as stated in **25 O.S. § 302**.

The Oklahoma Open Meeting Act provides that “any action taken in willful violation of this act shall be invalid” and provides for criminal penalties, as set forth in **25 O.S. § 314**, which states:

Any person or persons willfully violating any of the provisions of this act shall be guilty of a misdemeanor and upon conviction shall be punished by a fine not exceeding Five Hundred Dollars (\$500.00) or by imprisonment in the county jail for a period not exceeding one (1) year or by both such fine or imprisonment.

Finding

Town/PWA meeting minutes were in disarray and, in some cases, were missing.



There was no centralized location, such as a binder, in which all board meeting minutes and attachments were maintained.

Town/PWA meeting minutes from January 2011 through June 2012 were located in a file folder in a box labeled, “Audit Period FY 2011 & 2012.”

When we asked for the board meeting minutes for other periods, we were provided binders for the Town and PWA. Each binder contained minutes for the respective boards from July 2009 through December 2010.

For minutes beginning April 2013, we were provided two bound books, one for the Town and the other for the PWA. The pages in the books contained handwritten minutes along with some typed minutes and agendas that were either stapled or inserted loose in the book, as shown in the image above.

During our review of July 2009 through September 2013 meeting minutes for the Town and PWA, we identified cases for which minutes were provided and agendas were missing, agendas were provided and minutes were missing and cases for which both agendas and meeting minutes were missing.

Twenty or more agendas and minutes for the Town and PWA boards could not be provided. In eleven (11) cases for the Town and fourteen (14) for the PWA, we were missing both the agendas and board minutes; therefore, there was no record for twenty-five (25) monthly meetings.

Title **51 O.S. § 24A** requires governing boards to keep and maintain complete records stating, in relevant part:

In addition to other records which are kept and maintained, every public body and public official has a specific duty to keep and maintain complete records of the receipt and expenditure of public funds reflecting all financial and business transactions relating thereto, except that such records may be disposed of as provided by law.

Normally, we expect the organization of board minutes to improve over time; however, in this case, minutes were increasingly disorganized.

Finding

Meeting minutes, when located, were vague and of little value.

Although meeting minutes were provided for most of the monthly meetings, we found them to be of little value in determining the actions taken by the Town and PWA Boards.

25 O.S. § 312A provides:

The proceedings of a public body shall be kept by a person so designated by such public body in the form of written minutes which shall be an official summary of the proceedings showing clearly those members present and absent, all matters considered by the public body, and all actions taken by the public body. The minutes of each meeting shall be open to public inspection and shall reflect the manner and time of notice required by this act.

During our review, we found the meeting minutes to be incomplete and vague, making it difficult to determine the business that transpired and the actions taken by both boards.

The example below depicts the typical action for approving purchases in the minutes for both boards. Item #3B for the September 8, 2009 Town Board meeting, reflects the following discussion:

A motion was made by Adams and seconded by Gilbert to approve the purchases.

Vote: Aye – Adams, Gilbert, Kihega and Levings.

Nay - None

From the minutes, the reader cannot identify the actual purchases approved.

The September 8, 2009 minutes for the MPWA Board, reflected the following discussion under item #5:

- A. Discussed water issues, informed the board that Clark's meter had been locked
- B. Discussed lead and copper report issue. Clerk will mail forms.

From the vague minutes, it is difficult for a reader to discern the board business that transpired.

In another example, the following discussion took place as documented in the PWA Board minutes for the June 7, 2010 meeting, under item #5:

- A. Discussed water turnoffs

The minutes reflect merely that a discussion was held regarding “water turnoffs.” No particular aspect or detail of the discussion or subsequent board action is documented.

Finding

The votes of each member were not recorded.

During review of the meeting minutes, we noted that votes of members were initially recorded; however, over time, the recording of member votes significantly decreased.

According to **25 O.S. § 305:**

In all meetings of public bodies, the vote of each member must be publically cast and recorded.

For example, item #4 of the June 7, 2010 MPWA meeting reflected the following discussion:

A. Approved purchase of shop fan

APRIL 1, 2013
8:15 Called to order
Sally - Bob minutes
Sally Louise P. orders

Business from floor:

Talk of water meter reading not being getting done. Complaints for estimation. Some show signs of not read on several accounts

Check water account receivable
make agreement to pay bill

Discussed meter two meters is illegal to put house holder

Adjourned
Sally-Alene

The overall condition of the minutes for both boards also deteriorated over time. The meeting minutes, beginning in July 2009 lacked adequate information and eventually transitioned from typed with some recorded votes to handwritten with increasingly vague descriptions. The example at the left shows the PWA meeting minutes for April 1, 2013.

There was no roll call clearly showing the members present, no motions, no votes, and no approval. The reader cannot adequately discern the board business that actually transpired. The minutes, as shown in the example, are meaningless and of little or no value.

We found the Town meeting minutes to be equally inadequate. An example of Town meeting minutes is shown at right. The image depicts the meeting minutes for the Town for the June 3, 2013 meeting.

Because these minutes were in the book containing the Town meeting minutes, we were left to assume that these are Town minutes.

There was no roll call clearly showing the members present, no motions, no votes, and no approvals. The reader is again unable to adequately discern the board business that actually transpired.

June 3, 2013

Called to order at 7:10

all were present

Minutes Sally - Bob
Purchases Bob - Sally

from floor
Bill informed of audit at special meeting on June 17th

Discussed digging out culverts.
water standing

Alene - Bob

Finding **There was questionable use of the emergency meeting provisions.**

The definition for an emergency meeting is set forth in **25 O.S. § 304**, which states:

5. "Emergency meeting" means any meeting called for the purpose of dealing with an emergency. For purposes of the Oklahoma Open Meeting Act, an emergency is defined as a situation involving injury to persons or injury and damage to public or personal property or immediate financial loss when the time requirements for public notice of a special meeting would make such procedure impractical and increase the likelihood of injury or damage or immediate financial loss...

1. MEETING CALLED TO ORDER.....9:AM
2. ROLL CALL:
 ALL PRESENT
3. CONSENT AGENDA
4. BUSINESS: FROM THE FLOOR
 A. DISCUSSED THE OLD GYM AND SCHOOL
 B. DISCUSSED GETTING PARK AND REC. GRANTS
5. BUSINESS: DISCUSS/ACTION
 A. VOTED TO APPROVE BUDGET FOR 2010-2011: ALL APPROVED
6. OTHER BUSINESS: IN ACCORDANCE WITH OKLAHOMA OPEN MEETING ACT
 TITLE 25 OF OKLAHOMA STATE SECTION 310-314.
7. ADJOURNMENT : ADAMS MADE MOTION AND WAS SECONDED BY KIHEGA
 VOTE-AYE: ALL APPROVED
 NAY: NONE.

Meeting minutes reflected that the Town held an emergency meeting on June 11, 2010. The minutes reflected discussions, under "business from the floor," related to the old gym and school as well as a discussion concerning "getting park and rec. grants."

A discussion of the old gym and school, a discussion of a park and recreation grant, and a vote to approve the budget do not appear to meet the statutory definition of an emergency, as documented in the minutes.

Finding **Actions were taken during a meeting without a quorum present.**

The November 2, 2009 MPWA meeting minutes, reflected a lack of a quorum with only two members present. Despite the lack of a quorum, the meeting minutes indicated that the meeting occurred and actions were taken by the two members present.

The minutes were signed by the mayor, who apparently approved the meeting minutes, although he was not present when the meeting actually took place.

Other issues noted.

We noted seven other instances in which MPWA minutes were signed by the mayor, approving the minutes for a meeting in which he was not present. We also noted instances in which a board member was not

included in the present roll call, although the minutes reflected that this member voted on some issues during the meeting.

Two board members, Adams and Kihega, were shown on the roll call as absent, although the minutes reflected that both members voted to adjourn the meeting. We also noted instances in which the roll call did not clearly show members present, contrary to **25 O.S. § 312A**.

DISCLAIMER

In this report there may be references to state statutes and legal authorities which appear to be potentially relevant to the issues 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. Such determinations are within the exclusive jurisdiction of regulatory, law enforcement, and judicial authorities designated by law.

Exhibit #1

| ## | Rec # | Date | Account | Cash | Cr/MO | Not Marked | Total | Variance Utilities |
|----|--------|------------|---------|-------------|-----------|------------|-------------|--------------------|
| 1 | 813313 | 4/14/2011 | 102 | \$ 30.00 | | | \$ 30.00 | \$ 30.00 |
| 2 | 813360 | 6/9/2011 | 102 | \$ 60.00 | | | \$ 60.00 | \$ 60.00 |
| 3 | 813365 | 6/13/2011 | 151 | \$ 30.00 | | | \$ 30.00 | \$ 30.00 |
| 4 | 813468 | 8/29/2011 | 398 | \$ 30.00 | | | \$ 30.00 | \$ 30.00 |
| 5 | 708444 | 11/14/2011 | 355 | \$ 160.00 | | | \$ 160.00 | \$ 160.00 |
| 6 | 708465 | 12/8/2011 | 375 | \$ 460.00 | | | \$ 460.00 | \$ 460.00 |
| 7 | 708485 | 1/5/2012 | 346 | \$ 200.00 | | | \$ 200.00 | \$ 200.00 |
| 8 | 223453 | 3/19/2012 | 393 | \$ 30.00 | | | \$ 30.00 | \$ 30.00 |
| 9 | 223472 | 4/18/2012 | 151 | \$ 100.00 | | | \$ 100.00 | \$ 100.00 |
| 10 | 223479 | 4/24/2012 | 236 | | | \$ 670.00 | \$ 670.00 | \$ 670.00 |
| 11 | 943920 | 6/25/2012 | 345 | \$ 100.00 | | | \$ 100.00 | \$ 100.00 |
| 12 | 943921 | 6/25/2012 | 235 | \$ 200.00 | | | \$ 200.00 | \$ 200.00 |
| 13 | 943929 | 7/3/2012 | 316 | \$ 100.00 | | | \$ 100.00 | \$ 100.00 |
| 14 | 943936 | 7/13/2012 | 367 | \$ 400.00 | | | \$ 400.00 | \$ 400.00 |
| 15 | 943937 | 7/23/2012 | 118 | \$ 300.00 | | | \$ 300.00 | \$ 300.00 |
| 16 | 943941 | 8/3/2012 | 346 | \$ 100.00 | | | \$ 100.00 | \$ 100.00 |
| 17 | 943938 | 8/20/2012 | 102 | \$ 130.00 | | | \$ 130.00 | \$ 130.00 |
| 18 | 943961 | 8/22/2012 | 186 | \$ 123.80 | | | \$ 123.80 | \$ 123.80 |
| 19 | 943962 | 8/22/2012 | 311 | \$ 20.00 | | | \$ 20.00 | \$ 20.00 |
| 20 | 943965 | 8/23/2012 | 114 | \$ 200.00 | | | \$ 200.00 | \$ 200.00 |
| 21 | 943973 | 8/29/2012 | 393 | \$ 80.00 | | | \$ 80.00 | \$ 80.00 |
| 22 | 943975 | 9/4/2012 | 117 | \$ 80.00 | | | \$ 80.00 | \$ 80.00 |
| 23 | 943709 | 10/15/2012 | 235 | \$ 240.00 | | | \$ 240.00 | \$ 240.00 |
| 24 | 943712 | 10/18/2012 | 156 | \$ 125.00 | | | \$ 125.00 | \$ 125.00 |
| 25 | 943717 | 10/31/2012 | 144 | \$ 60.00 | | | \$ 60.00 | \$ 60.00 |
| 26 | 943720 | 11/5/2012 | 301 | \$ 30.00 | | | \$ 30.00 | \$ 30.00 |
| 27 | 943724 | 11/7/2012 | 330 | \$ 300.00 | | | \$ 300.00 | \$ 300.00 |
| 28 | 943725 | 11/7/2012 | 393 | \$ 300.00 | | | \$ 300.00 | \$ 300.00 |
| 29 | 943737 | 11/30/2012 | 301 | \$ 100.00 | | | \$ 100.00 | \$ 100.00 |
| 30 | 943742 | 12/10/2012 | 316 | \$ 60.00 | | | \$ 60.00 | \$ 60.00 |
| 31 | 943772 | 2/12/2013 | 151 | \$ 800.00 | | | \$ 800.00 | \$ 800.00 |
| 32 | 943786 | 3/13/2013 | 316 | \$ 642.00 | | | \$ 642.00 | \$ 642.00 |
| 33 | 943789 | 3/19/2013 | 405 | \$ 200.00 | | | \$ 200.00 | \$ 200.00 |
| 34 | 943793 | 4/3/2013 | 410 | \$ 114.90 | | | \$ 114.90 | \$ 114.90 |
| 35 | 943794 | 4/3/2013 | 393 | | | \$ 100.00 | \$ 100.00 | \$ 100.00 |
| 36 | 173403 | 5/1/2013 | 140 | \$ 30.00 | | | \$ 30.00 | \$ 30.00 |
| 37 | 173406 | 5/6/2013 | 235 | | \$ 650.00 | | \$ 650.00 | \$ 650.00 |
| 38 | 173425 | 5/24/2013 | 137 | | \$ 100.00 | | \$ 100.00 | \$ 100.00 |
| 39 | 173430 | 6/10/2013 | 117 | \$ 25.00 | | | \$ 25.00 | \$ 25.00 |
| 40 | 173431 | 6/10/2013 | 101 | \$ 120.00 | | | \$ 120.00 | \$ 45.00 |
| 41 | 173435 | 6/20/2013 | 405 | \$ 130.00 | | | \$ 130.00 | \$ 130.00 |
| 42 | 173437 | 6/25/2013 | | \$ 100.00 | | | \$ 100.00 | \$ 25.00 |
| 43 | 173439 | 7/8/2013 | 318 | \$ 35.00 | | | \$ 35.00 | \$ 35.00 |
| 44 | 173440 | 7/9/2013 | 175 | \$ 45.00 | | | \$ 45.00 | \$ 45.00 |
| 45 | 173448 | 7/31/2013 | 303 | | | \$ 27.00 | \$ 27.00 | \$ 27.00 |
| 46 | 173451 | 8/3/2013 | 405 | \$ 1,000.00 | | | \$ 1,000.00 | \$ 1,000.00 |
| 47 | 173472 | 9/9/2013 | 118 | \$ 100.00 | | | \$ 100.00 | \$ 100.00 |
| 48 | 173473 | 9/11/2013 | 101 | \$ 34.00 | | | \$ 34.00 | \$ 34.00 |
| 49 | 173475 | 9/12/2013 | 318 | \$ 30.00 | | | \$ 30.00 | \$ 30.00 |
| 50 | 173486 | 10/11/2013 | 340 | \$ 46.05 | | | \$ 46.05 | \$ 46.05 |
| 51 | 173488 | 10/24/2013 | 318 | \$ 30.00 | | | \$ 30.00 | \$ 30.00 |
| | | | | | | | | \$ 9,227.75 |

Exhibit #2

| PURCHASE ORDER | | PURCHASE ORDER No. | | | | |
|--|-----------------------|---|-------------------------|---|-------|-----------------|
| COUNTY _____ OKLAHOMA | | FISCAL YEAR 19____ 10____ | | | | |
| Ship To: <u>Employees Special Work</u> | | DATE <u>12-3-12</u> 10____ APPROPRIATION ACCOUNT _____ I hereby approve the issuance and encumbrance of this purchase order. _____ Purchasing Officer | | | | |
| Issued To: <u>M.P.W.A</u> | | I hereby certify that the amount of this encumbrance has been entered against the designated appropriation accounts and that the encumbrance is within the authorized available balance of said appropriation. DATED THIS _____ DAY OF _____ 10____ _____ Encumbering Officer or Clerk of | | | | |
| SB 814, SL 1977 REQUIRES THE VENDOR TO FURNISH AN ITEMIZED INVOICE WHICH STATES THE VENDOR'S NAME AND ADDRESS, A CLEAR DESCRIPTION OF EACH ITEM PURCHASED, ITS UNIT PRICE, THE NUMBER OR VOLUME OF EACH ITEM, ITS TOTAL PRICE, THE TOTAL OF THE PURCHASE, AND THE | | DATE OF THE PURCHASE. THE INVOICE, TOGETHER WITH A SIGNED DELIVERY TICKET (IF SEPARATE FROM THE INVOICE) AND ANY OTHER SUPPORTING INFORMATION MUST BE ATTACHED TO THE ORIGINAL COPY OF THE PURCHASE ORDER WHEN FILED FOR PAYMENT. | | | | |
| QUANTITY | DESCRIPTION | UNIT PRICE | AMOUNT TO BE ENCUMBERED | ADJUSTMENTS AMOUNT | TOTAL | APPROVED AMOUNT |
| | <u>James Cummings</u> | | <u>Maintenance</u> | <u># 9118</u> | | |
| | <u>Dean Floyd</u> | | <u>Maintenance</u> | <u># 9115</u> | | |
| | <u>Bob Larky</u> | | <u>Maintenance</u> | <u># 9116</u> | | |
| | <u>Nancy Schultz</u> | | <u>Sec. Treasurer</u> | <u>9117</u> | | |
| THE INFORMATION REQUIRED BELOW THIS LINE NEED ONLY BE COMPLETED ON THE ORIGINAL COPY OF THE PURCHASE ORDER. | | TOTAL | | | | |
| I hereby certify that the merchandise and/or services described above have been satisfactorily received and that this purchase order is now a true and just debt of this county. This purchase order is therefore approved for consideration for payment by the governing board. DATE: _____ 10____ _____ Purchasing Officer _____ Officer or Department Head in Charge | | APPROVAL BY GOVERNING BOARD This purchase order is approved for payment in the amount indicated above. DATE _____ 10____ _____ Chairman _____ Member _____ Member | | ON CHECK ACCOUNT NO. _____ WARRANT NO. _____ | | |
| DATE RETURNED FOR FILING FOR CONSIDERATION BY GOVERNING BOARD. _____ 10____ | | PAYMENT RECORD WARRANT NUMBER _____ AMOUNT \$ _____ | | | | |

WHITE - Retain by Purchasing Officer for completion of purchase.
 CANARY - Retain by Purchasing Officer for file.
 PINK - May be sent to vendor.
 GOLDENROD - File with County Clerk.

* S.E.A. Form No. 1114 (1977)



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