

IN THE CIRCUIT/COUNTY COURT IN THE FIRST JUDICIAL CIRCUIT IN AND FOR OKALOOSA
COUNTY, FLORIDA

COPY


WARRANT/OTTIC SERVED

OKALOOSA CO SHERIFF'S OFFICE

REPORT NO: OCSO17ARR010544

Jail Booking No	Offense No OCSO17OFF005739	Other No OCSO17CAD075156	OBTS 4601114429
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[SUSPECT]

Last First Middle Title Race Sex DOB Age Hgt Wgt
NELSON KATHY SCHOSTAG W F 7/27/1960 57 5'07" 180
Eyes Hair MNI Number SSN ID. No. St Type OCA/Agency ID
BLU BRO OCSO12MNI015442  FL DL/E

Birth Location: City: CRESTVIEW County: OKALOOSA State: FLORIDA Nation: UNITED STATES Citizenship: UNITED STATES

Address

 MARY ESTHER FL 32569

Occupations (Current/Last Known is Listed First)

Business: UNEMPLOYED, Job Title: CLERK, Entered: 10/17/2017

Business: OKALOOSA COUNTY WATER / SEWER, Job Title: CUSTOMER SERVICE, Phone: (850)657-7178

Entered: 9/14/2012

1804 LEWIS TURNED BD Suite: 300 FORT WALTON BEACH FL 32547

Business: COUNTY WATER DEPT, Job Title: CLERK, Phone: (850)651-7171 Entered: 2/11/2004

Suite:

Aliases (Last, First Middle Title DOB)

NELSON, KATHY SCHOSTAG

NELSON, KATHY JANE 7/27/1960

Street Names

* none found in MNI *

[INCIDENT INFORMATION]

Occurred Date Range: 1/1/2009 12:00 to 5/4/2017 13:58 Lat / Long
No. Di Street Apt/Lot City ST Zip (GEO)
1804 LEWIS TURNER BD FORT WALTON BEAC FL 32547 2 - 15 - -

[CHARGES]

775.0844.5b

CRIMES AGAINST PERSON

AGG WHITE COLLAR CRIME 20 VICT 50K DOLS MORE

<u>Counts</u>	<u>Level</u>	<u>Degree</u>	<u>GOC</u>	<u>UCR</u>	<u>NCIC</u>	<u>AON</u>	<u>Bond Amount</u>
1	Felony	First	Not Applicable	260A		7099	\$5,000.00

812.014.2a

LARC

LARC GRAND FIRST DEGREE OVER 100000 DOLLARS

<u>Counts</u>	<u>Level</u>	<u>Degree</u>	<u>GOC</u>	<u>UCR</u>	<u>NCIC</u>	<u>AON</u>	<u>Bond Amount</u>
1	Felony	First	Not Applicable	230G		2399	\$5,000.00

817.034.4a1

FRAUD-SWINDLE

OBTAIN PROPERTY OVER 50000 DOLLARS

<u>Counts</u>	<u>Level</u>	<u>Degree</u>	<u>GOC</u>	<u>UCR</u>	<u>NCIC</u>	<u>AON</u>	<u>Bond Amount</u>
2	Felony	First	Not Applicable	260A		2602	\$5,000.00

838.016.

BRIBERY

UNLAW COMPENSATION REWARD OFFICIAL BEHAVIOR

<u>Counts</u>	<u>Level</u>	<u>Degree</u>	<u>GOC</u>	<u>UCR</u>	<u>NCIC</u>	<u>AON</u>	<u>Bond Amount</u>

OCSO17ARR010544

Printed On: 10/17/2017 10:43:29 AM

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[VAFIDEA 10/4/2017 16:03]

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1	Felony	Third	Not Applicable	9000	5199	\$2,000.00
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[STATEMENT OF PROBABLE CAUSE / NARRATIVE]

On 05/2/2017, I was contacted by Mr. Mark Wise of the Okaloosa County Water & Sewer Department (OCWS), and a Certified Public Accountant from Warren Averett CPA & Advisors, Ms. Tammy McGaughy. Mr. Wise stated on 4/17/2017, he was told of OCWS billing irregularities in customer accounts oversaw by employee and defendant, Kathy Schostag Nelson. A preliminary, in house audit revealed the defendant had not collected at least \$57,000.00 in water and sewer Capacity Expansion Charges (CECs), commonly referred to as "taps," between 2013 and 2017. Further, the irregularities were limited to 3 construction companies. In a sworn, written Affidavit of Complaint, Mr. Wise stated the audit revealed the defendant entered fictitious information, invalid receipts, and altered documents into the customer service database, thus making it appear that proper charges were paid, when in fact they were not. The defendant was suspended on 4/17/2017 and subsequently terminated on 5/4/2017.

Okaloosa County officials then determined the need for a comprehensive forensic audit. On 5/11/2017, the Clerk of Court Inspector General's office began work, with Mr. Brad Embry as the investigative lead. On 9/13/2017, Mr. Embry provided me a summary of his findings, involving 347 accounts from 64 separate contractors over a 9 year period (2009 - 2017). Initially the audit consisted of random samplings of all customer accounts. However, after the samplings revealed a "pattern of irregularities" primarily involving those same three contractors, the focus shifted to accounts linked to those specific contractors. Mr. Embry substantiated billing irregularities in 83 accounts with a maximum negative financial impact to Okaloosa County of up to \$255,000. All but two of those accounts involved the defendant manipulating data and records to show CECs were paid when they were not, by using one, or a combination of the following methods: Improper utilization of transaction codes; Re-utilization of Location ID's; Improper transfer of site specific and non-site specific CECs; Improper, altered, or fictitious notes in the Naviline computer system; Re-use of Receipt numbers; and Altered cost of construction estimates.

During the course of my investigation, two sworn witnesses came forward and provided details illustrating the defendant's scheme to defraud. An acquaintance of one of the contractors, Angela E. Gainer, stated, "Everyone pays her (the defendant) cash...\$2,000 and you get a water tap." She also claimed to be present in late 2016 when the contractor gave the defendant \$2,000 cash at a work site, in exchange for water/sewer CECs. The witness further stated she was present many times when the defendant called her contractor friend, offering "taps" for cash. She also stated she was present when the defendant "blew up" the contractor's phone on the day the defendant was terminated. Subsequent phone records subpoenaed from Verizon validated the witness' claim.

Another witness, Tammy M. Sullivan, who is a close friend of the defendant, gave a sworn statement that the defendant made many admissions during their private conversations after her termination. Per the witness, the defendant stated she had an "old log book with a lot of old meter numbers listed that were not being used." The defendant said she would "take the old ineffective meter numbers, reuse that meter number, give it a new life, and sell it to someone cheaper." People would also call the defendant and she would make deals on the side, charging "finder's fees" for her efforts. The defendant also described to the witness how she would give false receipts to people, go into the computer, and then change things back after the transfers went through. As independently stated by the first witness, the second witness stated the defendant told her she sold the taps, "down from 4 thousand to 2 thousand." Additionally, the defendant told the witness that she "only did it when they needed the money." The witness stated the defendant "thinks she has covered it, and changed everything back." Finally, the defendant told the witness that she was not in danger of going to jail because the "statute of limitations" has run out.

A third witness and co-worker of defendant, Debra K. Overmoe, provided a sworn statement that on the day the defendant was suspended, the defendant phoned her and asked if she would retrieve an envelope full of cash from the defendant's office and deliver it to her home. The witness refused to comply and the cash was never found.

I examined the 83 billing irregularities and determined 56 had sufficient documentation to show probable cause for criminal charges. My analysis showed that in 29 of the 56 affected properties, the defendant did not collect proper CECs or cost of construction fees either by manipulation of documents, false receipts, and/or false computer entries. This ongoing scheme continuously benefited the same 3 builders/contractors and deprived Okaloosa County of revenue totaling \$116,300 between 8/2011 and 4/2017. It should be noted that \$21,300 was reimbursed to Okaloosa County by two of the three contractors after the defendant was terminated from her employment.

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A separate scheme to defraud Okaloosa County of revenue involved 27 of the 56 properties. The defendant waived the proper CEC (tap) fees due to the county by improperly transferring site specific CEC's (taps) to other non-contiguous properties in violation of OCWS ordinances and policy. The defendant was trained on all applicable OCWS ordinances and policies relating to her job and knew her actions violated OCWS ordinances and policy. This continuous scheme to defraud OCWS deprived Okaloosa County of revenue totaling \$107,200 between 4/2008 and 2/2017, eighty two percent of which benefitted the same 3 builders/contractors.

For her part, the defendant received at least some cash kickbacks from the builders/contractors in return for manipulating and falsifying CEC (tap) fees, according to statements from two witnesses.

Based upon my investigation, that included audit results from the Okaloosa County Department of Inspector General, supporting audit documentation, and witness sworn affidavits and statements, I have probable cause to believe the defendant, Kathy Schostag Nelson, did violate the following Florida State Statutes:

F.S. § 817.034(4)(a)1., Communications Fraud, Count 1, by defendant engaging in an organized scheme to defraud Okaloosa County through her ongoing course of conduct by fraudulent, fictitious computer entries and manipulation of documents to deprive Okaloosa County of its rightful, tangible and intangible property benefits in the amount of \$116,300 between 8/2011 and 4/2017. The amount of the property taken had an aggregate value of \$50,000 or more. Count 2, by engaging in an organized scheme to defraud Okaloosa County of its rightful, tangible, and intangible property benefits in the amount of \$107,200 between 4/2008 and 2/2017, by her willfully and illegally allowing the transfer of site specific CECs to 27 non-contiguous properties. The amount of the property taken had an aggregate value of \$50,000 or more.

F.S. § 812.014(2)(a)1, Grand Theft (more than \$100,000), by defendant depriving Okaloosa County of its rights and benefits to property in the amount of \$223,500 between 4/2008 and 4/2017, in a series of thefts whereby defendant intentionally obtained or used, or endeavored to obtain, the revenue funds belonging to Okaloosa County with the intent to either permanently or temporarily deprive the county of the use and benefit of its property or to appropriate the property to her own use or to the use of any person not entitled to it.

F.S. § 838.016(2), Unlawful Compensation for Official Behavior, by defendant knowingly accepting benefits not authorized by law in violation of her public duty.

F.S. § 775.0844(4), Aggravated White Collar Crime, by defendant committing at least two white collar crimes with similar intents and methods of commission, namely felony offenses of Organized Fraud specified in F.S. Chapters § 817.034, Grand Theft in F.S. § 812.014, and F.S. § 838.016, Unlawful Compensation for Official Behavior, that victimized the State of Florida, any state agency, or any of the state's political subdivisions, or any agency of the state's political subdivisions and thereby obtained or attempted to obtain, \$50,000 or more.

These offenses did occur in Okaloosa County, Florida, where your affiant is a sworn, law enforcement officer.

Signature (Arresting Officer) WEIHER, LY A 269
Name ID/SSN

Subscribed and sworn to (or affirmed) before me this 17 day of October A.D., 2017 by _____
who is personally known to me or has produced _____ as identification.

Signature _____ Notary Public _____ LEO _____ CO

Commission No: _____ My Commission Expires _____

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Supervisor Signature _____ Date _____ Supervisor Name (Please Print) _____ Rank _____

[PHYSICAL EVIDENCE] [NO PHYSICAL EVIDENCE LISTED]

[ARREST INFORMATION]

Arrested 10/17/2017 10:28 Residency Within jurisdiction Injured None Extent of Injury N/A Resist No
Arrested Prior No Arrest Jurisdiction Within jurisdiction Alcohol Unknown Drugs Unknown
No. Di Street A/L City ST Zip Lat / Long
1940 LEWIS TURNER BD FORT WALTON BEAC FL 32547
Arresting Officer Unit (GEO) 2 - 19 - PG40 - K-37 Officer Type
269 WEIHER, LY A OCSO/ADMINSERV/COURTSEC/DETENTION
Reporting Officer Unit Original Offense Jurisdiction
083 VAFIDES, ALAN H OCSO/FSV/INV/CID OCSO
Forward to for approval
OCSO/FSV/INV/CID

Bond Set by LEO at Time of Arrest & Booking: \$0.00

- () None
() ROR
() Cash
() Pro

Bond Set by Judge () None () ROR/Sign
\$17,000.00 (X) Cash () PTR
() Any
(X) Pro
() PtrIQ
()Purge SCANNED
()SC

Return Court: CIRCUIT COURT: FELONY Date: 11/22/2017 Time: 14:30
Instructions: OKALOOSA COUNTY COURTHOUSE ANNEX EXT

[COURT INFORMATION]

Court Judge Date
Sent
Rcvd CIRCUIT MANEY 10/16/2017
Court Case Number 17-5739

Assigned To:

[DISPOSITION]

Disposition Type Release Type Other Desc

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REPORT NO: OCSO17ARR010544

Release Date Release Time Release Officer

Printed Printed By
No

Released To

Court DispositionType

Court Disposition Description

[ADDITIONAL PERSONS]

COURT DISPOSITION:

(right index)

☐ No Bill / Petition ☐ Issue Warrant ☐ Prosecution Approved

Signature of Assistant State Attorney

Date

COPY