
Secretary of State

State of Oregon

Oregon Department of Transportation
GRANT COUNTY TRANSPORTATION DISTRICT
Loss of Public Funds



Audits Division

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Auditing for a Better Oregon

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At the request of the Oregon Department of Transportation, we reviewed the records related to a loss of public funds by the Grant County Transportation District. The district receives both state and federal funding from the state of Oregon. The purpose of our review was to determine whether a loss of public funds had occurred and, if one had, the extent and nature of the loss. This report contains the results of that review.

The publicly-funded transportation district lost approximately \$10,000 due to misappropriated cash receipts, personal expenses charged to the district credit card, extra paychecks taken by the bookkeeper, and unsupported cash disbursements. The details of the loss, which occurred between July 1, 1995 through August 28, 1996, have been given to the Grant County District Attorney and the Oregon State Police for possible criminal prosecution.

Besides the misappropriated funds described above, the district suffered losses from penalties and interest charges caused by failure to pay the district's debts. Furthermore, the district suffered operating losses, the effect of which we have not estimated, from shutting down its operations until workers' compensation insurance could be obtained and operating funds could be secured to continue transportation services.

When the district board became aware of the possible misappropriation, it took immediate action to notify ODOT of the situation and to review the district accounting records. Further, the board made certain changes to improve its oversight function. This report provides recommendations to assist the transportation district in further improving its controls to reduce the risk of future losses.

OREGON AUDITS DIVISION

Don Waggoner, CPA
State Auditor

Fieldwork Completion Date:
October 30, 1996

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| STATE AUDITOR'S REPORT | iii |
| SUMMARY..... | vii |
| INTRODUCTION | |
| BACKGROUND | 1 |
| SCOPE AND METHODOLOGY | 2 |
| AUDIT RESULTS | |
| A. MISAPPROPRIATED FUNDS | 3 |
| 1. EXTRA PAYCHECKS | 3 |
| 2. CLEANING FEES..... | 5 |
| 3. MISSING BUS AND FREIGHT CASH RECEIPTS | 5 |
| 4. PERSONAL EXPENSES CHARGED TO DISTRICT CREDIT CARD..... | 8 |
| 5. CASH PAYMENTS AND UNDOCUMENTED EXPENSES..... | 10 |
| B. PERSONAL EXPENSES NOT PAID BY DISTRICT..... | 11 |
| C. PENALTIES AND INTEREST CHARGES | 12 |
| CAUSES..... | 12 |
| RECOMMENDATIONS..... | 13 |
| REPORT DISTRIBUTION..... | 16 |
| COMMENDATION | 16 |
| APPENDIX A | 17 |
| GRANT COUNTY TRANSPORTATION DISTRICT RESPONSE | 19 |

SUMMARY

On October 14, 1996, the Oregon Department of Transportation (ODOT) contacted the Audits Division regarding a possible misappropriation at a local transportation district to which it provides state and federal funding. ODOT requested assistance in reviewing the related records of the Grant County Transportation District and determining the validity and extent of the possible loss of state-provided funding.

The district's board of directors became aware on August 28 that its workers' compensation insurance premium had not been paid and it had been operating without the required coverage. Furthermore, the district's bank account did not contain sufficient funds to pay the premium. The district board immediately shut down its transportation services since it did not have the mandatory workers' compensation coverage and began reviewing the accounting records to determine why the premium had not been paid. Due to the state and federal funds involved, the district board also immediately notified ODOT, Public Transit Section, when this review identified a probable misappropriation of funds.

Our review of the district's records confirmed that approximately \$10,000 had apparently been misappropriated between July 1995 and August 1996. The missing funds included pay advances taken by the former bookkeeper which were not repaid, cash bus fares and freight payments which were not deposited by the former bookkeeper, personal expenses charged to the district's credit card by the former bookkeeper, undocumented checks for cash which were endorsed by the former bookkeeper, unsupported cleaning fees paid to the former bookkeeper and her husband who was also an employee of the district, and unsupported expense payments to various vendors.

The district also suffered additional expense due to penalties and interest charges imposed as a result of the former bookkeeper's actions. These expenses included penalties for failure to pay the workers' compensation insurance premiums and to make required state and federal payroll tax deposits, as well as fees imposed for exceeding the allowed credit limit on the district's credit card.

As a result of not having workers' compensation insurance, the district was required to shut down operations on August 29 and did not resume full operations until 2 weeks later. During this time, the board determined that it owed approximately \$16,000 for unpaid bills plus penalties and interest for failure to make scheduled payments. However, the district had no funds available to pay these overdue debts. To resume operations, the district obtained a \$25,000 loan by refinancing the loan on its building. We did not estimate the revenues lost as a result of the district having to stop transportation services until workers' compensation coverage and operating funds could be obtained.

Federal funds cover half of the operating deficit of the transportation district, up to a maximum of \$9,000. The reduced revenues caused by misappropriated

receipts and the increased expenses from inappropriate expenditure of public funds resulted in higher operating losses than would otherwise have occurred. Therefore, the misappropriated funds may have resulted in ODOT's paying more federal funds to the district than should have been provided. The district board agreed to file corrected financial reports which include only allowable expenses to allow ODOT to make the necessary funding adjustments.

State funding of the district comes from the 2-cent cigarette tax allocation through the Special Transportation Fund. The cigarette tax allocation hinges on population, and, therefore, this revenue source was not directly affected by the misappropriation. However, these state funds would have been among the public monies which were misused.

Subsequent to discovering the misappropriation of funds, the district board modified certain procedures to lessen the risk of a similar loss. During the initial review by an ODOT auditor and the Audits Division, several recommendations were made to the board for improving its controls. This report contains an analysis of the losses suffered by the district and makes further specific recommendations for resolving the loss and improving district controls over cash and expenditures.

Details of the apparent misappropriation have been provided to the Oregon State Police and the Grant County District Attorney to evaluate for criminal prosecution.

INTRODUCTION

BACKGROUND

On October 14, 1996, the Oregon Department of Transportation contacted the Audits Division regarding a possible misappropriation at a transportation district to which it provides federal funds. ODOT requested assistance in reviewing the related records of the Grant County Transportation District to determine the validity and extent of the possible loss of state-provided funding.

The Grant County Transportation District is located in John Day, Oregon. Federal funds received through ODOT's Public Transit Section cover half of the operating deficit of the transportation district, up to a maximum of \$9,000. State funding of the district comes from the 2-cent cigarette tax allocation through the Special Transportation Fund. Local funding consists primarily of bus fares, freight charges and donations. Major expense categories include payroll and the associated taxes, supplies, and maintenance and operation of the buses and vans.

The district is managed by a 7-member board of directors who are elected. During the period of July 1995 through August 1996, district employees included a bookkeeper, an office manager, a bus supervisor and four bus drivers. Besides paid employees, volunteer dispatchers and drivers assist the district in providing transportation services in Grant County.

The district's board of directors became aware on August 28 that its workers' compensation insurance premium had not been paid; therefore, the district had been operating without the required coverage. Furthermore, the district's bank account did not contain sufficient funds to pay the premium. The district board immediately shut down its transportation services since it did not have the mandatory workers' compensation coverage. As a board member began reviewing the accounting records to determine why the premium had not been paid, the board learned that funds had apparently been misappropriated. Due to the state and

federal funds involved, the district then notified ODOT, Public Transit Section, of the apparent loss.

**SCOPE AND
METHODOLOGY**

This review encompasses the Grant County Transportation District's cash receipt and disbursement transactions from July 1995 through August 1996. The review focused on bus fares, freight payments, and donations since these receipt types are primarily collected in cash. In addition, accounts receivable records were scanned for indications of further cash collections. The district included in its September billings a notice to contact the district if there were errors in the bill. Only one customer indicated an unrecorded payment of \$15; therefore, we did not further examine the receivables records for missing cash receipts.

In performing the review, we obtained and analyzed the bus tickets, freight bills, and related reports. We also compared validated deposit slips to the receipt records. In reviewing disbursement activities, we examined the district's paid bill files, canceled checks, and the related bank statements. Board minutes of the specified period were reviewed. Further, we interviewed district personnel on cash handling and record keeping procedures during the period of July 1995 through August 1996. We also observed district operations during several days of on-site review work in late October.

AUDIT RESULTS

A. MISAPPROPRIATED FUNDS

We analyzed the district's receipts and disbursements records and identified misappropriated funds as follows:

1. EXTRA PAYCHECKS

The former bookkeeper, Tina Sheppard, owes the district \$1,407 for unauthorized "pay advances" she took and did not repay. As of August 28, her final day of work, Sheppard owed \$2,150 for the extra unauthorized paychecks. She agreed to her August paycheck being used to repay part of this debt to the district. After the board retained Sheppard's August net pay of \$743, the remaining unauthorized pay balance is \$1,407.

When the district board received its annual audit report in January 1996, it learned that as of June 30, 1995, Tina Sheppard owed \$1,400 for "pay advances" which she had taken but not repaid. Board officials stated that they were unaware the bookkeeper had been taking advances and not repaying them. The board did not know that she owed \$1,400 until the audit report was presented. After receiving the audit, the board met in executive session to discuss the matter. Board officials stated that there was a general agreement that the \$1,400 would be repaid by Sheppard, but a formal written agreement was not prepared. Board members indicated that when they later asked about the \$1,400 they were assured by Sheppard that she was repaying it.

Following is a summary of extra paychecks taken by Sheppard and the repayment deductions from her paychecks:

EXTRA PAYCHECKS TO TINA SHEPPARD

| <u>Date</u> | <u>Check No.</u> | <u>Description</u> | <u>Amount</u> | <u>Balance</u> |
|-------------|------------------|------------------------|---------------|----------------|
| 6/30/95 | | fiscal year 1995 audit | | \$1,400 |
| 7/6/95 | 824 | advance | \$600 | \$2,000 |
| 7/31/95 | 848 | repayment | (\$300) | \$1,700 |
| 8/7/95 | 853 | advance | \$600 | \$2,300 |
| 8/31/95 | 883 | repayment | (\$300) | \$2,000 |
| 9/11/95 | 888 | advance | \$600 | \$2,600 |
| 9/30/95 | 909 | repayment | (\$600) | \$2,000 |
| 10/10/95 | 912 | advance | \$600 | \$2,600 |
| 11/21/95 | 957 | advance | \$150 | \$2,750 |
| 11/30/95 | 972 | repayment | (\$600) | \$2,150 |
| 12/13/95 | 977 | advance | \$600 | \$2,750 |
| 12/31/95 | 999 | repayment | (\$600) | \$2,150 |

After the annual audit report was given to the board in January 1996, the bookkeeper discontinued taking extra paychecks.

| | | | | |
|---------|------|----------------------|------------|--------------------------|
| 8/31/96 | none | final check withheld | (\$742.56) | <u><u>\$1,407.44</u></u> |
|---------|------|----------------------|------------|--------------------------|

During this same period, one other employee received pay advances. This employee's advances were deducted by Sheppard from the employee's succeeding paychecks. However, Sheppard stated that she would forget that she had taken a pay advance and, therefore, did not always deduct the repayment from her own subsequent paychecks. Even after the audit disclosed the \$1,400 owed, Sheppard did not deduct any repayments from her paychecks. Sheppard said she made some cash repayments totaling \$100 to \$125, of approximately \$25 each. She further said that she recorded these cash repayments as anonymous donations in the district's accounting records, which is why she has no record of having made any repayments. Review of the district's accounting and deposit records did not reveal any anonymous donations of \$25 between January and August 1996.

2. CLEANING FEES

In addition to taking extra paychecks, the former bookkeeper paid herself and her husband, who was also employed by the district, for cleaning fees which were not supported by district records. These payments are summarized below:

| Date | Check No. | Payee | Amount | Description |
|---------|-----------|---------------|-----------------|------------------|
| 5/2/96 | 1193 | Tina Sheppard | \$15.00 | cleaning |
| 5/2/96 | 1194 | Gene Sheppard | \$135.00 | vehicle cleaning |
| 5/31/96 | 1209 | Tina Sheppard | \$37.50 | cleaning |
| 5/31/96 | 1208 | Gene Sheppard | \$20.00 | vehicle cleaning |
| 6/28/96 | 1229 | Tina Sheppard | \$30.00 | cleaning |
| 6/28/96 | 1230 | Gene Sheppard | \$55.00 | vehicle cleaning |
| | | | <u>\$292.50</u> | |

Prior to May 1996, there was a summary in the monthly paid bill files showing who had cleaned district vehicles and the amount paid. There was no documentation for vehicle cleaning fees for the period listed above. Furthermore, there was no documentation in the files to support any of the cleaning fees paid to Tina Sheppard.

**3. MISSING BUS AND FREIGHT
CASH RECEIPTS**

The district provides transportation and freight service to Bend, Oregon, from John Day and the area. In addition, it operates a Dial-A-Ride van and local transportation service in John Day and the immediate area. Occasionally, district vehicles are scheduled by groups or organizations for transportation to other locations. Bus tickets are sold and freight bills are prepared for shipments on the Bend transportation runs. For the Dial-A-Ride and local service, rider information and fare collections are recorded by the drivers on manual log sheets. The bus tickets for the Bend route are prepared by the bus drivers, who record the amount of the fare and the method of payment. Typically, fares are collected in cash or check; some are charged on account with the district. Most bus tickets are purchased from the drivers, but the bookkeeper also sold tickets at the office. For Bend

freight service, the freight bills were prepared by either the drivers or the bookkeeper. Freight bills noted whether the shipment cost was prepaid, was charged on account or should be collected when the shipment was picked up. Infrequently the freight bills were marked "paid in cash"; most did not signify the method of payment.

To determine the amount of cash collected for transportation services, we prepared a listing of bus tickets and summarized the fare amounts by method of payment. We also summarized collections recorded on the log sheets for Dial-A-Ride and local bus runs. These receipts are essentially all collected by the drivers. Based on the bus supervisor's estimation, we included 75 percent of Dial-A-Ride collections and 100 percent of local ride collections as cash receipts. We reviewed freight bills looking for those marked as paid in cash. Most prepaid freight bills did not indicate method of payment; however, the bus supervisor stated that these are almost exclusively cash collectons. For freight amounts that were not prepaid, we relied on the freight bill notations to determine amounts collected in cash.

Using these methods, we determined the probable amount of cash collected for the district's transportation services. A comparison of cash collected to cash deposited is shown in the following table:

| Month | Bend Trips | | Dial-A-Ride | Local | Other | Total Cash Received | Total Cash Deposited | MISSING CASH |
|--------|---------------|------------|-------------|----------|--------|------------------------|-------------------------|-----------------|
| | Freight | Fares | | | | | | |
| Jul-95 | \$125.35 | \$558.75 | \$265.50 | \$136.00 | | \$1,085.60 | \$822.38 | \$(263.22) |
| Aug-95 | \$68.20 | \$556.38 | \$237.56 | \$95.75 | \$5.63 | \$963.52 | \$149.02 | \$(814.50) |
| Sep-95 | \$122.07 | \$449.00 | \$237.11 | \$127.00 | | \$935.18 | \$232.61 | \$(702.57) |
| Oct-95 | \$102.89 | \$391.00 | \$233.25 | \$107.50 | | \$834.64 | \$247.90 | \$(586.74) |
| Nov-95 | \$152.30 | \$678.50 | \$268.80 | \$107.00 | | \$1,206.60 | \$280.75 | \$(925.85) |
| Dec-95 | \$154.48 | \$876.75 | * | * | | \$1,031.23 | \$513.99 | \$(517.24) |
| Jan-96 | \$74.89 | \$561.00 | * | * | | \$635.89 | \$334.58 | \$(301.31) |
| Feb-96 | \$50.25 | \$320.25 | * | * | | \$370.50 | \$83.20 | \$(287.30) |
| Mar-96 | ** \$ - - | \$742.25 | * | * | | \$742.25 | \$296.65 | \$(445.60) |
| Apr-96 | ** \$30.25 | \$443.50 | * | * | | \$473.75 | \$24.25 | \$(449.50) |
| May-96 | ** \$ - - | \$454.50 | * | * | | \$454.50 | \$47.55 | \$(406.95) |
| Jun-96 | \$40.50 | \$347.75 | * | * | | \$388.25 | \$38.36 | \$(349.89) |
| Jul-96 | \$41.00 | \$690.00 | * | * | | \$731.00 | \$85.05 | \$(645.95) |
| Aug-96 | \$11.75 | \$725.50 | * | * | | \$737.25 | \$303.88 | \$(433.37) |
| | \$973.93 | \$7,795.13 | \$1,242.23 | \$573.25 | \$5.63 | \$10,590.1 | \$3,460.17 | \$(7,130.00) |

* Records for Dial-A-Ride and Local van runs are missing from December 1995 through August 1996.

** Reports for Bend trips (freight and fares) are also missing from March 1996 through May 1996. The receipt amounts for these months are only those noted as "cash" on the individual freight bills. Since the summary reports are missing, these months do not include an estimate of cash receipts from prepaids as other months do.

Because of missing reports of Dial-A-Ride, local runs, and Bend trip summaries, the estimate of cash collected by the district is incomplete. Therefore, the amount of cash actually missing is likely greater than the loss shown in the table above.

When the bus drivers returned from their various bus runs, they turned in their collections, reports, and tickets at the office. For each run, the supervisor compared the amount of collections to the number of riders to ensure collections balanced. Then the receipts and tickets were put into various deposit bags depending on the bus run. The bags were left for the bookkeeper to record and deposit the receipts and file the tickets and reports. If the bus supervisor was not available, the bookkeeper was responsible for balancing the tickets and collections. The bus supervisor stated that after the drivers turned in their collections, he never saw any of them handling the cash receipts. He further stated that the bookkeeper counted the receipts, recorded the charge accounts off the tickets, and made the deposits.

Deposits were made about once a week. The bus supervisor said that since the bookkeeper put a password on the office computer, he was not able to access the accounting system and he did not see the related accounting records to know if all collections were being deposited.

The bookkeeper told us that she relied on the bus supervisor's count of collections and did not recount the cash when preparing deposits. Furthermore, she stated that she was unaware that the amount of cash in the deposits was not comparable to the amount of cash collections shown on the tickets and freight bills. The bookkeeper verified that she maintained the accounting records and made the deposits about once a week. Based on her responsibilities, it is not possible that she was unaware of the cash shortages, and yet no shortages were reported by the bookkeeper to the board.

**4. PERSONAL EXPENSES
CHARGED TO DISTRICT
CREDIT CARD**

When the district officials reviewed the accounting records during October, they noted several charged to the district's credit card which were apparently personal expenses of the bookkeeper. When we talked with the bookkeeper, she confirmed that she had charged "about \$500 or \$600" of personal items to the district's credit card.

Charges identified by the district as personal charges of the bookkeeper are summarized below. She declined to review the records with us to confirm whether these were all personal charges she made.

| Transaction Date | Vendor | Transaction Amount | Payment Date | District Check No. | District Check Amount |
|------------------|--------------------------|--------------------|--------------|--------------------|-----------------------|
| 5/17/95 | WalMart - Bend | \$34.96 | 7/14/95 | 839 | \$600.00 |
| 5/17/95 | Shomeyer Jewelers - Bend | \$45.00 | 7/14/95 | 839 | \$600.00 |
| 11/22/95 | Lane Bryant | \$56.98 | 1/23/96 | 1002 | \$13.96 |
| 12/6/95 | Newport News | \$55.88 | 3/25/96 | 1144 | \$63.89 |
| 12/10/95 | Newport News | \$15.99 | 4/22/96 | 1185 | \$460.00 |
| 1/5/96 | Signatures | \$51.00 | 4/22/96 | 1185 | \$460.00 |
| 1/31/96 | Frederick's | \$44.90 | 4/22/96 | 1185 | \$460.00 |
| 1/31/96 | Lane Bryant | \$52.97 | 4/22/96 | 1185 | \$460.00 |
| 2/8/96 | Lane Bryant | \$73.96 | 4/22/96 | 1185 | \$460.00 |
| 2/8/96 | Newport News | \$(17.99) | credit* | | |
| 2/13/96 | Frederick's | \$27.00 | 4/22/96 | 1185 | \$460.00 |
| 2/21/96 | Lane Bryant | \$(39.99) | credit | | |
| 2/21/96 | Lane Bryant | \$(53.98) | credit | | |
| 2/28/96 | Newport News | \$54.48 | 7/29/96 | 1235 | \$473.00 |
| 11/19/95 | Newport News ** | \$44.38 | 7/29/96 | 1235 | \$473.00 |
| 12/4/95 | Newport News ** | \$31.49 | 7/29/96 | 1235 | \$473.00 |
| 12/11/95 | Newport News ** | \$22.49 | 7/29/96 | 1235 | \$473.00 |
| 11/19/95 | Newport News ** | \$20.00 | 7/29/96 | 1235 | \$473.00 |
| 3/1/96 | WalMart - Bend | \$84.29 | 7/29/96 | 1235 | \$473.00 |
| 5/1/96 | Newport News | \$73.17 | 7/29/96 | 1235 | \$473.00 |
| 5/1/96 | Newport News | \$27.93 | 7/29/96 | 1235 | \$473.00 |
| 5/1/96 | Newport News | \$40.49 | 7/29/96 | 1235 | \$473.00 |
| 5/1/96 | Newport News | \$13.50 | 7/29/96 | 1235 | \$473.00 |
| 5/2/96 | Newport News | \$(60.27) | credit | | |
| 6/26/96 | Newport News | \$(13.50) | credit | | |
| 6/26/96 | Newport News | \$(13.50) | credit | | |
| 7/16/96 | Lane Bryant | \$(39.99) | credit | | |
| | Total Personal Expenses | <u>\$631.64</u> | | | |

* Credits were for returned items.

** These were delayed billings by Newport News which were charged against the district's credit card in March 1996.

Besides showing the personal charges, the table above also lists the district checks the bookkeeper prepared to pay for her purchases. The payments are larger than the listed items, since they also included some valid district charges which were made to the credit card.

In discussing the personal expenses on the district's credit card, the bookkeeper stated she had intended to pay for these charges personally, but admitted she had used district checks instead.

5. CASH PAYMENTS AND UNDOCUMENTED EXPENSES

While reviewing the accounting records, district officials identified several instances in which checks were written to cash or to vendors and there were no related receipts or invoices to support the payments as being valid district expenses. Review of the canceled checks made payable to cash showed the bookkeeper had endorsed each of these checks, as summarized in the table below.

PETTY CASH

| <u>Date</u> | <u>Check No.</u> | | <u>Amount</u> | <u>Endorsement</u> | |
|-------------|------------------|------|-----------------|--------------------|---------------------|
| 10/24/95 | 916 | Cash | <u>\$29.18</u> | Tina Sheppard | reimbursed 10/31/95 |
| 10/24/95 | 917 | Cash | \$45.69 | Tina Sheppard | |
| 11/14/95 | 949 | Cash | \$22.57 | Tina Sheppard | |
| 11/14/95 | 950 | Cash | \$27.31 | Tina Sheppard | |
| 12/26/95 | 978 | Cash | \$24.99 | Tina Sheppard | |
| 1/4/96 | 994 | Cash | \$72.78 | Tina Sheppard | |
| 3/12/96 | 1118 | Cash | \$75.00 | Tina Sheppard | |
| 4/12/96 | 1169 | Cash | \$75.00 | Tina Sheppard | |
| 5/21/96 | 1195 | Cash | \$74.33 | Tina Sheppard | |
| 5/31/96 | 1211 | Cash | \$76.33 | Tina Sheppard | |
| 6/24/96 | 1217 | Cash | <u>\$81.47</u> | Tina Sheppard | |
| | | | <u>\$575.47</u> | | |

As the table above shows, one cash disbursement was reimbursed, but the remaining 10 cashed checks were not.

The payments to vendors which were not supported as being district expenses are summarized below:

PERSONAL PURCHASES and UNDOCUMENTED PAYMENTS

| <u>Date</u> | <u>Check No.</u> | <u>Payee</u> | <u>Amount</u> | <u>Description</u> |
|-------------|------------------|---------------|-----------------|--|
| 11/15/95 | 929 | Quill | \$119.69 | Day Runner, refills, etc. NOT IN OFFICE |
| 1/24/96 | 1009 | Reliable | \$8.07 | executive desk calendar NOT IN OFFICE |
| 3/25/96 | 1141 | Reliable | \$37.90 | no invoice |
| 3/27/96 | 1155 | USPS | \$64.00 | no receipt |
| 6/25/96 | 1219 | USPS | \$64.00 | no receipt |
| 4/12/96 | 1168 | Tina Sheppard | <u>\$22.06</u> | no invoice/receipt |
| | | | <u>\$315.72</u> | |

In conjunction with the Oregon State Police, we have provided to the Grant County District Attorney the details and records related to each of the matters described above. The District Attorney will determine whether criminal prosecution will occur.

The district has a fidelity bond providing \$1,000 coverage each for the bookkeeper, the drivers and the bus supervisor. The district should take the necessary action to file a claim with the bonding company for the identified losses.

**B. PERSONAL EXPENSES
NOT PAID BY THE
DISTRICT**

Subsequent to the bookkeeper's employment ending, the district has been receiving billings from four companies requesting payment on delinquent accounts. These billings are for personal items ordered by the bookkeeper in the district's name. The bookkeeper confirmed these items were personal items, but stated that she intended the billings to come to her personally. However, the invoices listed the Grant County Transportation District or the People Mover, not Tina Sheppard personally, as the account name.

| Vendor | Description | Amount |
|------------------|---|-----------------|
| Columbia House | Being billed by North Shore Agency Inc. (a collection agency). Purchase of CDs according to Tina. | \$93.12 |
| Disney Catalog | Being billed by NPC Check Svcs. Inc. (a collection agency). Purchase of shorts and a video according to Tina. | \$113.99 |
| Quill Corp. | Mobile oak work center which Tina confirmed was at her home on October 28, 1996. | \$144.15 |
| ABC Distributing | Invoice shows ordering agent was T Sheppard. The invoice dates range from 5/20/96 through 8/7/96. | \$155.76 |
| | TOTAL | <u>\$507.02</u> |

Some charges originated in May 1996, approximately 3 months prior to her employment ending. Although the former bookkeeper said she intended to pay for these items personally, she agreed that she has not made payment on any of the accounts as of October 28.

C. PENALTIES AND INTEREST CHARGES

Because the district's bills were not paid when due, additional expenses for penalties and interest charges resulted. Following is a summary of these extra costs as identified by the district:

| | |
|--|---------|
| Workers' compensation penalty by the Department of Consumer and Business Services for failure to maintain workers' compensation coverage | \$1,001 |
| SAIF Corporation penalty for non-payment of workers' compensation insurance premium | \$169 |
| Internal Revenue Service for failure to make payroll tax deposits | \$710 |
| Employment Division for failure to make payroll tax deposits | \$458 |
| Credit card fees and interest charges | \$203 |
| Total penalties and interest as of October 30, 1996 | \$2,541 |

While we did not verify each of these amounts, based on our review of correspondence and supporting worksheets, they appear correct. The district is also subject to possible penalties from the Oregon Department of Revenue for failure to make payroll tax deposits, but as of October 30 had not yet been notified of the amount due.

CAUSES

The board of directors relied on the integrity of the office staff to maintain accountability for its public funds. When the former bookkeeper told the board that she was not able to produce financial reports, the board allowed the issue to be delayed. When the former

bookkeeper told the board that debts were being paid, the board relied on those statements.

Due to the small number of employees, segregation of incompatible duties to achieve a good level of control is difficult. A complicating factor in this situation was the fact that the bookkeeper's day-to-day supervisor, the office manager, was also her grandmother. This relationship may have contributed to the lack of adequate supervisory review of her activities. While the district account required two signatures on checks, the office manager was usually the second signature. Therefore, only one board member signature was needed to disburse district funds. District board members stated that the former bookkeeper would often bring checks to various individual board members to obtain the second signature. Furthermore, invoices were usually not provided to support the checks being presented for signature. Allowing the office staff to request expenditure approval from just one board member and signing checks without supporting documentation made the questioned transactions easier to accomplish.

RECOMMENDATIONS

Given the limited number of employees among whom duties can be separated, direct board oversight is necessary to provide adequate controls over the district's transactions. Therefore, **we recommend** the Grant County Transportation District board:

1. Ensure records of collections are compared to amounts deposited. This comparison should usually be done by someone without cash handling duties. In this case, an alternative would be for the bookkeeper to provide a copy of the deposit slip to the bus supervisor for comparison to his collection records. Alternatively, the comparison could be done by a board member periodically.
2. Ensure the transfer of accountability for collections is documented and collections are secured. When the bus supervisor gives bus fares and freight receipts to the bookkeeper, he should retain a copy of the summary collection reports. These reports should be compared to a copy of the deposit slip.

Collections should be secured in a locked cabinet until deposited. Deposits should be made more frequently, daily when possible.

3. Monitor the district's financial condition closely by requiring monthly financial reports. Furthermore, the board should require a detailed listing of accounts payable, accounts receivable, and balances in the district's bank accounts. The monthly financial reports should also include a summary of ridership and freight shipments to enable the board to evaluate the related revenues for reasonableness.
4. Require invoices and receipts to be presented prior to signing checks for payment of expenses. When an advance payment is necessary, the board should require the invoice or receipt to be provided at the next board meeting. Signing checks outside the normal approval process should only occur in emergencies. Furthermore, these disbursements should then be reviewed and approved at the next board meeting.

During the review, the ODOT auditor and Audits Division made the following recommendations to the board regarding its accounting functions:

1. Periodically, someone other than the bus supervisor should receive bus fares and freight receipts, compare the receipts to the ridership and freight bills, and prepare the summary reports of activity.
2. Bank statements should be received and reviewed by someone other than the bookkeeper before being given to the bookkeeper for reconciliation. In addition, the reconciliation should be periodically reviewed by someone else or should be presented to the board for its review.
3. Timesheets should be approved by someone familiar with the drivers' schedules.
4. Financial reports should include a comparison of budgeted and actual revenues and expenditures for the board's review.
5. The amount of the district's fidelity bond should be reviewed for sufficiency. The bond should cover

the amount of cash usually handled by or in the custody of each employee or board member. This amount should also be adequate to cover cash in the district's bank accounts and its credit card limit for individuals with access to those assets.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Oregon Department of Transportation, the Grant County Transportation Board, the governor of the state of Oregon, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Oregon Department of Transportation and the Grant County Transportation Board were commendable and much appreciated.

APPENDIX A

PERSONAL EXPENSES

| | |
|---------------|----------------|
| Credit card | \$631 |
| “Cash” checks | \$575 |
| No invoices | \$315 |
| | <u>\$1,521</u> |

CASH RECEIPTS

| | |
|-------------------|----------------|
| Bus fares/freight | <u>\$7,130</u> |
|-------------------|----------------|

PAY ADVANCES

| | |
|---------------------------------------|----------------|
| Net after August paycheck withheld | <u>\$1,407</u> |
|---------------------------------------|----------------|

CLEANING FEES

| | |
|---------------|--------------|
| Tina Sheppard | \$82 |
| Gene Sheppard | \$210 |
| | <u>\$292</u> |

TOTAL MISAPPROPRIATION **\$10,350**

Other Losses:

PERSONAL EXPENSES
not paid by the district as of
October 30, 1996 \$507

PENALTIES AND INTEREST
as of October 30, 1996 \$2,541

TOTAL LOSS to DISTRICT **\$13,398**

GRANT COUNTY TRANSPORTATION DISTRICT RESPONSE

GRANT COUNTY TRANSPORTATION

The People Mover

229 N. E. DAYTON STREET
P. O. BOX 842
JOHN DAY, OREGON 97845
(503) 575-2370

December 9, 1996

Secretary of State Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

This letter is in response to the recommendations to the Grant County Transportation District board after the recent audit.

Within the past three months, the board of directors of the Grant County Transportation District has taken an active role in the operation of this organization.

1. Ensure records of collections are compared to amounts deposited.

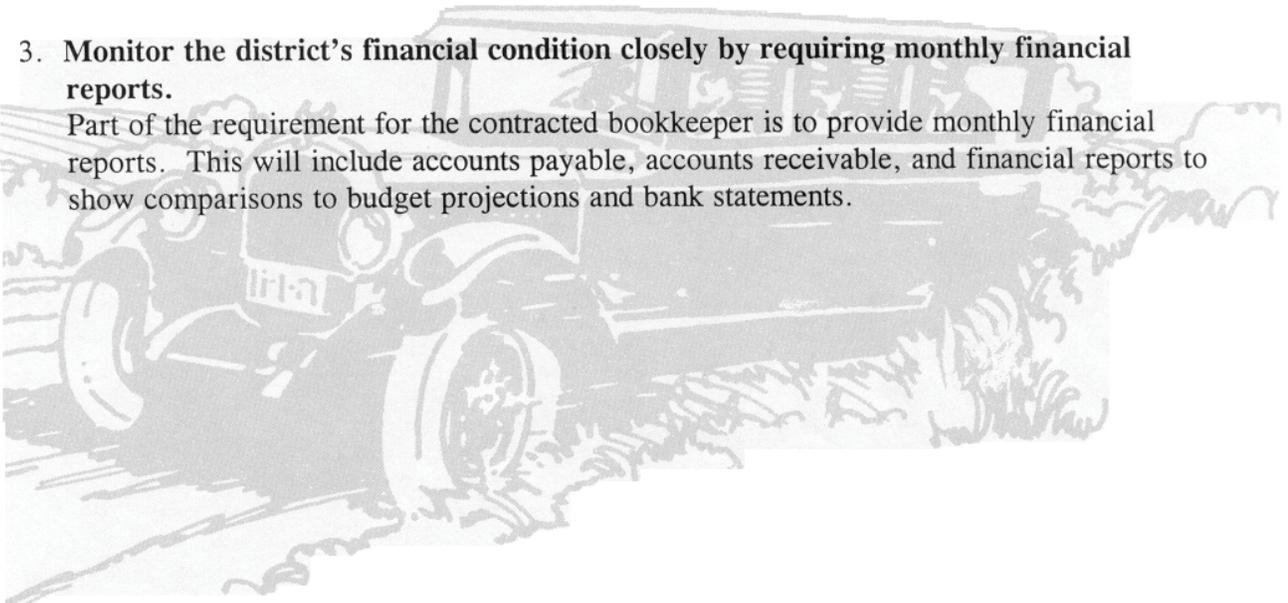
We have now contracted the bookkeeping function. This contract bookkeeper makes the deposits. The original fares and receipts sheet is turned over to the bookkeeper, and a copy is kept in the People Mover office. One of the board of directors will spot check this at least once per month.

2. Ensure the transfer of accountability for collections is documented and collections are secured.

The original fares and receipts sheets will be turned over to the bookkeeper, and a copy of this sheet will be kept in the People Mover office. A board member will be following up with a spot check. The board decided that a locked cabinet should be installed to secure daily collections until they are turned over to the bookkeeper for deposit.

3. Monitor the district's financial condition closely by requiring monthly financial reports.

Part of the requirement for the contracted bookkeeper is to provide monthly financial reports. This will include accounts payable, accounts receivable, and financial reports to show comparisons to budget projections and bank statements.



4. Require invoices and receipts to be presented prior to signing checks for payment of expenses.

The board has implemented a procedure that checks will be signed at the regular monthly board meeting. The checks to be signed are to have supporting documentation provided along with the check before two board members sign. If checks are to be issued before the next board meeting, all supporting documentation will be attached before it will be signed. When checks are not signed at the board meeting, the invoices and check description will be brought to the next board meeting for review. Any items that are not regular monthly bills require a purchase order which has to be approved by a board member.

In addition to the above actions, we will be having a board member go over bus fares and freight receipts. We will be working on providing monthly summary reports of the passengers and freight bills.

A board member will also be checking the monthly bank statements periodically and they will be reviewed at the board meetings.

Time sheets will be reviewed by one of the board members who is familiar with the schedules before payroll is paid each month. Time sheets are due at the end of the month and will be paid by the 5th of the following month. The timesheets will be signed before our scheduled monthly meeting and then reviewed at the meeting.

It was the board's feeling that the \$1,000 bond would be sufficient for the current office staff since the bookkeeping has been contracted. The list of staff will be updated to include the current staff.

Sincerely,

Don Strong
by Christa Foley
board member

Don Strong
Chairman
Grant County Transportation District