

INVESTIGATIVE AUDIT

TALIHINA PUBLIC WORKS AUTHORITY

May 25, 2017



*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

TALIHINA PUBLIC WORKS AUTHORITY

LEFLORE COUNTY, OKLAHOMA

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MAY 25, 2017



Report Highlights

WHY WE CONDUCTED THIS AUDIT

We performed the audit in response to a request by the LeFlore County District Attorney in accordance with **74 O.S. § 212(H)**.

WHAT WE FOUND

- The utility records, including receipts for payments, payment posting reports, and customer account histories have been manipulated, are missing, unaccounted for, and inaccurate. In some cases customer histories have been deleted, while in other cases, accounts were billed and payments were received without being recorded on customer accounts as part of an *off-book* billing scheme. (Pg. 2)
- According to the former clerk, she used an *off-book* billing scheme to create unaccounted for checks that were used to conceal the misappropriation of cash from customers' utility payments. In addition, as a part of the *off-book* billing scheme, questionable credit adjustments were recorded on customer's utility account histories. (Pg. 12)
- The Board of Trustees failed to have annual independent audits performed as required by state law. The Board of Trustees, along with the Town Treasurer, failed to perform sufficient oversight of collections and deposits by the utility clerk. Reports purporting to have been prepared by the treasurer, and giving the appearance of some degree of oversight, were actually prepared by the utility clerk in most cases. (Pg. 22)
- Once basic internal control procedures were implemented in late 2013, deposits to the utility revenue bank account increased an average of \$8,000 per month. A year later, when the utility clerk resigned, deposits to the utility revenue account increased, on average, another \$4,300 per month. (Pg. 27)
- During an interview the former utility clerk told us she had misappropriated funds beginning in January 2012. (Pg. 17)



Oklahoma State Auditor & Inspector

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May 25, 2017

The Honorable Jeffrey C. Smith
District Attorney, District 16
100 S. Broadway, Room 300
Poteau, Oklahoma 74953

District Attorney Jeffrey C. Smith:

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

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

Because investigative procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the Talihina Public Works Authority.

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 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.1, et seq.**

Sincerely,

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

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INTRODUCTION

On October 17, 1962, the Town Board of Trustees (“Board”) for the Town of Talihina (“Town”) created a public trust, as defined by **60 §§ 176 et seq.**, to be known as the Talihina Public Works Authority (“Authority”). The purpose of the Authority included operating a utility service providing water, sewer, garbage and trash disposal facilities to the citizens of the Town.

The Trust Indenture creating the Trust provides that the beneficiary of the Trust is the Town of Talihina. The Trust Indenture also provides that the individuals serving as the Town Board of Trustees shall also serve as the Trustees of the Trust. Additionally, the person serving as the Town Clerk shall also act as the Secretary of the Trustee of the Authority.

According to the Trust Indenture, the Town Clerk, as the Secretary for the Trustees, shall “maintain complete and accurate records of all their financial transactions.” The Indenture also provides that the Trustees may “employ such other clerical, professional, legal and technical assistance as may be deemed necessary...to properly operate the business of the Trust...”

As a result of a citizens’ petition, verified by the LeFlore County Election Board Secretary on April 10, 2015, the Oklahoma State Auditor began an examination of the books and records of the Town of Talihina and the related Authority. The initial examination of the records revealed a substantial number of concerns. As a result, we contacted District Attorney Jeffrey Smith to discuss our preliminary findings.

On December 5, 2016, subsequent to our discussion, District Attorney Smith provided a written request to continue our examination as a District Attorney investigation under the authority of **74 O.S. § 212(H)**.

The results of this investigation are contained in the following report.

PART I CONDITION OF THE UTILITY BILLING RECORDS

Summary of Findings:

- **Receipts for utility payments were manipulated, missing, and unaccounted for.**
 - **The utility payment posting reports are inaccurate and do not agree to the actual funds deposited.**
 - **Customer account history records have been deleted.**
 - **Customer account histories were inaccurate and did not include amounts billed to and paid by customers.**
-

Background

In order to determine if funds have been embezzled from utility billing collections we would ordinarily rely on a number of types of records including receipts, payment posting reports, customer account histories, and bank deposit records.

Because there are a number of ways to misappropriate funds from utility billing receipts¹ it is difficult, if not impossible, to rely on a single type of record for the following reasons:

- Based on prior experience with the utility software used by the Authority, we are aware that receipts can be modified or deleted. In some cases, even when numbered receipts are utilized, those receipts may be missing or there is no accountability in how the receipts are numbered.
- Payment posting reports are typically generated whenever a deposit is being made. The payment posting reports are often used to reconcile recorded payments to the funds being deposited. Payment posting reports are generally not numbered and can be discarded without detection.
- Customer account history records are the primary means to determine if a customer's payments are being recorded as payments or if the payments have been recorded as *account credit adjustments* to possibly conceal a misappropriation. In addition, customer account history records should be reviewed for other anomalies that may be indicative of customer payments being misappropriated.

The lack of any one of these components of utility billing and payment records makes it more difficult to determine if funds have been

¹ Discussed in Part II of this report.

misappropriated and if so, to accurately determine the amount of funds that have been misappropriated.

Finding

Receipts for utility payments were manipulated, missing, and unaccounted for.

The Authority has used a utility billing program provided by GFC Data Systems (“utility billing software”) for various processes including the receipting of payments made by customers. When customers make payments a receipt is printed on plain paper generated from the utility billing software.

At the beginning of our investigation, we found receipts were numbered with a numerical sequence such as #60223, #60224, and so forth. We discovered, however, that for the period from at least January 2012 through May 2013, the receipt numbers had not been stored as a part of the actual customer’s history.

During this time, the only receipts available with actual numbers, were the printed copies of the receipts attached to the daily posting reports. When we began reviewing those receipts we found a substantial number of them were missing and unaccounted for. The following are *some* of the examples of missing receipts:

- A payment posting report reflecting payments recorded on March 13, 2012, started with receipt #61851 and ended with receipt #61891. Of the 41 receipts included in the receipt number range, 11 of those receipts were not included on the posting report nor were copies of the receipts attached to the report.
- A payment posting report reflecting payments recorded on September 6-7, 2012, included receipts #65411 through #65552. Of the 142 receipts in the range, 10 of those receipt numbers were not included on the payment report nor were copies of the receipts included in the daily packet of receipts and reports.

According to the software designer, the decision to not store receipt numbers in the customer records was due to the anticipated data storage requirement associated with storing a six-digit number in the account histories.

In May 2013, the computer software was updated so that it would store the receipt numbers. As a result, the receipt numbers could then be correlated to the customers’ account histories. However, once that change was made the receipt numbers being recorded as payments began being arbitrarily

assigned. For example, a payment posting report reflecting payments recorded as received on July 1, 2013, included 2 receipts numbered as #000002, 3 receipts numbered as #000003, 2 receipts numbered as #000004, and so forth, as shown in the image below:

ACCOUNT #	NAME	PSTG AMT	ACCT BAL	RCPT#	DATE
0306000.00		122.30	70.21	000001	06/28/13
0216751.00		84.43	90.68	000002	06/28/13
0119504.00		73.29	0.00	000002	07/01/13
0117801.00		55.95	0.00	000003	07/01/13
0308500.00		82.13	0.00	000003	07/01/13
0105402.00		69.60	0.00	000003	07/01/13
0320107.00		41.85	0.00	000004	07/01/13
0217300.00		75.91	0.00	000004	07/01/13
0120600.00		56.12	0.00	000005	07/01/13
0111700.00		48.33	0.00	000006	07/01/13

A few days later, on July 5, 2013, the daily collections were receipted once again using receipt numbers starting with #00001 and included the repetitious use of some receipt numbers, as shown in the image below:

ACCOUNT #	NAME	PSTG AMT	ACCT BAL	RCPT#	DATE
0227200.00		184.70	0.00	000001	07/05/13
0126200.00		80.88	0.00	000003	07/05/13
0116203.00		41.85	0.00	000003	07/05/13
0305000.00		91.05	0.00	000004	07/05/13
0104705.00		70.83	0.00	000004	07/05/13
0103002.00		59.43	0.00	000005	07/05/13
0302500.00		65.35	0.00	000005	07/05/13
0215300.00		55.95	0.00	000006	07/05/13
0300500.00		103.48	0.00	000007	07/05/13

Beginning May 2013, when the receipt numbers began being stored in the utility billing software, we identified 206 receipts numbered as #00001, 155 receipts numbered as #000002, and 1,151 receipts numbered from 1 to 10.

The use of duplicate receipt numbers ended in October 2013 when basic internal control procedures began to be implemented². At that point the receipt numbering method changed once again.

Beginning on October 24, 2013, receipt numbers began appearing in sequential order starting with receipt #68022. However, when we began reviewing payment reports and receipts we identified 427 instances where

² Discussed later in this report.

a gap of one or more receipts existed in the receipt numbers between October 25, 2013 and October 2, 2015.

Because of the issues identified with utility billing receipts, we concluded that receipts maintained by the Authority were manipulated, missing and unaccounted for.

Finding

The utility payment posting reports are inaccurate and do not agree to the actual funds deposited.

In most cases, when bank deposits are prepared some type of a payment posting report will be generated and used to reconcile the on-hand cash and checks to be deposited, to the cash and checks recorded as utility payments received.

We cited instances, in the previous finding, where payment posting reports included repetitious and/or duplicate receipt numbers and gaps in the receipt numbers. Those two instances alone would make reliance on payment reports questionable. In this case, however, we found additional concerns with the payment posting reports.

We found that total amounts collected, according to the payment reports, reconciled to the total amount deposited in the utility revenue bank account. However, in some instances we found reconciliation to deposits was often the result of *creative accounting*, and was mostly cosmetic.

The following are some of the examples of what we found.

January 17, 2012

A payment posting report dated January 17, 2012, reflected the collection of \$7,187.31. On January 20, 2012, a corresponding deposit was made to the utility revenue bank account also in the amount of \$7,187.31. We noted the posting report skipped receipt #60667, as reflected in the image below:

ACCOUNT #	NAME	PSTG AMT	ACCT BAL	RCPT#	DATE
0224804.00	WELLS FARGO BANK	71.85	0.00	060666	01/17/12
0220400.00	WELLS FARGO BANK	57.59	0.00	060668	01/17/12

While reviewing the printed receipts in the daily packet we found receipt #60667 was in the packet although the receipt was not reflected on the posting report. The receipt reflected the collection of \$1,514.42 from the

Latimer County Rural Water District located in Buffalo Valley, Oklahoma³.

**** RECEIPT ****					
ACCOUNT: 0315202.00	DATE: 01/17/12	RECEIPT: 060667			
BUFFALO VALLEY DIST. # 2 LATIMER WATER DIST. RT 2 BOX 3225 TALIHINA OK 74571	TALIHINA PUBLIC WORKS PO BOX 457 207 FIRST ST TALIHINA OK 74571 918-567-2194				
BAL FWD 1,514.42	PREV PMTS 0.00	PYMT AMT 1,514.42	CURR BAL 0.00	CK/REFR #	PYMT TYPE Check/Reg
RECEIVED BY: <i>LC</i>					

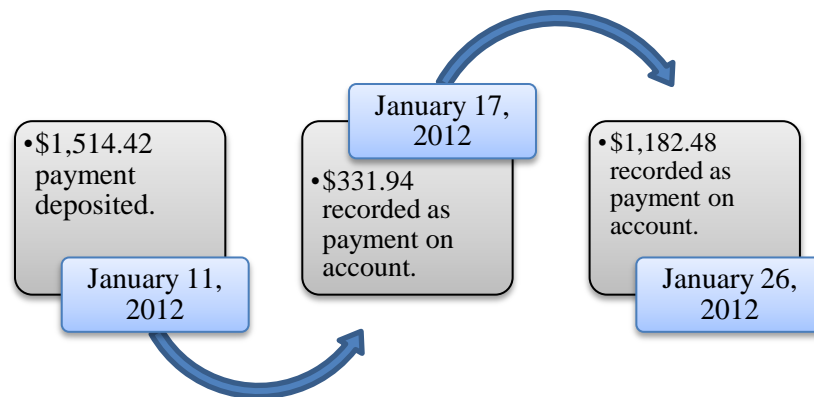
Although receipt #60667 was not included on the posting report we did find the posting report reflected a payment of \$331.94 on the water district's account leaving an outstanding account balance of \$1,182.48.

The posted amount along with the outstanding balance collectively equaled the receipt of \$1,514.42, included in the packet.

We obtained copies of the checks and money orders that comprised the January 20, 2012, deposit of \$7,187.31 and found the deposit did not contain a check, *in any amount*, from the Latimer County water district. We obtained records from the Latimer County water district indicating they had paid \$1,514.42 on their account with a check dated January 5, 2012.

By obtaining itemized deposit source details, we found the \$1,514.92 payment from Latimer County had actually been deposited in the utility revenue bank account a week earlier, on January 11, 2012.

The graphic that follows represents the timeline of occurrences for the \$1,514.92 payment:



In other words, the \$1,514.42 check was deposited a week before it had been *partially* recorded on the account as a \$331.94 payment, and two weeks before being recorded as *another* \$1,182.48 payment on the account.

³ Account #315202 under the name Buffalo Valley Dist. #2.

We also found the January 20, 2012, deposit included a \$5,227.05 check from the Pushmataha County Rural Water District #2⁴. Records obtained from the Pushmataha County water district reflected they had received a billing statement, dated December 30, 2011, for \$5,227.05 and, as a result had paid the amount due with the check deposited on January 20, 2012.

Although included in the deposit for January 20, 2012, the \$5,227.05 payment was not reflected on the payment posting report for the same day. When we reviewed the Pushmataha water district account history, we found the history had been deleted for periods prior to January 30, 2013.

The fact that the payment posting report total and the deposit both totaled \$7,187.31 was more a result of *creative accounting* rather than reflective of what was actually received, recorded, and deposited.

February 17, 2012

A payment posting report dated February 17, 2012, reflected the collection of \$6,658.19 in utility payments. On the same day a corresponding \$6,658.19 deposit was made to the utility revenue bank account. The payment posting report reflected the \$6,658.19 total was the result of payments recorded on 49 separate utility accounts.

We obtained copies of the checks and money orders that comprised the deposit. The items consisted of \$47.68 in cash and *four* checks totaling \$6,610.51, including a \$6,260.65 check from the LeFlore Rural Water District #3⁵.

The payment posting report corresponding to the deposit did not reflect a payment from the rural water district and we found no payment had been recorded on the account history during February 2012. Additionally, the \$6,260.65 check from the water district deposited on February 17, 2012, did not appear as a payment on the account at any point in 2012.

Again, the fact that the payment posting report and the amount deposited both totaled \$6,658.19 appeared to be the result of *creative accounting* rather than documentation of actual payments recorded and cash and checks deposited.

We compared 22 posting report *totals* to the amounts deposited, and found all *totals* reconciled. Although the *totals* reconciled for every deposit, the items actually deposited were not representative of the payments being

⁴ Account #316700 under the name Albion Rural Water.

⁵ Located in Whitesboro, Oklahoma. The utility account was recorded under the name Whitesboro Rural Water.

recorded. We will discuss why, including unaccounted for check insertions later in this report.

Finding

Customer account history records have been deleted.

In addition to payment receipts and payment posting reports, another source of information typically reviewed are customer account histories. Utility billing account histories will, in most cases, include water usage amounts, amounts billed to the customer, amounts paid by the customer, any adjustments made to the customer's account, and the customer's account balance at any given point in time.

The manual for the utility billing software used by Talihina includes the following:

The History file contains a record of all transactions of each customer. This file gives a historical profile of each customer's billing code, amount, consumption, meter reading, amount of each payment, and the date these transactions took place.

The manual goes on to explain a number of ways the history file can be modified including the ability to add, delete, modify or remove entire sections of a customer's transaction history.

We noticed a number of account histories had been deleted entirely, and some accounts in which the history prior to October 21, 2013, no longer existed. For example, the payment posting report printed on January 3, 2012, included payments on accounts #100100 and #103403. However, the account histories for both accounts did not include any transactions prior to October 21, 2013.

The same payment report also included payments on account #101100 and #127600. The account histories for these accounts did not include any transactions prior to February 5, 2014 and September 4, 2014, respectively.

The October 21, 2013, date began to appear with some consistency in the questionable account histories. When we inquired about the significance of the date, the finance officer told us the date corresponded to her having implemented a number of internal controls that had not existed previously.

Later in this report we address the lack of internal controls and the impact the implementation of basic and fundamental internal controls had.

Finding

Customer account histories were inaccurate and did not include amounts billed to and paid by customers.

Because of the number of issues encountered with the utility records, we obtained copies of the actual checks and money orders deposited in the utility bank account. As a result, we identified instances where neither the amount billed, nor the payment made by a customer, had been recorded on their account.

The following are *some* examples of what we found concerning this issue.

Kiamichi Baptist Assembly – Account #316900

On September 10, 2012, a deposit was made in the amount of \$19,619.01. This amount corresponded to the payments recorded on a posting report dated September 7, 2012.

We obtained copies of the checks and money orders included in the deposit and found check #15865, from the Kiamichi Baptist Assembly (“KBA”) in the amount of \$3,939.13, had been included in the deposit. We could not correlate the KBA check to a payment on the posting report, nor could we correlate the check to any payment posted on the KBA account history.

BILLING DATE	PAYMENTS MADE AFTER BILLING DATE HAVE NOT BEEN DEDUCTED	ACCOUNT NUMBER
08/29/12		0316900.00
FRSUID	METER READING	CORRELATION
52701100	51956800	744300
SERV ADDR	K.B.A	
SERVICE DESCRIPTION	AMOUNT	
Comm: Water	3,937.88	
Surcharge - Impro	1.25	
TOTAL CURRENT	3,939.13	
PREVIOUS BALANCE	0.00	
TOTAL DUE	3,939.13	
AMOUNT DUE AFTER 10TH	3,939.13	
07/19/12 - 09/29/12		

Unable to identify the payment, we contacted KBA and asked if they would provide us with copies of the billing statements they had received for utility services.

The records provided by KBA included the billing stub shown, dated August 29, 2012, reflecting a balance due of \$3,939.13. The KBA records also indicated the billed amount had been paid by KBA check #15865, in the amount of \$3,939.13.

Although KBA received and paid a utility bill, and the payment had been received and deposited in the utility revenue bank account, the account history did not reflect that the account had been billed or that the payment had been received.

Choctaw Nation East – Account #318010

On July 24, 2012, a payment posting report was printed reflecting the collection of \$14,427.81 in utility payments recorded as received on July

23rd and July 24th. The following day, July 25th, a deposit was made to the utility revenue bank account also totaling \$14,427.81.

We obtained copies of the checks and money orders deposited and identified an \$11,015.84 check from the Choctaw Nation that we could not correlate with the payment posting report or to any other payment on any Choctaw Nation account.

6-28-12 0318010.00
 47103000 45983100 1119900
 C.N.H.S.A.
 ONE CHOCTAW WAY
 COMM: WATER 5,909.78
 COMM: SEWER 3,507.80
 SURCHARGE 1.25
 TOTAL DUE PAY 10,013.92
 AMOUNT DUE AFTER 10TH 11,015.84
 TOTAL CURRENT 9,418.83
 PREVIOUS BALANCE 595.09
 TOTAL DUE PAY 10,013.92
 AMOUNT DUE AFTER 10TH 11,015.84
 55300018.12 1000.120
 CHOCTAW NATION EAST
 ONE CHOCTAW WAY
 TALIHINA, OK. 74571

Because we could not identify what the check was for, we contacted Choctaw Nation and asked them to provide any information they could about the \$11,015.84 payment. Choctaw Nation provided us with an accounting of payments made to Talihina for utility services, as well as copies of some of the utility billing statements received.

The \$11,015.84 check was the result of a billing statement Choctaw Nation received for utility services on account #318010. The \$11,015.84 payment reflected the amount due, if the payment was received after the 10th of the month.

When we reviewed the account history for account #318010, we discovered neither the billing nor the payment had been recorded on the account.

The account history for this account indicated the account had been billed for utility services in May 2012 but was not billed for services in June 2012, as reflected in the image below.

DATE	CODE	DESCRIPTION	CONSMD	MTR RDG	RCPT#	REFR	AMOUNT
05/16/12	9600	Check/Reg Payment	0	0		lc	5,612.23CR
05/18/12	0103	COMMERCIAL WATER	675600	45983100			3,577.20
05/18/12	0203	COMMERCIAL SEWER	0	0			2,372.40
05/18/12	0500	SURCHARGE	0	0			1.25
06/27/12	9600	Check/Reg Payment	0	0			2,615.55CR
07/24/12	9600	Check/Reg Payment	0	0			3,035.30CR

The billing statement received by Choctaw Nation that resulted in the \$11,015.84 payment appeared to have been created with a typewriter rather than printed from the utility billing computer system.

These examples represent *some* of the instances where customers had been billed, had made payments that *were deposited* in the utility revenue bank account, but where neither the billing nor the payments were reflected in the utility records.

Conclusion

This activity is representative of an *off-book* billing scheme where billings are removed from the records, or *off-the-books*, so that related collections do not have to be accounted for, resulting in revenues that are never reported to the entity. This will be discussed in greater detail in the next section of our report.

In order to determine if customers' utility payments have been misappropriated, and the extent of the misappropriation, we would typically rely on three primary types of utility records; receipts, payment posting reports, and account histories. It was determined that all three of these types of records had been manipulated, were inaccurate and unreliable.

PART II CONDITIONS COMMONLY ASSOCIATED WITH EMBEZZLEMENTS

Summary of Findings:

- **Check and cash compositions were not properly recorded resulting in the inability for those with oversight responsibility to identify a check-for-cash substitution scheme.**
- **An off-book billing scheme, using an ‘inactive account’ software setting, provided a continual source of unaccounted for checks inserted into deposits.**
- **An *inactive* account scheme was used to conceal the misappropriation of cash payments from customers.**
- **The former clerk stated she had used the ‘inactive account’ software setting to generate unaccounted for checks that were included in deposits to conceal the misappropriation of cash.**
- **Questionable credit adjustments were made to customer accounts that appear to be a part of an unaccounted for check insertion scheme.**
- **The former clerk told us she had recorded improper credit adjustments to customer accounts as part of an off-book billing scheme.**

Background

Embezzlement schemes can vary and often include elements designed to defeat any internal controls and independent oversight procedures that may be in place. One common embezzlement scheme is called a *check-for-cash* substitution scheme. The following scenario is an example of this type of scheme:

One person comes to town hall and pays \$100 cash for a utility payment. Because the person is actually present when making the payment a receipt is written for the \$100 cash payment. A second person also pays a \$100 utility payment by mailing a check to town hall. Because the check arrived in the mail, the clerk chooses not to issue a receipt or record the payment being received in the official records. The clerk can now remove the \$100 cash and replace it with the unreceipted check. The total amounts received and deposited reflect \$100 receipts and \$100 deposited.

The primary underlying element of a check-for-cash substitution scheme relies on having unreceipted, or *unaccounted for*, checks that can be deposited in place of the cash being taken.

One method of oversight to detect if a check-for-cash substitution scheme is occurring is to not only compare the total amounts of the receipts and deposits, but to also compare the *composition* of the deposit, the total amount of cash being deposited and the total amount of checks being deposited.

If receipts include an accurate identification of the amount of cash and the amount of checks being receipted, a check-for-cash substitution scheme can be identified by ensuring the amount of cash being receipted reconciles to the amount of cash deposited.

One of the first indicators that a check-for-cash substitution scheme may be occurring is when *every* payment is recorded as a check payment and there is *no distinction* between check payments and cash payments.

Finding **Check and cash compositions were not properly recorded resulting in the inability for those with oversight responsibility to identify a check-for-cash substitution scheme.**

In reconciling the payments recorded on customer accounts, it was noted that in a majority of the cases every payment was recorded as a check even though cash was being collected and deposited. For example, a deposit made on August 17, 2012, included \$218.92 in cash, although the corresponding payment posting report reflected all of the payments were made by check.

In some cases, even when cash was being recorded, the cash and check compositions did not reconcile. For example, on August 7, 2013, a deposit included \$475.17 in cash. The deposit amount reconciled in total, but the detail of the report reflected \$187.11 in cash collections.

By not accurately recording the actual composition of cash and check payments there was little ability for those with oversight responsibility to identify if a check-for-cash substitution scheme was occurring.

Finding **An off-book billing scheme, using an ‘inactive account’ software setting, provided a continual source of unaccounted for checks inserted into deposits.**

In our review of payment posting reports and deposits we found the *total amount* recorded as payments and the *total amount* deposited generally reconciled. However, once we obtained deposit sources showing the cash, checks, and money orders actually deposited, we discovered what

appeared to be an off-book billing scheme, that resulted in unaccounted for checks being inserted into deposits.

We previously cited an example of an unaccounted for check from Choctaw Nation for \$11,015.84 being inserted into a deposit made on July 24, 2012.⁶ Because we had unidentified checks included in deposits, including several checks from Choctaw Nation, we requested Choctaw Nation provide an accounting of checks paid to Talihina for utility services. In addition to providing payments, Choctaw Nation also provided copies of account #318010 billing statements.

A comparison of the Choctaw Nation payment records to the associated account histories revealed the Choctaw Nation was making payments in response to billing statements they had received, but the billing amounts and/or the payments made did not appear in the Town's utility account records.

We found discrepancies in several of the Choctaw Nation accounts, however account #318010, appeared to have been substantially manipulated and, as such, we chose to review this account in detail.

Inactive account billings – January 2012

Choctaw Nation received a utility billing statement dated January 27, 2012, reflecting a balance owed in the amount of \$3,665.10. Choctaw Nation paid the \$3,665.10 with a check which was deposited in the utility revenue bank account on February, 10, 2012.

The account history reflected no billing or usage for the account had been recorded for January 2012. At the time the bill was purportedly prepared the account balance for the account was actually \$5,316.48 and not \$3,665.10.

12/27/11	9602	Credit Adjustment	No January Billing?	0	0	602.23CR	8,691.98	
01/26/12	9600	Check/Reg Payment		0	0	3,375.50CR	5,316.48	
02/08/12	9600	Check/Reg Payment		0	0	lc	5,316.48CR	0.00

The \$3,665.10 payment was included in a deposit of \$19,660.63 that reconciled in total to a payment posting report. The payment posting report and the account history reflected a payment on Choctaw Nation account #318010 in the amount of \$5,316.48. Choctaw Nation records, as

⁶ See discussion at Page 10.

well as the deposited check, indicate the actual amount paid was \$3,665.10.

An aging report, dated January 26, 2012, one day before the billing statement, also reflected the account balance was \$5,316.48 and not the \$3,665.10 billed.

We noted, on the report, an “*” beside the account number that did not appear on all the other accounts. According to the software designer, the “*” meant the account was “inactive” and should not have been billed.

Inactive account billings – June 2012

An \$11,015.84 Choctaw Nation check was included in a \$14,427.81 deposit made on July 25, 2012. The \$14,427.81 deposit corresponded to a payment posting report that also totaled \$14,427.81. Although the check deposited was \$11,015.84 this amount was not recorded in the Choctaw Nation account records, the payment amount recorded was \$3,035.30.

0213402.00		828.54
0318010.00*	CHOCTAW NATION EAST	3,035.30
0205900.00		48.00

We also noted on this payment posting report, an “*” beside the Choctaw Nation account numbers. Again, the “*” on the payment report indicated the account had been marked as “inactive.”

Unrecorded billing and payment – May 2013

Choctaw Nation received a billing statement dated May 30, 2013, reflecting a current balance owed of \$3,814.10. Choctaw Nation subsequently issued a check for the same amount.

The \$3,814.10 check was included in a \$6,915.46 deposit on June 10, 2013. The deposit total reconciled to a payment posting report reflecting payments recorded as received on June 7, 2013. However, the posting report and the account history did not reflect the \$3,814.10 payment for the non-existent billing received by Choctaw Nation. No payment was recorded as having been received on the Choctaw Nation account during the entire month of June 2013.

BILLING DATE 05/30/13	PAYMENTS MADE AFTER BILLING DATE HAVE NOT BEEN DEDUCTED METER READING METER	ACCOUNT NUMBER 0318010.00	TALIHINA PUBLIC WORKS AUTHORITY P.O. BOX 427 TALIHINA, OK 75771-0427 BILLING/SERVICE: 918-567-2154	PRESORT FIRST CLASS MAIL U.S. POSTAGE PAID TALIHINA, OK PERMIT NO. 14
54697800	54266400	431400	BILLING DATE 05/30/13	
SERV ADDR ONE CHOCTAW WAY	SERVICE DESCRIPTION	AMOUNT	SERVICE ADDRESS ACCT# 0318010.00	
Comm: Water		2,295.15	TOTAL DUE PAY →	3,814.10
Com: Sewer		1,517.70	AMOUNT DUE AFTER 10TH	3,814.10
Surcharge - Impro		1.25		
TOTAL CURRENT		3,814.10	The amount is due on the 10th day of each month. The penalty amount is due after the 10th of each month. FAILURE TO RECEIVE BILL DOES NOT WAIVE PENALTY.	
PREVIOUS BALANCE		0.00	RETURN THIS STUB WITH PAYMENT	
TOTAL DUE PAY →		3,814.10	CHOCTAW NATION EAST	
AMOUNT DUE AFTER 10TH		3,814.10	ACCTS. PAYABLE	
04/19/13 - 05/18/13			P.O. BOX 1550	
			DURANT OK 74702	

Unlike some of the previous billing statements the May 2013 statement, shown above, did not appear to have been manually created with a typewriter. Nonetheless, the account history for the account does not show the account was billed for utility services during May 2013.

03/28/13	0103	COMMERCIAL WATER	513200	53878000		2,724.60	2,724.60
03/28/13	0203	COMMERCIAL SEWER	0	0		1,804.00	4,528.60
03/28/13	0500	SURCHARGE	0	0		1.25	4,529.85
04/11/13	9600	Check/Reg Payment	0	0		2,058.96CR	2,470.89
05/08/13	9600	Check/Reg Payment	0	0	MC	3,437.85CR	966.96CR
05/30/13	9600	Check/Reg Payment	0	0	000002	966.96	0.00

On May 8, 2013, the account reflected a \$966.96 *credit*. The credit was later adjusted by the recording of another *payment (as a debit)* which caused the account balance to decrease *from a credit of \$966.96 to \$0.00*.

Unrecorded billing and payment – July 2013

Choctaw Nation received a billing statement dated July 30, 2013, reflecting \$7,710.48 as the current balance due and an amount due of \$8,481.52 if paid after the 10th of the month. Choctaw Nation subsequently issued a check in the amount of \$8,481.52.

BILLING DATE 07/30/2013		PAYMENTS MADE AFTER BILLING DATE WERE NOT RECORDED METER READING		ACCOUNT NUMBER 0318010		TALIHINA PUBLIC WORKS AUTHORITY P.O. BOX 457 TALIHINA, OK 74757-0457 BILLING SERVICE: 918-567-2191		PRESORT FIRST CLASS MAIL U.S. POSTAGE PAID TALIHINA, OK PERMIT NO. 14	
56283300		55406600		876700		BILLING DATE 07/30/2013		SERVICE ADDRESS ACCT# 0318010.00 East	
SERV ADDR Choctaw East		SERVICE DESCRIPTION		AMOUNT		TOTAL DUE		PAY → 7,710.48	
COMM: water				4,632.98		AMOUNT DUE AFTER 10TH		8,481.52	
COMM: sewer				3,076.25					
SURCHARGE				1.25					
TOTAL CURRENT				7,710.48					
PREVIOUS BALANCE				0.00					
TOTAL DUE		PAY →		7,710.48					
AMOUNT DUE AFTER 10TH				8,481.52					
						CHOCTAW NATION EAST ACCTS: PAYABLE P.O. BOX 1550 DURANT, OK 74702			

The \$8,481.52 check was included in an \$11,390.54 deposit on August 9, 2013. The deposit total reconciled to a posting report reflecting payments recorded as received on August 8, 2013. Both the posting report and the account history reflected a payment on the account in the amount of \$4,145.

The account history for the account reflected the account had a balance of \$4,145.00 on July 30, 2013, not \$7,710.48 as reflected on the statement sent to the Nation.

The account history actually reflected the account had not been billed for utility services for July 2013. An aging report dated July 13, 2013, reflected the account had been marked as “inactive” and, therefore, would not have been billed.

The billing statement received by the Nation appeared to have been prepared using a typewriter. The fact that no billing for the account appears in the software system would appear to support that the account had been billed independent of the utility system and resulted in an unaccounted for check that was deposited.

During the period January 2012 thru September 2013, for the one Choctaw Nation account, we identified seven instances totaling \$37,957.98 where a monthly utility statement received by Choctaw Nation was paid and the check deposited, when utility records reflected the account was not billed and no payments had been received.

Overall, we identified 118 instances in which payments made by Choctaw Nation were either not recorded on the associated accounts or had been recorded for an amount different than the actual amount paid. Based on the account history records, those 118 instances represented \$65,338.66 in payments not recorded.

Finding **An *inactive* account scheme was used to conceal the misappropriation of cash payments from customers.**

Following the resignation of Utility Clerk LaDale Compton⁷, Town officials began identifying issues with utility accounts held by customers who routinely paid in cash.

For example, on September 15, 2014, the account holder for account #216802 came to town hall to inquire about having not received a bill. When officials reviewed his account they noted the account had been set to *inactive* in the utility billing software.

Since the resignation of Compton, the customer's account has reflected only cash payments.

Finding **The former clerk stated she had used the 'inactive account' software setting to generate unaccounted for checks that were included in deposits to conceal the misappropriation of cash.**

At the conclusion of fieldwork, former utility clerk LaDale Compton told us in an interview that she had been taking cash from utility payments. According to Compton, she would set some accounts as *inactive* in the utility billing software and would *manually* bill those accounts. The payments received from those inactive accounts would then be applied to other accounts.

Compton said the checks from the inactive accounts were ultimately being used to conceal the misappropriation of cash from utility deposits in a check-for-cash misappropriation scheme. Compton estimated she had

⁷ Resignation letter dated August 21, 2014, effective date September 4, 2014. Compton had been employed since approximately 2001.

misappropriated between \$100 and \$200 per month starting around January 2012.

Finding

Questionable credit adjustments were made to customer accounts that appear to be a part of an unaccounted for check insertion scheme.

Another method used to conceal the misappropriation of utility funds includes recording credit adjustments in the place of actual payments. The following scenario described *credit adjustments* made to a customer's account to conceal the misappropriation of payments.

Bob receives a utility bill reflecting he owes \$100 on his utility account. Bob pays the \$100 on his account. However, the clerk accepting the payment chooses to record the \$100 not as a payment but as a credit adjustment. The \$100 can now be misappropriated as it was not recorded as a payment amount that would need to be deposited. At the same time, the credit adjustment reduces Bob's account by \$100 to \$0, keeping his account balance correct.

Credit adjustments, when used in a scheme to misappropriate payments, allows for funds to be misappropriated and keeps a customer's account balance correct.

In most credit adjustment schemes the credit adjustments are being made *in lieu of* recording cash payments. In this case, however, we found questionable credit adjustments were being made in lieu of recording payments that had also been made by check. The following are examples of what we found.

Account #317000 – \$2,529.95 credit adjustment

Account records reflected the LeFlore County Rural Water District #3⁸, account #317000, was billed \$7,282.05 for water usage on April 19, 2013. On May 30, 2013, a check from the rural water district, in the amount of \$7,282.05, was deposited in the utility revenue bank account.

On May 29, 2013, the account record for the rural water district reflected a payment of \$4,752.10. On May 30, 2013, the following day, a credit adjustment was recorded on the account in the amount of \$2,529.95 bringing the total posted amount to \$7,282.05, the amount of the check deposited on May 30, 2013. The credit adjustment allowed the \$2,529.95 to be available for misappropriation.

⁸ LeFlore County Rural Water District #3 is located in Whitesboro, Oklahoma. The account is billed under the account name Whitesboro Rural Water.

Account #318350 - \$5,939.23 credit adjustment

On November 26, 2013, a \$5,939.23 credit adjustment was recorded on account #318350, a Choctaw Nation account. Based on account records and records obtained from Choctaw Nation, the following transactions appear to have led to the adjustment:

- The account was billed \$1,564.48 on July 19, 2013. The amount was not paid. A penalty amount was added bringing the balance owed to \$1,720.93.
- The following bill reflected a current balance of \$2,775.48 and a past due amount of \$1,720.93 for a total due of \$4,496.41 (\$4,946.05 after the 10th of the month). The \$2,775.48 amount billed was later recorded as a payment on the account.
- Choctaw Nation was sent another bill reflecting a current amount due of \$3,228.73 and a past due amount of \$4,946.05. At this time Choctaw Nation paid the current balance of \$3,228.73 but the payment was not reflected on the account.
- Subsequently, on September 12, 2013, and October 15, 2013, late penalties in the amounts of \$449.64 and \$539.23, respectively, were added to the account.

Mathematically, the \$3,228.73 payment that was not recorded on the account, plus the initial \$1,720.93 past due amount and the two late payment amounts of \$449.64 and \$539.93 equal \$5,939.23, the amount of a credit adjustment made on November 26, 2013.

08/13/13	0400	PENALTY	0	0		156.45	1,720.93
08/19/13	0103	COMMERCIAL WATER	312700	3281800		1,671.98	3,392.91
08/19/13	0203	COMMERCIAL SEWER	0	0		1,102.25	4,495.16
08/19/13	0500	SURCHARGE	0	0		1.25	4,496.41
09/12/13	0400	PENALTY	0	0		449.64	4,946.05
09/19/13	0103	COMMERCIAL WATER	364500	3646300		1,943.93	6,889.98
09/19/13	0203	COMMERCIAL SEWER	0	0		1,283.55	8,173.53
09/19/13	0500	SURCHARGE	0	0		1.25	8,174.78
10/08/13	9600	Check/Reg Payment	0	0	000033 Choctaw	2,775.48CR	5,399.30
10/15/13	0400	PENALTY	0	0		539.93	5,939.23
11/20/13	0103	COMMERCIAL WATER	0	3749200		37.30	5,976.53
11/20/13	0203	COMMERCIAL SEWER	0	0		15.10	5,991.63
11/20/13	0500	SURCHARGE	0	0		1.25	5,992.88
11/26/13	9602	Credit Adjustment	0	0	000010	5,939.23CR	53.65

In this instance the credit adjustment was made correcting both unrecorded payments and related late fees that appeared to be a consequence of the *inactive* account billing scheme.

Account #316900 - \$2,082.70 credit adjustment

The account history for the Kiamichi Baptist Assembly (KBA), account #316900, reflected KBA had been billed \$3,982.70 for utility services on September 18, 2012. On October 25, 2012, a deposit was made to the utility revenue bank account that included a check from the KBA in the amount of \$3,982.70.

Prior to this deposit, on October 24, 2012, the KBA account was credited with a payment of \$1,900.00. On October 29, 2012, a \$2,082.70 credit adjustment was recorded on the account. The check payment recorded along with the credit adjustment to the account totaled \$3,982.70, the amount billed to, and actually paid by, KBA.

The credit adjustment allowed the \$2,082.70 to be available for misappropriation.

Account #315700 - \$803.66 credit adjustment

On September 13, 2012, a deposit was made that included an \$803.66 check from the Choctaw Nation. Records provided by the Choctaw Nation reflected the check was a payment on utility account #315700.

Although the check was included in the deposit on September 13, 2012, no payment was recorded on the account during September 2012. On October 29, 2012, a credit adjustment of \$803.66 was made on the account.

On August 14, 2013, a deposit was made to the utility revenue bank account that included a \$281.33 check from Choctaw Nation. Records provided by the Choctaw Nation reflected the check was a payment on utility account #318150.

Although the \$281.33 check was deposited on August 14, 2013, the account reflected the amount paid as \$81.33 rather than \$281.33, a \$200 variance. On the same day the \$81.33 payment was recorded, a \$20 late fee penalty was assessed on the account. The unrecorded \$200 payment and the \$20 penalty resulted in the account balance of \$220.

07/19/13	0500	SURCHARGE	0	0		1.25	281.33
08/13/13	0400	PENALTY	0	0		20.00	301.33
08/13/13	9600	Check/Reg Payment	0	0	000042	81.33CR	220.00

On December 26, 2013, another \$22 late fee penalty was assessed to the account. On December 27, 2013, and January 14, 2014, two credit

adjustments were recorded on the account in the amounts of \$53.65 and \$188.35, respectively. The credit adjustments, totaling \$242, appear to have been adjustments correcting the unrecorded \$200 amount as well as the \$20 and \$22 late fee assessments.

In the intervening months between the unrecorded \$200 payment amount and the credit adjustments, the customer was also assessed and paid additional late fees of \$57.47. Those late fees appear to be the result of the unrecorded \$200 payment amount and, as such, are questionable.

Finding

The former clerk told us she had recorded improper credit adjustments to customer accounts as part of an off-book billing scheme.

In most cases a *credit adjustment scheme* is used to misappropriate *cash* payments made by customers by recording a cash payment as a dollar-for-dollar *credit adjustment*. In other words, a \$100 cash payment is recorded as a \$100 credit adjustment.

In this instance, however, we found credit adjustments appeared to be used more as a means to make corrections to customer accounts resulting from either billing the account *off-book*, not recording payments actually made, or only recording a partial amount of a payment made.

During an interview with former utility clerk Compton, she stated she was misappropriating cash and was using unrecorded check payments resulting from billing “inactive” accounts as a means to conceal the cash being misappropriated. According to Compton, after setting an account as inactive, she would sometimes forget to reactive the account the following month.

In the examples noted above, as well as in other cases not noted here, it appears the questionable credit adjustments were being made as part of a check-for-cash replacement scheme using both inactive accounts and unaccounted for payments.

The credit adjustment entries, at least in some cases, appear to have been used as a means to make corrections to accounts that had reached a point where there was a need to essentially start the account over again with either a \$0.00 balance, or with a balance that seemingly reconciled to what the customers were actually being billed.

PART III OVERSIGHT FAILURE

Summary of Findings:

- **The Authority did not have annual independent audits performed as required by law.**
 - **The Board of Trustees failed in their fiduciary responsibility to protect the assets of the Authority.**
 - **The Town Clerk failed to provide oversight as required by the Authority Trust Indenture.**
-

Background

Effective internal controls and proper oversight reduce the risk of a sustained long-term loss of assets, help to ensure that financial records are being accurately maintained, and help provide meaningful assurances that customer payments are handled with good faith and in such a manner that the funds are beneficial for the community as a whole.

Utility services provided by a town should be handled in a way so that any excess revenue above the immediate cost of providing the service can be used for future upgrades and repairs that will inevitably be required at some point in the future.

When a breakdown of internal controls occurs and oversight is weak, resulting in the loss of funds, the loss becomes a burden on the utility customers who do not benefit from infrastructure upgrades and better service and, in many cases, results in penalizing customers when town officials are forced to raise rates due to their own lack of oversight.

Finding

The Authority did not have annual independent audits performed as required by law.

State law requires that the Town⁹ as well as the Authority¹⁰ have an *annual* financial statement audit performed by an independent certified public accountant. The language of **60 O.S. § 180.1(A)** places the requirement upon the trustees of the Authority stating:

The trustees of every trust created for the benefit and furtherance of any public function with the State of Oklahoma or any county

⁹ 11 O.S. § 17-105(B)

¹⁰ 60 O.S. § 180.1(A)

or municipality as the beneficiary or beneficiaries thereof must cause an audit to be made of the financial statements of the trust, such audit to be ordered within thirty (30) days of the close of each fiscal year of the trust. The audit shall be filed in accordance with the requirements set forth for financial statement audits in Section 212A of Title 74 of the Oklahoma Statutes.

60 O.S. 180 (B)(6) provides that copies of the annual audit shall “be filed with the State Auditor and Inspector within six (6) months after the close of the fiscal year and with the trustees and governing body of the beneficiaries.”

The independent audit for the fiscal year ending June 30, 2009, was dated April 25, 2013, representing a delay of nearly four years. According to the independent auditor, the delay was the result of a lack of cooperation from Town officials in providing the records needed to perform the audit. The lack of cooperation occurred with respect to both the Town and the Authority.

The required independent audits for FY 2010 and FY2011 were eventually released by the independent auditor in July 2016. The FY 2012, 2013, 2014, and 2015 independent audits were released in September 2016. Based on the audit filing dates, the Town and Authority had one independent audit performed during the seven year period from June 2008 through June 2015.

The independent audits from FY2012 through FY2015 included a ‘Basis for Disclaimer of Opinion’ which stated:

Basis for Disclaimer of Opinion

Previous management imposed restrictions on access to financial records, or did not maintain adequate accounting records. Previous management did not properly record transactions in the books of account; did not designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements. As a result, we were unable to determine whether any adjustments to the amounts reported were necessary.

The independent audit reports also contained multiple internal control findings that were repeated in most, if not all, audits from FY2008 through FY2015, revealing a continued lack of oversight from management and the Board of Trustees.

Finding

The Board of Trustees failed in their fiduciary responsibility to protect the assets of the Authority.

The independent audit report in FY2008¹¹ included a finding related to the lack of internal controls and the lack of a proper segregation of duties. The report included the following Condition:

Item 08-01: Segregation of Duties

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, 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.

The same audit report included other findings that could also be considered early indicators that something may have already been wrong with the Town's financial records in 2008. Some of the other Conditions included in the report were:

Condition: Proper reconciliations were not made of the cash balances per the general ledger with bank statements. Reconciliations were attempted on the computer, however, the reconciled balances did not agree with the general ledger.

Condition: The Town does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

One recommendation was made that the Board "continue to be actively involved in the operations of the Town". One corresponding response from the Town was, "The Board continues to be actively involved in the operations of the Town." an additional response from the Town was, "The Town is aware of the problem and will take steps to correct the situation."

The Board not engaging in another independent audit for the next 4 years would seem to suggest otherwise.

These findings were also repeated in the FY2009 through FY2015 audits.

If the Board had ensured the annual independent audits required by law had been performed in a timely manner, the Trustees may have acquired sufficient *additional* information to take corrective actions.

¹¹ Audit report date October 30, 2009.

Finding

The Town Clerk failed to provide oversight as required by the Authority Trust Indenture.

The Trust Indenture creating the Authority provides, in **Article VI Section 3**, the following:

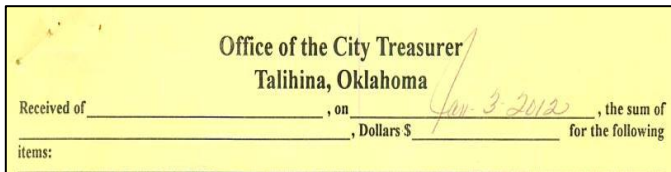
The person, who shall be the Town Clerk of the Beneficiary, shall act as Secretary of the Trustees. The Secretary shall keep minutes of all meetings of the Trustees and shall maintain complete and accurate records of all their financial transactions, all such minutes, books and records to be on file in the office of the Trust.

The Trust Indenture also provides, in **Article VI Section 4**:

The Trustees may appoint a general manager for the Trust Estate, and may employ such other clerical, professional, legal and technical assistance as may be deemed necessary in the discretion of the Trustees to properly operate the business of the Trust...

During an interview with Town Clerk/Treasurer Trudye Cantero, we asked if she felt like it was her responsibility to provide oversight of the utility operations. According to Cantero the utility operations were primarily performed by utility clerk LaDale Compton. Cantero did not understand some parts of the finances related to utility billing and, according to Cantero; Compton was reluctant to give her instruction on the utility financial reports.

When we reviewed the utility financial reports we typically reviewed a daily packet of reports and receipt copies. Included in the daily packet was a report with the title, "Office of the City Treasurer Talihina, Oklahoma." This report typically contained totals for various revenue sources collected, including utility billing revenue.



Outwardly, it would seem reasonable that a report titled "Office of the City Treasurer" would be a report prepared by the Treasurer. However, Clerk/Treasurer Cantero stated the reports were typically prepared by utility

clerk Compton and the only time she prepared the report was if Compton was not at work on a particular day.

During an interview with Treasurer Cantero, she was shown 67 daily reports. According to Cantero, she had prepared only eight, or 12%, of

those reports. None of the treasurer reports had been signed, although one contained the initials “TC” purportedly representing Treasurer Trudy Cantero. Cantero said the report was not initialed by her, but the initials were put there by LaDale Compton for appearance purposes.

During an interview with former utility clerk LaDale Compton, it was confirmed she was the one that ordinarily completed the “Office of the City Treasurer” reports. When asked if Clerk/Treasurer Cantero was reviewing and reconciling her reports, Compton’s response was “obviously not.”

It appears the “Office of the City Treasurer” reports were meant to provide some degree of independent oversight. However, in this case the reports appeared to be primarily generated by the utility clerk herself, and in most cases, did not represent any *actual* element of oversight.

Compton was also asked what level of oversight existed. Compton’s response was, “none.” While we recognize the response as being self-serving, by shifting some of the responsibility away from Compton and on to the Board and Cantero due to their lack of oversight, we also recognize that Compton was able to carry out a misappropriation that remained undetected at least since early 2012.

As such, it appears the utility clerk was in the position to manage all aspects of the utility billing process including billing, receiving, and recording payments, and reconciling the deposits to the reports she created. This process created virtually no segregation of duties, which made it unlikely any embezzlement scheme would have been independently discovered by Town officials.

Town Clerk/Treasurer Cantero told us that if unaccounted for checks had been included in the deposits it was unlikely she would have noticed.

PART IV CHANGES IN DEPOSITS AFTER KEY EVENTS

Summary of Findings:

- **After internal controls were implemented in October 2013, deposits increased over \$8,000 per month, including an increase of \$6,000 in cash deposits.**
 - **After utility clerk LaDale Compton resigned, deposits increased on average an additional \$4,371 per month, including an increase of \$3,500 in cash deposits.**
-

Background

In addition to making a determination *if* funds had been misappropriated, we also endeavored to determine the amount of funds that may have been misappropriated.

The misappropriation of funds relied, in large part, on carrying out an *off-the-book* scheme of unrecorded billings and unrecorded payments. Because the scheme was *off-the-books*, the records do not exist to accurately determine the total amount misappropriated.

Below, we provide an analytical evaluation of the deposits before and after the time periods in question to aid in a projected amount of funds that may have been misappropriated during the time period under review.

Finding

After internal controls were implemented in October 2013, deposits increased over \$8,000 per month, including an increase of \$6,000 in cash deposits.

In July 2013, the Town hired Mary Timmons to assist in getting the financial records in order. In October 2013, Timmons discovered a number of concerns associated with the utility billing and payment process and subsequently instituted a number of internal control procedures. Timmons provided us with a memo she had written dated November 1, 2013, citing newly implemented internal controls that took effect on October 21 and 23, 2013.

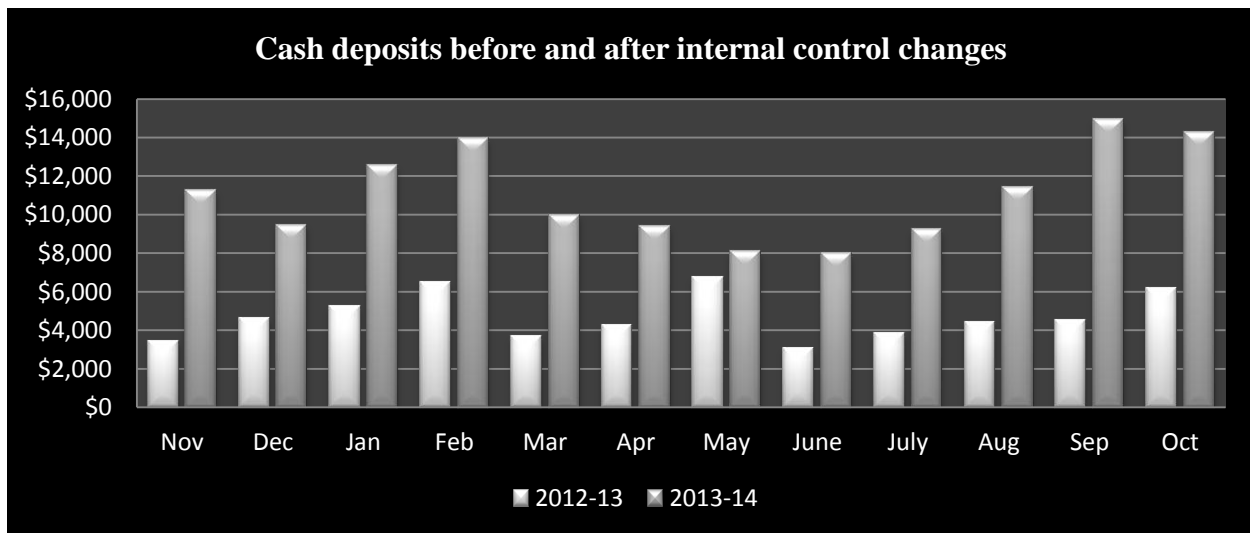
A few of the internal controls implemented included accountability for consecutively numbered receipts, without repetition; all utility payments recorded with correct check or cash composition; and confirmation and reconciliation of end-of-day utility software reports.

Based on the October 21, 2013 internal control implementation, we used November 1, 2013, as the threshold date for a *before and after* analytical review.

From November 1, 2012, to October 31, 2013, a twelve-month period prior to the newly added internal controls, deposits to the utility revenue bank account averaged \$80,050 per month. The average amount of cash being deposited per month during this period was \$4,712.

From November 1, 2013 to October 31, 2014, the twelve-month period following the newly added internal controls, deposits increased to \$88,232 average per month representing an overall increase of \$8,182 per month. The average amount of cash being deposited per month increased from \$4,712 to \$11,044 per month, an increase of \$6,332 per month.

The following chart compares the *cash* amounts deposited, comparing month-to-month, before and after the November 1, 2013, implementation of basic internal controls.



As a result of the analytical review, we determined the amount of cash deposited to the utility revenue account increased by over 134%, more than doubling the amount of cash deposited the year prior to the internal control changes.

Finding

After utility clerk LaDale Compton resigned, deposits increased on average an additional \$4,371 per month, including an increase of \$3,500 in cash deposits.

Town officials provided a letter of resignation indicating utility clerk LaDale Compton resigned effective September 4, 2014. We performed an

analytical evaluation of the deposits to the utility revenue bank account to see if a change occurred to the utility revenue deposits after her resignation.

From September 1, 2013 to August 31, 2014, a twelve-month period prior to the resignation of Compton, utility billing deposits averaged \$89,501 per month, \$9,503 in cash and \$79,998 in checks and money orders.

From September 1, 2014, to August 31, 2015, a twelve-month period following the resignation of the utility clerk, utility billing deposits increased to an average of \$93,872 per month, an increase of \$4,371. The increase in deposits consisted largely of an increase in cash, an average of \$9,502 per month to \$13,082 per month.

According to records provided by the Town the last increase to customers' utility bills occurred on April 18, 2012, and, therefore, there was no increase in utility rates during the two-year period evaluated.

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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