

Are You Allowing Your RWD or Small City of Being “Robbed Blind?”

The fiduciary responsibilities of RWD boards of directors and city councils are ongoing. The goal of fraud is almost always money or financial gain. But that’s not the only reason someone will try to defraud the water or wastewater system. They could also want special services or treatments they would not normally receive.

This article lists various cases of fraud. I hope it will remind RWD directors and council members to be aware of some of the types of schemes that employees of utilities have used for their personal gain.

The case of the missing employees

In 2010, a Washington D.C. Water and Sewer Authority (WASA) employee pleaded guilty to embezzling a quarter-million dollars from the utility by falsifying the payroll records of workers and depositing the money to accounts she controlled. For more than a year and a half, the payroll specialist electronically increased the pay of 40 fired or on-leave employees without their knowledge. She then changed the employees' direct deposit information so the money would land in her own account. When the payroll stubs arrived for the absent employee, she destroyed them to conceal the unauthorized payments. She admitted to stealing more than \$236,000 from the authority and spent the money on “personal luxury items,” according to the prosecutor. An improved payroll tracking process has since been implemented.

“Sounds like a big city corruption problem,” you’re probably thinking. Do I even know of RWDs or small cities with enough employees to require a payroll specialist or use electronic payroll? Or even have 40 or more employees – let alone 40 fired or on-leave employees? This definitely sounds like a problem for a large system, not a RWD or smaller city.

Well, maybe you’re right.

The case of the designer sunglasses

But what about in Clarksville, Tennessee, where one of the 330 employees used the water system credit card to buy himself luxury items and a few not-so-luxury items? Investigators say a former Gas and Water Department



Cartoon by Linda Windler.

worker was supposed to use his purchasing card to buy supplies for the department. Instead, he bought lots of cologne, among other things. “There were personal items like cologne, sunglasses, and a bow and arrow – even fabric softener,” said John Dunn, spokesperson for the Tennessee Comptroller of the Treasury. The employee bought more than \$47,000 worth of stuff, and the Clarksville Gas and Water Department never caught on for five years! The now-fired “materials management technician” used the department's purchasing card and falsified invoices. According to investigators, one invoice shows he bought a \$219 bow and arrow kit, but he filled out the department's requisition form saying he bought rubber boots. He also doctored one invoice to look like he bought safety glasses for workers but instead bought two pairs of Oakley sunglasses for almost \$400.

“A big problem with this case is that nobody was looking over his shoulder,” said Dunn. “He was allowed to order these items, receive them, some of them at his own home, and no one ever looked at the type of things he was actually purchasing.”

In a statement, the City of Clarksville says it's since “strengthened its system of checks” to prevent this from happening again.

(Not to be outdone, over a period of five years, a former manager and other employees at the Mobile-area Prichard Water Works & Sewer Board charged personal items and trips to credit cards belonging to the utility. All to the tune of around \$1.5 million.)

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Well, you say, “We don’t have 330 employees; we don’t have credit cards for our employees to use and we certainly don’t have a “materials management technician”. We have a chief operator and two assistants and they aren’t out buying designer sunglasses. They charge small things at the plumbing supply store or the gas station and that’s it. So that’s never going to happen to us.”

Really? Ok, what about something a little simpler than that?

The case of the finger-pointing clerks

The only two employees working for the Bedford, Ohio (population 13,000) water department responsible for collecting, processing, and depositing water department receipts were both stealing money from the water department without the other one knowing. “Lying, cheating, and stealing...” Those are just a few words that Ohio State Auditor Keith Faber used to describe two employees that stole user payments. It all started to unravel when a utility customer complained to Employee A that a receipt of payment had not been posted to the client’s account. According to state officials, Employee A then notified the city manager of the incident.

The surveillance video showed that Employee A’s co-worker, Employee B, had collected the payment, which she later admitted to keeping. But during the ensuing audit, the city also came to suspect Employee A of theft! So officials reviewed receipts collected on days when Employee B was absent and discovered hundreds of dollars missing in funds for a period when Employee B was on vacation. Auditors uncovered 714 receipts totaling \$76,869 in which cash was collected by both employees but was not deposited into the city bank account.

According to the state auditors, Bedford has reportedly improved how they process their money. The state advises that they “continue to improve and consistently evaluate their policies and their effectiveness.”

I know what you’re thinking: “We are a small RWD or city. We would know if our revenue was down by \$80,000 in one year! We would know if we weren’t receiving all the payments for all the water that we sold. That would be a huge red flag for us as a board.” But, would you as a director or council member really know?

The case of the unpaid vendors

A small RWD in Campbell County Wyoming had no idea its employee was robbing it. The clerk for a small water system wrote herself dozens of cash advance checks beginning in 2017 and kept doing so every few months for nearly five years! She wrote and deposited 77 checks totaling almost \$56,000. She changed the destination of the checks to maintain the appearance that they would pay company bills and suppliers, but she did not change the account number the checks were deposited into, which was her own. Apparently, suppliers went five years without being paid! It turned out that the employee had also taken customer payments and issued account credits. So this clerk both pocketed cash AND paid herself with checks.



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Inconsistencies within the company's financial documents were finally noticed and an account-by-account review of the books and accounts was started.

That's starting to get a little closer to home, isn't it? One employee is in charge of depositing and writing checks. And in charge of tracking payments to vendors. "But hey", you say -- "Our system is in good shape. We get a financial utility report every month at the board or council meeting that shows how much money we have received from customers and how much money we have paid in bills. That always matches up, according to our bookkeeper, manager, or billing clerk."

The case of the double expenses

The bookkeeper at the Bee Branch Water Association in Bee Branch, Arkansas stole tens of thousands of dollars from the company. Richard McPhail, Chair of the Board of Bee Branch Water Association, worked side by side with Virginia Watson at the Bee Branch Water Association for more than a decade. He says he was in shock when he discovered Watson was accused of stealing money for years.

"The way it looked was every bill that we paid, every invoice that we got, she'd make one out to herself for the same amount and sign my name to it," says McPhail.

He says the board confronted Watson about it. "She came in and admitted that she took the money," says McPhail.

He says they found out about it because the utility had been struggling to stay afloat.

They attributed their financial instability to water loss, but after making repairs, McPhail says there was still no money.

They hired a CPA to do an audit and that's when they found out how much money was missing. "The debt was roughly \$173,000, and it went over a four-year period," says McPhail. While McPhail says they haven't seen any of that money reimbursed yet, they're at least breaking even again. "She stole from the 1,300 meters we have out here," says McPhail. "Everybody that's got a meter got stole[n] from because she was taking more or less public funds."

I could go on and on. There was the RWD with two board members who would swing by separately to pre-sign checks. The problem was that the clerk would write one of the checks out to herself and use one to pay the legitimate invoice. Or the RWD with the clerk who used district funds to pre-pay for the collectible figurines that she ordered, then stored the figurines at the office and pocketed the money from the sales she made on the side. All without anyone on the board ever noticing. (That finally ended when a new board member got suspicious about her response as to why the billing software didn't seem to match the books. The clerk explained that the billing software they used was outdated and no upgrades were supported. And that since the district couldn't afford to buy new billing software {gee I wonder why?}, she just reconciled the two totals by hand!

Yes, I agree. These are nightmare stories. Bee Branch is the scariest tale of all. A utility with 1,300 meters had so much money stolen by its employee for more than four years that it thought it had water leaks. What if that utility had failed because it didn't have enough income to cover operating costs? The state would have had to step in and take over the system and all those customers would have faced a water crisis rate increase.

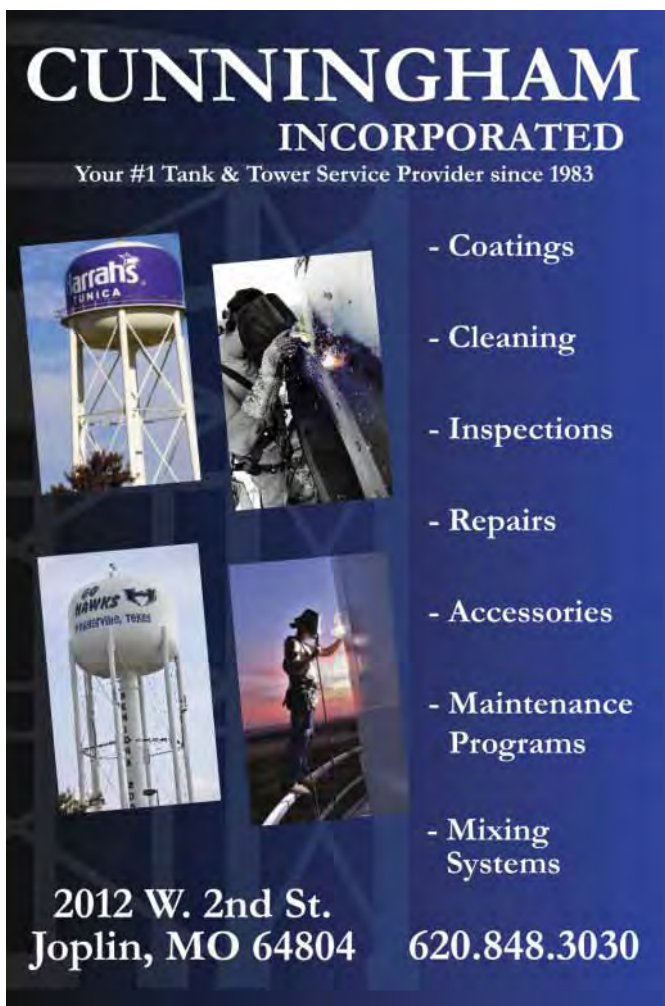
The real nightmare is that it is not there were blatantly dishonest employees. The nightmare is that their board members who so oblivious and blind to the thefts that they went on for years. These thefts were 100 percent the fault of the board members for not safeguarding public money and implementing basic checks and balances to ensure that money wasn't disappearing. Bee Branch was paying double its expenses and the board never noticed? How is that even possible?

Look at the italicized quotes from the aftermath of the other cautionary tales:

An improved payroll tracking process has since been implemented.

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According to the state auditors, Bedford has reportedly since improved the way they process their money. The state



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advises that they “continue to improve and consistently evaluate their policies and their effectiveness.”

The theme is a lack of oversight and a naive trust in employees to somehow always do the right thing – even when they know that the bosses are paying no attention. If your board or council just glances at a monthly report to make sure the revenue is larger than expenses, then you are failing your RWD or city. I understand that most RWDs and small cities do not have the luxury of both a billing clerk and a payment clerk. I am aware that in some very small systems, the same person may be the same person reading meters, paying bills, and accepting cash. That same person will also probably write out their own paycheck for a board member or council member to sign! So it will not be possible to have the accounting checks and balances that would be ideal.

The good news is that you don’t need additional employees, retinal scanners, high-tech vaults, and a daily cashbox audit to safeguard your system’s cash. It only requires managers and board and council members to care! What would you do if this was your personal business? Would you allow your employees to operate without any supervision? How would you approach cash flow management? There are basic steps you can take but they involve the board members doing more than just glancing at a printed report once a month and trusting all employees to be honest. Go back and re-read the scenarios in this article. What steps would you have taken to prevent that specific employee from stealing?

Allowing employees to sign checks or signing blank checks is lazy. Ideally, it would be best if you had two board members sign every check – the chair and the treasurer – instead of individual board members signing blank checks -- but that may not be possible in a small RWD or city. However, someone on the board should be willing to sit down with staff once a month, sign checks in a ledger, and match those checks with invoices. Employees should also be unable to conduct electronic banking and pay bills without a board member periodically logging into the account and verifying the payments. Electronic banking is instantaneous and should make it easier to catch bad actors sooner.

If your city or RWD is accepting cash payments, then a board or council member

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needs to spot-check the deposits and make sure that customer payments received match up with checks and cash for that day. It is also a good idea to have a board member periodically open mail and randomly select an invoice to verify payment. This may start to sound like board or council members must be involved with day-to-day operations. Guess what? That is correct! Does this take

more effort than sitting in on a monthly board meeting and casually glancing over financials? Yes. Does this mean you may need to pay for quarterly or annual compliance accounting and spot-checking by a third party? Yes, it could.

It is the fiduciary duty of an elected board member or council member to step up and know the financial ins and outs of the day-to-day system operations. If you think that is excessive, then you probably shouldn't be a member of the RWD board or council member of the small city.

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