



# My Budget is Too Small for Big City Internal Controls: What Can I Do?

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# Survey

- <https://www.surveymonkey.com/r/558CSNR>

[https://www.surveymonkey.com/analyze/F\\_2FJtm7XKF7FL3C\\_2Bk3gKrwsquEoiZyionPe6bKKIBZto\\_3D](https://www.surveymonkey.com/analyze/F_2FJtm7XKF7FL3C_2Bk3gKrwsquEoiZyionPe6bKKIBZto_3D)

# Where is the risk?

- Industry of victim organizations
  - Banking and Financial Services 17.8%
  - *Government and Public Administration 10.3%*
  - Manufacturing 8.5%
  - Health Care 7.3%
  - Education 5.9%
  - Retail 5.6%

# Charlton Fire District

- ▶ Residents question Supervisor...about hikes in annual fire tax levy...doubled in 6 years.
- ▶ There was “Virtually no oversight”
- ▶ Improper payments were over \$500,000
- ▶ Wrote checks and made electronic deposits into personal account from fire district account

# Center Township

- CFO setup personal account with local bank
- Deposited check for \$343k drawn from township funds after creating a false invoice
- Check made out to “Treasurer of State” in the accounting software.
- Transferred money to other places to help purchase
  - \$500k Home in local town
  - Pickup truck
  - Child’s college
  - Necklace in the Cayman’s
- Salaried but took overtime/comp time/paid time off outside of township rules.

# Moro Township

- Township Supervisor from 2001 through 2010
- “Borrowed” money starting as early as 2003 to make personal investment with large return promised
- Wrote checks to himself for “office expenses”
- Audit revealed \$700,000 taken
- Sentenced to 6 months in halfway house, 20 months home detention and 30 months probation
- Also required to pay \$1,000 per month in restitution

# Pinckneyville Press

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 75¢

## Real Estate Taxes Due Next Week

Perry County residents are reminded that the first installment of this year's real estate taxes is due on July 25.

Residents may make payments by mail, at the

Perry County Treasurer's office, or at Murphy Wall State Bank or First National Bank in Pinckneyville and most other local banks. The second installment will be due by August 29.

## Nathan Kellerman Withdraws Motion Case on November Docket

By Eric Lambert  
Pinckneyville Press

Nathan Kellerman appeared in Perry County Court with his attorney Bryan Drew on Wednesday for his "Notice of Unconstitutionality" Hearing related to his January 1 arrest

following an altercation outside of the Pinckneyville Moose and Eagles Lodge on West Mulberry Street in downtown Pinckneyville. At the hearing, Kellerman's attorney withdrew the Notice of Unconstitutionality set to  
*Continued on Page 9*

## Council Addresses ATA Concerns

By Eric Lambert  
Pinckneyville Press

Discussion was taken up between Pinckneyville City Council members and members of the American Thresherman Association (ATA) concerning placement of the mill, which was acquired by the ATA, in the city park. The location in question is in

the northwest corner of the park, inside the railroad track, according to Commissioner David Stone. The building, when constructed would be "sixteen by twenty" feet wide and fifteen feet tall. ATA member Josh Giacomo shared that foot-traffic for the ATA's Fall show would benefit from  
*Continued on Page 3*

## Proposed Zoning Ordinance Reviewed

By Eric Lambert

From the June 9 council

## Fill 'Er Up! Photographs Lead to Investigation



Above: Perry County Assessor's office Fieldman Butch Stern takes containers of gasoline to his residence in Sunfield on Monday morning after pumping gas into the Assessor's Office vehicle at the Du Quoin Motomart. Below: An investigative series of pictures taken by the Press seems to show Stern pumping gas into a container in the trunk of the county car, then sealing a container in the trunk of the vehicle and finally topping off the gas tank of the county car at the Du Quoin gas station.

By Nate Fisher

**By Nate Fisher**  
*Pinckneyville Press*

Working on numerous tips from the public outraged over recent increases in property tax rates in Pinckneyville, *Press* Publisher Jeff Egbert captured photos of what appears to be Paul Dean "Butch" Stern, fieldman for the Perry County Assessment's office, taking gasoline home using county funds.

The photos, taken Monday at around 9:00 a.m., depict Stern at the Motomart in Du Quoin pumping gas into containers in the trunk of the county-owned field assessment vehicle, a Chevy Impala. One of the containers appears to be an empty, one-gallon antifreeze or washer fluid bottle, the other a two-gallon gas can. He is then shown filling up the county vehicle before transporting the gasoline containers from the trunk of the county car to a makeshift structure in the backyard of his home in Sunfield.

According to monthly statements showing card transactions, Stern has used county-funded credit to purchase roughly 420 gallons between January of this year and May. According to fueleconomy.gov, the estimated gas mileage for a 2010 Chevy Impala is 22 MPG, equating out to 9240 miles that would have had to be driven in those five months due to official assessor's business. The county has not yet specified the model year of the vehicle in question or its current mileage. Stern's gas expenses for both 2012 and 2013 were \$2,800 or more per year.

It is, as of yet, unclear how many properties Stern has assessed so far this year.

The statements show that Stern typically purchases gasoline three times a week at an average of 8 gallons per purchase, often more. In some instances, the statements show two transactions on the same date within a few minutes of each other, each for a substantial amount of gasoline. All of the purchases are at Motomart gas stations, whether in Pinckneyville or Du Quoin.

The billing statements also reveal that federal and state sales taxes have been waived on the gasoline purchases.

Supervisor of Assessment John Batteau signs off on these transactions in an affidavit that reads, "I, [Name, Title] do solemnly swear the several items mentioned in the annexed account are just and true, that the services were

*Continued on Page 9*





# Dixon, IL

- ▶ Sole signatory on accounts
- ▶ Other employees had little access to general ledger
- ▶ Caught after extended vacation

**CITY OF DIXON**  
**Notes to Financial Statements**  
April 30, 2012

**NOTE 20 – MANAGEMENT EVALUATION OF SUBSEQUENT EVENTS**

Management has evaluated events subsequent to the year ended April 30, 2012 and up to the date of the financial statements. Three events have occurred which require disclosure in these financial statements.

The City has contracted to purchase a fire truck in the amount of \$819,032. Of this amount, \$400,000 will be funded by grant proceeds. The remaining amount is being financed through a loan with First Bankers.

The City expects to collect substantial funds through the sale of the former City Comptroller's personal assets that were purchased with funds that were misappropriated from the City. As of the date of this report, only one amount is probable and estimable and therefore included within the City's basic financial statements. Approximately \$9,500,000 will be received from assets that have already been sold. Additional funds should be received above and beyond this figure before the matter is ultimately settled.

The former City Engineer also admitted to using \$13,521 in City funds for personal expenses. Although he repaid \$4,890 prior to vacating his position, the balance remained unpaid up until the date of his resignation. Upon his resignation, he repaid the \$8,631 balance along with 5% interest to the City.

**NOTE 21 – THEFT LOSS AND PRIOR PERIOD NET ASSET ADJUSTMENT**

In April of 2012, the former City Comptroller was arrested and later charged with misappropriating over \$53 million of City funds. During the subsequent investigation of this theft, it was discovered that the majority of the funds were stolen by coding the fraudulent payments as capital asset acquisitions. Therefore, fixed assets and net assets were incorrectly stated on prior years' government-wide and proprietary funds statements. Net assets have been adjusted to account for the fraudulent fixed assets as follows:

Governmental Activities	(\$20,770,658)
Business-Type Activities	<u>( 6,609,217)</u>
Total net asset reduction	<u>(\$27,379,875)</u>

In addition to the above prior period net asset adjustment, the former City Comptroller misappropriated \$4,814,810 of City funds during the year ended April 30, 2012. This is shown in the City's Capital Development Fund as a theft loss.

# Lessons Learned the Hard Way

- Perception
  - Carte Blanche latitude given to perpetrators
  - Perpetrators thought they could get away with it
- Embarrassment
  - Insufficient fund notices from bank should not be the first time activities are reviewed
  - Reading about crimes in the newspaper should not be when behaviors are discovered
  - Annual audit should not be the only time transactions are tested or reviewed
- Z...

# Perception

"...the stronger the perception that theft would be detected, the less the likelihood that the employee would engage in deviant behavior."

*Theft by Employees, Hollinger and Clark*

"...the greatest deterrent to the fraudster is the idea that he will be caught, not the threat of punishment by his employer."

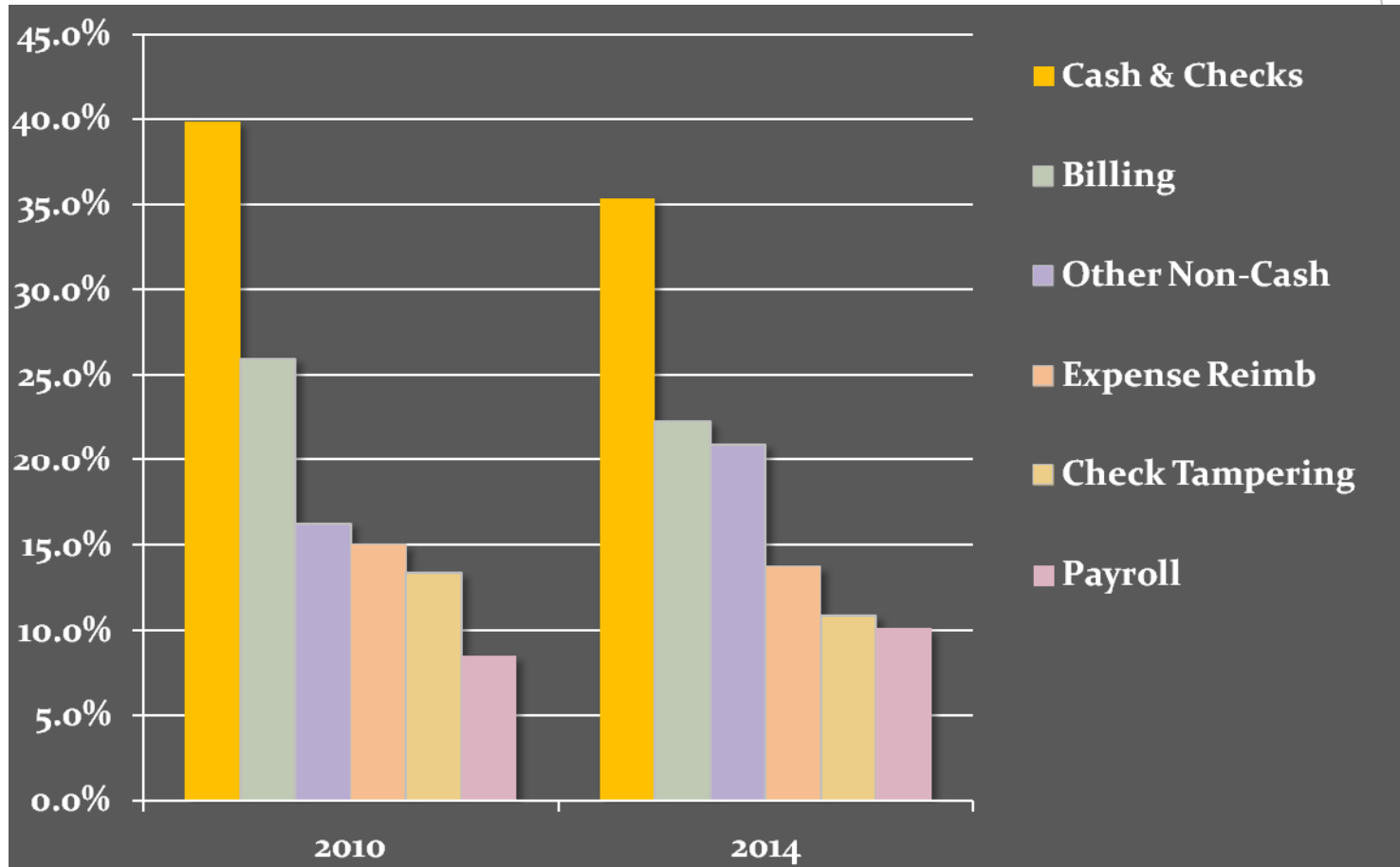
*2012 Fraud Examiners Manual*

# Focus Efforts on These Areas First

- ▶ Bank Reconciliations
  - ▶ Deposits in Transit
  - ▶ Outstanding Checks
    - ▶ Old Checks
    - ▶ Checks with peculiar amounts
      - ▶ Below approval threshold
      - ▶ Anomalies

# Focus Efforts on These Areas First

## ► Cash



# Focus Efforts on These Areas First

- ▶ Cash
  - ▶ Petty cash
  - ▶ Cash drawers
- ▶ Checks
  - ▶ Signatories
  - ▶ Signature stamps
  - ▶ Check registers
  - ▶ Board review and approval
- ▶ Credit Cards

# Common Sense Alternatives

- ▶ Easy and Inexpensive steps
  - ▶ Diagram the process so you know where common sense changes can occur
  - ▶ Reduce the number of credit cards
  - ▶ Build in upfront restrictions on credit cards
  - ▶ Put a CCTV camera on the cash
  - ▶ Get rid of petty cash



# Common Sense Alternatives

- Easy and Inexpensive steps
  - Have superior initial bank reconciliations
  - Help superior understand what B/R is showing them
  - Use Positive Pay with your local bank
  - Use horizontal analysis
    - Miscellaneous expense
    - Office supplies

# Common Sense Alternatives

- ▶ General Reports
  - ▶ Check Registers
  - ▶ Adjustments/Write-offs
  - ▶ Bank Reconciliations
    - ▶ Initials
    - ▶ DIT's
    - ▶ O/S Checks
  - ▶ Changes Listing

# Common Sense Alternatives

The screenshot shows the QuickBooks Pro 2014 interface on the left and a Microsoft Word document on the right. The Word document is titled "Title and Learning Objectives" and contains the following text:

**Title and Learning Objectives**

**My Budget is Too Small for Big City Internal Controls: What Can I Do?**

Learn common sense methods to reduce your exposure to risk that fit your budget.

- Lessons from small towns
  -
- Consequences from hard lessons
- Focus efforts on these areas first
  - Cash
  - Check writing
  - Credit Cards
- Common sense alternatives to expensive forms of internal controls
  - General Reports
    - Check Registers
    - Adjustments/Write-offs
    - Bank Reconciliations
  - Quickbooks
    - Audit Trail
    - Check Register
    - Voided Checks
  - Bank Positive Pay
  - Data Check

The items "Check writing" and "Credit Cards" under the "Focus efforts on these areas first" section are highlighted with a red rectangular box.

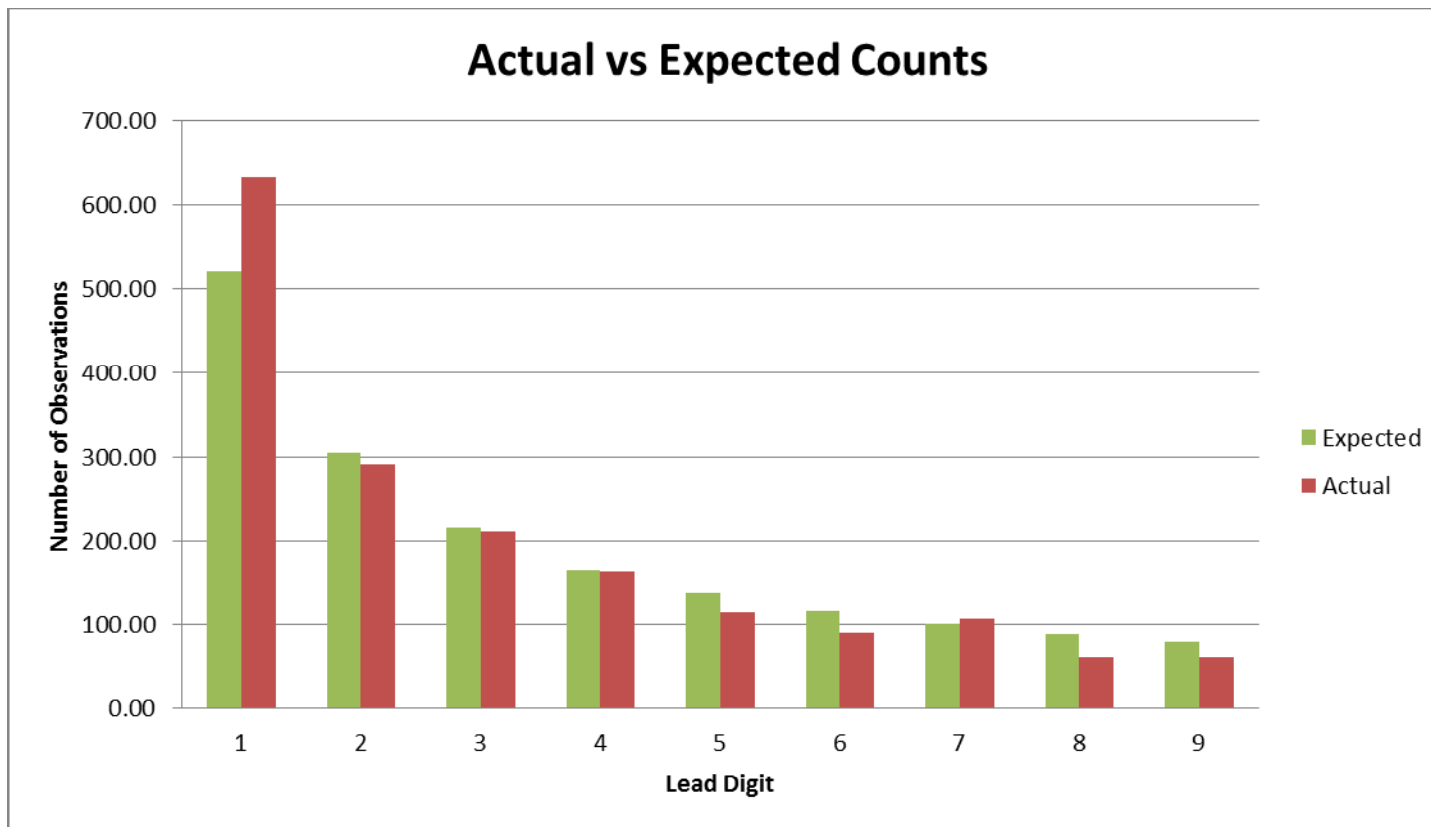
# Common Sense Alternatives

► Benford's Law

First Digit			
Digit	Actual	Expected	Expected %
1	632	521.03	30.10%
2	291	304.66	17.60%
3	212	216.38	12.50%
4	165	166.18	9.60%
5	114	136.75	7.90%
6	89	115.98	6.70%
7	106	100.40	5.80%
8	61	88.28	5.10%
9	61	79.63	4.60%

# Common Sense Alternatives

## ► Benford's Law





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