

INVESTIGATIVE REPORT

TOWN OF DUSTIN DUSTIN PUBLIC WORKS AUTHORITY

January 1, 2012 through October 31, 2014



*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

TOWN OF DUSTIN
DUSTIN PUBLIC WORKS AUTHORITY
HUGHES COUNTY, OKLAHOMA
JANUARY 1, 2012 THROUGH OCTOBER 31, 2014

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) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



Report Highlights

This audit was performed in response to a request from the Town Board of Trustees in accordance with 74 O.S. §227.8.

WHY WE CONDUCTED THE AUDIT

We performed the audit in response to a request by the Town of Dustin Board of Trustees in accordance with **74 O.S. § 227.8**.

OUR OBJECTIVE

Our objective was to determine if utility billing payments had been misappropriated.

WHAT WE FOUND

- Receipt books for utility customer payments were missing for the period December 18, 2012 thru August 3, 2014. (Pg. 3)
- From the receipt books that were provided, it was determined that \$4,915.64 of receipted cash payments had been recorded as utility account adjustments rather than being recorded and deposited as cash payments received. (Pg. 4)
- The former clerk/treasurer adjusted \$2,110 off of her utility account without authorization from the Town Board of Trustees. (Pg. 6)
- From a review of customer account records, we identified questionable credit adjustments to customer's accounts totaling \$29,429.50. (Pg. 7)
- Between August 2014 and October 2014, cash payments totaling \$6,729.63 had been recorded but not deposited. (Pg. 8)
- Cash paid for utility deposits, totaling \$600, was not deposited. (Pg. 8)
- In the six months following the resignation of the former clerk/treasurer, deposits to the Town's utility accounts increased an average of \$3,950 per month. (Pg. 9)



Oklahoma State Auditor & Inspector

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March 21, 2016

To the Board of Trustees of Dustin, Oklahoma:

Transmitted herewith is the investigative audit report for the Town of Dustin.

Pursuant to your request, and in accordance with the requirements of **74 O.S. § 227.8**, we performed an investigative audit with respect to the Town of Dustin for the period January 1, 2012, through October 31, 2014.

The objective of our audit primarily included, but was not limited to, the concern noted in the board's request. The results of this audit, related to the objective, are presented in the accompanying report.

Because the investigative procedures of an investigative audit do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the Town of Dustin for the period January 1, 2012, through October 31, 2014.

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.

This document is a public document pursuant to the Oklahoma Open Records Act, in accordance with **51 O.S. §§ 24A.1, et seq.**

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

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

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TOWN BOARD OF TRUSTEES

(As of January 6, 2015)

Pat McKinney Mayor
Ricci Casebeer Trustee
Cindy Pigeon Trustee

TREASURER / TOWN CLERK

Sara Hill
(October 2014 – Current)

Evelyn Rachel Smith
(October 2009 – October 2014)

INTRODUCTION

The Town of Dustin (“Town”) is organized under the statutory town board of trustees form of government, as outlined in **11 O.S. §§ 12-101, et seq.**

11 O.S. § 12-101, states:

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

The Town of Dustin Board of Trustees consists of three trustees who are nominated and elected at large.

The Dustin Public Works Authority (“Authority”) is a public trust established under **60 O.S. §§ 176 et seq.** The Authority operates a utility service providing water, sewer, and garbage service to the residents of the Town. The Town Board of Trustees serves ex-officio as the Board of Trustees for the Authority.

In accordance with the request by the Town Board of Trustees, the Office of the State Auditor and Inspector has conducted an investigative audit to determine if customer’s utility payments have been misappropriated.

The results of our inquiry are included in the following report and were provided to the Town’s Board of Trustees.

In addition, because of the resulting findings, we have also consulted with and provided a copy of our report to the Hughes County District Attorney’s Office.

BACKGROUND

The Town provides water, sewer and trash service to area residents. The customers are billed monthly for the services. The responsibility for the monthly utility billing and collections are primarily the responsibility of one person who serves as both the town clerk and the town treasurer.

We obtained an Oath of Office, dated October 23, 2009, in which Evelyn Rachel Smith declared she would perform the duties of both the town clerk and town treasurer. According to the Town trustees, Evelyn Rachel Smith was solely responsible for the preparing, receiving and recording of utility payments, and for ensuring the funds received were deposited to the appropriate Town bank accounts.

The October 16, 2014, Town board meeting minutes reflected the board voted on and approved removing Smith from the Town's bank accounts. Prior to this meeting, Evelyn Rachel Smith had resigned her position as town clerk and town treasurer. The same minutes also reflected the Town board voted on and approved hiring Sara Hill on a part time basis. Clerk Smith remained with the Town for a few days, training the new Town clerk/treasurer Sara Hill.

According to Hill, on or about October 20, 2014, she began working for the Town, assuming the duties of town treasurer and clerk. Hill received training from Smith for two days. During the two day period Smith prepared separate utility deposits for collections paid by check and collections paid by cash, demonstrating how to prepare and reconcile the deposit comprised of checks. Smith would not however, demonstrate how the deposit consisting of cash payments had been prepared and reconciled.

In October 2014, Hill expressed concern to the Town's mayor about how the Town's finances had been handled by the former clerk. As Hill continued with her duties she had increasing concerns, and continued to express them to Town board members. On November 19, 2015, the Town board voted on and approved seeking assistance from the State Auditor and Inspector.

On December 17, 2015, we spoke via telephone, with former Clerk Smith, who agreed to meet with OSAI staff the following Monday, December 21, 2015. When we contacted Smith the following Monday, she declined to speak with us any further.

Objective **Determine if utility payments have been misappropriated.**

**Summary
of
Findings**

- **Receipt books for the nineteen month period, December 18, 2012 thru August 3, 2014, were missing.**
- **Forty-six receipts, totaling \$4,915.64, were recorded as adjustments rather than payments.**
- **The former clerk adjusted \$2,110 off of her account without authorization.**
- **Additional questionable adjustments were made to customers' accounts totaling \$29,429.50.**
- **Cash payments totaling \$6,729.63 were recorded but not deposited.**
- **Utility deposit collections, totaling \$600, were not deposited in the utility deposit account.**
- **Deposits to the Town's accounts increased an average of \$3,950 a month in the six months following the clerk's resignation.**

Background The Town provides utility services for area customers, using a computer software program to record customer's utility usage, billing, payments and adjustments, as well as to calculate customer account balances. Utility services are billed on a monthly basis for water, sewer and trash service. Utility bills consist of two parts, one part for the customer and one part for the Town; the Town did not retain their portion of the bill.

Customers paying in person were written receipts from pre-numbered over-the-counter style receipt books of the type that can be purchased at most office supply stores.

Finding **Receipt books for the nineteen month period, December 18, 2012 thru August 3, 2014, were missing.**

For the audit period January 1, 2012 thru October 31, 2014, the Town provided the following receipt books:

	Dates		Receipt Numbers		
#	Starting	Ending	Starting	Ending	Receipts
1	12/1/2011	3/20/2012	519401	519600	200
2	3/20/2012	7/13/2012	516601	516800	200
3	7/13/2012	12/17/2012	127601	127800	200
4	8/4/2014	10/17/2014	728201	728400	200

Clerk Sara Hill was unable to locate any receipt books for the period December 18, 2012 thru August 3, 2014, a period of approximately 19 ½ months.

According to Hill, she had contacted former Clerk Smith and asked where the receipt books could be located. Smith reportedly told Hill she did not know where the receipt books were, but that the Town's independent auditor might have them. We contacted the Town's independent auditor who confirmed they did have some financial records for the Town, but those records did not include receipt books.

During our fieldwork, some of which was conducted at Town Hall, we also searched for and were unable to locate any additional receipt books for the audit period.

When a Town uses sequentially numbered receipt books, we can determine the number of receipt books that are missing. However, when a Town uses receipt books that are over-the-counter style books, with no continuity in numbering, there is no means to determine the actual number of receipt books missing.

Finding **Forty-six cash receipts, totaling \$4,915.64, were recorded as adjustments rather than payments.**

One method that can be used to conceal the misappropriation of funds is an *account adjustment* scheme. An *account adjustment* scheme occurs when a payment is recorded on the customer's account as an adjustment rather than a payment. The following is an example of how an *account adjustment* scheme can be used to conceal the misappropriation of funds:

A customer owes and pays \$100 on his utility account. If the payment is recorded on the customer's account as a payment, the \$100 will appear on a payment report and must now be accounted for by the clerk thru the deposit reconciliation process.

If the \$100 payment is misappropriated and not recorded on the customer's account as a payment, the following month the customer will receive a bill indicating he still owes the \$100 that has already been paid.

If the \$100 payment is recorded as a payment on the customer's account but is misappropriated and not deposited, the clerk's payment report to deposit reconciliation will reflect a \$100 shortage.

In order to misappropriate the \$100 payment, keep the customer's account balance correct and not cause a \$100 reconciliation shortage, the clerk can record the \$100 payment as an adjustment rather than a payment. When an adjustment is not treated as a payment the clerk's

**TOWN OF DUSTIN/DUSTIN PUBLIC WORKS AUTHORITY
BOARD REQUEST
DATE OF RELEASE: March 21, 2016**

payment to deposit reports reconcile while the customer's account balance is also reduced by \$100.

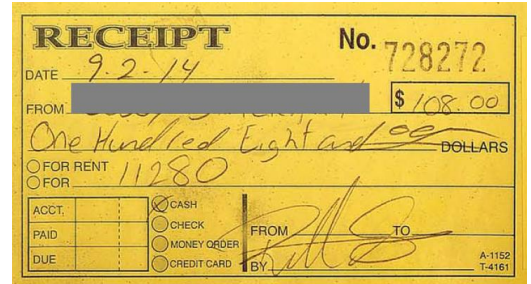
From the limited number of receipt books provided, we were able to directly correlate forty-six (46) receipts which were written for cash payments but recorded as account adjustments, totaling \$4,915.64.

The two accounts discussed below show detailed examples of the account adjustment scheme.

Example - Account 11280

In comparing receipts to customer's accounts, we identified instances where it appeared an *account adjustment* scheme had occurred. For example, receipt #728272 dated September 2, 2014, reflected a \$108.00 cash payment had been made on account #11280.

The account history for account #11280 reflected no payment had been recorded on the account in September 2014. Instead, on September 23, 2014, an account adjustment was entered in the amount of \$108.00, as reflected in the image below:



9/1/2014	727750	720850	6900	\$54.50	\$0.00	\$0.00	\$0.00	Water	\$54.50
9/1/2014				\$0.00	\$0.00	\$17.00	\$0.00	Trash	\$71.50
9/1/2014				\$0.00	\$0.00	\$36.50	\$0.00	Sewer	\$108.00
9/23/2014				\$0.00	\$0.00	\$0.00	\$108.00	ADJ	\$0.00

During the audit period¹ eighteen (18) adjustments, totaling \$1,818.10, had been made to this account alone. In each case, no payment had been recorded and an adjustment for the amount owed on the account for that month was recorded.

We contacted this account customer who stated he paid off his account each month in full and always paid in cash. He was unaware of any account adjustments that had been made to his account. We noted his account history prior to 2012, and as far back as September 2008, reflected he had paid the full amount owed, each month, in cash.

After October 2014, when former Clerk Smith resigned, we noted no further adjustments recorded on this account.

¹ January 1, 2012 thru October 14, 2014.

Example - Account 11260

Receipt #728222, dated August 11, 2014, reflected an \$86.10 cash payment on account #11260. The account history for this account reflected no cash payment had been made in August 2014, instead an adjustment had been recorded on August 25, 2014, for \$86.10.

During the audit period sixteen (16) questionable adjustments, totaling \$1,349.00, had been recorded on this account. We contacted the customer who stated he paid his bill in full each month and usually in cash. The customer also provided receipts #265567 and #476661, dated July 6, 2012, and February 11, 2014, respectively.

Receipt #265567 reflected a cash payment of \$83.70 on the customer's account. The account records reflected no payment had been made on the account in July 2012. Instead, an account adjustment in the amount of \$83.70 was recorded on July 19, 2012. Receipt #265567 is from a receipt book that is now missing.

Receipt #476661 reflected a cash payment of \$79.20 on account #11260. The account records reflected no payment had been made on the account in February 2014, instead an account adjustment in the amount of \$79.20 was recorded on February 24, 2014. Receipt #476661 is also from a receipt book that is now missing.

Since October 2014, when former Clerk Smith resigned, we noted no further adjustments recorded on this account.

Finding The former clerk adjusted \$2,110 off of her account without authorization.

Between October 2009² and June 2010, the former clerk's account history reflected payments were generally made each month with the account balance being paid in full each month. Beginning in August 2010, and continuing through the end of October 2014, twenty-six (26) account adjustments had been recorded on the account totaling \$2,110. No payments were recorded during this period.

According to Town officials, the former clerk should have been paying her utility bill monthly.

² The former clerk signed an oath of office on October 23, 2009.

Finding Additional questionable adjustments were made to customer accounts totaling \$29,429.50.

Because receipts or payment records were not available, we obtained and reviewed customer account records to determine if additional questionable adjustments had been recorded.

Account adjustments can be made to accounts for a variety of legitimate reasons including:

- A data entry error was made during billing resulting in an inordinately high bill.
- Accounts were billed twice in the same month.
- The customer had a water leak and a portion of the bill was adjusted.
- The account has been inactive for a long period of time and the balance due was adjusted off to remove the account from aging reports.

According to Town board officials, the only adjustments that should have been made to customer's accounts, with respect to water leaks, should have been to a customer's sewer bill, not their water bill. As such, we would not expect to find customer's account balances adjusted to a zero balance during a given month.

When reviewing customer's account records, we noted instances where account balances had been adjusted to a zero balance. In some cases, the accounts reflected no payments had been recorded for months at a time.

For example:

- On April 23, 2012, a payment was recorded on account #11280. The next payment recorded on the account was on December 12, 2012. For each of the seven months in between, an account adjustment was made for the full amount of the water, sewer and trash service billed to the customer.
- On May 15, 2012, a payment was recorded on account #11595. The next payment recorded on the account was over a year later, on July 23, 2013. For each of the 12 months in between, an account adjustment was made for the full amount of the water, sewer and trash service billed to the customer.

Between January 1, 2012 and October 31, 2014, we identified \$68,898.16 in account adjustments of which \$29,429.50³ appeared to be questionable.

³ This amount does not include the adjustment amounts reported in previous findings.

Finding Cash payments totaling \$6,729.63 were recorded but not deposited.

Delays in cash deposits can be indicative of a *lapping scheme* designed to conceal a misappropriation. Lapping schemes involving deposits often occur because the cash from deposit A is misappropriated. Cash collections from deposit B are then used to cover the cash in deposit A. Cash collections in deposit C are then used to cover cash collections in deposit B. Schemes of this nature will cause delays in deposits.

No payment report could be provided for payments from August 25 thru September 1, 2014. With no payment report available, we used data obtained from the Town's software, identifying thirty three (33) payments, totaling \$2,443.05 which had been recorded on customer accounts between August 25 and September 1, 2014. All of the payments recorded were cash payments. We were unable to find a corresponding deposit to the water or street accounts for these payments.

We obtained a payment report reflecting collections recorded as having been made from September 20, 2014 thru October 2, 2014. This report reflected the total payment amount of \$7,359.28 consisting of \$6,489.58 in cash and \$869.70 in checks and money orders.

On October 22, 2014, a deposit comprised of \$2,203 in cash and \$911.70 in checks and money orders was made to the Town's accounts. We were able to reconcile the names and amounts of the checks and money orders from the payment report of September 20, 2014 thru October 2, 2014, to the deposit, which included an additional money order for an unrelated payment of \$42.00. Based on the associated report, the deposit did not include \$4,286.58 that had been recorded as cash payments.

According to Clerk Sara Hill on October 22, 2014, former Clerk Smith had prepared deposits of all the on-hand checks and money orders. Hill accompanied Smith to the bank where Smith made the deposits. Smith had demonstrated to Hill how the deposit for the checks and money orders had been reconciled. However, in spite of repeated requests, Smith would not demonstrate how the cash deposit had been reconciled.

Finding Utility deposit collections, totaling \$600, were not deposited in the utility deposit account.

Receipt #728221, dated August 11, 2014, reflected the payment of \$300 cash for a utility account deposit. No deposits were made to the Town's utility deposit account during August 2014.

Receipt #728269, dated September 2, 2014, also reflected the payment of \$300 cash for a utility account deposit. We noted one deposit had been made to the

Town's utility deposit account during September 2014. The deposit slip reflected the \$300 was a check and the names referenced on the deposit slip did not correlate to the name on the receipt.

No deposits were made to the utility deposit account in October 2014.

Finding Deposits to the Town's accounts increased an average of \$3,950 a month in the six months following Clerk Smith's resignation.

The funds received from customer's utility payments are deposited in the Town's water fund account and the Town's street fund account. We performed an analytical review of the bank deposits to these accounts to determine if there had been a substantial change as the result of a change in condition, such as the former clerk resigning.

We evaluated the deposits for the six months preceding and the six months following the October 2014 resignation of the former clerk.

Because both the former clerk and the current clerk worked during the month of October 2014, we evaluated the six-month periods *prior* to October 2014, and *following* October 2014.

From April 2014 through September 2014, the deposits to the two accounts totaled \$55,572, an average of \$9,262 per month. From November 2014 through April 2015, deposits totaled \$79,275, an average of \$13,212 per month.

Following former Clerk Smith's resignation, deposits to the Town's accounts increased an average of \$3,950 per month.

Disclaimer In this report there may be references to state statutes and legal authorities which appear to be potentially relevant to the issues reviewed by this Office. The State Auditor and Inspector has no jurisdiction, authority, purpose, or intent by the issuance of this report to determine the guilt, innocence, culpability, or liability, if any, of any person or entity for any act, omission, or transaction reviewed. Such determinations are within the exclusive jurisdiction of regulatory, law enforcement, and judicial authorities designated by law.



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