



**Auditor of State
Betty Montgomery**

TABLE OF CONTENTS

TITLE	PAGE
Schedule of Relevant Personnel	1
Independent Accountants' Report	3
Supplement to the Special Audit Report	
Background Information	5
Issue No. 1 Revenue Collections and Deposits	6

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**VETERANS MEMORIAL
FRANKLIN COUNTY**

SCHEDULE OF RELEVANT PERSONNEL

As of June 30, 2004

Mr. John P. Raphael, President, Board of Trustees

Mr. Richard Nolan, General Manager

Ms. Carol Alexander, Secretary

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Mr. John P. Raphael, President
Board of Trustees
Franklin County Veterans Memorial
300 West Broad Street
Columbus, Ohio 43215

We have conducted a special audit of the Franklin County Veterans Memorial ("Memorial") by performing the procedures described in the attached Supplement to the Special Audit Report for the period January 1, 2003, through June 30, 2004 ("the Period"). These procedures were performed solely to review the collection of revenue received by the Memorial and to determine if the funds were deposited into the Memorial's accounts.

This engagement was conducted in accordance with Quality Standards for Inspections established by the President's Council on Integrity and Efficiency (March 1993). The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We reviewed supporting documentation for the collection and deposit of revenue received by the Memorial to determine whether the funds were accurately accounted for and deposited in the Memorial's accounts.

Significant Results: We determined that rental income of \$24,184, parking receipts of \$12,229 and decorating commissions of \$283 were collected during the Period but were unaccounted for or not deposited. We also noted that certain records appeared to have been manipulated to hide the undeposited receipts.

We issued a finding for recovery against Carol Alexander, secretary for the Memorial, for receipts collected but unaccounted for in the amount of \$36,696.

We issued two noncompliance citations for failure to make timely deposits and maintain records. We also issued four management comments related to segregation of duties, daily deposit records, parking lot revenues and duplicate receipts. The Memorial should consider these matters to reduce the risk of fraud and theft, and to ensure that transactions are completely and accurately recorded.

2. On March 31, 2005, we held an exit conference with the following individuals:

John Raphael, President, Board of Trustees
Elizabeth Kessler, Audit Committee Chair, Board of Trustees
Richard Nolan, General Manager

The attendees were informed that they had until April 11, 2005, to respond to this Special Audit Report. A response was received April 7, 2005 and changes were made to this report as we deemed necessary.



Betty Montgomery
Auditor of State

January 25, 2005

Supplement to the Special Audit Report

Background

The Franklin County Veterans Memorial ("Memorial") is a non-profit corporation established pursuant to Ohio Revised Code Section 345. The purpose of the Memorial is to commemorate the service of all members and veterans of the armed forces of the United States. The Memorial serves the citizens of Franklin County by providing facility rental space. It is also a center for activity for veterans meetings and programs. The offices of the Franklin County Veterans Service Commission are also located in this facility which is not considered part of the Memorial.

The Memorial is governed by a board of eleven trustees appointed by the County Commissioners of Franklin County ("County"). It is a discretely presented component unit of the County, the primary government, in which the Memorial is fiscally dependent; however, the County does not control the day to day operations of the Memorial. The Memorial receives the majority of its revenues from rental of the facility for events and parking lot receipts.

During testing conducted as part of the Memorial's financial audit for the year ended December 31, 2003, Auditor of State employees determined that certain daily parking receipts and event collections were not deposited to the Memorial's accounts. The Franklin County Sheriff's Office was contacted and indicated that they had also received contact from the Franklin County Prosecutors Office regarding this incident. The Sheriff's Office initiated a criminal investigation and conducted several interviews of Memorial employees in an attempt to obtain explanations for the discrepancies.

The Auditor of State's Special Audit Task Force considered the matter and on May 20, 2004, the Auditor of State initiated a Special Audit of the Memorial's revenue collections during the Period.

Supplement to the Special Audit Report

Issue No. 1 – Revenue Collections and Deposits

We reviewed supporting documentation for the collection and deposit of revenue received by the Memorial to determine whether the funds were accurately accounted for and deposited in the Memorial's accounts.

Procedures

1. For rental income, we reviewed receipts for all events determined from the calendar of events and traced the receipts to the receipt ledger. We traced customer collections per the receipt ledger to an invoice and the daily deposit record. For each event, we traced the entire billable amount to the deposit into the bank.
2. For parking income, we reviewed all monthly, daily, and special event parking receipts for the Period. We traced the receipts for each day from the daily parking record to the bank deposit.
3. For other revenue sources, we reviewed documentation related to the sources of the receipts to determine their nature and the need for testing. Where necessary, we performed comparisons of cash deposits to available records.
4. We reviewed and traced all deposits from the bank statements to the daily deposit records, and vice versa. We noted any deposits that were not supported by a daily deposit record or other documentation.

Results

1. During the Period, the Memorial generated rental income from booking the facility's space for events and charging for the associated expenses, such as equipment and sign rental, electric, security and payroll. Upon scheduling an event, the vendor/promoter was sent a contract which contained the terms and conditions of the rental agreement. At the conclusion of an event, an invoice was sent to the vendor which provides a breakdown of the outstanding charges due less any advance deposit previously paid.

We identified three instances totaling \$3,200 where the amount of the advance deposit paid per the invoice did not agree with the Memorial's deposit records. Procedurally, when an advance deposit was received for an event, it was marked paid on the event contract and posted as a deposit in the Memorial's Cash Disbursement Ledger. The checks for these three advance payments were deposited, but were not recorded on the Cash Disbursement Ledger or daily deposit records. Since the Cash Disbursement Ledger provides a detailed breakdown of each deposit, not recording these checks on the ledger enabled their substitution in the deposits, and an equivalent amount of cash from other sources was removed.

We noted two instances when event payments received totaling \$5,877 were not deposited. After an event has occurred and final payment is received, the invoice is then marked paid, a daily deposit record is created and the deposit is posted to the Cash Disbursement Ledger. In these two instances, copies of the invoices obtained from the vendor were marked paid, but the cash payments were not deposited nor posted to the Cash Disbursement Ledger.

We noted three daily deposit records, containing receipts from multiple vendors, which could not be traced to an actual deposit. The Memorial contacted two of these vendors and two checks were subsequently reissued and deposited, making a net of \$14,707 in event revenue missing from these three deposits. Three other checks from these deposits were later found to have been substituted for cash in deposits made in February 2004.

Supplement to the Special Audit Report

We noted one instance totaling \$400 where the rental amount and the Cash Disbursement Ledger did not agree. In this instance, the payment made by check was deposited but posted to the Ledger at an amount less than the actual check allowing for an equivalent amount of cash to be taken from the deposit.

The total amount of rental income not deposited or substituted in deposits for cash during the Period is \$24,184.

2. In addition to rental income, the Memorial received a substantial amount of revenue from the sale of monthly and daily parking passes. Similar to the process for recording rental receipts described above, parking collections were recorded on a daily deposit record and posted to the Cash Disbursement Ledger. A Monthly Parking Ledger was maintained for parking receipts which contained a detailed breakdown of each day's collections.

We noted thirteen occasions where the daily parking records and/or Monthly Parking Ledger identified receipts totaling \$12,229 that were not deposited. In seven of the thirteen cases, the Monthly Parking Ledger was incorrectly totaled by the exact amount of the missing receipts to reflect totals that were less than what should have been deposited.

3. The Memorial received revenue from other sources such as commissions from concessions and decorating. For 2004, we selected 10 receipts totaling \$76,282 from Sodexho, Inc. for concessions and 18 receipts totaling \$32,659 from various vendors for decorating. (Other revenue sources for 2003 were tested during the financial audit.) We traced the selected receipts from the Cash Disbursement Ledger to the source documentation and daily deposit records. We noted one decorating receipt for \$72 that was not deposited and one check for \$211 that was substituted in a deposit for cash and not posted to the Cash Disbursement Ledger.
4. As mentioned in Result No. 1, we noted three occasions on which daily deposit records were created, but the deposits could not be traced to a bank deposit. Additionally, we noted 22 bank deposits for which daily deposit records were not provided.

Under the Memorial's record keeping system, revenue from event bookings and other large checks received were listed individually on the daily deposit records and Cash Disbursement Ledger. However, cash and check payments received for parking fees and electric charges were not listed individually, but were totaled and grouped together in the deposit records. As a result, we noted instances where checks appeared to have been substituted for cash deposits.

As part of their investigation, the Franklin County Sheriff's Office obtained, from the bank, copies of the Memorial's deposits for January 2003 through May 2004. We reviewed the individual deposit items and compared them to the Cash Disbursement Ledger to determine if checks were substituted in deposits.

The review of the deposit items showed that there were 448 checks totaling \$25,521 that were not individually listed on the Cash Disbursement Ledger, but were deposited from 3 to 91 days after the date on the check indicating the possibility of check substitution. The majority of these checks appeared to be for monthly parking passes.

As a further result of our review of the deposit items, we noted that Memorial employees were cashing personal checks in the Memorial's deposits. Included in the deposit items were seven personal checks from an employee and six third-party checks made payable to two employees and an employee's spouse.

Supplement to the Special Audit Report

Finding for Recovery

Memorial secretary Carol Alexander was responsible for maintaining the Cash Disbursement Ledger to which vendor payments, advance deposits, accounts receivables, parking receipts and all other deposit information was posted and tracked. We noted four occasions when vendor checks were in deposits prepared by Ms. Alexander but were either not posted to the Cash Disbursement Ledger or posted at an amount less than the actual amount of the check. Not recording these checks on the ledger indicates that they were substituted in the deposits for an equivalent amount of cash from other sources.

Ms. Alexander was also responsible for issuing vendor invoices, collecting payments and marking invoices when paid. On two occasions when vendor payments were received but not deposited, Ms. Alexander had initialed and marked paid the vendor's copy of the invoices. However, the Memorial's copy of the invoice on one of these occasions was marked paid by Ms. Alexander, but was not initialed. On the other occasion, the vendor paid \$565 by check and \$2,755 by cash. Ms. Alexander prepared the deposit which included the check payment, but the cash portion was not deposited. The Memorial's copy of this invoice, showing the total amount paid, was not included with the daily deposit record prepared by Ms. Alexander.

Ms. Alexander was responsible for maintaining the Monthly Parking Ledger to which she posted a breakdown of the daily parking receipts. We identified instances where missing parking receipts were posted to the Monthly Parking Ledger, but Ms. Alexander incorrectly totaled the ledger for each month by the exact amount of the missing receipts to reflect totals that were less than what should have been deposited. On one occasion, an entry for miscellaneous income on the Parking Ledger had been incorrectly posted and reduced by the amount of the missing receipts for that day. On other occasions when parking receipts were determined missing, Ms. Alexander had posted the missing receipts to the Monthly Parking Ledger but not to the Cash Disbursement Ledger.

Ms. Alexander served as the backup for preparing deposits when the primary clerk was unavailable. We identified seven deposits prepared by Ms. Alexander from which receipts were missing. Additionally, the daily deposit record for one of the three missing deposits was discovered several months later by Ms. Alexander in her desk but had not been posted by her to the Cash Disbursement Ledger.

In accordance to the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery is hereby issued against Carol Alexander, in favor of the Memorial for public monies collected but unaccounted for in the amount of \$36,696.

Noncompliance Citations

Timely Deposit of Public Funds

Ohio Revised Code Section 9.38 states in part, "...a public official other than a state officer, employee, or agent shall deposit all public moneys received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars."

During the Period, we noted eleven occasions where parking receipts greater than \$1,000 were not deposited by the business day following the receipts. Additionally, our review of the individual deposit items showed that there were 448 checks not individually listed on the Cash Disbursement Ledger that were deposited from 3 to 91 days after the date on the check.

Infrequent bank deposits allow cash to accumulate. Receipts should be deposited into the bank daily. After hours or special event receipts should be deposited into a bank night depository or collected from the remote safes/lockboxes by the designated individual and deposited with the bank on the next business day.

Supplement to the Special Audit Report

Record Retention

Ohio Revised Code Section 149.351 (A) states in part, "(a)ll records are the property of the public office concerned 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 sections 149.38 to 149.42 of the Revised Code ..."

January 2003 daily parking records were not maintained. Additionally, the Memorial had 22 bank deposits that were not supported by source documentation. Support documentation includes the daily deposit record, billing invoices, the daily parking record, deposit slips and copies of checks received. Lack of supporting documentation increases the risk that receipts may be diverted for improper uses and current receipts are used to disguise diverted receipts.

We recommend that all receipt documentation pertaining to the daily deposit records and daily parking records be maintained and attached along with the deposit slip to the bank. We recommend someone outside of the receipt collection and posting process review and acknowledge the daily deposit record to ensure all receipts source documentation reconciles to the deposit.

Management Comments

Segregation of Duties

One secretary was performing both the daily deposit preparation and the reconciliation of the monthly bank statements. The other secretary was responsible for preparing invoices, collecting cash, posting receipts to the accounting system and updating the accounts receivable transactions. The inadequate segregation of duties weakens internal controls over cash collections.

Segregation of duties is a key element of any effective internal control system. One employee involved in all functions of the receipt process increases the likelihood that errors or irregularities may occur and not be detected in a timely manner by management.

We recommend that the Memorial reassess the responsibilities of each employee and assign certain duties to other employees that will limit any one individual from being involved in all accounting functions. An employee responsible for collecting receipts should not also be responsible for preparing the daily deposit record and making deposits. An employee responsible for reconciling the bank account to the general ledger should not also be responsible for inputting transactions into the accounting system, updating the accounts receivable transactions or preparing the daily deposit record and depositing cash. If the duties are rotated among employees, a record should be maintained documenting the duties assigned to each employee for a particular day.

We recommend that the Memorial perform regular reconciliations of the deposits to the bank statements and ledgers. Additionally, regular reconciliations should be performed of the Cash Disbursement Ledger to the Monthly Parking Ledger and daily deposit records. An employee other than the secretary should be responsible for performing the reconciliations to provide segregation of duties over the cash collections and deposits. The person performing the reconciliation should document it on a standard form with their signature to provide evidence of this action. As a matter of internal control, one party should perform and sign-off on the reconciliation, and a second party should review the reconciliation to gain additional assurance over the cash balancing. Each party should sign the reconciliation form, and those forms should be retained at the Memorial's office. All significant reconciling items should be investigated and the resolution documented.

Supplement to the Special Audit Report

Daily Deposit Record

The daily deposit record was a manually prepared form used to identify the contents of each deposit. The form did not consistently distinguish between cash collections and checks, was not pre-numbered, was not signed by the preparer or by someone independent of the preparation, and did not give an indication of where the revenues should be posted. These weaknesses could result in improper posting of revenues or cash being diverted for personal use and not detected by management.

To ensure completeness and accuracy and to reduce the risk that assets are diverted, we recommend the Memorial consider revising their daily deposit record form to an automated, pre-numbered form. This form should also indicate the cash amounts and the check amounts separately, be signed by the preparer, reviewed and acknowledged by someone other than the preparer, and indicate where the revenues are to be posted. Once the daily deposit record is prepared, the deposit should be made intact and employees should be prohibited from cashing personal checks in the deposits.

Parking Lot Revenues

The Memorial received cash payments from parking lot receipts daily. A daily parking record form was prepared which accounted for the beginning and ending tickets sold for the day, the cost for each class of ticket sold, and the total cash collections. The parking lot supervisor reviewed the daily reports for ticket accountability (numerical sequence) and reconciled cash to the number of tickets sold. However, the actual ticket stubs were not maintained for reconciling purposes.

The first and last ticket stubs of the day should be stapled to the daily parking record to indicate sequential order and completeness. Someone independent of the parking lot supervisor should acknowledge that the cash recorded matches the actual cash received. We recommend that the parking lot supervisor continue to sign the daily parking record affirming all cash collected is accurate and complete. In addition, the office employee that is receiving the cash from the parking lot should affirm the monies collected were recounted and complete. The daily parking record should be signed by the person recounting the cash. Any variances from the reconciliation should be documented on the daily parking record. These procedures should be performed in the presence of the parking lot supervisor and periodically reviewed by the general manager.

Duplicate Receipts

The Memorial did not consistently issue duplicate receipts for all transactions or reconcile duplicate receipts to cash collections. Not issuing duplicate receipts for every cash collection reduces the Memorial's ability to ensure accountability and completeness over cash collections.

A pre-numbered duplicate receipt should be issued for all "over the counter" receipts collected by the Memorial's general office and for any monies turned into the general office by an employee, such as the parking lot supervisor. For payments received by mail, a list should be generated which itemizes the amount of each check and from whom it was received. Each duplicate receipt and mail list should be reconciled to the daily deposit record and cash collected. The reconciliation process should also include reviewing the sequential receipt numbers to ensure all receipts are accounted for and are included in the daily deposit record. Any voided duplicate receipts should be maintained to ensure accountability over the receipts.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

FRANKLIN COUNTY VETERANS MEMORIAL

FRANKLIN 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

MAY 5, 2005