

INVESTIGATIVE REPORT

# CITY OF WILSON

July 1, 2010 through May 31, 2011



*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

**CITY OF WILSON**  
**INVESTIGATIVE REPORT**  
**JULY 1, 2010 THROUGH MAY 31, 2011**

---

This publication, issued by the Oklahoma State Auditor and Inspector's office as authorized by 74 O.S. § 227.8, has not been printed, but is available on our agency's website ([www.sai.ok.gov](http://www.sai.ok.gov)) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



# Oklahoma State Auditor & Inspector

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

March 14, 2012

Honorable Frank Schaaf, Mayor  
City of Wilson  
1065 US Highway 70A  
Wilson, OK 73463-1297

Transmitted herewith is our Investigative Report of the City of Wilson.

Pursuant to your request and in accordance with the requirements of **74 O.S. 2001, § 227.8**, we performed an investigation with respect to the City of Wilson for the period July 1, 2010 through May 31, 2011.

The objectives of our investigation primarily included, but were not limited to, the areas of concern expressed during our interview on May 16, 2011. Our findings 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 City of Wilson for the period July 1, 2010 to May 31, 2011.

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

We 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 report is addressed to and intended solely for the information and use of the City of Wilson and state officials given oversight responsibilities, as provided by statute. This report is also a public document pursuant to the **Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.)** and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones", is written over a horizontal line.

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

**TABLE OF CONTENTS**

	<b>page</b>
Executive Summary .....	ii
Introduction.....	1
Objectives and Findings.....	2

**OBJECTIVES**

<b>I.</b> Determine if there has been a misappropriation of utility funds .....	2
<b>II.</b> Determine if there has been a misappropriation of court funds .....	16
<b>III.</b> Perform an analytical review of the City’s cash deposit records .....	22
<b>IV.</b> Other reportable conditions noted .....	28

## **EXECUTIVE SUMMARY**

We performed an investigation, pursuant to the City's request, and in accordance with the requirements of **74 O.S. 2001, § 227.8**. This report addresses issues concerning a former employee of the City of Wilson for the period July 1, 2010 through May 31, 2011.

Overall, we found the City's records to be poorly maintained, inaccurate, with missing, or in some cases, misleading records. The condition of the records was not unusual in entities where we have identified instances where a misappropriation is likely. In this case, we identified four methods commonly used to conceal a misappropriation of funds, an accounts receivable lapping scheme, a check insertion scheme, a fraudulent "write-off" scheme, and an omission or destruction of receipts.

Fraudulent activity is more likely to occur under conditions that result from a lack of internal controls, a lack of oversight, and a failure to properly segregate the duties and responsibilities of those handling financial transactions. In this case, the City had repeatedly failed to follow State Law concerning finances. Moreover, according to the City's independent auditor, the former utility clerk made it clear that she had no intention of following any internal control procedures.

Because of the poorly maintained records, we had difficulty determining the total amount of money that may have been misappropriated. In this report, we have identified instances where records have been manipulated in order to conceal likely misappropriations of utility billing funds, as well as court funds.

We have not identified every instance in which a misappropriation was likely to have occurred because of the poor condition of the records. We have reported on an overall trend which indicates the cash deposits declined approximately \$35,000 during the 10-month period the former employee served as the utility billing clerk.

We have repeatedly attempted to interview the former employee concerning our findings. Those attempts were unsuccessful.

**Introduction  
and Background**

In July 2010, Rita Morris began serving in the position of utility billing clerk for the City of Wilson (City). Typically, in a small municipality, duties for a utility billing clerk may include receiving cash, check, and money order payments for city services, such as water, sewer and trash collections, posting payments and depositing the collected funds into the City's bank accounts.

In early May 2011, City officials learned that two checks drawn on the City of Wilson General Fund bank account, both payable to "Morris," had been cashed at a local bank in Wilson. The checks were in the amounts of \$2,900 and \$4,600, and were both dated in early April. City officials believed the checks to have been fraudulently created and cashed by the utility billing clerk Rita Morris.

The Wilson Police Chief conducted an investigation and, as part of that investigation, obtained a statement from Morris. In the written statement, Morris acknowledged she had "forged and cashed" the two checks.

Morris, in her written statement to the police, indicated she had financial difficulties during the time that she had "forged and cashed" the two City checks. Morris denied, however, having taken cash from any of the collections. Morris wrote she had "forged and cashed" the two checks in order to pay for an attorney in a child custody matter.

Through public records, we identified a divorce case involving Morris in 2006. The case included a filing which also occurred in April 2011. We contacted the attorney listed as Morris's attorney in the case, who told us she did not charge Morris for her legal services. We obtained a copy of the April 2011 court filing, and noted both Morris and her ex-husband signed forms indicating they were both appearing "pro se," or without an attorney.

On May 26, 2011, the Wilson City Council voted 4-0 to have the State Auditor and Inspector conduct an investigation of its financial records.

Because the Wilson Police Department had already conducted an investigation into the \$2,900 and \$4,600 checks and obtained an admission from the former clerk, we did not address the check issue further, except with respect to the timing related to the issues we identified in our investigation.

**Objective I: Determine if utility billing funds were misappropriated.**

**Finding #1 We identified a scheme often used to misappropriate funds which is referred to as a *lapping* scheme.**

One method to misappropriate funds is referred to as a *lapping scheme*. Typically, a lapping scheme is used in connection with “skimming” collections on accounts receivable. By *lapping* collections, an employee may be able to conceal a misappropriation of funds over an extended period of time.

A *lapping* scheme involves the crediting of one accounts receivable through the use of money from another account. For example, cash received from customer A is misappropriated. Funds later collected from customer B are used to satisfy the collection from customer A. Then later, funds collected from customer C are used to satisfy funds collected from customer B. In some respects, a *lapping* scheme is not all that much different from a *Ponzi* scheme in which one investor’s funds are used to pay a false profit or false return on investment to a previous investor.

There are several indicators of a lapping scheme, including deposits being significantly delayed and/or deposits being made out of sequence. Although lapping schemes typically involve cash, another indication of a lapping scheme is deposit items, such as checks or money orders, being inserted into subsequent or previous (not yet deposited) bank deposits, rather than being deposited in the appropriate timeframe and date sequence.

During our investigation we found all of the above indicators with respect to *lapping*. Oklahoma State Law<sup>1</sup> requires a public entity to “...*deposit daily, not later than the immediately next banking day, all funds and monies*” received by the treasurer. Although making daily deposits should be a fundamental part of any system of internal control for revenue collections, as well as being a state law, the City failed to provide oversight to ensure compliance and/or protect its assets.

---

<sup>1</sup> 62 O.S. § 517.3(B).

**Lapping “Indicator”: Delay in deposit – deposits out of sequence.**

On May 16, 2011, an OSAI Investigator was meeting with Wilson Mayor Frank Schaaf to discuss the anticipated investigation. During the meeting, Mayor Schaaf was notified that Rita Morris, who resigned on May 9, 2011, had just brought a City deposit to the bank. Mayor Schaaf and the OSAI investigator went to the local bank and retrieved the records and funds of that deposit.

In addition to the former Clerk having taken the deposit to the bank seven days after resigning, the deposit consisted of receipts dated from April 25 through April 27, 2011. The associated receipts journal used to reconcile the deposit was printed on April 27, 2011, at 4:03pm. The daily balance report indicated the deposit report was prepared on May 9, 2011, although not taken to the bank to until May 16, 2011.

In the interim, another deposit was prepared and dated May 6, 2011. This deposit, which was made on May 9, 2011, consisted of receipts dated from May 2 through May 6, 2011. In other words, funds collected between May 2 and May 6 were deposited on May 9, while funds collected between April 25 and April 27 were not taken to the bank to be deposited until May 16.

Depositing Sequence / Delays				
Prepared	Receipt Date	Receipt Date	Deposited	Delay (Days)
4/5/2011	4/5/2011	4/5/2011	4/12/2011	7
4/8/2011	4/5/2011	4/8/2011	4/26/2011	18
4/12/2011	4/8/2011	4/11/2011	4/20/2011	8
4/14/2011	4/12/2011	4/13/2011	4/27/2011	13
4/19/2011	4/14/2011	4/19/2011	4/27/2011	8

Similarly, a deposit dated April 8, was prepared and then deposited on April 26. Another deposit dated April 12, was prepared and deposited April 20, six days earlier than the April 8 deposit. In both cases, the deposits were delayed more than a week.

In addition to the May 16 funds having been taken to the bank nearly three weeks after being receipted and one week after the clerk resigned, the deposit was also short \$270.00 cash. We will address that shortage later in our report.

**Lapping Indicator: Inserting deposit items received earlier into subsequent deposits.**

A deposit was prepared on April 14, 2011, and then subsequently deposited on April 27, 2011. The receipts journal supporting the deposit indicated the funds were collected and receipted on April 12 and 13. Because of a shortage with this deposit, we obtained the deposit items from the bank (a detailing of the checks and money orders included in the deposit) and found one check in the amount of \$46.12 had been included



in the deposit, although the check was not included in the receipting report. The shortage will be discussed further under Finding #7

According to the customer’s account history, the payment was recorded as a “cash payment” made on April 4, 2011. We reviewed payment stubs and found the April 4 payment stub indicating the payment actually was made by check and included the same customer name and check number found in the April 14 deposit. Nonetheless, although the payment was erroneously recorded as cash rather than a check, it still should have been included in the April 4 deposit, as indicated in the receipts journal corresponding to the April 4 deposit.

Instead, the check was inserted into a deposit subsequently made on April 27. We find it noteworthy that although the payment was recorded as a cash payment and was not included in the April 4 deposit, the records associated with the April 4 deposit “reconciled” with the bank deposit.

**Finding #2**

**We identified another scheme often used to misappropriate funds referred to as a *check-for-cash substitution* scheme.**

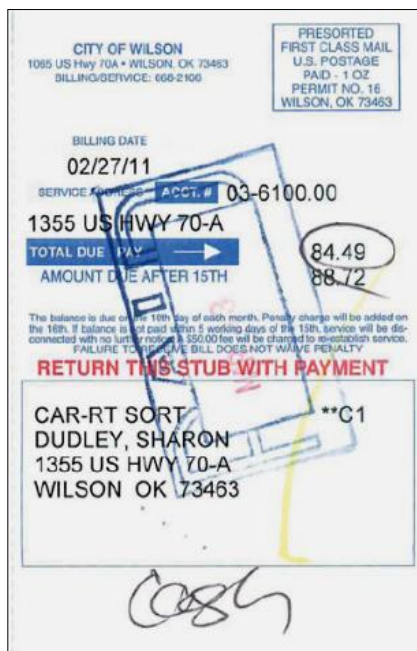
Another common method used to conceal the misappropriation of funds is referred to variously as *check-for-cash substitution* or *check substitution* or *check insertion* scheme. A *check substitution* scheme involves inserting an unaccounted for check, typically a check that has not been receipted, into a deposit and then removing a corresponding amount of cash.

A deposit was prepared on April 1, 2011. The receipts journal for the deposit reflects nine payments receipted in sequential order and all paid by check #1035. The nine receipts totaled \$815.92, as reflected in the following table:

##	Receipt #	Date	Account #	Name/Remarks	Total Due	Amount	CK Amount	Check #
1	60439	4/1/2011	04-1500.00	Bulla, Thressa	\$278.70	\$278.70	\$278.70	1035
2	60440	4/1/2011	1-5380.00	Gonzales, Goldie	\$62.49	\$62.49	\$62.49	1035
3	60441	4/1/2011	1-2000.00	Roberts, Amber	\$59.62	\$59.62	\$59.62	1035
4	60442	4/1/2011	04-1640.00	Davis, Lori	\$71.19	\$71.19	\$71.19	1035
5	60443	4/1/2011	02-0560.00	Sanders, Linda	\$65.60	\$65.60	\$65.60	1035
6	60444	4/1/2011	04-0760.00	Craddock, Joey	\$85.08	\$85.08	\$85.08	1035
7	60445	4/1/2011	03-6100.00	Dudley, Sharon	\$84.49	\$84.49	\$84.49	1035
8	60446	4/1/2011	02-1760.00	Brown, Charles	\$93.93	\$93.93	\$93.93	1035
9	60447	4/1/2011	04-2990.00	Lowery, Billie Sue	\$14.82	\$14.82	\$14.82	1035
				Totals	\$815.92	\$815.92	\$815.92	

We obtained the deposit item(s) from the bank and found the deposit included only one check numbered 1035. The check was in the amount of \$815.92 and was drawn on the account of Connie Dixon. The check was signed by Cherri Bradley, daughter of Connie Dixon.

According to Bradley, her mother had previously written a check to the City for \$500 to pay the water bill on the Bulla account (table above). The \$500 check was returned by the bank as an insufficient funds check. Subsequently, Dixon spoke with Rita Morris, whom she knows personally, and was told that in order to clear up the matter she would need to pay \$815.92. Bradley then wrote a check for \$815.92 and gave the check to Rita Morris.



We reviewed the Bulla account and found on November 2, 2010, a check in the amount of \$548.32 had been credited to the account. On May 19, 2011 (198 days later), an entry was made on the account indicating the check had been returned, and the \$548.32 amount was added back to the account as a due balance. Previously, on April 1, 2011, when the \$815.92 check was credited to the various accounts, the balance owed on the Bulla account was \$278.70.

According to Bradley, the \$815.92 check was intended to be used solely to take care of the original \$500 check written in November 2010, and the associated fees related to the returned check. Bradley did not know any of the other names for the accounts the check had also been applied to.

In a box of utility billing stubs, we found payment stubs for seven of the nine accounts. All seven stubs totaling \$443.19 were stamped “paid” and included notations indicating the payments were “cash” payments.

Because the date paid was unreadable, we reviewed the customer account histories associated with each stub and verified the amounts reflected as paid were posted as of April 1, 2011.

As previously noted, a *check-for-cash* or *check substitution/insertion* scheme typically means an unaccounted for check or other item has been inserted into a deposit and the corresponding amount of cash has been removed.

In this case, the \$815.92 check was inserted into a deposit and used to credit nine accounts. It appeared the check was substituted to replace cash payments for at least seven of the nine accounts credited, with the actual cash having been misappropriated.

Although we did not find the billing stubs for the other two accounts, it is noteworthy that there was no other check numbered "1035" in the deposit source. Likewise, there were no checks found in the deposit for the other two accounts, Thressa Bulla or Charles Brown.

In addition to the \$815.92 check being used in a check-for-cash *substitution* scheme, the check may have been obtained by a false pretense, contrary to **21 O.S. § 1542** which states in relevant part:

Every person who, with intent to cheat or defraud another, designedly, by color or aid of any false token or writing, or other false pretense, obtains the signature of any person to any written instrument, or obtains from any person any money or property shall be guilty of a felony.

According to Cherri Bradley, the \$815.92 check was to be used solely for the purpose of clearing up the earlier \$548.32 check that had been returned. According to Bradley, she had been told by Rita Morris the amount owed, which now included late fees and returned check fees, had increased from \$548.32 to \$815.92.

### Finding #3

**Questionable "credit adjustments" were made to utility accounts receivable where billing stubs indicated actual payments had been made.**



The City uses a two-part billing stub for utility services. When a customer pays their water bill, the City retains one portion of the water bill, a billing "stub," which serves as the City's receipt for the payment. We found a box of unorganized payment stubs.

When we compared some of the payment stubs to the corresponding account histories, we found transactions in which stubs were stamped "paid," but the payments were recorded as "credit adjustments."

In four cases, all of which occurred on April 22, 2011, payment stubs reflected the notations "cash." These four stubs totaled \$260.11. However, each of the four customer account history

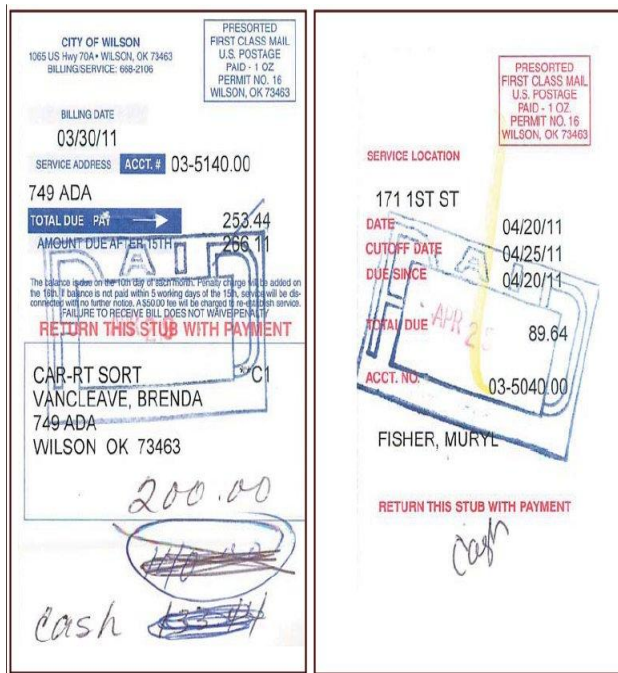
reports reflected “credit adjustments” rather than cash collections. See below:

**Partial account history: Smith, Matthew**

04/01/11	0100	WATER-IN CITY RES.	7200	850850		38.88	38.88
04/01/11	0200	SEWER-RES.	0	0		25.40	64.28
04/01/11	0300	TRASH-RES	0	0		14.82	79.10
04/22/11	9602	Credit Adjustment	0	0	PMT NT PST	79.10CR	0.00
05/03/11	0100	WATER-IN CITY RES.	8970	859820		47.11	47.11

We reviewed the account history for a fifth account, which also reflected an April 22, 2011, “credit adjustment” in the amount of \$499.24. Although the stub was stamped “paid,” there was no indication of the method or mode of payment (cash/check).

We selected ten accounts with credit adjustments made to see if the stubs could be located and if those stubs reflected some payment had been made, rather than an “adjustment” to the account. We found stubs for five of the ten accounts. Three of the five stubs did not have any indication of the amount or method of payment.



Two of the payment stubs (shown at left) indicated payments by “cash.” One of the stubs indicated the payment of \$200.00 cash. The credit history for this account reflected a \$200.00 credit adjustment.

The second payment stub indicated only cash without specifying an amount. The stub reflected the total amount due as \$89.64. The credit history for this account reflected an \$89.64 credit adjustment.

From a limited review of the April 2011 payment stubs, we determined credit adjustments totaling \$549.75 had been made on customer accounts for which we were able to find payment stubs indicating cash payments had been received.

In addition to the stubs found in a box, we also found two more payment stubs on top of an unrelated box of records in a storage room. The stubs, both of which were stamped “paid” and including the handwritten notation “cash” were for the amounts of \$44.92 and \$45.07.

The account histories for both accounts reflect that credit adjustments were made on both accounts on April 27, 2011, in the same amounts as shown on the cash payment stubs.

**Finding #4**

**Computer generated receipts were changed – a single receipt was issued to different people for different amounts. At least some of the funds were then later deposited using a different receipt number. A questionable account credit was issued in relation to the changed receipts.**

A contract for utility service dated December 20, 2010, was signed by “V. Meadows” and reflecting the payment of \$150.00 and the receipt #58501. The attached computer generated receipt #58501, also reflected the collection of \$150.00 and indicated payment by check #3604, as shown below.

<b>**** RECEIPT ****</b>					
ACCOUNT:	DATE: 12/20/10	RECEIPT #: 058501			
MEADOWS, MIKE & VONDA 7805 DILLARD RD	TIME: 12:08:19 PM	CITY OF WILSON 1065 US HWY. 70A WILSON OK 73463 580-668-2106			
REMARKS: MEADOWS, MIKE & VONDA MD 150.00					
CHECK 150.00 CK#: 3604	CASH 0.00	CR CARD 0.00	AMT PAID 150.00	TOTAL DUE 150.00	CHANGE 0.00
MD	METER DEPOSIT			150.00	

When we reviewed the daily report “12/20/10” corresponding to this receipt number (#058501), we found the daily report reflected the same receipt number as having been issued to Jeff Stearns for \$100.00 and paid by check #6788, as shown below:

058501	12/20/10	03-3980.00	STEARNS, JEFF	100.00	MD	100.00	100.00	6788
--------	----------	------------	---------------	--------	----	--------	--------	------

We obtained the source documents for the December 20, 2010 deposit, and determined the \$100.00 Stearns check was the actual check that was deposited. We obtained documentation from the City reflecting the Stearns account had been active since 1991, making it unlikely the \$100.00 check deposited was for a meter deposit collection, as reflected on the daily posting report.

We reviewed the account history for the Stearns account and found the \$100.00 check was not recorded as a payment at all. No payments or

credits were made to the account in December 2010. In January 2011, a “credit adjustment” was made to the account in the amount of \$100.00 as shown below:

11/15/10	0303	TRASH-2ND CART	0	0	7.00
12/03/10	0400	PENALTY	0	0	8.24
12/06/10	0100	WATER-IN CITY RES.	6530	983500	35.77
12/06/10	0200	SEWER-RES.	0	0	24.06
12/06/10	0300	TRASH-RES	0	0	14.82
12/06/10	0303	TRASH-2ND CART	0	0	7.00
01/03/11	9602	Credit Adjustment	0	0	100.00CR

Later, on January 27, 2011, the daily report indicated another \$150.00 meter deposit payment for the Meadows account indicating payment by check #3604, only now the receipt number had been changed to receipt #59136. The account history for the Meadows account reflected the \$150.00 payment was received with the earlier receipt #58501.

We then asked the City to provide a listing of all meter deposit transactions. When we reviewed that report, we found receipt number #58501, which had been posted as issued to the Meadows for \$150.00 and to Stearns for \$100.00, was listed on the meter deposit report as a \$100.00 receipt with no name indicated, as shown below:

058333	12/14/10	000000	RECEIPTS/TRANSFERS	150.00CR	RALIEY,BROOKLYN MD 150.00
058500	12/20/10	000000	RECEIPTS/TRANSFERS	150.00CR	GRISSOM,JACK MD 150.00
058501	12/20/10	000000	RECEIPTS/TRANSFERS	100.00CR	
058540	12/22/10	000000	RECEIPTS/TRANSFERS	150.00CR	MORSE,KAYLEE MD 150.00

We noted the same report included seven other receipts totaling \$875.00, which also had the names removed.

Based on the records we reviewed, we concluded that computer generated receipts were being issued and then changed with respect to names, amounts, and purpose. There were occurrences in which the computer generated daily *reports did not match* the customer history reports.

Because of the contradictory nature of these reports, we question the accuracy and reliability of the City’s computer generated records and reports.

**Finding #5**

**We identified contracts for water service with no indication that funds received had been receipted or deposited.**

A contract for utility service dated September 29, 2010, was signed by Kelsi Cox. Although the contract did not list a utility deposit amount paid,

the corresponding customer account records for this account indicated a deposit payment of \$150.00 on September 29, 2010.

When we reviewed the daily reports, we found no indication of a \$150.00 meter deposit for this account on September 29, 2010. We reviewed a meter deposit report and did not find where a receipt had been issued for the Kelsi Cox account, as shown in the image below.

056534	09/24/10	000000	RECEIPTS/TRANSFERS	150.00CR	YOUNG,THRESEA,WATER DEP
056564	09/29/10	000000	RECEIPTS/TRANSFERS	150.00CR	CARR, CLIFFORD WD 150.00
056566	09/29/10	000000	RECEIPTS/TRANSFERS	150.00CR	KASTNER, TREVOR WD 150.00
056567	09/29/10	000000	RECEIPTS/TRANSFERS	100.00CR	STUCKEY, BRIANNA WD 100.00
000819	10/31/10	000000	RECEIPTS/TRANSFERS	150.00	ADJUST FOR DOUBLE POST
056583	10/01/10	000000	RECEIPTS/TRANSFERS	150.00CR	COX, SANDY METER DEPOSIT

We did note a deposit recorded on October 1, 2010 for Sandy Cox. We determined the Kelsi Cox and the Sandy Cox accounts were unrelated accounts. We also determined the \$150 payments reflected on September 29, 2010, were for accounts other than the Cox account.

In another example, a contract dated January 11, 2011, was signed by Stephanie Butcher. The contract reflects a \$150.00 deposit payment. Initially the City was unable to find any account information for this person. After several inquiries, the account was determined to be in the name of Leslie Gicker. The customer service screen for the Gicker account also reflected a deposit payment of \$150.00 on January 11, 2011, with no receipt number indicated. We reviewed a meter deposit report and found no meter deposit payments were recorded between December 23, 2010 and January 24, 2011.

Similarly, we found a contract dated January 17, 2011, for an account in the name of Greg Adams. The contract does not indicate a deposit payment amount. A customer account report indicated a payment of \$150.00 on the same date as the contract. We found no indication these funds were deposited.

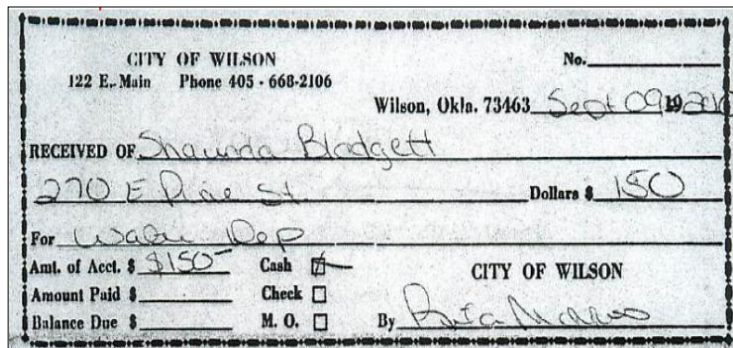
We found seven instances where contracts were executed that could not be traced to receipts and/or deposits. In three of the seven cases, the contracts do not identify the amount paid.

In the “Butcher/Gicker” example, it was only by happenstance the connection was made between the Butcher contract and the Gicker account. Since in this case no receipt appeared to have been issued to *either* Butcher or Gicker, we cannot reliably perform a testing procedure based on the records available.

**Finding #6**

**Handwritten receipts were issued that cannot be traced to deposits.**

In addition to the computer generated receipts, the City was also issuing handwritten receipts from various receipt books, including receipt books that were not pre-numbered. With respect to meter deposit funds, we found eight handwritten receipts totaling \$1,140.00 that could not be traced to the daily posting reports.



For example, an unnumbered receipt was issued on September 9, 2010, indicating the collection of \$150.00 cash for a meter deposit payment. A contract for utility service was also executed the same date, which also reflected the payment of \$150.00 cash.

When we reviewed the daily posting reports, we did not find the \$150.00 cash collection on the meter report. We also reviewed a meter deposit payment register and did not find the payment on that register either.

On January 3, 2010, a pre-numbered receipt was issued reflecting the collection of \$150.00 cash for a utility deposit payment. A contract for utilities service was also executed the same date but did not reflect a collection amount. A customer service record for this customer indicated a \$150.00 deposit was paid on January 4, 2011, but no receipt number was recorded.

The next deposit made after January 4 was on January 6. The \$150.00 cash payment was not reflected in the daily posting report for January 6, 2011. The payment was also not listed on a meter deposit payment report.

**Finding #7**

**Computer generated reports, in some cases, did not reconcile with each other. Receipts numbers and amounts were deleted or dropped off of some reports, and the corresponding cash collections were apparently misappropriated.**

When deposits are prepared a number of computer generated reports are used to balance the daily collections. The reports include:

- A *receipts list by revenue source* report, such as court, utility billing, and meter deposit.
- A *summary by revenue source* report reflecting the total amounts to be credited to each revenue source and fund.

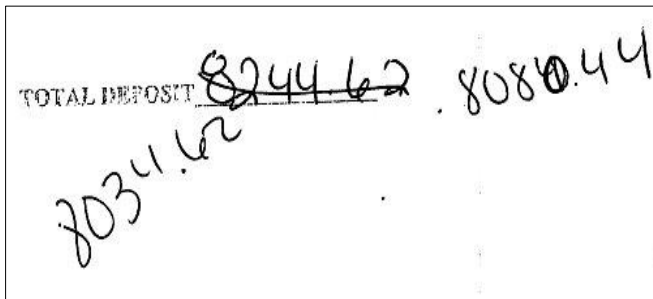


- A combined (all sources) *receipts list by receipt number* report reflecting the individual collections, receipt numbers, names and amounts.

During the deposit process, a handwritten daily balance report form is also prepared showing the collections deposited to each City fund/bank account.

The combined receipts list by receipt number is the first report printed, usually at the end of the day, and is used to reconcile the cash drawer with the collections. Currently, according to City Clerk Ann Martuzky, once the money drawer is reconciled with the on-hand cash and checks, the other reports are then generated, and the deposit is prepared.

We previously noted in Finding #1, that there was a “shortage” for the April 14, 2011 deposit, and a \$46.12 check had been inserted into the deposit items as part of the April 12 and April 13 receipts that comprised the April 14 deposit.



TOTAL DEPOSIT ~~8244.62~~ 8080.44  
8034.62

While reviewing the deposit, we noted the reports printed in support of the deposit did not reconcile. A *summary by revenue source* report printed at “4/14/11 2:31:27 PM,” showed a total of “\$8,244.62” for collections for the April 12 and 13 dates of business. That report total was consistent with the *original* amount recorded on the handwritten

“deposit breakdown” form for the April 14 deposit, but the original amount had been “lined out.”

A combined *receipts list by receipt number* report printed at “4/14/11 1:21:33 PM,” reported a total for receipts of \$8,034.62, which was consistent with a subsequent *revision* to the handwritten daily balance report form total. There was a second apparent *revision* to a deposit total of “\$8,080.74,” which was the *actual* deposit made at the bank and included the \$46.12 check shown above and previously discussed in Finding #1, being inserted into the deposit.

The combined *receipts list by receipt number* report used for the reconciliation indicated the total cash collected as \$890.36. The corresponding deposit made nearly 2 weeks later on April 27, also included a deposit of \$890.36 cash.

The combined *receipts list by receipt number* report with the total of “\$8,034.62” indicated it had been printed on April 14 at “1:21:33 PM.” A “*budget receipts transfer*” report for the meter deposit fund printed at 2:39pm, over an hour later, indicated two payments had been collected for meter deposits including one payment, receipt #60804, which was recorded as a \$150.00 cash payment.

The *receipts list by revenue source* report for the court fund indicated it was printed at 2:30pm. The court report reflected one receipt, #60805, had been issued for \$60.00 “cash.”

The combined *receipts list by receipt number* report, which reconciled to the April 14 deposit, ended with receipt #60803 and did not include receipt #60804 or receipt #60805. The next deposit prepared on April 19, started with receipt #60806. The two payments, representing \$210 collected as part of the April 14 business, were not part of the \$890.36 cash deposited, as part of the April 14 deposit.

Receipt #60804 and 60805 were dropped off the end of some daily reports, apparently as a result of the timing of when those daily reports were printed, but we also noted instances where receipts were missing in the middle of reports. For example, the April 4, 2011, combined *receipts list by receipt number* report included receipt numbers from 60457 through 60489. However, receipt #60464 was skipped, as shown below.

060462	04/04/11	04-1610.00	WRIGHT, DOUG	44.82	UB	44.82
060463	04/04/11	04-3780.00	ZUFELT, THOMAS	45.99	UB	45.99
060465	04/04/11	01-6440.00	HOLLOWAY, ROBERT	22.50	UB	22.50
060466	04/04/11	08-0003.00	WAY, JOANN	28.82	UB	28.82
060467	04/04/11	04-1575.00	ALEXANDER, BRENDA	46.90	UB	46.90

We found another example in the deposit prepared for April 8, 2011. The reports associated with this deposit reflected receipts from #60572 through #60617. However, receipt # 60590 was skipped, as shown below:

060588	04/05/11	01-7260.00	MUSGROVE, RICHARD	51.82	UB	51.82
060589	04/05/11	02-0180.00	WALKER, JOANNA	45.93	UB	45.93
060591	04/05/11	01-1860.00	RUSSELL, WAYNE	68.33	UB	68.33
060592	04/05/11	02-1420.00	FONDREN, JERRY	65.20	UB	65.20
060593	04/05/11	02-3560.00	STONEKING, JAMIE	71.32	UB	71.32

Because receipts were missing, we asked the city clerk to provide a report listing receipt numbers. According to the city clerk and the current utilities clerk, the receipts had been “erased” after the day’s reports were reconciled and printed.

The reason the receipts were removed from the system was because there had been instructions taped to the desk which said, "RECEIPTS - REMOVE" as a step in the daily process. Neither the city clerk nor current utility billing clerk knew the source of the instructions that were taped to the desk.

Beginning in November 2011, the receipt details have not been deleted from the system and the receipts for 2012, can now be printed. The process of removing the detail records of receipts at the end of the day was no different than destroying receipt books periodically. As such, we have no means to determine the amounts and compositions of those missing receipts for those dates in which there were no hard copy records found in the City office.

## **Conclusion**

In our review of records, we found discrepancies that indicated at least four methods of concealing a misappropriation related to utility billing accounts receivable. These four methods were:

1. "Lapping" of accounts receivable, in this case bank deposits, or the use of receipts from one collection period to supplement or replace missing funds from a previous (not yet deposited day's collections) or a subsequent day's business and the related deposit, in other words (over)lapping the deposits.
2. Check-for-cash substitution or check insertion method, using a check that has *not* been receipted to "replace" cash collections that *have been* receipted. Check-for-cash substitutions or check insertions can also be used in conjunction with "lapping" deposits to attempt to conceal a misappropriation.
3. Fraudulent write-offs, using "credit adjustments" to conceal collections that have been misappropriated.
4. Destruction of transaction records, such as the deleting of the computer system's detailed records of receipts, and/or the destruction of hard copies of receipt records following the printing of those records.

As reported in the above findings, we found records that were inconsistent, inaccurate, misleading, and in some cases, missing.

Early in our investigation, we interviewed Rheba Henderson, CPA, who now serves as a consultant to the City. According to Henderson, although she had trained Rita Morris on the procedures of the office, Morris refused to follow those procedures.

The poor condition of the City's records for the July 1, 2010 to May 31, 2011 time period reviewed, appeared to be the result of little oversight and negligible "segregation of duties," both of which are necessary components of effective internal control.

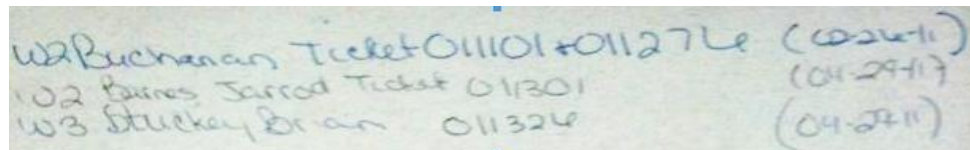
**Objective II: Determine if court funds were misappropriated.**

**Background**

Ordinarily when we are tasked with investigating misappropriations related to traffic citations, one of the key documents we rely is the court docket. In this case, the City was unable to reliably provide court docket records or much else in the way of court records.

We found court records located in different filing cabinets, desks, various pieces of furniture, various file folders, and various storage boxes. In one such storage box labeled “1979-1982,” we found court dockets for July, August, and October 2010, in addition to other non-court related documents.

During an interview with the Wilson Police Chief, he stated the court clerk maintains a listing of the citation books assigned to the officers, as part of the procedure related to citations. When we asked for the records related to citation books being issued, we were provided a cardboard box with the handwritten notations shown below:



We found court documents indicating police officers had been writing traffic citations prior to the “02-26-11” date indicated on the cardboard box. However, the City was unable to provide us with any significant records that would be an accounting for traffic citations issued.

In February 2011, the City purchased and installed software designed to track citations, create court dockets, and record payments. Although the employees received training on the program, we only found one computer generated court docket dated February 27, 2011, and that one docket was incomplete.

The court docket included citation numbers not recorded on the cardboard box previously noted.

Rather than using the computer program purchased, the City staff elected to use handwritten court dockets maintained on pieces of loose leaf notebook paper, as shown below:

03/03/11

G11191	Bennett, Kim	no show	175 Bond	Bench
G11193	Drinnan, Jack	no show	220 Bond	Bench
G11194	Reed, Jo	no show	220 Bond	Bench pd
G11155	Harvey, Daniel	no show	150 Bond	Bench pd
G11192	Austin, Albert	no show	175 Bond	Bench

These “dockets” did not record payment dates, amounts, or composition. We reviewed the receipt journals for March 3 and March 4, 2011, and did not find any indication of payment for the two citations noted as “pd” in the image above. From a court payment register, we found the payment for citation #11194 received on March 9, 2011, but no payment was found for citation #11155.

During our interview with the Police Chief, he expressed concern the City had not adequately maintained the records related to traffic citations and court records.

We concurred with that concern of the Police Chief.

**Finding # 1**

**Computer generated receipts have been changed - a single receipt was issued to different people for different amounts.**

Receipt #55531 dated August 12, 2010, issued to J. Wilson reflected a court related payment of \$125.00. The court receipts report which ordinarily would show each individual court fine payment was either not printed or is now missing for August 12 and August 13, 2010. There is no record of J. Wilson having made a court fine payment shown in the daily “receipts list by receipt number” report. The computer generated receipt is shown below.

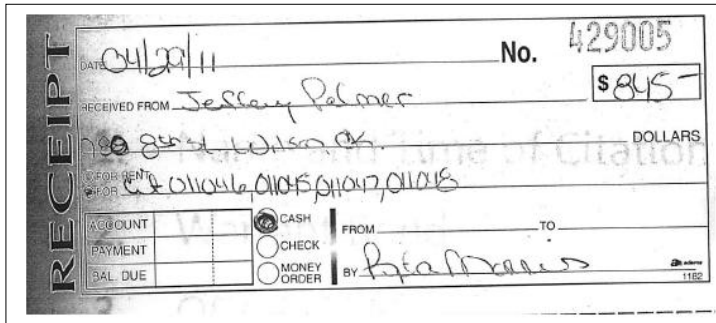
**** RECEIPT ****						
ACCOUNT:			DATE: 08/12/10		RECEIPT #: 055531	
WILSON, JAMIE			TIME: 9:08:03 AM		CITY OF WILSON	
1919 E 2ND APT 471					1085 US HWY. 70A	
EDMOND OK 73034					WILSON OK 73463	
REMARKS: WILSON, JAMIE #010771 FM					580-668-2106	
CHECK	CASH	CR CARD	AMT PAID	TOTAL DUE	CHANGE	
125.00	0.00	0.00	125.00	125.00	0.00	
CK#: 1174						
CF	COURT FINES			125.00		

When we reviewed the daily "receipts list by receipt number" report corresponding to this receipt, we found the same receipt number had been issued to Judy Goodson for utility billing payment and indicated payment by check #7281 in the amount of \$57.67, as shown below.

*** RECEIPTS *** CITY OF WILSON, OK													
(DATE RNG: 00/00/00 - 99/99/99; CAT CODE RNG: - ZZZZ; NON-TRANSFERRED)													
08/13/10 5:43:30 PM PAGE 1													
RCPT#	DATE	ACCOUNT #	NAME/REMARKS	TOTL DUE	CODE	AMOUNT	X	CK AMT	CK #	T	CASH AMT	CC AMT	CHANGE
000001	08/13/10		DOUBLE POST	0.00	MR	0.00		0.00			0.00	0.00	0.00
055522	08/12/10	03-6360.00	ELLIOTT, BARBARA	52.17	UB	52.17		52.17	5801		0.00	0.00	0.00
055523	08/12/10	01-1480.00	BRIDGES, WINNIE	15.00	UB	15.00		15.00	2360		0.00	0.00	0.00
055524	08/12/10	01-7670.00	GUNTER, ROSCOE	21.82	UB	21.82		21.82	5517		0.00	0.00	0.00
055525	08/12/10	04-2640.00	TUCKER, SONNY	47.05	UB	47.05		47.05	17669		0.00	0.00	0.00
055526	08/12/10	04-2735.00	BECK, RILEY	22.50	UB	22.50		22.50	3835		0.00	0.00	0.00
055527	08/12/10	01-0740.00	MELOY, BRIAN	54.20	UB	54.20		54.20	2179		0.00	0.00	0.00
055528	08/12/10	04-2745.00	A CLEAN ENVIRONMENT	25.85	UB	25.85		25.85	8380		0.00	0.00	0.00
055529	08/12/10	01-7710.00	ALEXANDER, JOHN	21.82	UB	21.82		21.82	5099		0.00	0.00	0.00
055530	08/12/10	01-0680.00	SCHIRALLI, LESLIE	83.48	UB	83.48		83.48	4413		0.00	0.00	0.00
055531	08/12/10	03-2620.00	GOODSON, JUDY	57.67	UB	57.67		57.67	7281		0.00	0.00	0.00
055532	08/12/10	03-4558.00	ROBERTS, JIMMIE	96.59	UB	96.59		96.59	7438		0.00	0.00	0.00

**Finding #2**

We identified hand written receipts for court payments with no indication the funds received had been entered into the computer system or actually deposited.



We found hand written receipts for court payments that could not be traced to a daily report or deposit. For example, we found an \$845 receipt issued to Jeffrey Palmer on April 29, 2011.

The daily receipts journal shown below included receipts dated April 28, 2011 through May 2, 2011. The report did not reflect any court collections or any collection from either Palmer or anyone else in the amount of \$845.

*** RECEIPTS *** CITY OF WILSON, OK													
(DATE RNG: 00/00/00 - 99/99/99; CAT CODE RNG: - ZZZZ; NON-TRANSFERRED)													
05/02/11 9:47:32 AM PAGE 1													
RCPT#	DATE	ACCOUNT #	NAME/REMARKS	TOTL DUE	CODE	AMOUNT	X	CK AMT	CK #	T	CASH AMT	CC AMT	CHANGE
061040	04/28/11	01-4180.00	GAITHER, VICKIE	44.58	UB	44.58		44.58	8191		0.00	0.00	0.00
061041	04/29/11	01-3060.00	COLLINS, RAYMOND	36.02	UB	36.02		0.00			36.02	0.00	0.00
061042	04/29/11	03-3350.00	HERRIN, W.H.	14.96	UB	14.96		14.96	1240		0.00	0.00	0.00
061043	04/29/11	04-2340.00	HOWARD, JASON	66.38	UB	66.38		66.38	563		0.00	0.00	0.00
061044	04/29/11	03-4680.00	EMERSON, KENNY	202.97	UB	202.97		202.97	1203		0.00	0.00	0.00
061045	04/29/11	02-1940.00	MILLER, MARIE	100.00	UB	100.00		0.00			100.00	0.00	0.00
061046	04/29/11	04-1360.00	BUCHANAN, BRAD	143.39	UB	143.39		143.39	1406		0.00	0.00	0.00
061047	04/29/11	03-6280.00	THRONEBERRY, ORVELLE	100.00	UB	100.00		0.00			100.00	0.00	0.00
061048	04/29/11	04-3940.00	MCARTHUR, JIM	65.40	UB	65.40		65.40			0.00	0.00	0.00
061049	04/29/11	04-2060.00	MOSS, CHARLIE & ANDREA	587.26	UB	587.26		587.26	1899		0.00	0.00	0.00
061050	04/29/11	01-6598.00	SMITH, LAURA	75.00	UB	75.00		0.00			75.00	0.00	0.00
061051	04/29/11	01-0860.00	BUTCHER, STEPHANIE	40.00	UB	40.00		0.00			40.00	0.00	0.00
061052	04/29/11	04-1570.00	JONES, GERALD	42.58	UB	42.58		42.58	1556		0.00	0.00	0.00
061053	05/02/11	04-0820.00	CONSTANTINE, JESSICA	50.00	UB	50.00		0.00			50.00	0.00	0.00
061054	05/02/11	03-3840.00	HENRY, ROUNDER	78.57	UB	78.57		78.57	1524		0.00	0.00	0.00
TOTALS: COUNT = 15				1,647.11		1,647.11		1,246.09			401.02	0.00	0.00

CITY OF WILSON		No.
122 E. Main Phone 405-668-2106		
Wilson, Okla. 73463		1-24-11
RECEIVED OF	Zach Parker	
One hundred twenty five <sup>00</sup> Dollars \$ 175.00		
For ticket # 01157 + \$50 warrant fee		
Amt. of Acct. \$	Cash	<input checked="" type="checkbox"/>
Amount Paid \$	Check	<input type="checkbox"/>
Balance Due \$	M. O.	<input type="checkbox"/>
CITY OF WILSON		By Kelle McMullen

Another handwritten receipt from an unnumbered receipt book was dated January 24, 2011, and reflected the collection of \$175.00 cash from Zach Parker. The corresponding daily receipts journal, which included receipts issued from January 20 through January 25, did not include the \$175.00 receipt issued to Parker.

Because the City was using unnumbered receipt books, we have no reliable way to determine how many handwritten receipts have been issued and/or determine a total dollar amount that may have been received, but not deposited.

Overall, we found 34 instances representing \$4,755 in payments where a handwritten receipt had been issued for a court fine, but we were unable to find where the payment was entered into the computer system and/or subsequently deposited.

In 21 of the 34 instances, the handwritten receipts were signed by Ann Martuzky. At the time the receipts were written, Martuzky was working for the city on a part-time basis. Martuzky stated Rita Morris would be in the courtroom, and when people would exit the court, they would often come across the hall to pay their fines. Martuzky would issue a receipt and place the money in a drawer. Martuzky stated Morris was the one who was supposed to enter the payments into the computer and perform the daily closeouts.

Later in Objective III, we discuss the cash deposits to the bank account of Rita Morris. We also asked for the bank records for Martuzky for the period from January 1, 2011, when she began working part time, through the end of May 2011. The bank records, which we obtained directly from the banking institutions, indicated only one cash deposit had been made to Marutzky's accounts in the amount of \$160.00 on February 25, 2011.

**Finding #3**

**Computer generated reports did not reconcile with each other. Receipts numbers were dropped off the receipt list by receipt number combined report and the corresponding funds were not deposited.**

The individual deposit report for the court collections dated April 14, 2011, reflects the collection of \$60.00 cash receipted by receipt #60805. However, the daily receipts journal ended with receipt # 60803 and did not include the collections from receipt #60804 or #60805.



Receipt #60805 has been discussed previously in this report under Objective I, Finding #7.

**Finding #4**

**Court fine payments were not deposited timely. Payments were deposited up to two weeks after being received.**

Two citations, #10049 and #10050, both included the handwritten notations indicating the payment of \$100 and \$300 on January 24, 2011. We reviewed the daily deposit reports for January 24, 2011, and found no indication of the payments being recorded or deposited.

While reviewing other court records, we found a computer generated receipt #59544, dated February 17, 2011, indicating the collection of the \$300 amount from citation #10050. We obtained a copy of the actual check deposited which was dated January 24, 2011, as reflected on the citations.

We then reviewed the receipts journal for February 17, 2011, and found receipts #59544 and #59546 both dated February 17, 2011, had been issued for the payments received on January 24, 2011.

Between January 24 and February 17, 2011, six deposits were made. Although receipted and included on the reports for February 17, the deposit was actually made on February 24, 2011, a full month after payment was made, according to the notations on the citations.

In another instance, we found a handwritten receipt dated January 25, 2011, indicating the collection of \$350.00 in cash. When we reviewed the corresponding receipts journal, which included dates from January 20 through the 25, we did not find where the handwritten receipt had been accounted for and deposited.

In a file folder of miscellaneous court records, we found a computer generated receipt dated February 22, 2011, indicating the collection of the same \$350.00. The receipt was included on the February 22, 2010, daily receipts journal.

We have previously noted in this report what appeared to be indications of a misappropriation of funds through a *deposit lapping* scheme. The above

discrepancies in the court records indicate the likelihood of a deposit “lapping” scheme also being used to conceal a misappropriation of municipal court collections.

**Objective III: Perform an analytical review of the City's cash deposit records.**

**Background**

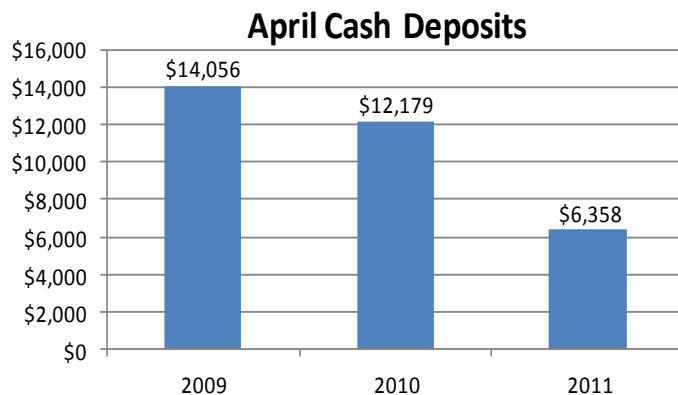
In this report, we have cited specific instances where it appeared funds had been misappropriated, with a variety of methods used to attempt to conceal the misappropriation. Due to the poorly maintained and/or missing financial records, other misappropriations almost certainly have occurred and have gone undetected.

Because of the poor quality of the records, we performed certain *analytical procedures* to estimate the potential extent or size of misappropriation. We compared the cash composition, i.e. the amount of cash relative to checks and money orders deposited, for corresponding periods of time for periods prior to, during, and after the period of employment of Rita Morris as the City's utility billing clerk.

**Finding #1**

**In a comparison of cash deposited during the month of April 2009, April 2010, and April 2011, the 2011 amount of cash deposited in April of that year dropped by 51.5% from the average of the two previous years.**

In her written statement to the City police, Morris specifically stated that she had "forged and cashed" two checks totaling \$7,500 in early April 2011. However, she denied having taken "...any cash out of petty cash, court, water, or out of any other fund." Consequently, our first analytical procedure was to compare the amount of cash deposited in the month of April 2011, versus the same month in 2009 and 2010.



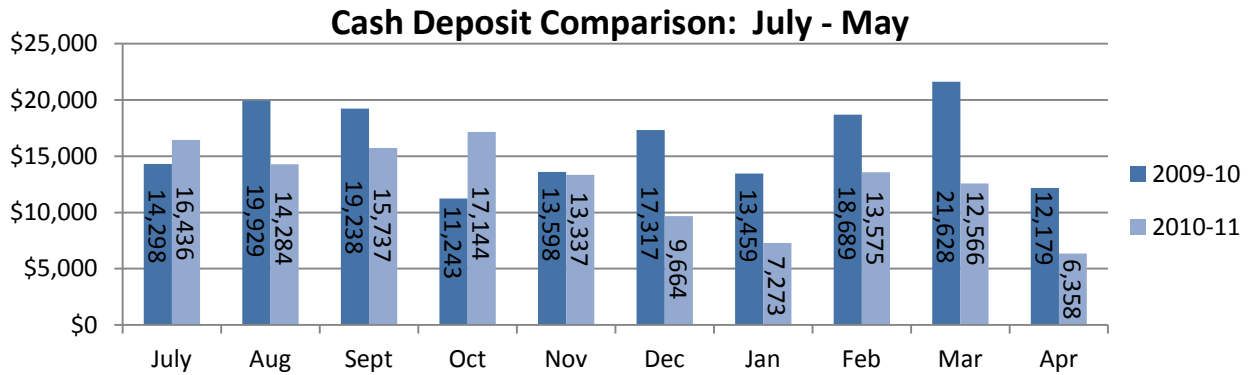
Total *check and money order* deposits for the month of April during the three-year period did not vary much. Those totals for 2009, 2010, and 2011 were \$44,976.74, \$39,391.85, and \$42,373.40, respectively.

By comparison cash deposits for April 2011, dropped by nearly 51.5% from a \$13,117.50 two-year average to only \$6,358.

**Finding #2**

**During Morris’s short tenure as utility billing clerk, the cash deposited, versus the same period of the prior year, dropped by approximately \$35,200.**

Morris served as the utility billing clerk for the ten-month, nine-day period from July 1, 2010 through May 9, 2011. We compared the cash deposits for the July through April ten-month period that Morris was billing clerk to the same ten-month period of the previous fiscal year.



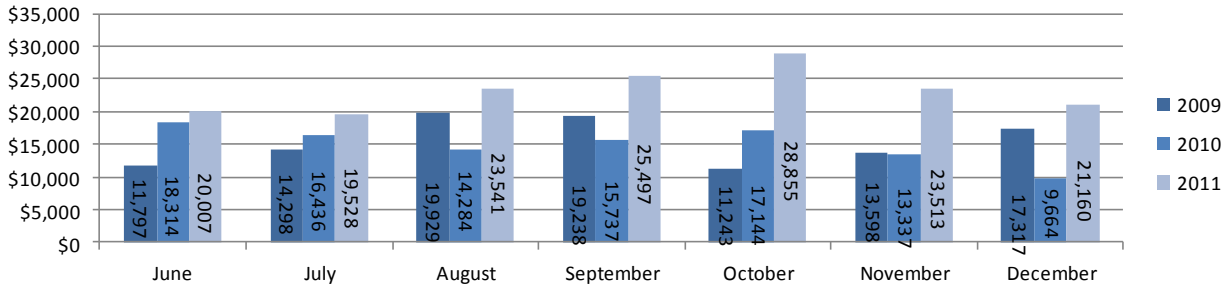
Overall, for the July through April timeframe, the 2009-10 cash deposits totaled \$161,578. During the same period in 2011, the cash deposits dropped to \$126,374, a decline of \$35,204.

**Finding #3**

**Following the resignation of Morris, the cash deposits increased substantially.**

We also compared the cash deposits for the June through December period *before and after* Morris left. During the seven-month time period in 2009, the cash deposits totaled \$107,400. In 2010, when Morris served as billing clerk, the cash deposits remained relatively the stable at \$106,900. However, in 2011, *after* Morris resigned, the cash deposits increased approximately \$57,100 to a seven-month total of \$164,100.

**Cash Deposits: June - December**

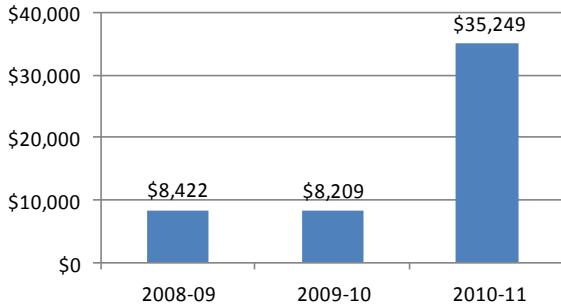


Part of the increase may be attributable to a greater effort to collect overdue balances by the new mayor and board members who took office in April 2011.

**Finding #4**

**During the period when cash deposits declined, the amount of credit adjustments increased.**

**Credit Adjustments**



In *Finding #3*, we identified instances where it appeared cash payments were recorded as *credit adjustments*, rather than cash payments. Because the credit adjustments appeared highly questionable, we also reviewed and compared the credit adjustments of prior periods, in relation to the period Morris served as billing clerk.

During the July through April 2008-09 and 2009-10 time periods, 73 credit adjustments totaling \$8,421.85 and 90 credit adjustments totaling \$8,208.59, respectively, were recorded.

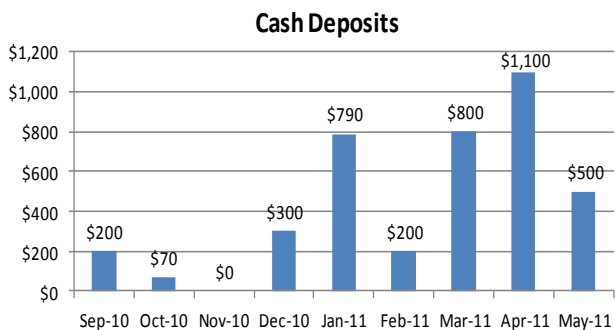
In 2010-11, for the same period, 267 adjustments totaling \$35,248.59 were recorded.

The *lowest* total of cash deposited was \$6,358, which occurred in April 2011. We noted during April 2009 and April 2010 there were “credit adjustments” that totaled only \$89.35 and \$281.94, respectively. In April 2011, the credit adjustments escalated to \$10,306.22. The credit adjustments for April 2011 were the *highest* by far, in terms of the number of accounts adjusted (89) and the total dollars “adjusted.”

**Finding #5**

**A review of the cash deposits and withdrawals of Rita Morris’s personal bank account indicated some timing correlations between credit adjustments and cash deposits into her personal account.**

We obtained Morris’s bank records by permission for an account Morris maintained at a local bank. The bank account was opened in September 2010, with a \$200.00 cash deposit.



The amounts of cash deposited into the account increased over time. Between September 2010 and December 2010, a total of \$570 cash was deposited into the account. Between January and May 2011, (as cash deposits for the City declined) the cash deposits into Morris’s personal bank account increased to \$3,390, or an average of \$678 per month.

We noted some of the cash deposits coincided with questionable credit adjustments being made to the City’s utility accounts. For example, a \$100.00 cash deposit was made on January 7, 2011. The day before, January 6, two credit adjustments were made, one for \$100.00 and one for \$173.55.

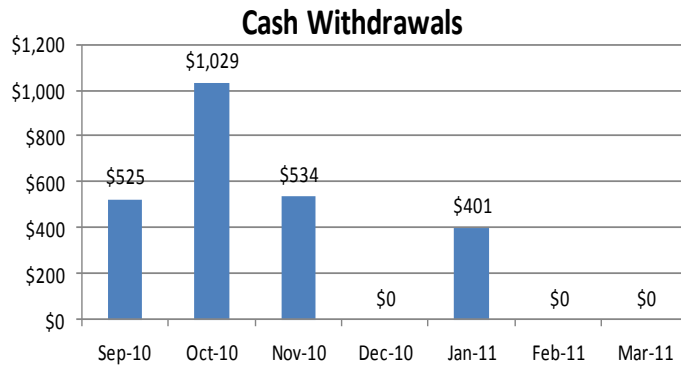


On January 10, 2010, a cash deposit was made to her personal account in the amount of \$390.00. On the same date, credit adjustments were made to six accounts, totaling \$499.57. In a box of unsorted stubs from utility bills, we found payment stubs for three of those six accounts, all stamped “paid.” The stub shown at left also included the handwritten notation “cash,” as well as having been stamped “paid.”

On March 3, 2011, a \$300.00 cash deposit was made to the Morris’s account. The day before (March 2), six credit adjustments totaling \$312.81 were made to utility customer accounts. In the same box of unsorted billing stubs, we located the stubs for five of those six accounts. All were stamped “paid,” and four of the six included the handwritten notation “cash.”

In addition to the cash deposited into her personal bank account, we also reviewed the amount of cash withdrawals, either as withdrawals for cash and/or “check” deposits, which included a “less cash” amount.

In September, October, and November 2010, Morris either withdrew cash or deposited checks and held out cash ranging in amounts ranging from \$525 to \$1,029, an average of \$696 cash per month. No cash was withdrawn or held out in December.



From January 2011 through March 2011, only one cash withdrawal in the amount of \$401 was made from the account.

While cash withdrawals from Morris's account were becoming smaller from October 2010 through March 2011, we noted *cash deposits* to the account were increasing. Between January 2011 and April 2011, an average of \$723 in cash was *deposited* into her personal account each month.

On March 7, 2011, a deposit was made to the Morris account in the amount of \$6,544 purportedly representing a "tax refund." After the \$6,544 deposit, the account balance was \$7,232. Over the next two weeks, between March 24 and April 5, cash withdrawals totaling \$6,700 were made.

The last significant cash withdrawal was for \$1,000, which occurred on April 5, 2011. As previously noted, the two checks Morris said she "forged and cashed" were cashed on April 5, 2011 and April 6, 2011.

## Conclusion

In addition to the "indicators" for misappropriation and attempts to conceal instances of misappropriation described in our first two objectives, the analytical review procedures we performed indicated:

1. There were substantial fluctuations in the amount of cash deposits into City bank accounts during the periods reviewed;
2. The cash deposits into City bank accounts *decreased* while Rita Morris was working as the City's utility billing clerk;
3. The cash deposits into City bank accounts *increased* following Morris's resignation;
4. There were instances in which cash deposited into Morris's personal bank account coincided with questionable "credit adjustments" of certain utility customer account balances, in terms of both dates and amounts.

5. Overall, during the ten-month period Morris worked as the City's utility billing clerk, the increase in "credit adjustments" posted was similar to the decrease in cash deposits.

In the City's police investigation of Morris's forging and cashing two City General fund checks drawn in April 2011, Morris admitted to having misappropriated \$7,500.

Based on our review of the cash deposit records, additional funds may have also been misappropriated. The misappropriation may have been as much as \$35,000. Because of the condition of the City's records, we were only able to make an estimate of the potential loss.

**Although expressing a willingness to cooperate, despite repeated attempts, we were unable to interview Morris.**

On January 4, 2012, we contacted Rita Morris in an effort to interview her to discuss our findings. Morris stated she was willing to cooperate; however, if we wished to speak with her, we would need to arrange it through her attorney.

Between January 4 and January 30, we contacted Morris's attorney, repeatedly attempting to arrange an interview. As of January 31 and our last day of fieldwork, we have been unsuccessful in interviewing Morris.



**Objective IV: Other reportable conditions noted.**

**Finding #1**

**The City's poor records and recordkeeping was a general "condition" and not confined to just the utility billing and court records.**

We have already commented on specific instances where the records maintained by the City were contradictory, inaccurate, misleading, and/or missing. Although this was not a unique situation, especially in entities where funds have been misappropriated, we also found City records not necessarily related to those payments and deposits to also be poorly maintained.

For example, one part of our investigation involved the \$150 water meter deposit payments made by customers. When we asked for the authority to charge the \$150 meter "deposit" to begin utility services, the City was unable to provide that authority.

When we asked for the Code Book, the City Clerk advised us the book she provided was the most current, although she said that other parts of the book could be found at various places around city hall. The code book provided had pages missing.

The City has used plain, *unnumbered* receipt books, some of which we found at various locations around city hall. When we began reviewing the court fund, we found various court records stored or filed in cabinets, desks, and a credenza, as well as being mixed in with other historical records.

To complicate matters, when we identified instances where computer receipts were missing or manipulated in some fashion, we asked for a listing of computer receipts and were told there was no way to print those receipts, *because they had been deleted* from the computer system as part of the "daily procedures."

Our ability to accurately and completely determine the amount of potential misappropriation was hindered by the City's inability to accurately and competently maintain its financial records.

**Finding #2**

**The City had repeatedly failed to comply with State Law concerning finance and purchasing.**

As part of our preliminary procedures, we reviewed the City's prior year independent audit reports for any audit findings included in those annual financial statement audits.

**Title 11 O.S. § 17-215(D)**, a section of the Municipal Budget Act, states:

No encumbrance or expenditure may be authorized or made by any officer or employee which exceeds the available appropriation for each department within a fund.

The independent audit report for fiscal year ending 2007 included a finding that the City had exceeded appropriations in the General Fund. The audit report included an effect, which was "non-compliance with Oklahoma Statutes" and recommended the City "...establish procedures and controls to ensure that actual encumbrances and expenditures are properly monitored."

The fiscal years ended 2008, 2009, and 2010 annual audit reports all included the same findings related to the City having expenditures exceeding the amount of authorized appropriations. Each year, except for the FY2010 report, the management (City) response was to agree with the finding. There was no management response to the 2010 finding.

In addition, the apparent "lapping" of deposits described in Objectives I and II made it quickly obvious that the "daily deposit" of public funds collected had not been happening, contrary to very clear and longstanding State Law. **Title 62 O.S. § 517.3 (B)** mandates:

B. The treasurer of *every public entity shall deposit **daily**, not later than the immediately next banking day*, all funds and monies of whatsoever kind that shall come into the possession of the treasurer by virtue of the office... [emphasis added]

**Conclusion**

**The City's poor records and recordkeeping and a general lack of effective Board oversight in prior fiscal years contributed to a poor internal control environment that allowed a significant misappropriation of City funds to occur, without being detected in a timely manner.**

Although the City responded by agreeing with the audit findings, they had apparently ignored them and continued to do business as usual. This lack of control consciousness and repeated neglect to follow State Law likely

contributed to the susceptibility of taxpayers' money being misappropriated.

Moreover, because of the condition of the City's financial records, the City has had to pay \$30,000 to their former independent auditor for consulting services in order to get its financial records into some form of organization so that they can be *audited*. Current audit standards *prohibit* the same auditor/accountant from both "consulting" *and* also performing the financial statement audit. Such expense and the cost of our investigation are *indirect costs* of the lack of oversight and negligent disregard for State Law exhibited by prior administrations.

**Finding #3**

**Oklahoma Department of Corrections inmates, working on a work release program, may have had access to the City's records.**

Inmates from an Oklahoma Department of Corrections (DOC) work center were used by the City to perform various tasks. We were told by city employees and the City's independent auditor, now consultant, that at least one of the Department of Corrections workers had been seen using the computers at City Hall during the time the city was remodeling in late January or early February 2011.

According to the City's independent auditor, now consultant, when she reported the incident, the practice was stopped.

We met with DOC officials and determined the DOC inmate was at the Carter County facility between July 23, 2010 and June 28, 2011. The worker, who had been sentenced for various crimes related to fraud and embezzlement, has since been moved to another facility.

Although we discovered many of the questionable record manipulations occurred several months *after* the inmate was seen on the city's computers, we did ask DOC to provide us with the inmate's commissary records. The commissary records provided indicated no deposits, cash or otherwise, were made to the inmate's account, other than deposits made in relation to his work pay.

DOC officials also provided that inmates are searched upon re-entering the facility and any money in excess of \$5.00 is considered contraband. According to DOC officials, although the inmates are searched, it is possible for items to be smuggled into the facility.

**Conclusion**

The practice of allowing DOC inmates access to the City's computer system was apparently stopped in January or February. Many of the records we found to have been manipulated occurred later, especially in March and April.

**DISCLAIMER**

In this report, there may be references to state statutes, Attorney General's opinions and other legal authorities that 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.



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

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