

VILLAGE OF LEESBURG

HIGHLAND COUNTY

SPECIAL AUDIT REPORT

APRIL 1, 1996 THROUGH JULY 15, 1999

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**SCHEDULE OF ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL
AS OF JULY 15, 1999**

<u>ELECTED OFFICIALS</u>	<u>TERM ENDING</u>	<u>BOND (1)</u>
Richard Kisamore, Mayor (2)	December 31, 1999	\$50,000
Kevin Fouch, Council President (3)	December 31, 1999	None
Bernease Priest, Council Member	December 31, 2001	None
Mary Shanks, Council Member	December 31, 2001	None
Patsy Bishop, Council Member (2)	December 31, 1999	None
Richard Tolle, Council Member	December 31, 2001	None
Dianna Barber, Village Clerk-Treasurer (3)	December 31, 1999	\$50,000

<u>ADMINISTRATIVE PERSONNEL</u>	<u>TITLE</u>	<u>BOND (1)</u>
Richard Zachman	Village Administrator	None
Chuck Milligan	Chief of Police	\$5,000
Donnie Kier	Village Superintendent	None
Shonda Pfister	Utilities Clerk	\$5,000

<u>FORMER EMPLOYEE</u>	<u>TITLE</u>	<u>BOND (1)</u>
Nancy Walker	Utilities Clerk	\$5,000

- (1) The Ohio Casualty Group of Insurance
- (2) As of January 1, 2000, the Mayor is George Nash and the new councilman is John Barrett II, elected for a term beginning January 1, 2000 through December 31, 2004.
- (3) As of January 1, 2000, Kevin Fouch was re-elected as Council President, and Dianna Barber was re-elected as Clerk-Treasurer for the period January 1, 2000 through December 31, 2004.

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REPORT OF INDEPENDENT ACCOUNTANTS

Richard Kisamore, Mayor
Village of Leesburg
57 Fairfield Street
Leesburg, Ohio 45135

Pursuant to a request from the Highland County Prosecutor, Rocky Coss, dated July 19, 1999, we have conducted a "Special Audit" and performed the procedures summarized below and detailed in our "Supplement to the Special Audit Report", which were agreed to by you for the period April 1, 1996 through July 15, 1999 ("the Period"). These procedures were performed solely to: determine the procedures followed by Village personnel when receipting, recording, and depositing utility department collections; determine if utility collections receipted were recorded and deposited; determine the procedures followed by Village personnel when receipting, recording, and depositing income tax department collections; determine whether unauthorized charge accounts were opened; and review inventory records of the Police Department relating to its state and federal surplus property program to determine that items were in existence.

This Special Audit to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of this report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested, or for any other purpose. The procedures we performed are summarized as follows:

1. We reviewed the operational policies, procedures, and practices of the utilities department to determine the practices followed when receipting, recording, and depositing customer utility bill payments.
2. We obtained the list¹ of 115 utility accounts maintained by the former Utility Clerk and reviewed each account's payment history, receipt records, and billing stubs to determine the amount of monies which were collected but not recorded.
3. We prepared a listing of residents whose utility accounts reflected a past due balance for the months of June and July 1998, and for July 1999. Correspondence was sent to each of these individuals requesting all proof of payment of monthly bills (e.g., duplicate receipt, billing stub stamped "PAID", canceled check) they may have for the period January 1, 1998 through July 9, 1999. All payment information received was traced to the individual accounts within the utility accounting system to determine if the full amount of payment was the amount credited to the individual accounts.

¹ See Appendix A

4. We performed a review of water and sewer tap-ins during the Period to determine if the Village received and deposited monies in accordance with the tap-in fee schedule.
5. We reviewed the operational policies, procedures, and practices of the income tax department for monies received during the period April 1, 1999 through July 15, 1999, to determine the practices followed when collecting, recording, and depositing income tax receipts (employer share, employee share).
6. We reviewed income tax monies received for the period April 1, 1999 through July 15, 1999, to determine the Village was receiving revenues timely and entering them into the ledgers.
7. Using utility department data from both the manual accounting system (April 1, 1996 through June 1998) and the computerized accounting system (July 1998 through July 15, 1999) we performed monthly and annual comparisons of related data in order to identify trends or unusual variances.
8. We reviewed Village charge account information to determine if unauthorized charges were being made.
9. We reviewed inventory records for the Police Department for items received through the federal surplus property program to determine if all such items were accounted for.
10. On March 17, 2000, we held an exit conference with the following Elected Officials, and Administrative Personnel representing the Village of Leesburg:

<u>Name</u>	<u>Title</u>
George Nash	Mayor
Kevin Fouch	Council President
Bernease Priest	Council Member
Mary Shanks	Council Member
Richard Tolle	Council Member
Dianna Barber	Clerk-Treasurer
Chuck Milligan	Police Chief
Shonda Pfister	Utility/Income Tax Clerk
Richard Zachman	Village Administrator

The attendees were given five days to respond to this Special Audit. All attendees agreed to the contents of this report and acknowledged that no written response would be submitted to our Office.

Ms. Nancy Walker was given an opportunity to respond to the Finding for Recovery issued against her in this Special Audit Report. We received no response from Ms. Walker.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report". Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion on the Village's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of the Village, taken as a whole.

This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

JIM PETRO
Auditor of State of Ohio

January 6, 2000

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

BACKGROUND INFORMATION

We received a letter dated July 19, 1999 from Mr. Rocky Coss, Highland County Prosecuting Attorney, requesting a special audit be conducted of the Village of Leesburg's water, sewer, and income tax departments.² Mr. Coss requested this special audit because the Village Police Chief had recently obtained a tape-recorded confession from Ms. Nancy Walker³, the Clerk of both the Utility and Income Tax Departments at that time, stating that she had taken Village monies.

On July 21, 1999, the Auditor of State's Special Audit Committee voted to initiate a special audit of the Village of Leesburg's utility and income tax operations.

On August 3, 1999 Auditor of State representatives met with the Mayor, Village Administrator, and Village Clerk to obtain additional information regarding the circumstances surrounding the request for a special audit.

On August 18, 1999 we were requested to expand the scope of our special audit to include procedures to review inventory items which the former Police Chief had obtained through a federal and surplus program through the Office of Criminal Justice Services to determine their existence.

On August 25, 1999, Auditor of State representatives interviewed Ms. Walker regarding her alleged misappropriation of funds. During this interview, Ms. Walker confirmed that she had taken money from utility account payments and that she had provided a listing of the accounts affected and amounts taken to the Village Police Chief⁴. Ms. Walker stated she initially began taking the money in late 1997, but no earlier than November 1997, when she began to encounter personal problems. She continued to misappropriate funds, until early in 1999. Ms. Walker stated she intended to pay the money back, but had been unable to do so.

Ms. Walker stated that she only took money from cash utility payments. When the Village's utility department's accounting system was manual, the records could easily be altered to cover the theft. After the accounting system was converted to a computerized system in July 1998, it became more difficult to hide the theft. For example, if a cash payment was misappropriated instead of being properly recorded and deposited, the individual's account would reflect a past due balance. When the bills were generated by the computer system, the past-due balance would automatically print on the bills. Knowing that this past-due balance was incorrect, and to avoid complaints/questions from customers, Ms. Walker used "white-out" on the bill to cover the "past-due" balance prior to sending the bills. In addition, she stated that sometimes she would generate a completely new bill by using the typewriter and would dispose of the computer-generated bill.

²The Village income tax was not effective until April 1, 1999.

³Ms. Walker was hired on April 2, 1996 as an assistant to Utility Department Clerk, Christina Armstrong. She was appointed to the permanent position of Utility Clerk in May, 1997. Ms. Walker was the sole accounting person in the utility department until an Assistant was hired in the spring of 1999. She resigned on July 19, 1999.

⁴We obtained a copy of this listing from Village personnel on August 3, 1999. See Appendix A.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

BACKGROUND INFORMATION (Continued)

During our review of the policies and procedures of the Village's utility department, and the accounts which Ms. Walker had provided to the Police Chief, we noted deficiencies in internal controls of the utility department, poor record keeping, and missing records. As a result, we felt it was possible that other accounts could have been affected. On September 28, 1999, we informed Mr. Coss of our preliminary findings and discussed the possibility of sending correspondence to all individuals whose utility accounts reflected a delinquent balance as of July 1998 and July, 1999 requesting any proof of payment they may have. Mr. Coss agreed with this approach and we expanded the scope of our special audit.

On October 6, 1999, a letter, signed by the Mayor, was sent to 286 residents explaining there was reason to believe their utility accounts had incorrectly reflected a past-due balance. Residents were requested to provide us with any proof of payment they may have for the period January 1, 1998 through July 9, 1999. In order to accommodate the residents' working hours, Auditor of State representatives were available at the Village Hall between the hours of 11:00 am and 7:00 pm on Thursday and Friday, October 14th & 15th and also between the hours of 12:00am - 4:00 pm on Saturday, October 16th. Over this three day period, we received some type of response from 91 customers. We spent over a month tracing every piece of documentation which had been provided to us to the utility department's accounting records to determine whether the payments were recorded. This resulted in an additional 6 accounts being added to the list previously provided by Nancy Walker.

On October 14, 1999, the Grand Jury met at the Highland County Common Pleas Court and returned an indictment against Ms. Walker.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE ONE - OPERATIONAL POLICIES, PROCEDURES, AND PRACTICES OF THE UTILITY DEPARTMENT

PROCEDURES

We reviewed the operational policies, procedures, and practices of the utilities department to determine the practices followed when receipting, recording, and depositing customer utility bill payments.

RESULTS

Prior to July 1999, the Utility Department ("the Department") did not have any written policies or procedures other than those enacted through ordinance, such as utility rate ordinances. The Department was in the process of instituting certain controls during our review, but did not have written procedures. The following information relating to standard operations of the Department during the Period was obtained through interviews with the current Village Clerk/Treasurer, Dianna Barber; the current Utility Department Clerk, Shonda Pfister; the former Utility Department Clerk, Nancy Walker; and the Village Administrator, Richard Zachman:

1. Daily Activities/Bonding of the Utility Clerk/Background Checks

During the Period, the daily routine of the Department included a) collecting after-hours payments from the nightly deposit box; b) opening and responding to the mail; c) receiving over-the-counter payments; d) receipting, recording, and depositing all monies received; e) occasionally reading utility meters; f) delivering mail to and from all Village offices; and g) coordinating communications between residents and the Utilities Superintendent and the Village Administrator.

During the period April 16, 1996 through May 7, 1996, the Utility Clerk was bonded for \$1,000. In May, 1996 the bond was increased to \$5,000. On July 26, 1999 the Utility Clerk's bond increased to \$25,000. Based upon Departmental financial information, the Department has collected over \$300,000 in each of the previous four years.

During the Period, the Village did not have a policy requiring a background check before hiring an employee. After receiving the resignation of Ms. Walker, Village management was informed that the Ms. Walker had a prior felony record and had been incarcerated.

2. Meter Readings and Billings

A. Meter reading was the responsibility of the Utilities Superintendent and his four staff members; however, the former Utility Clerk occasionally assisted by performing meter readings.

B. Meters were read during the middle of each month and the usage was recorded on individual customer meter cards. Once completed, the cards were returned to the Department for use by the Utility Clerk in calculating bills. The meter cards did not indicate who read the meter, or any other indication of leaks or other problems which might corroborate adjustments shown on customer accounts.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- C. During the period April 1, 1996 through June 30, 1998, the accounting system in the utility department was manual. Therefore, the Utility Clerk manually calculated the amount to be billed to each customer, using the consumption amounts reflected on the meter cards. Any adjustments to consumption amounts or account balances were made by the Utility Clerk, with no management approval. The bills were either typed or handwritten by the Utility Clerk and were billed at the end of each month.
- D. During the period July 1, 1998 through July 15, 1999, the accounting system in the utility department was computerized. Therefore, the consumption amounts reflected on the meter cards were keyed into the system by the Utility Clerk and the computer automatically calculated each bill. Bills were generated and mailed at the end of each month. Any adjustments to consumption amounts or account balances were made by the Utility Clerk, with no management approval.
- E. According to Ordinance 98-26, payment is due each month on the 15th with a 10% penalty added after the 15th of the following month if payment is not made. The bills, however, states the penalty will be added after the end of the following month.

3. Receipts and Deposits

- A. Utility payments were received through the mail, in person, and at a local bank.
- B. Each payment received by mail was agreed to the billing stub and the amount circled on the billing stub. No receipt was issued.
- C. Each payment received over-the-counter at the Village office was agreed to the billing stub, a "PAID" stamp was affixed to the billing stub, the date and amount paid was written on the stub, and a duplicate receipt was issued. If the customer did not have the billing stub, a small cardboard stub was completed by the Utility Clerk for Department records. During our review, we noted this practice was not always followed. We observed stubs which were stamped "PAID", but included no written date or amount.
- D. Each payment received at the bank was automatically deposited by bank personnel into the Village's bank account. The related billing stub was retained by the bank until picked up by Department employees for recording on the system.
- E. The receipting, recording, and depositing of payments was not performed in a timely manner. Several days or even weeks could pass before a receipt was deposited. During the delay between receipt and deposit, the monies were placed in a locked file cabinet in the Department. Payments were not recorded in the individual accounts until the deposit was made.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- F. When preparing the deposit, the Utility Clerk counted the cash and checks, stamped all checks "For Deposit Only", and completed a duplicate deposit slip. The Utility Clerk delivered the deposit to the bank which provided her with the yellow copy of the deposit slip. Periodically, the yellow copies of the deposit slips were submitted to the Village Clerk-Treasurer, who prepared a Village pay-in to recognize the deposits on the Village's financial records. No reconciliation was performed between the Department's records and the Village Clerk-Treasurer's records.
- G. A posting journal reflected a breakdown of each payment received (i.e., each payment was broken down among water, sewer, and garbage). A calculator tape was generated from the individual payment stubs and bundled together with the payment stubs. A "batch" number was assigned which corresponded to the deposit amount. Once the tape was agreed to the posting journal, the deposit was made. The individual payment information was then keyed into the computer system. Each deposit total, or "batch", generated a system report for the corresponding deposit amount. Each month or reporting period, the batch number sequence started over.
- H. The Utility Clerk maintained a petty cash account to make change for customer payments. Current Village management is unaware of the amount of petty cash which was formerly maintained.⁵

4. Reports

- A. During the period April 1, 1996 through June 30, 1998 there were no reports compiled and presented to Council for monitoring or Department operations. During this period, the only record that was maintained was a customer ledger which reflected the payment history of each individual account and any delinquency balance.
- B. During the period July 1, 1998 through July 15, 1999, the following computer-generated reports were printed monthly and maintained in a binder⁶:

Disconnect Report	Month-End Reset Report
Trial Balance	Adjustment Journal
Cycle Receipts Journal	Delinquent Journal
Penalty Posting Journal	Receipts Posting Journal
Final Billing Journal	Billing Journal
Sales and Consumption Report	

- C. The reports were not presented to management for monitoring or review.

⁵ After the resignation of Ms. Walker, a new petty cash account was established by Village management.

⁶We used information from these reports, as well as, from manual customer ledgers maintained during the Period April 1, 1996 through June 30, 1998 to perform the analysis discussed in Issue Six

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- D. During our fieldwork, Village Council members provided us with a copy of the only report on delinquencies they had received from the former Utility Clerk. It was hand-written and reflected only 12 delinquent accounts totaling \$1,653. We showed Council the computer-generated delinquency report for the corresponding period which reflected 67 delinquent accounts totaling \$7,890.
- E. The Disconnect Report should correspond with the utility disconnections for the month; however, there was no evidence that any services were disconnected during the Period. The Utility Clerk approved the disconnection of services, but did not provide a record of the disconnections or other account adjustments to management.
- F. The Final Billing Journal reflects those accounts which have been "finalled" and denotes those residents who have moved or are moving, where a final bill is needed to settle the account. If the residence is a rental unit, a new tenant will be given the same account number, but it will be followed by a suffix to indicate succession of the account. We found instances where an account was "finalled" and a new account opened with a suffix, but the customer was the same person. By "finaling" the account, any prior balance was not carried to the new account.

5. Knowledge of Computer System

In July 1998, the Village utility accounting system was converted from a manual to a computerized system. The accounting software is vendor-supplied by Software Solutions. During the performance of our review, Village personnel were not familiar with all features of the software program nor were they aware that their contract with the vendor provided for support services and training. Former Utility Clerk Ms. Walker is the only individual that was familiar with the system. Software Solutions provided us with a log reflecting 10 service calls which were placed during the Period by Ms. Walker

MANAGEMENT COMMENTS

- 1. The Utility Clerk approved all account adjustments and utility service fees without oversight from management. Village Council and/or the Village Administrator should approve all adjustments, including leaks, pool fills, billing errors, and credits made to accounts. While it may not be administratively feasible to give approval prior to the needed action, these adjustments and fees are documented on printouts generated by the computer system which can be reviewed on a monthly basis to determine accuracy and validity.

Periodic monitoring of account adjustments can help to deter unauthorized adjustments to utility accounts. In addition, any account adjustments should be supported by documentation. We recommend management monitor utility account transactions and the method by which adjustments are documented.

- 2. No reconciliation was performed between the subsidiary accounting records maintained by the Utility Clerk and the accounting records maintained by the Village Clerk-Treasurer. Reconciliations of related financial information provides assurance that all transactions are recorded and helps to prevent misappropriation of assets.

We recommend the Utility Clerk and the Village Clerk-Treasurer develop procedures for reconciliation of financial records.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. The Village did not have a written policy governing the maintenance of the Department's petty cash account. In addition, there was no supporting documentation available to determine how much petty cash had been maintained in the Department by the former Utility Clerk. With no specified amount maintained, monies from this fund may have been misappropriated.

We recommend Council establish a written policy relating to the maintenance of a petty cash accounts. This policy should include the dollar amount which should be maintained at all times and specific procedures for reporting daily balances and receipts for monies expended.

4. Village Ordinance 98-26 states payment of utility bills is due each month on the 15th with a 10% penalty added after the 15th of the following month if payment is not made. The bills generated by the Utility Department state the penalty will not be assessed until after the end of the following month. Terms of payment and penalty printed on the bills should agree to the Village Ordinance to prevent misunderstanding of Village policy.

We recommend the Village contact the utility software vendor and request the program be changed so that bills are printed with the payment terms reflected in the Village Ordinance.

5. Management did not perform an independent review of the meter readings to verify data entered into the computer system. Data entry errors generate inaccurate billing amounts, which could result in a loss to customers or a loss to the Village.

We recommend the Village develop procedures for secondary review of meter readings after entry into the computer database. A printout could be provided to the Superintendent for an independent review of final amounts entered.

6. A receipt should be issued for all utility payments collected by the Village. Instead of a duplicate receipt book, the Village should consider using the receipts generated by the computer software. During this audit, the Village did not use the receipt function provided within the computer system.

Improper documentation for cash payments was one of the contributing factors to diversion of monies from the Utility Department. The receipt books were not maintained and unless the customer's account was correctly posted, there was no record a payment was even received. The Village has now taken measures to control cash receipts; however, we recommend they continue to review the cash receipt process and institute a level of control to deter future diversion of money.

7. Utility stubs did not always reflect the amount paid and date paid. Each utility payment stub should record the amount paid, the date paid, and whether payment was made in cash or check. Inadequate detail on utility stubs enabled incorrect or altered entries to be made on utility accounts.

We recommend the Village document all forms used for receipt of utility payments to reflect the same information as shown on utility accounts.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

8. Meters were often read by the former Utility Clerk who then posted the information to customer accounts. Segregation of duties should be implemented to prevent potential alteration of account records. In addition, meter cards did not designate who read the meter. Such information is critical when questions arise regarding a customer's usage or possible leaks.

We recommend separation of duties for reading meters and posting to accounts. In addition, we recommend the meter reader initial the meter card.

9. The Village did not obtain background checks on newly hired employees. Obtaining background checks can alert the Village to potential employees who have prior criminal convictions, or other past history which could affect the amount of responsibility the Village is willing to allow that individual as an employee. We recommend the Village perform background checks on prospective employees having access to Village assets.
10. The Auditor of State performs financial audits on Village records on a biennial basis. We reviewed the last two reports issued by the Auditor of State and found many management comments which had not been addressed by the Village.

Management comments were submitted in prior financial audits for consideration on the Village's internal controls. These comments would reflect matters that, while in our opinion may not have represented reportable internal control conditions, we believe represented matters for which improvements in internal controls or operational efficiencies might have been achieved. Due to the limited nature of a financial audit, we did not fully assess the cost-benefit relationship of implementing the recommendations suggested, however the Village should have reviewed each management comment and determined if such suggestions were cost-effective to implement. The Village provided no documentation that many of these prior management comments had been studied. Some of the prior management comments may have strengthened the Village's internal controls over utilities, thereby decreasing the risk of funds being misappropriated.

We recommend the Village review and address all comments made in the financial audit reports, and should it be determined that various recommendations are not cost-beneficial, the Village should document those as such.

11. The computer program used by the Department has the capability to distinguish between cash and check payments, issue receipts, and simultaneously post to customer's accounts. An end of business day report can be used to reconcile to bank deposits and the Village Clerk-Treasurer's records. However, these functions were not used by the Department.

Using these functions provides an automatic control over cash receipts and gives current information for daily reconciliations of all records which also provides a deterrent to misappropriation of assets. We recommend the Department review these features of the program and implement their use.

12. Village personnel should familiarize themselves with the capabilities of the utility department's computerized accounting system.

We recommend the Village review its contract with the software vendor and use any support services included in that contract. They should also consider the cost of any additional training.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

13. The Village has no controls in place to ensure off-site storage of computer backup tapes. Without provisions for securing of database information, the Village can lose time and money trying to recreate the account records.

We recommend the Village look into obtaining a safety deposit box at the bank. It is next to the Village offices and tapes could be deposited when making the regular bank deposits.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE TWO - INDIVIDUAL UTILITY ACCOUNT ANALYSIS

PROCEDURES

We obtained the list of 115 utility accounts maintained by the former Utility Clerk and reviewed each account's payment history, receipt records, and billing stubs to determine the amount of monies which were collected but not recorded.

RESULTS

1. The Village provided us with a copy of the list which former Utility Clerk, Nancy Walker maintained to track the individual accounts affected and amounts misappropriated. This list included 115 accounts and totaled \$13,043.
2. We performed a comparison between the account numbers and customer names reflected on the list to the accounts reflected in the utility department computer system. While performing this comparison, we noted that 5 of the accounts reflected on Ms. Walker's list were duplicate account names, thus reducing the total number of accounts on Ms. Walker's list to 110. Although the account names were duplicates, the amounts listed for each were not duplicates, they were two separate misappropriations occurring within the same account. Therefore, the total misappropriations for the 110 accounts reported on Ms. Walker's list was \$13,043.
3. We requested all of the duplicate receipts issued during the Period to determine whether all receipts issued were recorded and deposited. This would provide us with some assurance that no accounts, other than those identified by Ms. Walker were affected. As stated in Issue One, duplicate receipts were issued by the Utility Clerk when she received over-the-counter payments, not payments received through the mail. Therefore, we have no assurance regarding the completeness of cash payments which may have been received through the mail.

We were provided with duplicate receipts for 1996, a portion of 1997 and 1999. The Village could not provide us with any of the duplicate receipt books for 1998 and the 1997 duplicate receipt books were missing 12 pages covering the period July, 1997 through December, 1997. Therefore, we have no assurance regarding completeness of cash payments received over-the-counter.

For those receipts which were provided, we traced each individual 1996 and 1997 receipt to the manual Account Ledgers and each 1999 receipt to the computer-generated Account History Reports. During this process, we noted 3 receipts which had not been posted. These three receipts were payments on 3 accounts which were not included on Ms. Walker's list.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

4. As stated in Issue One, when a deposit was made by the Utility Clerk, she generated a calculator tape of the paid billing stubs included within the deposit, and bundled the calculator tape and stubs together. For each "bundle", we recalculated the total of the stubs and agreed the total to the bank statement to ensure the deposit was made. We noted no discrepancies between the total amount of the billing stubs when compared to individual deposit totals.
5. We reviewed all of the billing stubs for the appearance of white-out and also noted any stubs which were handwritten or typed on a typewriter during the period when the stub should have been computer-generated. We noted 56 stubs contained white-out; 40 stubs which should have been computer-generated were typed; and 27 stubs which should have been computer-generated were handwritten. These 123 altered documents included 67 different accounts.
6. For each of the 110 accounts:
 - A We obtained the computer-generated Account History Reports which reflected each individual transaction (i.e., adjustments, billings, payments, and penalties) recorded in the system beginning July 26, 1998 through the date of our review. For the period prior to computerization, we obtained the manual Account Ledgers.
 - B We performed a very detailed analysis of each account by reviewing the sequence of billings, payments, penalties, and adjustments. Each billing and payment transaction was traced to the corresponding canceled billing stub reflecting payment information, as well as, a duplicate receipt if one was available. Several types of irregularities, supporting the allegation of misappropriation, were noted when performing this analysis:
 - I Computerized billing stubs reflected a past-due balance that was altered with white-out;
 - II Billing stubs that should have been computerized were typed or handwritten;
 - III Payments reflected on duplicate receipts manually issued by Ms. Walker were not recorded on the account history report;
 - IV Duplicate receipts, manually prepared and signed by Nancy Walker, reflected a past-due balance that was less than that reflected on the account ledger; and
 - V The sequence of billing and payment history indicates the customer was paying for current charges on a monthly basis; however the delinquent balance was never paid by the customer as if he/she was not aware of the past-due balance. The delinquent balance reflected on the payment history report is an amount comparable to the amount reported on Ms. Walker's list. The only difference is the penalties which were automatically added to the account by the computer system after Ms. Walker misappropriated the monies.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The following is a breakdown of the 110 accounts on Ms. Walker's listing by type of evidence which supports the allegation of misappropriation:

- I. 7 accounts with misappropriations totaling \$1,108⁷, we have evidence consisting of:
 - a. billing stubs containing white-out alterations;
 - b. billing stub(s) that were either typed or handwritten;
 - c. receipt documentation (e.g., duplicate receipt, or billing stub stamped "PAID") that reflected a payment that was not posted to the accounts;
 - d. receipt documentation that reflects a balance due that is either zero or less than the account history reports reflects, this was signed by Ms. Walker; and
 - e. the sequence of billing and payment history indicates the customer was paying for current charges on a regular monthly basis; however the delinquent balance was never paid by the customer as if he/she was not aware of the past-due balance. The delinquent balance reflected on the payment history report is an amount comparable to the amount reported on Ms. Walker's list. The only difference is the penalties which were automatically added to the account by the computer system after Ms. Walker misappropriated the monies.

- II 20 accounts with misappropriations totaling \$1,357⁷, we have evidence consisting of:
 - a. billing stubs containing white-out alterations;
 - b. billing stub(s) that were either typed or handwritten;
 - c. receipt documentation (e.g., duplicate receipt, or billing stub stamped "PAID") that reflected a payment that was not posted to the accounts; and
 - d. the sequence of billing and payment history indicates the customer was paying for current charges on a regular monthly basis; however the delinquent balance was never paid by the customer as if he/she was not aware of the past-due balance. The delinquent balance reflected on the payment history report is an amount comparable to the amount reported on Ms. Walker's list. The only difference is the penalties which were automatically added to the account by the computer system after Ms. Walker misappropriated the monies.

- III 19 accounts with misappropriations totaling \$1,647⁷, we have evidence consisting of:
 - a. billing stubs containing white-out alterations;
 - b. billing stub(s) that were either typed or handwritten; and
 - c. the sequence of billing and payment history indicates the customer was paying for current charges on a regular monthly basis; however the delinquent balance was never paid by the customer as if he/she was not aware of the past-due balance. The delinquent balance reflected on the payment history report is an amount comparable to the amount reported on Ms. Walker's list. The only difference is the penalties which were automatically added to the account by the computer system after Ms. Walker misappropriated the monies.

⁷ Amount included within the Finding for Recovery on page 20. For this Procedure, we have 105 accounts totaling \$11,860 included within that Finding.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- IV 30 accounts with misappropriations totaling \$5,450⁷, we have evidence consisting of some variation of two or more of the above irregularities.
 - V 29 accounts with misappropriations totaling \$2,298⁷, we have evidence that the sequence of billing and payment history indicates the customer was paying for current charges on a regular monthly basis; however the delinquent balance was never paid by the customer as if he/she was not aware of the past-due balance. The delinquent balance reflected on the payment history report is an amount comparable to the amount reported on Ms. Walker's list. The only difference is the penalties which were automatically added to the account by the computer system after Ms. Walker misappropriated the monies.
 - VI 5 accounts totaling \$309, which we could not make a determination whether monies were misappropriated based upon the available documentation.
 - VII Within the 105 accounts enumerated as I-V above, we noted misappropriations in excess of the amount reported by Ms. Walker in some accounts and misappropriations less than the amount reported by Ms. Walker in other accounts. The net difference resulting in \$392 of misappropriations within the 105 accounts that we could not substantiate.
 - VIII In addition, within the 105 accounts enumerated as I-V above, we noted \$482 of penalties which accumulated on the delinquent accounts after the misappropriation by Ms. Walker. These penalties were not monies misappropriated by Ms. Walker, therefore they are not included in our Finding for Recovery.
6. Based upon the number of internal control weaknesses noted in Issue One, the number of missing duplicate receipts, and the results of our individual analysis in Issue Two, we expanded the scope of our special audit. As a result, Issue Three was performed with the concurrence of the Highland County Prosecutor and Village management.

In summary, Ms. Walker's listing originally included 115 accounts totaling \$13,043. We noted 5 of these accounts were duplicates. These duplicates were combined, resulting in 110 affected accounts totaling \$13,043. Our account analysis resulted in evidence of misappropriated monies in 105 of the 110 accounts in the amount of \$11,860. These 105 accounts totaled \$12,734 on Ms. Walker's list. The difference of \$874 represents unsubstantiated misappropriations as reported by Ms. Walker of \$392, and \$482 of penalties.

The above results, coupled with Ms. Walker's tape-recorded confession and self-prepared listing of misappropriated monies, provide sufficient evidence to conclude that Ms. Walker did misappropriate public monies and therefore, we are issuing a Finding for Recovery.

FINDING FOR RECOVERY (See Page 20)

CITATIONS

1. Ohio Rev. Code Section 733.14 states that Village officers and departments shall make detailed monthly reports to the Village Clerk-Treasurer of their receipts and expenditures.

The departments did not make any reports to the Village Clerk-Treasurer. The Utility Clerk submitted copies of bank deposits, but no other reports indicating amounts billed, collected, and outstanding balances were provided to enable the Clerk to reconcile receipts and monitor revenues owed.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. Ohio Rev. Code Section 149.39 provides for a Municipal Records Commission and the retention of records. The Village did not have a Records Commission or maintain a list of records required to be kept. The Revised Code also specifies the criteria for disposal of records.

The Village did not secure all records of the Utility Department, and receipts, such as the Utility Department duplicate receipt books, could not be located.

3. Ohio Revised Code Section 149.351 states all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Revised Sections 149.38 to 149.42.

The Utility Department could not provide us with duplicate receipts issued during the period July 1997 through December 1998 to support cash payments.

MANAGEMENT COMMENTS

1. There was no separation of duties in the cash receipt process for the Utility Department. The former Clerk collected the mail, receipted payments, posted payments to accounts, and deposited collections in the bank. This practice allowed monies to be misappropriated.

We recommend the Village review the cash receipt process and develop procedures which would provide separation of duties and additional oversight for the cash receipt process.

2. The Utility Department did not have written procedures for management and administration of the Department. Although established practices were in place, those practices were not always relayed to assistants. An assistant was hired for the former Utility Clerk. The former Utility Clerk provided training to the assistant only for what she wanted the assistant to know. Without written procedures, the assistant had no way of knowing certain practices, such as hand-written bills, were not a proper procedure.

We recommend the Department develop written procedures for business transacted within the Utility Department. Written procedures should also extend to other Village departments as well.

3. The Village did not have a records maintenance policy or procedures. Required documents should be listed on a records maintenance policy with procedures for record retention. A log should be kept of all records removed from the premises whether by Village employees or outside reviewers.

We also noticed that while performing this Special Audit, residents questioned what constitutes a public record subject to the open records laws. Village employees were unable to answer their request.

We recommend the Village develop procedures for documenting and maintaining required records and keep a log of documents removed from the Village offices. The Village should use this list and consult with legal counsel regarding which documents are considered public records.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE THREE - CONFIRMATION OF ADDITIONAL ACCOUNT BALANCES

PROCEDURES

We prepared a listing of residents whose utility accounts reflected a past due balance for the months of June and July 1998, and for July 1999. Correspondence was sent to each of these individuals requesting all proof of payment of monthly bills (e.g., duplicate receipt, billing stub stamped "PAID", canceled check) they may have for the period January 1, 1998 through July 9, 1999. All payment information received was traced to the individual accounts within the utility accounting system to determine if the full amount of payment was the amount credited to the individual accounts.

RESULTS

1. Using the June 1998 manual customer account ledger, and the July 1998 and 1999 computer-generated account history reports, we compiled a list of all delinquent accounts. This list consisted of 286 customers⁸.
2. A confirmation letter was mailed to each of these customers requesting they provide us with any proof of payment they may have for the period January 1, 1998 through July 1, 1999. We received a response from 91 customers.
3. All items received which supported a payment was traced to the utility department's accounting records to determine whether the payments were recorded. Through this process we noted \$641 of payments which were not recorded on the Village's accounting system. This \$641 affected 6 accounts which were not on Ms. Walker's listing. These 6 accounts totaling \$641 are included within the Finding for Recovery on page 19 of this report.

⁸ Includes the 110 accounts on Nancy Walker's list.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

FINDING FOR RECOVERY⁹

Nancy Walker was the former Utility Clerk of the Village of Leesburg. In that position, she had sole responsibility for Utility Department accounting functions which included billing, receipting, recording, depositing, and reporting to the Village Clerk-Treasurer and Village Administrator.

On July 16, 1999, Ms. Walker gave a tape-recorded statement to the Village Police Chief stating that she had stolen cash receipts from utility payments. She provided a list of 115 accounts and the amount she had misappropriated from each account, totaling \$13,043. On August 25, 1999, Ms. Walker again stated to Auditor of State staff that she had taken the money and the list she provided to the Chief on July 16, 1999 was her record of accounts from which she had stolen.

We compiled records for the accounts shown on Ms. Walker's list and additional accounts for which records indicated account balances were altered. There were 115 items on Ms. Walker's list, of which we found evidence of misappropriation in 105 accounts. We identified 6 additional accounts not on Ms. Walker's list where cash receipts had been recorded or deposited.

We determined account balances were altered and payments were not posted to customer accounts or reported on Village records including bank deposits. This was verified through a process of an account analysis, recalculation of account charges and receipts, and through examination of receipts and other documents at the Village and from records provided by customers. Documents we reviewed included the Account History Report, canceled checks, utility stubs, and duplicate receipts, and deposit slips.

For the 111 accounts for which we have findings, 105 were originally on Ms. Walker's listing there were 56 accounts with documents which had been altered with white-out, 40 utility bills which had been manually prepared with a typewriter instead of computer-generated, 27 utility bills which had been hand-written instead of computer generated, and 56 accounts with documents showing payments made by customers and/or the correct account balance listed. Discrepancies in the 111 accounts total \$12,501.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public property converted or misappropriated is hereby issued against Nancy Walker, and The Ohio Casualty Group of Insurance, her bonding company, jointly and severally, and in favor of the Village of Leesburg's Water and Sewer Funds, in the amount of \$12,501.

⁹Culmination of the Results of Issues Two and Three.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE FOUR - WATER AND SEWER TAP-INS

PROCEDURES

We performed a review of water and sewer tap-ins during the Period to determine if the Village received and deposited monies in accordance with the tap-in fee schedule.

RESULTS

On July 6, 1998, Village Council adopted Ordinance 98-19, establishing water and sewer tap-in fees. The water tap-in fee was increased from \$300 to \$800, and the sewer tap-in fee was increased from \$500 to \$800 with the adoption of this ordinance. This ordinance repealed Ordinance 96-7 that established the previous rates for water and sewer tap-ins.

After reviewing daily summaries of work performed that was contained on monthly desk calendars maintained by the Superintendent, and tap-ins listed on individual meter cards, we agreed the number of water and sewer tap-ins performed to the pay-in records maintained by the Village Clerk-Treasurer.

We reviewed all meter cards for 1997 and 1998 and compiled a list of all entries regarding tap-ins. According to the meter cards, the Village installed 18 water tap-ins and 18 sewer tap-ins. Using the tap-in fee schedules in effect during the Period, the amount of revenue which should have been collected and recorded for tap-ins should have been \$12,550. We then reviewed the Village Clerk-Treasurer's pay-ins to determine if these monies were collected and recorded. According to the pay-ins, \$19,544 was collected during the Period for water and sewer tap-ins.

When comparing the customer name and address of the tap-ins per the meter cards to the customer names and address of the tap-ins per the pay-ins, we noted that 14 of the 18 tap-ins reported on the meter cards were not reported on the pay-ins and 8 of the 14 tap-ins on the pay-ins were not reported on the meter cards.

We discussed the above discrepancies with the Village Clerk-Treasurer and the Utilities Superintendent. Both stated, there is no reconciliation between the tap-ins recorded on the meter cards to the pay-ins. In addition, it is not uncommon for tap-in fees to be reduced without Council approval. For example, in one instance, a customer received a free tap-in because he performed services for the Village. Another customer paid for one tap-in, but connected several properties to the same tap-in. The Village Clerk-Treasurer did not receive anything from the Utility Department which would tell her what was owed for utility tap-ins. There were no records compiled by the Department to show tap-ins requested, those done, and payments made. Records were not kept to enable re-creation of amounts due and amounts paid.

Although records are now kept to show work by Village staff for tap-ins, they still do not have written procedures approved by Council.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENTS

1. The Village did not keep records for tap-ins. Monies were recorded by the Clerk-Treasurer on a pay-in and in the cash journal, but no record was maintained by the Utility Department. A listing of customers was not prepared for the Village Clerk-Treasurer to know what monies were due. There were no work orders for the Street Supervisor to record tap-ins completed, and there were no cross-checks to compare payments to completed work. Tap-ins may have been done without payment to the Village.

We recommend the Department work with the Village Clerk-Treasurer to develop a method of documenting tap-ins requested and monies due.

2. Reductions in normal fees were given to customers without Council approval. Any variation with Village ordinance should be formally approved and documented. Unapproved reduction of fees results in loss of revenues to the Village.

We recommend the Department develop criteria to be used when granting fee reductions. All such reductions should have management approval.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE FIVE - OPERATIONAL POLICIES, PROCEDURES, AND PRACTICES OF THE INCOME TAX DEPARTMENT

PROCEDURES

We reviewed the operational policies, procedures, and practices of the income tax department for monies received during the period April 1, 1999 through July 15, 1999, to determine the practices followed when collecting, recording, and depositing income tax receipts (employer share, employee share).

RESULTS

1. Effective April 1, 1999, the Village instituted a mandatory filing requirement for all residents and business in the Village. The tax rate was set at ½ %.
2. The Village hired a part-time contractor to act as Income Tax Advisor, assist the Village with using the computer systems, and to provide general oversight and management of the department. At the time of this engagement, the Income Tax Department was still under the supervision of the Income Tax Advisor, rather than under the control of the Income Tax Administrator. (The Village Utility Clerk also serves as the Income Tax Administrator. This is the only employee of the Income Tax Department.)
3. On August 19, 1999, we interviewed Dorothy Countrymen, Acting Income Tax Advisor, to discuss procedures utilized by the Village in processing income tax revenues. We also performed a walk-through of procedures, and noted mail was distributed to the Income Tax Department, all monies collected were receipted, deposit slips were completed in full, and bank deposits were made on a timely basis.
4. All income tax related information is processed through the use of Systems Software, Inc. software packages. This software package will automatically print the quarterly tax forms for businesses, and will automatically accrue interest and penalties on delinquent, non-payment, and non-filer accounts, once the system has cycled through the first annual required filing date on April 30, 2000.
5. Using the Utility Department's customer records, questionnaires were mailed to residents and business in the Village. The returned questionnaires were used to enter income tax information on the computer system.
6. During the audit period, the Village began receiving monthly income tax withholdings and quarterly payments from businesses. This was the only source of income tax received, as annual returns would not be submitted to the Village until early 2000.
7. As income tax funds are received, the Income Tax Clerk recalculates the amounts, using the information supplied by the business. A deposit slip is prepared, and a calculator tape is generated of the amounts paid. The deposits of income tax fund are kept separate from utilities and other Village deposits, and are generally made on an as-needed basis.
8. Prior to posting receipts to the income tax accounts, a batch total of tax forms is prepared, then reconciled to the deposit amounts. Trial balances, transaction journals, and cash reports are printed monthly and compared to daily receipt reports.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE SIX - REVIEW OF INCOME TAX RECEIPTS

PROCEDURES

We reviewed income tax monies received for the period April 1, 1999 through July 15, 1999, to determine the Village was receiving revenues timely and entering them into the ledgers.

RESULTS

1. Because the income tax ordinance was not enacted until April 1999, the Village has not cycled through a complete tax year. The Village provided us with a computerized year-to-date printout of income tax receipts as of July 1, 1999. According to this "IT Cash Report," there were receipts of \$18,404 in business income tax payments, and \$468 from individual income tax payments.
2. The Village created file folders for each business required to pay income tax, using the questionnaires which were previously sent out (See Issue Four). Using a typed list of forty-seven Village businesses, we attempted to verify each business had a file folder created and stored in the Income Tax Department.

There were twenty additional businesses included in the Village's file folders which were not included on the typed list provided by the Village.

3. We selected each business file folder available, and examined exemption status, type of taxes paid and/or payable, and type of payment (quarterly or monthly). Using the documentation in the file folder, we traced payment amounts from each business to a receipt and a deposit slip, with no discrepancies noted.
4. Using a printout of individual income tax payments received by the Village, we traced the amounts recorded as revenue to the actual receipts and to the deposits made, with no discrepancies.

MANAGEMENT COMMENTS

Listing of Business Income Tax Customers

The typed list of business income tax customers maintained by the Village did not reconcile to the business customers file folders stored in the Income Tax Department. It is possible for potential customers to go unnoticed when the entire population is not accurately defined and updated. We recommend the Village review the typed list, and agree questionnaires and/or any other lists to the current account files to make sure all required payees are included.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE SEVEN - ANALYTICAL REVIEWS

PROCEDURES

Using utility department data from both the manual accounting system (April 1, 1996 through June 1999) and the computerized accounting system (July 1998 through July 15, 1999) we performed monthly and yearly comparisons of related data in order to identify trends or unusual variances.

RESULTS

1. For the period April 1, 1996 through July 15, 1999, we analyzed the number of customers billed each month, any utility rate changes approved by Council, and the total current monthly billing charges (excludes delinquent balances) for unjustified inconsistencies or unusual trends. We noted no significant unjustified trends.
2. For the years 1996, 1997, 1998 and the period January 1, 1999 through July 15, 1999, we compared annual utility billings, excluding delinquent balances, to the total annual receipts recorded by the Utility Clerk. As evidenced below, 1996 utility department receipts were more than enough to cover 1996 current utility charges; however as the years progressed the total amount of annual receipts recorded was not sufficient to meet current annual charges, let alone delinquent account balances.

	Total Billings Not including <u>Delinquent Balances</u>	Total <u>Receipts</u>	<u>Variance</u>
1996	\$350,477	\$ 352,311	\$ 1,834
1997	378,547	360,747	(17,800)
1998	380,580	356,220	(24,360)
1999 ¹⁰	219,467	231,426	(11,959)

3. As evidenced below, delinquent account balances increased significantly each year

	Total Delinquency Balance
December 31, 1996	\$ 5,917
December 31, 1997	9,618
December 31, 1998	25,607
July 15, 1999	28,451

4. During the period July 1998 through June 1999, the monthly rate of delinquency was 38%. That is, 38% of the total monthly bills represented delinquent balances.
5. During the period July 1998 through June 1999, current monthly billings exceeded actual deposits by an average of \$1,500 per month.

¹⁰ Includes January 1 through July 15, 1999.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

6. During the period July 1998 through June 1999, the Utility Clerk made \$19,587 of adjustments to reduce account balances. None of these adjustments were approved by Council or reviewed by other Village personnel. There were no policies and procedures governing the adjustment process, nor was there any oversight to ensure that all adjustments were valid. It was not practicable to determine the number and dollar amount of account adjustments made during the period April 1, 1996 through June 1998 due to the manual accounting system maintained at that time.

MANAGEMENT COMMENT

Utility Department Computer System and Management Oversight

The current computer system used by the utility department is capable of generating numerous types of reports which can provide management with information needed to monitor the operations of the utility department. Information such as: a) the total number and dollar amount of delinquent accounts; b) service shut-off of delinquent accounts; c) detail relating to each individual account adjustment made during the month; d) total monthly billings compared to total monthly receipts; and e) year-to-date comparisons of related data should be reviewed on a regular basis by the Utility Clerk, Council, and Mayor. Such information should be submitted to Council members and the Mayor prior to regular Council meetings to provide them with adequate time to analyze the information and develop inquiries. Any discrepancies or questions arising from Council's review should be presented during the Council meetings, investigated, and resolved to Council's satisfaction.

We recommend all Utility Department personnel involved in the billing process obtain training necessary to enable them to fully utilize the capabilities of the computer system. Council should be aware of the various types of information which can be generated by the system and determine what information they want to review on a periodic basis in order to effectively monitor the department.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE EIGHT - REVIEW OF VILLAGE CREDIT CARD ACCOUNTS

PROCEDURES

We reviewed Village charge account information to determine if unauthorized charges were being made.

RESULTS

We obtained copies of account statements which were in the Village's name and reviewed the account activity to determine if the Village paid for any purchases which appeared personal. We discovered the following:

1. STAPLES - Nancy Walker's name appears on the application which is dated May 14, 1999. She had access to the Federal Employer Identification Number of the Village for tax purposes, and knowledge of Village bank accounts for references. The application also lists Dianne Barber although Ms. Barber stated she knew nothing about the application. There was not any purchases made on this account prior to Ms. Walker leaving her position.
2. LTD Commodities - This is a company which focuses only on business concerns as their customer base. It is common to see purchases made through businesses with employees ordering items wanted and then paying personally for the items; however, it is not a good practice for a government unit. In addition, the Village did not give permission for this account to be opened, which was in November 1996.

The only invoice we received from the company was for purchases made in 1998 totaling \$139. These purchases were personal in nature and current Village staff recognized some items as Christmas gifts they received from Ms. Walker. The invoice remained unpaid. After the Village Clerk-Treasurer notified the company of Ms. Walker's status, the company stated they would pursue collection from her. Per review of Village disbursement records, no payments had been made to LTD Commodities.

3. Senter Office Supply - This is a commonly-used vendor of the Village. There were no accounts opened by Ms. Walker, but she did purchase items and sign her name. The purchases were business-related and there is no indication personal items were obtained. We also noted the Village was preparing for enactment of an Income Tax and the office for this Department was being established. Ms. Walker did receive permission to establish an Income Tax office whereby the purchase of business supplies would be a normal start-up expenditure.

MANAGEMENT COMMENT

The former Clerk opened credit accounts without Village approval. Although no personal purchases were paid for by the Village, without controls over these accounts, loss can occur.

We recommend the Village develop criteria and authorizations for opening and using credit accounts.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE NINE - FEDERAL SURPLUS PROPERTY INVENTORY

PROCEDURES

We reviewed inventory records for the Police Department for items received through the federal surplus program to determine if all such items were accounted for.

RESULTS

According to the 1998 Federal Property and Equipment Manual published by the U.S. Department of Justice, the transfer of excess property from the Secretary of Defense to State and Local Law Enforcement and Corrections Agencies began in 1989 as the "1208 Program." Under this program, it was required that property transferred be used for counterdrug activities.

In 1996, Congress replaced Section 1208 of the National Defense Authorization Act with Section 1033 which gave permanence to the program, and removed the requirement that property be used for counterdrug activities. The 1033 program permits the Secretary of Defense to transfer excess Defense personal property for law enforcement activities. The Village of Leesburg's Police Department participates in this program as an authorized law enforcement agency in Ohio, conducting law enforcement activities.

Over the past few years, the Village has seen a change in several administrators with records of transactions not kept or poorly kept, including inventory records. They could not provide records regarding inventory received or account for items disposed.

In 1998, the Office of Criminal Justice Services, the State administrative agency for the Department of Defense, contacted the Village and asked for an accounting of items. The former Police Chief had been released from Village employment and the current Chief attempted to inventory the items, but the lack of prior records hindered identification of all but a few items.

We used documents provided to the Village by the Ohio Office of Criminal Justice Services as the basis for our beginning inventory. We also used inventory records from Auditor of State's working papers from previous audits, and Village records. Using these documents, we were able to re-create a list of items received through the federal surplus program. Those documents used were:

- The Screeners Tally Request to Freeze Excess/Surplus Property form
- Department of Defense Single Line Item Release/Receipt Document
- Inventory records for the Village of Leesburg's Police Department from the Auditor of State's December 31, 1996 single audit working papers
- Inventory records for the Village of Leesburg's Police Department from the Auditor of State's December 31, 1995 two-year audit working papers
- The Village of Leesburg's Police Department 1999 inventory listing
- The September 10, 1998 Village of Leesburg's Police Department response to the Office of Criminal Justice Services letter regarding Federal Inventory Listing of Surplus Items Received
- The Bureau of Motor Vehicles printout documenting the Village's sale of a 1978 Dodge truck

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

After compiling a list of inventory, we performed a physical inventory of those items which were valued at more than \$1,000. Those items included as part of our inspection are as follows:

1. Copier - The Police Chief thought the copier was not being used, and was being stored in the basement of the Village hall. However, upon review, we compared the serial numbers for the copier listed on the "Screeners Tally Request Freeze Excess/Surplus Property" form, and the serial numbers did not agree with the copier in the basement. In addition, we reviewed the maintenance record contained on the copier, and it reflected the copier dates back to 1991, which was one and one-half years prior to the federal acquisition.
2. Four Computers - The only computers the Police Department currently has were obtained from surplus school property. The Police Chief stated it was his belief that each of the officers at that time were given a computer to use at home, but after the termination of their employment, the equipment was not returned to the Village.
3. Four Trucks - The vehicles were acquired at the same time, but records did not completely identify two of the vehicles, although we were told by the Chief that all were Dodge trucks. We did obtain vehicle identification numbers for all four vehicles.

The Police Chief ran a check through the Ohio Bureau of Motor Vehicles and through the County, and could not locate a title for two of the vehicles. One vehicle was shown as sold and retitled in April 1996. The fourth vehicle is still maintained by the Village.

According to the Ohio Bureau of Motor Vehicles records and personnel records at the Village, the vehicle which was sold, was purchased by Bernard Fetters, the father of the former Village Clerk-Treasurer and father-in-law of the former Police Chief. We did observe that a \$1,000 deposit was made to a bank account in the name of the Village of Leesburg Police Department that was used by the former Police Chief. Village management was unaware of the existence of this account.

4. Trailer - The trailer could not be located, and according to the Chief, is believed to have been acquired by Mr. Fetter with the truck.
5. Motor, Generator - The motor, generator is not in the possession of the Village. According to the Chief, it is believed to be in a field outside town, acquired by unknown means.
6. Rope - Rope is not in the possession of the Village. The item was listed by the Chief in his response to the Office of Criminal Justice Services in 1998. The Chief believes the rope, along with a chain, was acquired by a local farmer.
7. Terminal - As with the computers, the Village no longer has any of the computer equipment acquired through federal surplus.

From April 1993 through March 1994, the Village acquired surplus inventory valued in excess of \$87,000. For the items shown above and unaccounted for, the total loss is \$51,700 which results in Federal Questioned Costs.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

While reviewing the inventory records, we were made aware of a bank account in the name of the Village of Leesburg Police Department that was used by the former Police Chief from August 1995 through May 1997. We reviewed records and agreed items shown on a ledger to deposits and checks on the bank statements. We scanned payments made from the account and copies of checks to determine the purpose of the expenditures made. Payments made were for vendors supplying police equipment and other police related activities. We did not note anything unusual for police department activity.

For the deposits, we noted one deposit for \$1,000 which was listed as proceeds from a vehicle sale, as noted in item 3 above. There were also deposits noted as being monies raised from donations. We asked for records for receipts from donations, but the current Police Chief stated that records were not maintained.

FEDERAL QUESTIONED COSTS

CFR Title 32, Part 33.32 (f)(3) states that when equipment is no longer needed, the grantee or subgrantee will request disposition instructions from the Federal agency.

Section 1208 and subsequently Section 1033 of the National Defense Authorization Act of 1997 (the "Act") governs the transfer of excess federal property. The program and surplus federal property is administered by the state under conditions stated in a Memorandum of Understanding (MOU) as signed between the State and a local Law Enforcement Agency (LEA).

Article II (A) (2) of the MOU states the Law Enforcement Agency is only permitted to transfer, exchange, sell, or otherwise dispose of property in the manner required by the MOU and the procedures and controls incorporated into the State's 1033 Program Operating Plan.

The MOU states any transfer or disposal of property must receive approval by the State. There was no approval given for disposal of any of the surplus property received by the Leesburg Police Department.

Article II (B) (3) (c) states the Law Enforcement Agency shall control and maintain records on all property obtained under this MOU in accordance with pertinent State and local property laws and regulations. The records must identify the property received by the LEA and its disposition and must be available for review by the State upon request.

From April 1993 through March 1994, the Village acquired federal surplus properties totaling over \$87,000. We attempted to identify items acquired through the federal surplus property program or confirm a disposition for items no longer maintained by the Village.

The Village did not maintain records to account for items they received through the federal surplus property program. A review of Village records, and interviews with officials and residents, indicated some items did not arrive under the custody of the Village, but were stored at private residences, and eventually were sold or disposed of without approval of Council.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Selecting only those items individually valued at over \$1,000, we identified or ascertained the disposition of federal surplus property. The items shown below were unaccounted for which results in \$51,700 in Federal Questioned Costs.

DESCRIPTION	VALUE
Copier	\$3,568
Four Computers	12,712
Three Vehicles	24,093
Trailer	2,903
Motor, Generator	4,613
Rope	2,232
Terminal	1,579
TOTAL	\$51,700

MANAGEMENT COMMENTS

1. The Village did not have procedures regarding property and equipment acquisition and maintenance. The few inventory records reviewed were not complete or accurate. Items were acquired without the knowledge of Council. The Village lost assets due to a lack of accountability over inventory.

We recommend the Village develop policy and procedures for acquisition and maintenance of property and equipment. They should also include provisions for disposal of items no longer needed.

2. A former Police Chief opened a bank account without Village authorization. Purchases were made from this account without approval of the Village Clerk-Treasurer and Council. There were no records to support expenditures from this account. At least one item of Village inventory was sold and the money was deposited into this account.

We recommend the Village develop policy and procedures for all bank accounts opened. Expenditures should not be made without going through the required process of budget and approval.

3. The former Chief solicited donations for the Police Department without providing an accounting to Council. Donations were placed in an unauthorized bank account and expenditures were made for items that were not consistent with the donor's wishes.

We recommend the Village approve all solicitations made by any of the departments. The Police Department provides many public services, including giving candy at Halloween, assisting at school functions, and helping needy residents. A fund can be established to receive donations from citizens to help in these endeavors, but it needs to be an approved fund with a monthly accounting provided to Council for all activities from the fund.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

4. We received concerns regarding security breaches of Village buildings and property. There were no controls over the making of keys for buildings or an authorization process for issuance of those keys. Village property and equipment could not be accounted for and some had been sold without approval. Items were not available for inspection, and no theft reports were filed. The Village lost assets through poor security for buildings, property, and equipment.

We recommend the Village place security for buildings, property, and equipment under the Police Department. The Department should receive and update all inventory lists, be responsible for control over keys to buildings, and file reports for any missing assets. The Council should also be notified of any theft or damage to Village property.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

APPENDIX A

101-100	38.37			59.37
101-1360	36.84		101-680	Lutz 58.00
101-540	106.07		102-1750	J. Miller 28.00
101-970	106.00		101-2500	Lanney 40.00
103-200	325.00	J. Turner	102-168	Butler 105.21
103-540	102.00	J. Tomlin	102-140	Pace 98.89
103-980	82.00	G. Turner	101-11001	Wint 58.00
102-250	251.42	Longdale	101-210	Estes 13.07
101-2210	240.80	S. Brinson	101-120	Collier 82.19
102-1210	189.85	M. Wagner	101-500	Conklin 108.45
103-930	325.48	S. Keasler	101-200	Thomas 195.28
101-820	237.75	Herman	101-1780	J. Miller 40.00
101-1650	98.25	Herman	101-260	M. Smith 89.29
103-580	131.00	Colley	101-640	Stall 28.00
101-1200	251.00	W. C. Carter	102-1300	T. Lundy 406.95
101-	45.27	G. Bennett	101-230	Huff 20.10
101-1660	207.00	D. Carter	101-1770	R. Huff 120.00
101-2140	31.00	Soren	101-750	Goffitt 99.00
102-1990	36.00	Looney	101-1100	D. Price 91.67
101-1000	100.00	W. C. Carter	102-1500	Barton 118.00
101-1050	28.22	W. C. Carter	101-280	R. Johnson 10.00
102-1580	59.40	J. Miller	103-720	Tony K. 150.00
101-1330	Alvin 46.06		102-580	Shamber 166.00
102-470	J. Ynes 86.06		102-770	Duncan 120.00
101-380	F. H. 60.00		101-1430	Filde 58.00
103-900	Carlton 74.12		102-160	Carter 61.68
102-1620	Sally 110.00		101-980	McKibbin 115.00
102-700	Ph. H. 41.35		102-410	McKibbin 80.60
			101-1610	McKibbin 89.61
			103-570	McKibbin 148.12
			101-2080	McKibbin 312.00
			103-670	S. Lichten 146.00

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

APPENDIX A

102-490 E. Smith 28.00	101-1220	45.00
103-700 Baker 20.00		
103-400 D. Smith 35.00	101-990 B. Tull	109.85
101-1410 Brown Jr. 75.23	101-2240 R. Tull	90.87
102-930 Cragg 120.00	101-500 D. Tull	113.00
101-710 S. Tull 45.63	103-78 Brown	202.00
101-1880 W. Tull 63.91	102-1810 K. Tull	147.00
102-2420 60.19	101-870 Stanley	124.00
102-680 28.00	B. Morris	
102-680.01 28.00	102-690	128.00
103-770 Salyer 270.00	103-1010 Baker	82.00
65.93		
101-1510 Edman 87.00	101-90 Baker	91.01
101-1040 Stover 68.45	102-680 Baker	25.00
101-1150 F. Cox 192.00	102-500 Baker	42.00
102-310 Steaton 260.43	101-2050 Stover	36.68
101-1590 W. Cox 92.00	102-500 Baker	42.00
103- T. Adams 191.00	103-250 H. P. Adams	28.00
101-2280 Cowman 182.51	103-510 P. Adams	42.00
102-1880 Wheeler 87.14	103-760 S. Adams	41.00
102-380 Crum 28.00	101-390 J. Adams	101.00
102-340 Lady 374.00	101-390 J. Adams	54.10
102-1630 Blair 4.00	102-1590 H. Adams	37.77
101-1290 Harper 47.50	103-560	
103-670 Roberts 31.93	102-1520 H. Adams	41.94
101-2280 D. Salyer 54.00	102-1520 H. Adams	64.00
103-710 211.00 D. Roberts	102-650 A. Adams	278.22
101-900 B. Salyer 25.00	103-250 H. Adams	28.00
	103-560	80.00



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

VILLAGE OF LEESBURG

HIGHLAND COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 30, 2000**