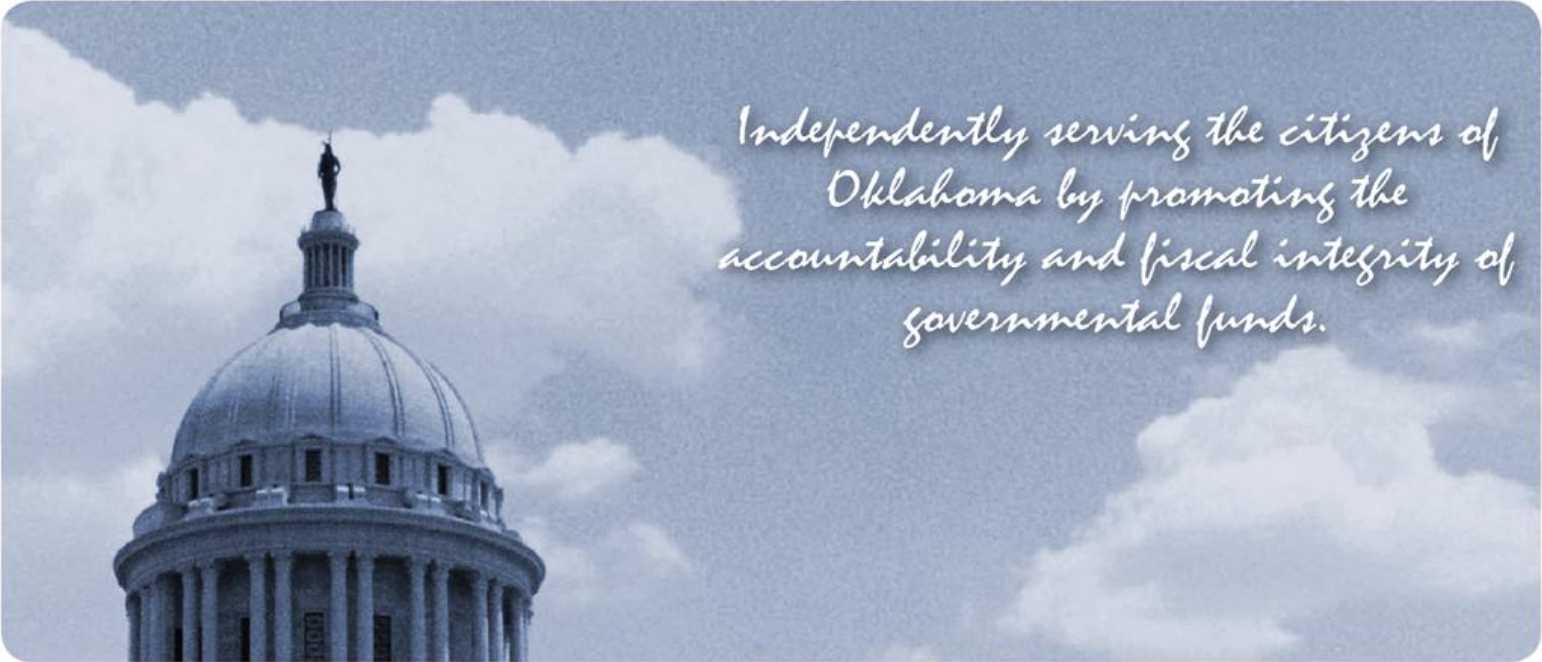


CONSULTING REPORT

# BEAVER COUNTY RURAL WATER DISTRICT # 1

For the time period October 1, 2006 through February 28, 2013



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



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

**BEAVER COUNTY RURAL WATER DISTRICT #1**

**CONSULTING REPORT**

**OCTOBER 1, 2006 THROUGH FEBRUARY 28, 2013**



# Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

January 16, 2014

Roger Kirkhart, Board President  
Beaver County RWD #1  
P. O. Box 282  
Turpin, Oklahoma 73950-0282

Dear Mr. Kirkhart:

Transmitted herewith is our Consulting Report for the Beaver County Rural Water District #1.

Pursuant to your request and in accordance with the requirements of **74 O.S. 2001, § 227.8**, we performed a limited review of the available records of the Beaver County Rural Water District #1 for the period October 1, 2006 through February 28, 2013.

The objective of our limited review primarily included the areas noted in your request. Our findings and conclusions 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 Beaver County Rural Water District #1 for the period October 1, 2006 through February 28, 2013.

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 Oklahoma taxpayers.

We also wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our investigation.

This document is a public document pursuant to the Oklahoma Open Records Act, in accordance with **51 O.S. 2011, § 24A.12**.

Sincerely,

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

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

**TABLE OF CONTENTS**

	<b>Page</b>
Board.....	ii
Introduction.....	1
Objective and Findings .....	2

**OBJECTIVE**

Provide an estimate of the potential loss due to an alleged embezzlement by a former clerk.....	2
Disclaimer .....	9
Attachments .....	10

BEAVER COUNTY RURAL WATER DISTRICT # 1  
BOARD OFFICIALS

- Roger Kirkhart .....President
- Dan Duerson ..... Member
- Bill Sawyers ..... Member
- Eldon McIntyr ..... Member
- David Ratzlaff ..... Member

## **Introduction**

The Beaver County Rural Water District #1 (District) was created under **82 O.S. 2011, §§ 1324.1 – 1324.35**. The District provides water and sewer services to individuals and businesses in or near the unincorporated Town of Turpin in Beaver County.

The District operates and is governed by a board of directors. The Board is composed of five members elected at its annual meetings of participating members/customers. The District's *fiscal* year is based on the calendar year.

Under **82 O.S. 2011, § 1324.18**, if a rural water district has gross operating revenue of less than fifty thousand dollars (\$50,000.00), it is required to obtain an annual review or compilation in compliance with standards promulgated by the American Institute of Certified Public Accountants. If the rural water district has gross operating revenue of fifty thousand dollars (\$50,000.00) or more during a fiscal year, it is required to have an annual financial audit in accordance with generally accepted auditing standards.

Under **82 O.S. 2011, § 1324.18**, the review, compilation or annual audit report is required to be filed with the State Auditor and Inspector (OSAI) within six months of the end of the fiscal year. The OSAI has no record of any type of District annual report ever having been filed with our office.

At its November 4, 2013 meeting, the Board approved a request for an "audit" in relation to a pending (January 14, 2014) court hearing for a former utility clerk involving an alleged embezzlement. In response, OSAI engaged with the District to provide a consulting report, primarily to determine an estimate of the potential loss from the alleged embezzlement.

Unless otherwise indicated, dollar amounts in this report are rounded to the nearest dollar.

## **Objective:**

**Provide an estimate of the potential loss due to an alleged embezzlement by a former clerk.**

---

## **Findings:**

- **We estimated \$33,100 in unauthorized purchases, most of which had no receipt or invoice supporting documentation to verify their approval by the Board or their relationship to District operations.**
  - **Questioned transactions started gradually for the first four years, but increased in the 12-month period of October 2010 to September 2011. This increase in questionable transactions followed a change in procedure for utility payments to a “no cash...check or money order only” policy, approved by the Board in October 2009.**
  - **Deposits of cash collections for utility services declined prior to the Board adopting a policy to discontinue acceptance of cash payments for utility bills and to accept only check or money orders for such collections.**
  - **Due to limited time, the generally poor recordkeeping and the lack of segregation of duties or mitigating controls, the potential for skimming of cash revenues was more difficult to determine. We concluded that providing such an estimate was not cost effective for the District.**
  - **Based on our limited review, the primary method of alleged embezzlement appeared to be a cash disbursement scheme using the District’s bank debit card and checks written on the District’s checking account.**
- 

## **Background:**

On or about February 7, 2013, Roger Kirkhart, President of the Board for the Beaver County Rural Water District #1 (District) received a phone call from the Bank of Beaver City advising that the District’s checking account was overdrawn and its savings account was depleted to a balance of approximately \$290. Kirkhart met with a bank representative and received and reviewed the bank statements.

Kirkhart then contacted the Beaver County Sheriff’s office (BCSO) on February 11, 2013. Deputy Will Campbell took a statement in which Kirkhart advised that the District had no reason to purchase items from Love’s Country Stores, Seward County Waste Management, or Beaver Supply. He also stated that Kaylee Yonkers, the District Clerk, was not authorized to purchase fuel for any reason.

The BCSO’s subsequent investigation covered the period November 2010 through February 2013. The BCSO reviewed the bank statements provided

---

by Kirkhart, reports acquired from High Plains Energy and Seward County Waste Management Service (SCWMS) and other District records. A case file was prepared including documentation which reflected frequent unauthorized purchases made by Ms. Yonkers at the United States Postal Service (USPS), Beaver Supply, Love's Country Stores, Dillons Food Stores and Wal-Mart Stores, Inc. The dollar amount of the questioned transactions totaled \$28,174.

Deputy Campbell then contacted Kaylee Yonkers who agreed to speak with him and Deputy Jimmy Dixon. During the course of this interview, Ms. Yonkers admitted to using the District's debit card for personal purchases but could not recall how many times such purchases were made. Ms. Yonkers was charged with **O.S. § 1451(A)(1)**, Embezzlement. On May 28, 2013, Ms. Yonkers arrived at the Beaver County Sheriff's Office and was booked on warrant CF-2013-27. The BCSO considered the case closed.

The District engaged OSAI to review bank statements and other records from October 2006 through February 2013, in order to provide an estimate of the overall potential misappropriation.

**Methodology:**

According to board minutes, former Utility Clerk Kaylee Yonkers was hired by the District during the September 11, 2006, Board meeting. The effective date for her hire was October 1, 2006.

We obtained the case file and records from the Beaver County Sheriff's office that included the bank statement records for November 2010 to February 2013. In addition, we requested the Bank of Beaver City to provide the bank statements for the periods of October 2005 through October 2010, and March 2013 through September 2013.

We requested the bank statements for the 12-month period prior to the employment of Ms. Yonkers in order to establish a "baseline" for the usual and routine vendors used by the District and the typical amount and frequency of District disbursements. The "baseline" was then compared with the time period under review. The bank statements for the 7-month period of March through September 2013 were also reviewed in order to evaluate the vendors and amount and frequency of disbursements following the termination of Ms. Yonkers.

Our review included the expense receipts, invoices and statements obtained during the BCSO investigation that supported some of the questionable disbursements as authorized and/or approved by the Board and other records stored at the District office that might contain receipts,



invoices and statements that could help explain or support other questionable disbursements identified during the BCSO investigation.

We reviewed the board minutes for motions and/or resolutions that recorded approved District policies and procedures. Questioned disbursements were examined for specific board authorization for the purchase of fiscal (calendar) year-end turkeys provided to District customers, payments to support the Turpin Community Food Pantry, food provisions for the District's annual year-end meeting for District residents/customers, travel or other reimbursements, year-end "bonuses" to employees and any other transactions that were considered questionable by the BCSO investigation and/or by our review.

Interviews included those held with Board President Kirkhart, Amanda Brungardt (current utility clerk), Janet Taylor (the utility clerk prior to Ms. Yonkers), and Tara Kirkhart (wife of Mr. Kirkhart) and were conducted to obtain more information concerning District operations and any procedures or policies that may not have been included in the board minutes.

The District made inquiries and requests of various vendors to provide additional documentation of the purchases in question; however, the vendors had not provided that requested information at the time of our fieldwork. Consequently, our estimate of alleged misappropriation is based on the recorded or apparent board policies, authorizations approving disbursements included in the Board minutes, the few receipts, invoices and statements available, and the debit card and check disbursements identified from the District's bank statements.

**Finding 1: An estimated \$33,100 in unauthorized and/or undocumented purchases were made with the District's debit card(s) and checks written on the checking account.**

We reviewed the bank statements, primarily searching for debit card transactions and/or checks written to specific vendors that were identified as potentially fraudulent or questionable in order to prepare an estimate. After scheduling these transactions, we compared the transactions with available receipt and invoice records and information developed from board minutes and interviews.

If the information reviewed indicated the potential for an "authorized" transaction, then the transaction was removed from the schedule, even though no receipt or invoice was found. This methodology was employed

in an effort to provide a conservative estimate and give “the benefit of the doubt” where seemingly appropriate.

Based on this methodology, our estimate of the potential misappropriation totaled \$33,100.

**Finding 2: Questioned transactions started gradually for the first four years, but increased in the October 2010 to September 2011 time frame.**

The District operates on a calendar year; however, based on the October 1, 2006, employment date of Ms. Yonkers, we grouped the data based on 12-month periods beginning October 1 and ending September 30 of the following year.

We found that for the 2005-06 12-month period prior to Ms. Yonkers’ employment, no purchases were made from Sam’s Club, Wal-Mart, Dillons, or High Plains Energy (HPE); however, \$790 was disbursed for postage.

Wal-Mart purchases began in the 2006-07 period with four checks issued for modest amounts, totaling \$60.99. Disbursements to Wal-Mart, High Plains Energy, and Dillons increased some in frequency and amount during the 36-month period of October 2007 through September 2010.

The frequency of questioned transactions increased significantly in the October 2010 through September 2011 time period, and continued escalating through the remaining sixteen months of Ms. Yonkers’ employment. The questioned transactions did not stop until the cash balances of both the District’s checking account and savings account were depleted, and the branch bank contacted the Board President.

*See Attachment #1 for the number of transactions by vendor per 12-month period and Attachment #2 for the transaction amounts by vendor per 12-month period.*

We observed that the increase in questionable debit card and check disbursements occurred following the District Board’s change in policy from an acceptance of cash as payment for utility bills to a “check or money order only” policy.

**Background:** In 2009, the Board was alerted to an allegation of missing cash from utility service collections. In response and on October 12, 2009, the Board voted unanimously to no longer accept “cash” for utility service payments and to accept only check or money orders for such payments.

This change in policy appeared to be the Board’s effort to address the allegation of missing cash collections. The Board apparently did not attempt any further investigation into the actual allegation.

**Methodology:** The primary records used for this estimate were the bank statement records obtained from the Beaver County Sheriff’s office and the Bank of Beaver City. The bank deposit slips found in those bank statement records included entries for currency and coin, as well as entries for customer checks and money orders.

We reviewed bank statement records and scheduled comparisons of total bank account deposits to the currency and coin portion of deposits recorded on the deposit slip images. During our review, we identified and omitted bank account deposits *that were transfers* from other District accounts, such as the savings account.

After determining the deposit amounts related to collections for utility services and/or the “public water” dispenser, we compared and summarized the 12-month time periods starting with October 1 and ending in September 30, of the following year. We chose the October to September time frame, because the availability of bank statement records starting with October 2005 provided a 12-month “baseline” to compare with the start of employment for Ms. Yonkers on October 1, 2006

**Finding 3:** **Deposits of cash collections for utility services declined prior to the District Board adopting a policy to accept only check or money orders for collections and discontinuing acceptance of cash payments for such services.**

Logic dictates and our experience confirms that the average utility customer generally uses the same method of payment from month to month. In other words, a customer who pays by check will usually pay by check in most months and a “cash” customer will typically pay by cash most of the time.

Our review indicated a decline in deposited cash prior to the Board’s October 2009 policy change. We found cash deposits for the 2007-08

period totaled \$6,230, as compared to 2008-09 cash deposits of \$4,623, for a decrease of \$1,607 or 25.8%.

During the 36-month period prior to 2008-09, cash deposits averaged \$6245 per 12-month period or approximately \$520 per month. The 12-month period preceding the October 2009 policy change averaged approximately \$385 in cash deposited per month, indicating that some “skimming” of cash collections may have occurred during the 2008-09 period.

*See Attachment #3 for the comparison of total deposits to cash deposited.*

The District owns a water dispenser from which the public can make purchases by depositing quarters for a certain number of gallons. We found that prior to the Ms. Yonkers’ employment; there were deposits of silver collected from the dispenser. Four deposits were identified that were clearly marked “public dispenser” or “silver” or “quarters.” The first two deposits occurred prior to Ms. Yonkers’ employment and the second two were made during this time period. These four deposits were:

Feb-28-06	\$510.00
Aug-3-06	\$572.25
Apr-23-07	\$380.00
Jan-07-08	\$231.80

With no distinctive notation on the other deposit slips, we were unable to determine if other deposits contained public dispenser collections. Some deposit slips indicated a single amount listed in the “currency” and “silver” area of the deposit form; possibly indicating that both types of cash were deposited.

According to Mr. Kirkhart, the District did not install a meter on the public dispenser to independently measure the amount of water sold in this manner. Consequently, without a meter record to determine the amount of water sold, it was not possible to reasonably estimate the amount of cash collected by the public dispenser.

Board President Kirkhart explained that the increase in cash deposited for the 2012-13 period was mostly due to \$969.78 in coins “found in a can” in the District office following the termination of Ms. Yonkers. According to Kirkhart, there was a “thick layer of dust” on top of the coins, indicating that the coins were stored there for an unknown, but likely extended period of time. These coins were deposited on February 13, 2013.

**Finding 4:**            **Due to limited time, the generally poor recordkeeping and the lack of segregation of duties or mitigating controls, the potential for “skimming” of cash revenues was more difficult to determine. We concluded that providing such an estimate was not cost effective for the District.**

Although we noted a decline in cash deposited prior to the allegation of missing cash collections and the change in board policy in October 2009, we could not make a reasonable estimate due to the following:

- Lack of records and reporting due to the computer “crash” that occurred prior to the Board’s request for our assistance;
- Lack of an independent meter reading for the public dispenser operation;
- Late request by the Board did not provide sufficient time to fully evaluate the billing and collection records that the District had “on hand”; and
- Lack of segregation of duties involving a single employee performing the billing, collecting payments, depositing collections, posting payments to the billing system, making credit adjustments to customer accounts, all without any mitigating controls, likely rendering the District’s utility billing records unreliable.

While some misappropriation of utility collections on an opportunistic basis may have occurred, other factors such as a change in the customer base or a drop in the unmetered “public dispenser” sales could account for some portion of the declining cash deposits noted in the 2008-09 time period.

Consequently, we concluded that a reasonable estimate of possible cash misappropriation could not be determined without an inordinate amount of OSAI analysis and time. We advised the District Board President that the required time to provide such an estimate was not cost-effective for the District.

**Conclusion:**            The District Board approved the issuance and use of debit cards for limited purposes in 2009, but it did not establish any procedure(s) to monitor the use of these debit cards or to ensure that adopted policies and procedures were followed.

In May 2009, the Board’s decision to transfer \$30,000 into a third Certificate of Deposit, rather than the savings account, was fortunate. This transfer reduced the cash reserves in the checking and savings accounts,

and thereby limited the potential loss estimated to be \$33,100, from the alleged misappropriation by the former clerk.

Based on our limited review of the bank statement records and other District records, we concluded that the potential for “skimming” of cash collections was likely a much smaller figure than the cash disbursement scheme investigated by the Beaver County Sheriff’s Office. We also observed that the BCSO investigation was sufficient to cover the majority of questionable transactions and the predominant time period during which these transactions occurred.

\* \* \* \* \*

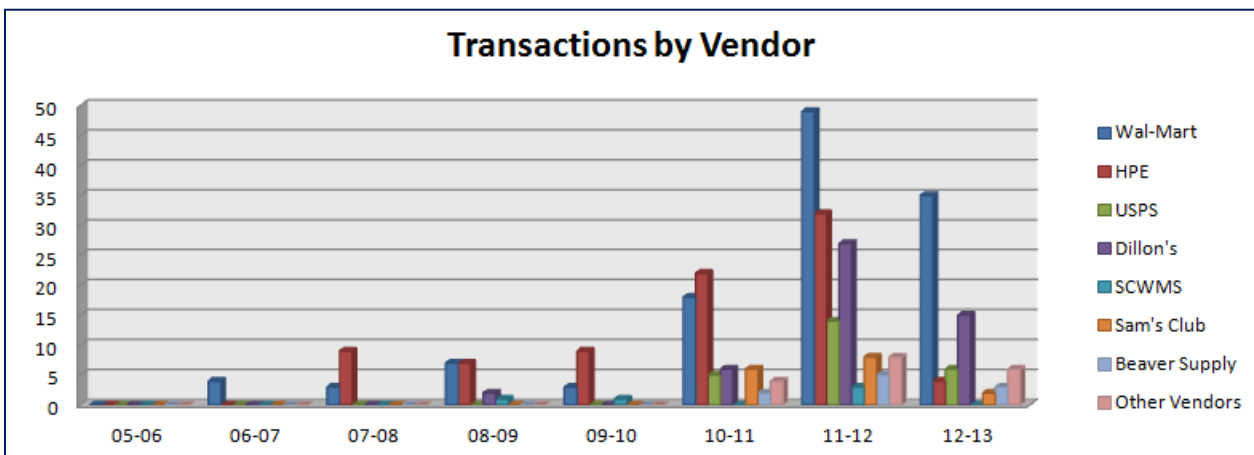
During our review, we noted several other issues and have provided recommendations which have been communicated to the District Board in a separate “management letter.”

**Disclaimer**

In this report, there may be references to state statutes and legal authorities that appear to be potentially relevant to the issues reviewed by the Office of State Auditor and Inspector. 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.

**Attachment 1**

Transactions by Vendor									
Vendor	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	Total by Vendor
Wal-Mart	0	4	3	7	3	18	49	35	119
HPE	0	0	9	7	9	22	32	4	83
USPS ①	NA	NA	NA	NA	NA	5	14	6	25
Dillon's	0	0	0	2	0	6	27	15	50
SCWMS	0	0	0	1	1	0	3	0	5
Sam's Club	0	0	0	0	0	6	8	2	16
Beaver Supply	0	0	0	0	0	2	5	3	10
Other Vendors	0	0	0	0	0	4	8	6	18
<b>Total Transactions by Year</b>	<b>0</b>	<b>4</b>	<b>12</b>	<b>17</b>	<b>13</b>	<b>63</b>	<b>146</b>	<b>71</b>	
<b>Grand Total all Vendors</b>									<b>326</b>
① USPS transactions documented by BCSO beginning November 2010									

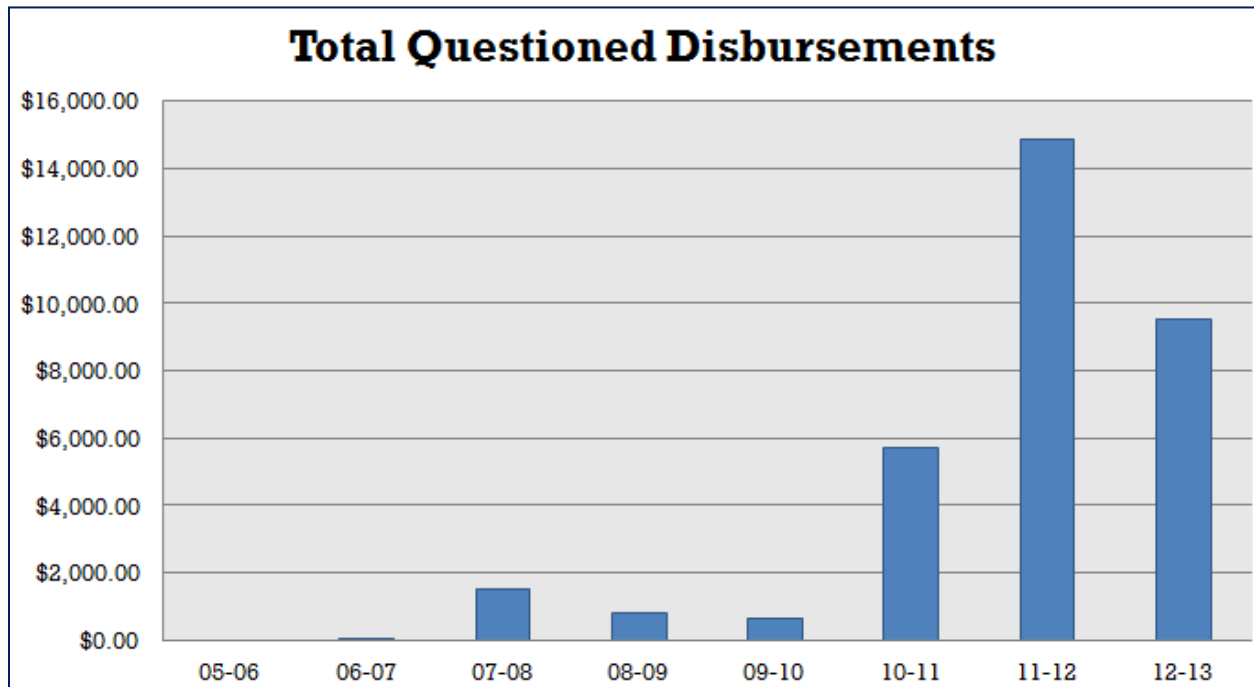


**Note:** Yonkers' employment was terminated in early February 2013, so the "12-13" period represents only a four-month time period in which the frequency of transactions and the amounts continued to escalate.

**Attachment #2**

Questioned Disbursements by Vendor October 1, 2005 through September 30, 2013										
Date	HPE	Wal-Mart	Dillons	USPS	Sam's Club	Other Fuel Purchases	Beaver Supply	SCWMS	Other Vendors	Annual Total
05-06	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.0
06-07	\$0.00	\$60.99	\$0.00	0.00	0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$60.9
07-08	\$348.38	\$1,145.92	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,494.3
08-09	\$304.99	\$354.10	\$78.80	\$0.00	\$0.00	\$0.00	\$0.00	\$50.00	\$0.00	\$787.8
09-10	\$431.23	\$97.77	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$100.00	\$0.00	\$629.0
10-11	\$1,380.10	\$1,680.62	\$634.98	\$582.15	\$979.01	\$205.20	\$75.87	\$100.00	\$91.33	\$5,729.2
11-12	\$1,949.01	\$5,799.28	\$2,548.36	\$1,420.90	\$1,989.73	\$370.89	\$397.08	\$300.00	\$99.00	\$14,874.2
12-13	\$298.16	\$6,007.64	\$1,594.97	\$448.22	\$604.93	\$240.83	\$237.96	\$0.00	\$91.61	\$9,524.3
3/13/13 - 9/30/13	\$464.59	\$129.35	\$10.84	\$0.00	\$0.00	\$135.78	\$0.00	\$0.00	\$0.00	\$740.5
<b>Vendor Totals</b>	<b>\$4,711.87</b>	<b>\$15,146.32</b>	<b>\$4,857.11</b>	<b>\$2,451.27</b>	<b>\$3,573.67</b>	<b>\$816.92</b>	<b>\$710.91</b>	<b>\$550.00</b>	<b>\$281.94</b>	<b>\$33,100.0</b>

Note: Vendor Totals do not reflect amounts shown in 3/13/2013-9/30/2013 line as Yonkers was no longer employed by the District.



**Notes:** The first seven columns represent 12-month periods starting October 1 and ending September 30 of the following year. The “12-13” column represents the four-month period of October 1, 2012 through February 4, 2013.

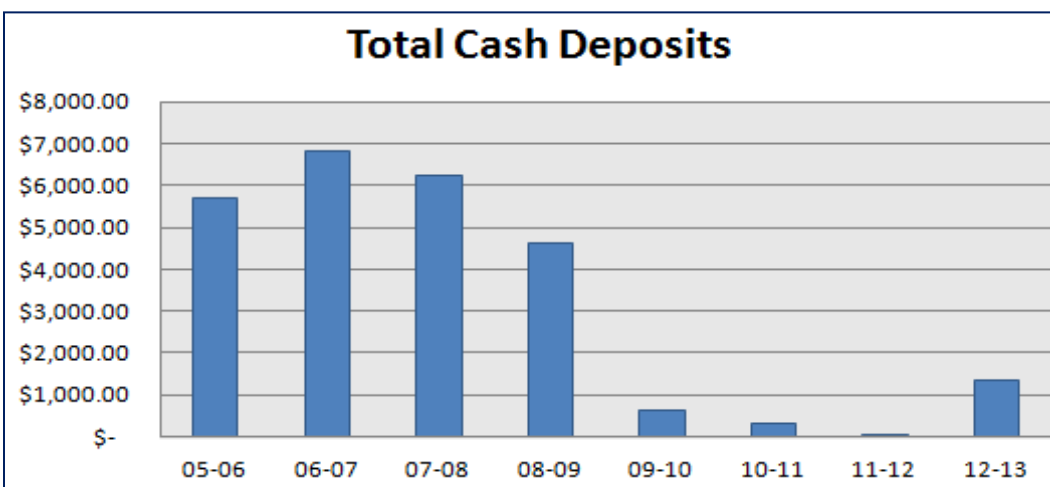
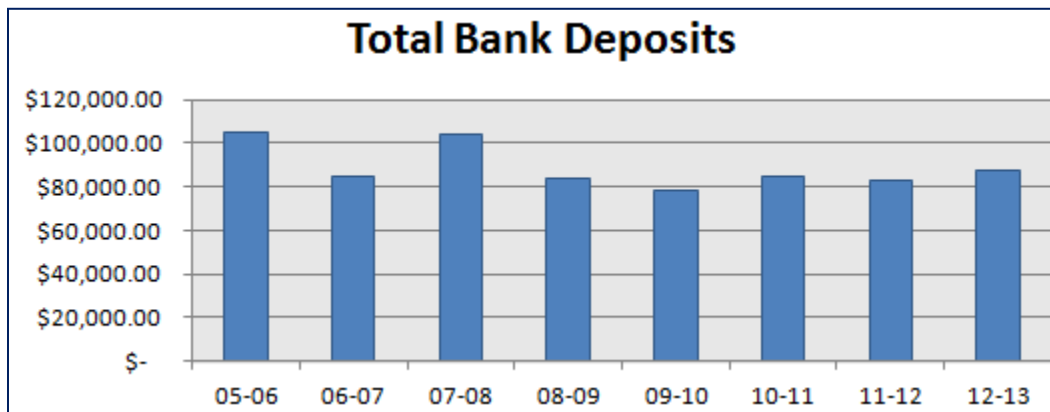
Projecting the pace of questioned spending from the first four months of the “12-13” time period to a full 12-month time frame indicated questioned spending would easily have exceeded \$28,000 for the full “12-13” period, if the bank cash balance had been available. In other words, there was no decrease in frequency or amounts of alleged misappropriation, even as the District’s savings account was being rapidly depleted.



**Attachment #3**

<b>Total Annual Deposits</b>			
<b>October 1, 2005 through September 30, 2013</b>			
<b>Year</b>	<b>Total Annual Deposits</b>	<b>Annual Cash Deposits</b>	<b>Public Dispenser</b>
05-06	\$ 104,462.65	\$ 5,707.01	\$ 1,082.25
06-07	\$ 84,461.56	\$ 6,798.61	\$ 380.00
07-08	\$ 103,574.99	\$ 6,230.01	\$ 231.80
08-09	\$ 84,003.04	\$ 4,622.86	\$ -
09-10 <sup>①</sup>	\$ 78,407.21	\$ 616.85	\$ -
10-11	\$ 84,380.15	\$ 310.00	\$ -
11-12	\$ 83,308.97	\$ 20.60	\$ -
12-13	\$ 87,266.23	\$ 1,340.28	\$ -

① October 2009 the District adopted policy to discontinue accepting cash for payments





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

[WWW.SAI.OK.GOV](http://WWW.SAI.OK.GOV)