

INVESTIGATIVE AUDIT

LEFLORE COUNTY

RURAL WATER DISTRICT #3

October 16, 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

LeFlore County Rural Water District #3

Investigative Audit

October 16, 2014



Oklahoma State Auditor & Inspector

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October 16, 2014

The Honorable Jeff Smith
District Attorney, District #16
100 S. Broadway, Room 300
Poteau, Oklahoma 74952

District Attorney Jeff Smith:

Pursuant to your request and in accordance with the requirements of **74 O.S. § 212 (H)**, we performed an investigative audit of the LeFlore County Rural Water District #3. Transmitted herewith is our Investigative Report.

The objectives of our investigation primarily included, but were not limited to, the areas noted in your request. 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 LeFlore County Rural Water District #3.

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 these services to the taxpayers of Oklahoma is of utmost importance.

This report is addressed to and is for the information and use of the District Attorney as provided by statute. This report is also a public document pursuant to the **Oklahoma Open Records Act** in accordance with **51 O.S. § 24A.12**.

Sincerely,

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

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

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Report Highlights

This audit was performed in response to a District Attorney request in accordance with 74 § O.S. 212(H).

Background

The LeFlore County Rural Water District #3 provides water service to individuals and businesses in or near the unincorporated Town of Whitesboro in LeFlore County, Oklahoma.

Objective and Scope

The key objectives for this audit were to determine if District water payments and deposits had been embezzled, and if the former District Office Manager had received unauthorized payroll and reimbursement payments.

The scope of the audit included the periods of January 2010 through March 2014. Some of the objectives were not reviewed for the entire time period noted due to the nature of the issue and/or the condition and availability of the District's records.

What We Found

- Irregularities in utility billing collections and deposits resulted in a possible embezzlement of over \$45,000.
- Unauthorized payroll compensation was disbursed in excess of \$20,000.
- Questionable reimbursement payments were almost \$7,000.
- The District's oversight was lacking and sometimes non-existent. Records were poorly maintained, inaccurate, and in some cases missing.

INTRODUCTION

The LeFlore County Rural Water District #3 (hereinafter the “District”) was created under **82 O.S. §§ 1324.1 – 1324.35**. The District provides water service to individuals and businesses in or near the unincorporated Town of Whitesboro in LeFlore County, Oklahoma.

The District operates and is governed by a Board of Directors (hereinafter the “Board”). The Board is composed of five members elected at its annual meetings of participating members and customers. As of July 1, 2014, the Board consisted of the following members:

- Sherman “Hoss” Ward, Chairman.
- Aaron Bryant, Vice Chairman.
- Daniel Tolliver, Member.
- Russell Transue, Member.
- Donny Medlock, Member.

The District’s *fiscal* year is based on the calendar year.

Under **82 O.S. § 1324.18**, if a 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. The District’s gross operating revenue is over \$50,000 per year.

Under **82 O.S. § 1324.18**, the 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. As of July 1, 2014, the District had not filed annual audits for the Fiscal Years (FY) 2012 or 2013.

The results of the Special Investigative Audit are in the following report.

Objective I **Determine if funds related to water payments and deposits have been embezzled from the District.**

*Summary
of Findings*

- **Based on a comparison of customer payment records and bank deposits, it appears over \$45,000 has been embezzled from the District.**
 - **The District's cash deposits dropped significantly between September 2012 and March 2014.**
 - **The District stopped using receipt books exclusively and began using telephone message pads and scraps of paper as a means of receipting payments.**
 - **Karie Farris, the former District Office Manager, stopped recording cash/check compositions.**
 - **Records related to customer utility payments, including at least one receipt book, were missing.**
 - **The payment reports used by the District as the only means of reconciliation were temporary reports that should not have been used for reconciliation purposes.**
-

Background

The LeFlore County Rural Water District #3 is responsible for providing water service to between 600 and 650 customers in rural LeFlore County, Oklahoma. The District maintains an office in Whitesboro, Oklahoma.

The District bills customers on a monthly basis utilizing a two-part billing statement. One portion of the statement is retained by the customer. The other portion can be detached and returned with the customer's payment which can be made either by mail or in person.

The purpose of the portion that is returned, often referred to as a *billing stub* or *payment stub*, is to allow the clerk to know which account the payment is being applied. In addition, the stub should be retained by the clerk and serve as a receipt for payment.

When a customer makes a utility payment and does not have their bill, a receipt should be issued from a pre-numbered receipt book. The receipt books have an original receipt and one or more carbon copies. At least

one of the carbon copies of the receipt should be retained by the District office manager.

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

Unlike pre-numbered receipts, the payment stubs have no such level of accountability. When a payment stub serves as the receipt the amount collected could be misappropriated and the stub simply discarded.

When the same person prepares the utility bills, receives the utility payments and has access to the utility billing computer system to make adjustments to a customer's account, all the elements needed to carry out a long running and difficult to identify misappropriation exist.

We found all of those elements existed in this instance.

Finding

Based on a comparison of customer payment records and bank deposits, it appears over \$45,000 has been embezzled from the District.

Because of the condition of the District's records, which are outlined in the following sections of this report, the only test we could perform was an overall comparison of monthly payments recorded on the computer system to the overall total deposit.

During the nine month period prior to the hiring of Karie Farris, January 2010 through August 2010, the District deposited a total of \$212,500. For this eight month time period we determined the District deposited \$1,768 over the amount of recorded customer water payments.

During the first 13 months Karie Farris was employed with the District, September 2010 through October 2011, we found an overall variance of \$6 between the payments recorded and bank deposits made.

During the 29 month period from November 2011 through March 2014, we found an overall shortage of \$45,447 between the payments recorded as received from customers and the deposits made to the District's bank.

On July 15, 2014, we interviewed Karie Farris. Farris admitted taking cash from the water payments paid by the District's customers. She did not recall how much she had taken, but admitted that she had all but stopped depositing cash in the District's bank account.

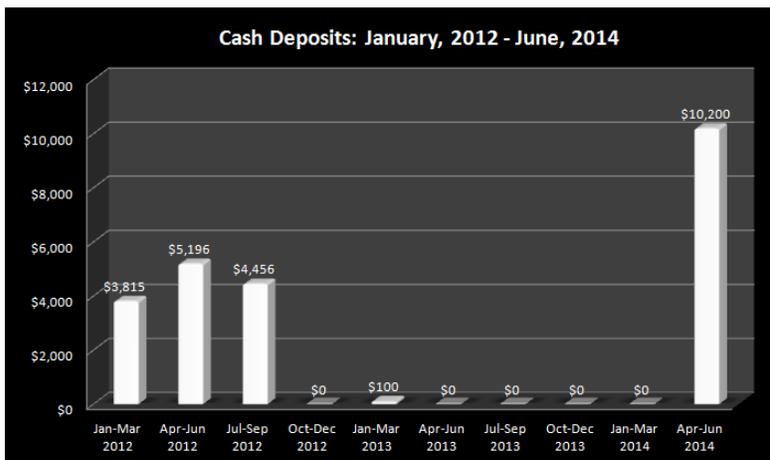
Farris stated when she began taking cash she continued entering the customer payments on the District's computer billing system. At the same time Farris stopped performing any reconciliation between collections and deposits.

Karie Farris was suspended by District officials on March 29, 2014.

Finding

The District's cash deposits dropped significantly between September 2012 and March 2014.

Because of the condition of the District's records we asked the District's bank to review all of the deposits made to the District's account and to provide copies of all of the 'cash-in' tickets reflecting cash deposits for the period January 1, 2012 through June 30, 2014.



During the eight month period from January 2012 through August 2012, cash deposits totaled \$21,920, an average amount of \$2,740 per month.

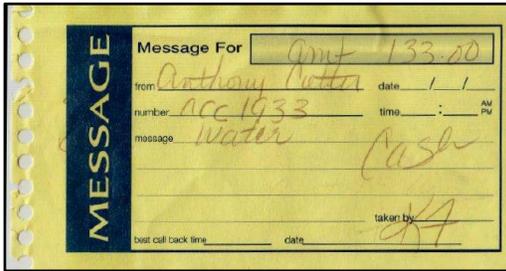
During the next 19 months, from September 2012 through March 2014, one cash deposit was made in the amount of \$100.00.

After Karie Farris was suspended from her position on March 29, 2014, the District hired a new clerk effective April 1, 2014. Between April and June 2014, the cash deposits for the District totaled \$10,200, an average of over \$3,400 per month.

Finding

The District stopped using receipt books exclusively and began using telephone message pads and scraps of paper as a means of receipting payments.

One of the primary purposes for issuing pre-printed and pre-numbered receipts is to provide for a process to accurately reconcile payments that have been received to deposits made. Using pre-numbered receipt books provides a means to detect when receipts have been discarded or destroyed.



The District provided eight receipt books used between July 2010 and September 2011. After September 2011, the clerk stopped using pre-numbered receipt books exclusively and began using telephone message pads to issue ‘receipts’ such as the one shown at left. These ‘messages’ often lacked basic information including the date a payment was received.

In addition to telephone message receipts, we also found ‘receipts’ had been issued on scraps of paper. These ‘receipts’ often did not include any indication of the date funds were received, as shown in the image below:



Because of the District’s methodology of using unnumbered payment stubs, telephone message pads and blank pieces of paper for receipting of payments, there was no reliable means of accountability for funds received.

Finding **Karie Farris, the former District Office Manager, stopped recording cash/check compositions.**

During the eight month period before the District hired Karie Farris in September 2010, the utility customer payments entered on the computer system reflected cash collections averaging over \$2,800 per month.

During September 2010, the payments entered on the computer system reflected cash and check collections as well as collections that had no indication if the payment was either cash or check.

Over the next 14 months, from October 2010 through November 2011, the payments entered on the computer system continued reflecting cash/check compositions although the average amount of collections reported for cash dropped from the \$2,800 per month average to \$2,300 per month.

Beginning in December 2011, the customer payments being recorded on the computer system began reflecting more and more collections by check rather than by cash. Payments recorded for the months of December 2011 through March 2012, reflected no cash payments were collected although

the bank statements reflected cash had been deposited in the District's bank account.

Moreover, when we reviewed payment stubs, which served as receipts, we noted numerous stubs stamped as "paid" in December 2011, and indicating the payments had been made in cash.

For the 17 month period from November 2012 through March 2014, all of the customer payments recorded on the computer system were recorded as payments by check showing no cash had been collected.

RECEIPT No. 682118
DATE 11-31-13
FROM Karissa Farris \$65.43
CHECKED CASH PAID
JAN 29 2013
DOLLARS
FOR RENT
FOR
ACCT. 2458 CASH
PAID 65.43 CHECK
DUE 12/31/13 MONEY ORDER
CREDIT CARD
LEFLORE RWD #3
BY Karissa Farris
A-1152
T-4161

Although all payments had been recorded on the computer system as 'check' payments, we found records indicating cash payments were being received. For example, receipt #682118 dated January 31, 2013, but stamped as paid on January 29, 2013, reflected the collection of \$65.43 in cash.

We obtained the payment report listing all payments recorded on the utility computer system for January and February 2013. Neither report reflected any cash collections.

We identified a \$65.43 payment recorded on the February payment report reflecting the \$65.43 payment was by check, not cash as noted on the receipt, and recorded as having been received on February 12, 2013.

From the payment stubs and telephone message book "receipts" we identified \$4,830 in receipts, indicating cash was being collected between January 1 and March 31, 2014. In each instance all of the payments recorded on the computer system had been recorded as payments by check.

Based on our review of the records Karie Farris did not accurately record the cash/check compositions for the payments being received.

Finding

Records related to customer utility payments, including at least one receipt book, were missing.

During our review of the District's records we found individual receipts that appeared to have been issued from a receipt book that the District was unable to provide. Based on the individual receipt copies, the receipt book had been used between November 2012 and January 2013.

In addition, payment history reports reflecting customer’s utility payments *prior* to February 2013, included reports with identifying numbers. However, we noted gaps in those numbers which may indicate that some of the reports were missing from the District’s records.

For example, the posting reports we were able to locate for July 2011, began with batch number “3612” dated July 6, 2011. The next posting report found was dated July 25, 2011, with a batch number of “3616”.

Posting reports 3616 through 3619 from late July 2011 were all located. However, the ‘3619’ posting report was followed by report ‘3623’, representing a gap consisting of reports 3620, 3621, and 3622.

We also noted batch payment reports produced *after* a February 2013 software change, were missing from the District’s records. The following table reflects *some* of the reports that could not be located in the District’s records:

Report #	Date	Cash	Check	Total	Report #	Date	Cash	Check	Total
40	5/1/2013	\$0.00	\$1,610.08	\$1,610.08	60	-- missing report --			\$0.00
41	5/1/2013	\$0.00	\$1,688.89	\$1,688.89	61	-- missing report --			\$0.00
42	5/1/2013	\$0.00	\$877.90	\$877.90	62	-- missing report --			\$0.00
43	-- missing report --			\$0.00	63	6/10/2013	\$0.00	\$297.59	\$297.59
44	-- missing report --			\$0.00	64	-- missing report --			\$0.00
45	5/1/2013	\$0.00	\$579.90	\$579.90	65	-- missing report --			\$0.00
46	-- missing report --			\$0.00	66	6/11/2013	\$0.00	\$426.56	\$426.56
47	-- missing report --			\$0.00	67	7/1/2013	\$0.00	\$4,928.86	\$4,928.86
48	-- missing report --			\$0.00	68	7/1/2013	\$0.00	\$2,943.50	\$2,943.50
49	-- missing report --			\$0.00	69	7/1/2013	\$0.00	\$3,312.96	\$3,312.96
50	-- missing report --			\$0.00	70	7/1/2013	\$0.00	\$4,810.88	\$4,810.88
51	-- missing report --			\$0.00	71	7/1/2013	\$0.00	\$5,806.02	\$5,806.02
52	-- missing report --			\$0.00	72	7/1/2013	\$0.00	\$2,397.52	\$2,397.52
53	-- missing report --			\$0.00	73	7/1/2013	\$0.00	\$2,087.53	\$2,087.53
54	-- missing report --			\$0.00	74	7/1/2013	\$0.00	\$3,561.07	\$3,561.07
55	-- missing report --			\$0.00	75	7/1/2013	\$0.00	\$271.75	\$271.75
56	6/7/2013	\$0.00	\$52.75	\$52.75	76	-- missing report --			\$0.00
57	-- missing report --			\$0.00	77	-- missing report --			\$0.00
58	-- missing report --			\$0.00	78	-- missing report --			\$0.00
59	-- missing report --			\$0.00	79	-- missing report --			\$0.00

Finding

The payment reports used by the District as the only means of reconciliation were temporary reports that should not have been used for reconciliation purposes.

Reports

Typically utility billing payments are recorded in a computer system which supplies a billing, payment and deposit reconciliation method. The deposit reconciliation process relies on a report being generated by the

computer system that reconciles, or agrees, with a deposit being made to the appropriate bank account.

The District has utilized two computer programs UBPro (used from 2003 through February 2013) and UBMax (used from February 2013 to current). Both programs were provided by the company Softline Data, Inc.

The President of Softline Data, Inc. stated that “payment posting reports” generated by UBPro would represent payments received by the District and should reconcile to the deposits being made into the District’s bank account. After the February 2013 change from UBPro to UBMax, a “batch payment report” should represent payments received by the District’s customers and reconcile to deposits made to the District’s bank account.

During our review of the batch payment reports, which should be uniquely numbered, we noted two reports both purporting to be “Batch Number 38” and both dated May 1, 2013. One of the reports reflected payments received on 87 accounts totaling \$3,675.50 and the other reflected payments received on 147 accounts totaling \$5,629.57. Both were “one-line per customer” posting reports.

We again contacted Softline Data, Inc. and inquired about the two “Number 38” reports. After some discussion we were told the reports we had been provided, the “one line per customer” reports should not have been used for auditing purposes and “should have been thrown away.”

According to Softline Data, Inc. the batch payment reports with “one line per customer” are designed to be used for making corrections and are a temporary report. Only the batch payment reports that are “two lines per customer” should be relied on for auditing and reconciliation purposes. All of the batch payment reports maintained in the District records were “one line per customer” reports.

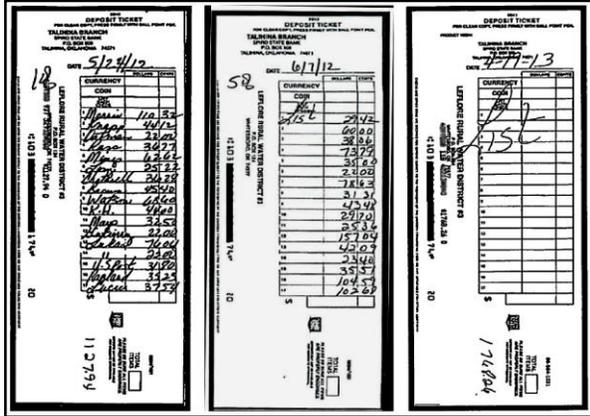
According to Board President Hoss Ward, the District and their independent auditor have relied on the “one line per customer” reports for auditing purposes and were not aware there was some distinction between a “one line” report and a “two line” report.

Reconciliation

When we examined utility billing payments and deposits we anticipated reconciling payment reports to deposits. Although reports may not always reconcile *exactly* with respect to amounts, reconciliation may be achieved

by matching names and amounts listed on the deposit slips to the names and amounts listed on the payment reports. Although deposit slip and payments reports may not agree for an exact day, they should be traceable within a reasonable time frame. In this case, however, we were unable to accomplish reconciliation.

For example, in the image below, the deposit slip for a deposit made in May 2012, included names and amounts for the check items being deposited. Beginning in June 2012, the deposit slips displayed no names and only amounts. By April 2013, the deposit slips only listed a total deposit amount with no names or amounts.



When we reviewed the utility payment history reports prior to the February 2013 software change, similar issues were noted that prevented us from reconciling the reports to deposits. The following table reflects the lack of a correlation between the deposit dates and amounts and the payment history report dates and amounts:

July, 2011							
Deposit	Cash	Checks	Amount	Report	Cash	Checks	Total
7/6/2011	\$0.00	\$3,160.42	\$3,160.42	7/6/2011	\$0.00	\$3,160.59	\$3,160.59
7/8/2011	\$0.00	\$1,011.24	\$1,011.24				
7/8/2011	\$0.00	\$6,463.56	\$6,463.56				
7/18/2011	\$0.00	\$3,905.77	\$3,905.77				
7/18/2011	\$0.00	\$4,188.78	\$4,188.78				
7/18/2011	\$0.00	\$750.00	\$750.00				
				7/25/2011	\$0.00	\$7,544.54	\$7,544.54
				7/25/2011	\$0.00	\$4,245.19	\$4,245.19
				7/25/2011	\$0.00	\$2,755.83	\$2,755.83
7/26/2011	\$0.00	\$3,610.69	\$3,610.69	7/26/2011	\$0.00	\$3,603.62	\$3,603.62
				7/28/2011	\$1,602.93	\$0.00	\$1,602.93
				7/28/2011	\$0.00	\$1,052.93	\$1,052.93
	\$0.00	\$23,090.46	\$23,090.46		\$1,602.93	\$22,362.70	\$23,965.63

When we attempted to agree the names and amounts from the July 8, 2011 deposit of \$6,463.56, we discovered the deposit included payments from the payment history report dated July 25, 2011; over two weeks *after* the payments had been deposited. Deposits could not be reconciled to payment history reports.

Objective II Determine if the former District Office Manager received unauthorized payroll compensation.

*Summary
of Findings*

- **Karie Farris, the former District Office Manager received \$20,650 in questionable payroll payments.**
 - **Karie Farris was compensated \$2,900 in payroll for the month following her termination.**
-

Background

The monthly payroll payments issued to the District's three employees are accomplished by using a computer based direct deposit system. No physical checks, requiring signatures, are used. The former office manager, Karie Farris, was responsible for generating the payroll payments for the District's employees, including herself.

According to Hoss Ward, Chairman of the Board, once the District began using the computer based direct deposit system the Board was not reviewing any payroll reports, checks, or other documentation for approval.

This process effectively removed any level of oversight concerning payroll payments to the District's employees and allowed former Office Manager Farris to issue extra payroll payments to herself independently with little or no board oversight.

Finding

Karie Farris, the former District Office Manager, received \$20,650 in questionable payroll payments.

Karie Farris was hired as the Office Manager for the District in September 2010. Farris was hired at an initial monthly pay rate of \$1,200 per month. On January 4, 2011, the Board approved increasing Farris's pay from \$1,200 to \$1,800 per month. On March 4, 2013, the Board raised Farris's monthly pay to \$1,900 per month.

Because of the poor condition of the meeting minutes, and because Farris was also responsible for maintaining those minutes, we interviewed Board members to ensure that no additional pay raises had been approved for Farris. Board Chairman Ward and Board Member Tolliver confirmed Farris's monthly pay rate was \$1,900 per month after March 2013, and no additional raises had been given.

Beginning with Farris' September 2010 start date, we scheduled gross monthly compensation from the payroll summary reports provided by the District for comparison of gross salary paid to the amounts authorized by the Board.

Because Farris was in charge of all financial records for the District, including payroll, we also obtained and reviewed bank records obtained from the District's banking institution.

Month	Gross Pay	Authorized Pay	Variance
March 2013	\$1,991.67	\$1,900.00	\$91.67
April 2013	\$1,991.67	\$1,900.00	\$91.67
May 2013	\$1,991.67	\$1,900.00	\$91.67
June 2013	\$6,891.67	\$1,900.00	\$4,991.67
July 2013	\$8,391.67	\$1,900.00	\$6,491.67
August 2013	\$2,900.00	\$1,900.00	\$1,000.00
September 2013	\$4,791.67	\$1,900.00	\$2,891.67
October 2013	\$2,900.00	\$1,900.00	\$1,000.00
November 2013	\$2,900.00	\$1,900.00	\$1,000.00
December 2013	\$2,900.00	\$1,900.00	\$1,000.00
January 2014	\$2,900.00	\$1,900.00	\$1,000.00
February 2014	\$2,900.00	\$1,900.00	\$1,000.00
Totals	\$42,650.02	\$22,800.00	\$20,650.02

Beginning in March 2013, we noticed discrepancies in the amount of gross pay Farris was receiving. In March, April, and May 2013, based on the payroll reports, Farris received an additional \$91.67 per month. This additional amount was added to the single payment received for each month.

In June 2013, Farris received three direct deposit payments during the same month, representing a total gross pay of \$6,891.67. In July 2013 and September 2013, Farris received four and two direct deposit payments, representing gross pay amounts of \$8,391.67 and \$4,791.67 respectively.

In August 2013 and following with October 2013 and subsequent, Farris began receiving only one direct deposit payment per month. Based on the payroll reports reflecting the gross and net pay calculations, it appeared Farris paid herself an additional \$1,000 per month for August 2013 and each of the five months preceding her termination from the District in late March 2014.

We obtained the personal bank records for Farris. As a result of obtaining those records we were able to identify that each of the questionable direct deposit payments from the District had been deposited in Farris's personal bank account.

During our interview with Karie Farris she admitted that she was solely responsible for the processing of payroll for the District. According to Farris, by utilizing the District's computer and Intuit¹ online she independently initiated the payroll process which would cause a direct deposit transaction from the District's bank account to her personal account.

¹ Intuit, makers of Quicken/Quickbooks.

Although this was the normal payroll process, Farris used this process to make unauthorized payments to herself. She was unable to recall how many times she had instigated unauthorized payroll transactions or the dollar amount of those payments.

Finding

Karie Farris was compensated \$2,900 in payroll for the month following her termination.

On March 29, 2014, the Board placed Farris on leave without pay. Farris was subsequently terminated and never returned to work.

The District records reflected on March 27, 2014, the monthly payroll process was initiated causing each of the employees of the District, including Farris, to be paid April's payroll.

Farris' payroll for April 2014 included the gross compensation of \$2,900.00. This payment resulted in a direct deposit amount of \$2,414.15 into Farris's personal bank account on March 27, 2014.

The District was providing employee payroll compensation in advance. As such, Farris was compensated \$2,900.00 for the month following her termination.

Objective III Determine if the former District Office Manager received unauthorized reimbursement payments.

*Summary
of Findings*

- **Karie Farris received five checks totaling \$6,950 in questionable reimbursement payments. Farris admitted she had written checks to herself from District funds, signing board members signatures to those checks without authorization.**
- **There was no accountability for \$2,000 in ‘petty cash’ payments issued to Karie Farris.**
- **Petty cash records and receipts were virtually non-existent or missing.**

Background

The former office manager for the District, Karie Farris, was responsible for issuing checks drawn on the District’s accounts. Farris was also responsible for receiving and reconciling the District’s bank statements.

With complete control of the District’s finances, and with little or no oversight, Farris was in a position to issue checks to herself with little risk of the payments being discovered by the Board.

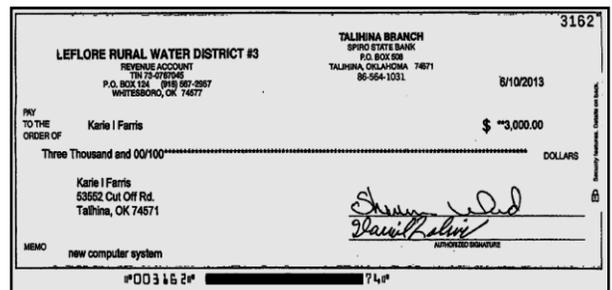
Finding

Karie Farris received five checks totaling \$6,950 in questionable reimbursement payments. Farris admitted she had written checks to herself from District funds, signing board members signatures to those checks without authorization.

- A \$3,000 check dated June 1, 2013, was drawn on the District’s bank account payable to Karie Farris. The check included the notation “new computer system”.

It was determined that the \$3,000 check had been deposited into Farris’ personal bank account on June 11, 2013.

When we began our investigation in May 2014, almost a year after the \$3,000 check was issued; the District was using a Dell desktop computer. Dell computers typically include a “Service Tag”



which can be used on the Dell website to look up information related to that specific computer.

According to the records maintained and available through the Dell website the Service Tag² on the computer corresponds to a Dell Dimensions computer that was originally shipped on June 22, 2005.

Check #3162 reflected the signatures of Sherman Ward and Daniel Toliver. When shown a copy of the check, neither Ward nor Toliver were sure if the signatures reflected on the check were actually their signatures.

- Check #3213, issued on August 12, 2013, reflected a \$1,000 payment from District funds to Karie Farris. This check included the notation “Christmas Bonus”. The proceeds from the check were deposited in Farris’s personal bank account on August 14, 2013.

The check reflected the signatures of Sherman Ward and Daniel Tolliver. When shown a copy of the check both Ward and Toliver stated the signatures reflected on the check were not their signatures.

- Check #3248, dated October 7, 2013, reflected a \$1,500 payment from District funds to Karie Farris. The check included the notation “work done after hours”. The check was deposited in Farris’s personal bank account on October 10, 2013.

According to Board members, Farris was a salaried employee and was not entitled to overtime. The check reflected the signatures of Sherman Ward and Daniel Toliver. When shown a copy of the check Ward told us the signature on the check was not his signature. Toliver told us he was not sure if the signature was his or not.

- Check numbers 3270 and 3327 were issued for \$1,000 and \$450 on November 14, 2013 and March 5, 2014, respectively. Both checks were payable to Karie Farris. The checks were deposited in Farris’ bank account on November 18, 2013 and March 10, 2014. Neither check included a notation indicating a purpose for the payments. Both checks reflected the signatures of Sherman Ward and Daniel Tolliver. When shown copies of the checks both Ward and

² Service tag BL9RR71

Tolliver stated the signatures reflected on the checks were not their signatures.

During our interview with Farris she admitted to writing checks to herself then signing the checks with board members signatures without authorization from those board members.

Farris recalled three of the unauthorized checks she had written. She specifically remembered the \$3,000 check noted as being for a computer system. She stated that she believed the \$1,000 “Christmas bonus” check in August 2013 was also a check in which she had signed the board members names without authorization.

Farris also acknowledged the \$1,500 check noted as “work done after hours” was an unauthorized check. She admitted that she was not entitled to receive pay for work done after hours. Farris was unable to recall the other two unauthorized checks.

Finding

There was virtually no accountability for \$2,000 in ‘petty cash’ payments issued to Karie Farris.

During 2013, five checks totaling \$2,000 were issued reflecting the payee as “Karie Farris (Petty Cash)”. There were no corresponding expenses recorded on the petty cash register and the District was unable to provide receipts supporting these expenditures.

During our interview with Farris she told us she was cashing the petty cash checks and putting the money in the money bag with customer’s water payments. Farris acknowledged she was also improperly removing cash from the same money bag.

These petty cash checks issued during 2013 reflected the signatures of Board members Sherman Ward, Daniel Toliver, and Aaron Bryant. We presented the checks to each member and inquired if the signatures on the checks were authentic. The table that follows was their response:

Check No.	Date	Amount	Response By Ward	Response By Tolliver	Response By Bryant
3156	5/17/2013	\$200	Not his signature	Unsure	N/A
3157	5/13/2013	\$400	Signature appears authentic	Signature appears authentic	N/A
3214	9/3/2013	\$600	Not his signature	Not his signature	N/A
3232	9/20/2013	\$400	Not his signature	N/A	Not his signature
3271	11/22/2013	\$400	Not his signature	Not his signature	N/A

Additionally, during 2012, six checks were issued to “Karie Farris (Petty Cash)” totaling \$1,200. The only records the District could provide for these transactions were the petty cash register. The register included a listing of expenses related to the \$1,200; however, the District was unable to provide actual receipts supporting those expenditures.

Finding

Petty cash records and receipts were virtually non-existent or missing.

The District was able to provide file folders containing some petty cash documentation for calendar years 2010 and 2011. However, the petty cash records and supporting documentation for 2012 through March 2014 could not be found.

The District provided a register purported to be Karie Farris’s accounting for petty cash expenditures. The title of the register read, “Register 1190 – Petty Cash (K. Farris)”. A portion of that register is shown below:

Date	Number	Payee	Account	Memo	Payment	C	Deposit	Balance
09/09/2010	R09#52	Lowes	5095 · Improvements	VOID: new flo...	183.70	X		-139.41
09/09/2010	R09#53	Cavenders	4015 · Misc./Ins.	going away gift...	15.26			-154.67
09/13/2010	2720	Karie Farris (Petty C...	1130 · Cash in Bank O...				250.00	95.33
09/15/2010	R09#60	U.S. Postal Service	5020 · Office Expense	box fee	40.00			55.33
09/17/2010	R09#55	Rachel Morgan	4015 · Misc./Ins.	scentsy bars	14.00			41.33

Although the computer generated register appeared to provide some accounting of the petty cash, we found it to be both incomplete and inaccurate. We specifically noted that:

- Checks for petty cash had been processed by the District’s bank although they were not listed on the report;
- Checks were issued for petty cash with no associated receipts or other documentation; and
- Check numbers listed as petty cash payments were actual check payments to vendors from the District’s bank account.

Sarah Ford, interim clerk, provided some receipts she had located from various places around the office, an indication that documentation was not kept in a central location or organized in a filing system. These receipts were not reflected on the petty cash register.

Objective IV **Review the fiduciary responsibilities of the District’s Board of Directors.**

*Summary
of Findings*

- **The District’s Board of Directors provided little, if any, oversight related to the financial operations of the District.**
 - **Problems related to the FY12 audit were not reported to the Board despite significant delays in obtaining records from the former District Office Manager.**
-

Finding **The District’s Board of Directors provided little, if any, oversight related to the financial operations of the District.**

According to Board Chairman Hoss Ward and Board Member Daniel Toliver the former office manager, Karie Farris, was responsible for virtually all aspects of the District’s financial operations including:

- Receiving, receipting, and recording water payments;
- Preparing and making bank deposits;
- Creating the District’s financial records and reports; and
- Reconciling the bank statements and District’s records.

The District’s independent audit report for the year ending December 31, 2011, included a warning to District officials under the heading “SIGNIFICANT DEFICIENCIES OF INTERNAL CONTROL” citing the following:

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District’s major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the District.

Response: The Board continues to be actively involved in the operations of the District.

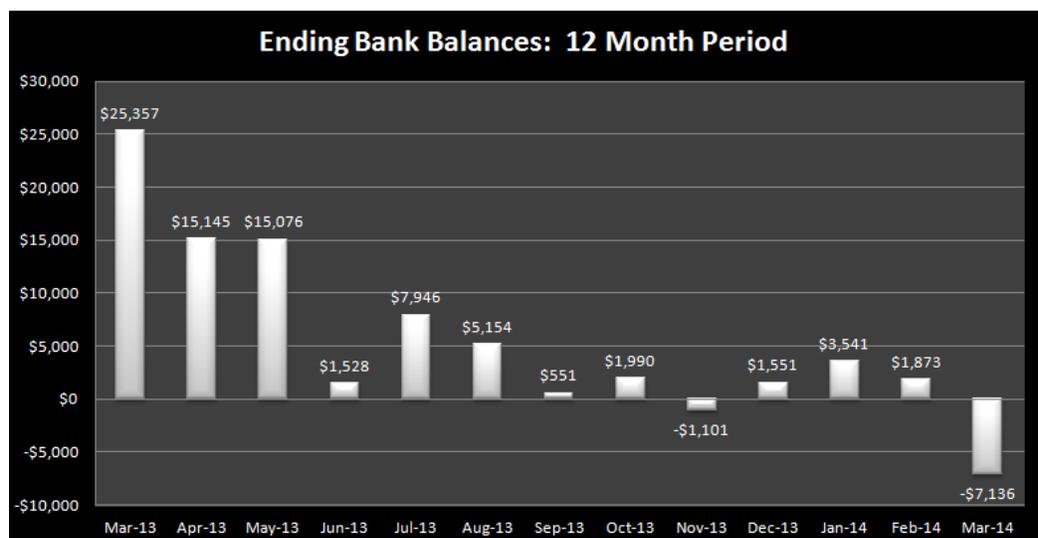
During an interview Board members told us they would *sometimes* receive packets of financial information related to the District but often times Farris did not prepare the financial reports and, therefore, the Board did not receive or review any financial information on a regular basis.

Our investigation revealed the issues related to cash collections appear to have started in September 2012, when the amount of cash being deposited into the District’s bank account dropped to \$0.00. For the next 19 months no cash was deposited in the District’s bank account except for a single deposit of \$100 cash made in February 2013.

We noted questionable payroll payments starting in April 2013 and continuing through March 2014, when Farris was suspended.

The District’s first notification that something was amiss with the finances came not from within the District but from outside of the District’s normal course of operations.

In March 2014, the District’s banking institution contacted the Board Chairman and advised him the District’s bank account had been depleted and had a -\$11,000 balance³. The District bank balance had been on a steady decline for the previous year, as depicted in the graph below:



³ The account balance was -\$11,555.95 on March 14, 2014.

Because of a lack of internal controls and adequate oversight it appears funds have been misappropriated from the District, undetected, for over 19 months, coming to the attention of the governing board only *after* being notified by a source *outside* the District.

During our interview with Farris she stated she had not altered records or otherwise taken steps to conceal the embezzlements that had been occurring since mid-2012.

Finding

Problems related to the FY12 audit were not reported to the Board despite significant delays in obtaining records from the former office manager.

82 O.S. § 1324.18 requires the District to be audited annually by an independent Certified Public Accountant. The last audit performed for the District was for the fiscal year ending December 31, 2011.

We contacted the District's independent auditor, Robert Kershaw, who told us he began asking Karie Farris for records in March 2013, for completion of the audit for the fiscal year ending December 31, 2012.

Kershaw stated he believed Farris was putting off providing District records and was avoiding his telephone calls throughout the summer of 2013. Kershaw was eventually able to obtain some of the records requested from the District, but found those records to be insufficient to perform an audit.

Kershaw did not inform the Board that he was having difficulties obtaining District records from Farris.

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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