



**NORTHERN OHIO RURAL WATER
HURON COUNTY**

SPECIAL AUDIT

**FOR THE PERIOD
JANUARY 1, 2002 THROUGH MARCH 31, 2005**



**Auditor of State
Betty Montgomery**

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NORTHERN OHIO RURAL WATER
SCHEDULE OF BOARD OF TRUSTEES AND ADMINISTRATION
As of March 31, 2005

Board of Trustees

Thomas Cawrse, President	Fitchville Township, Huron County
Thomas Reese, Vice-President ¹	Bronson Township, Huron County
Clarence Wolf, Secretary-Treasurer	Vermilion Township, Erie County
John Zarvis	Berlin Township, Erie County
Orville Sayler	Florence Township, Erie County
Keith Kreager	Margaretta Township, Erie County
John Landoll	Milan Township, Erie County
Daniel Webber	Clarksfield Township, Huron County
Karl Hurst	Hartland Township, Huron County
Christopher Shample	Norwalk Township, Huron County
Al Guaderrama	Townsend Township, Huron County
Kenneth Green	Wakeman Township, Huron County
Ronald Mate	Brownhelm Township, Lorain County
Earl Lowe	Green Creek Township, Sandusky County
Richard Jones	Townsend Township, Sandusky County

Administration

Anthony Quebodeaux, General Manager ²
James Ruggles, Administrative Supervisor

¹ Thomas Reese assumed the duties of interim general manager on July 25, 2005.

² Anthony Quebodeaux was placed on administrative leave on May 5, 2005, and dismissed on October 20, 2005.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Mr. Thomas Cawrse, President
Northern Ohio Rural Water
2205 US Highway 20 East
Norwalk, Ohio 44857

We have conducted a special audit of Northern Ohio Rural Water ("NORW") by performing the procedures described in the attached Supplement to the Special Audit Report for the period January 1, 2002 through March 31, 2005 ("the Period"). Where appropriate and as available documentation allowed, we expanded the audit period back to 1997 to review specific allegations of misconduct. The audit procedures were performed solely to:

- Determine whether certain expenditures were made for personal benefit;
- Determine whether purchases made using NORW credit cards were for purposes related to the operations of NORW; and
- Determine whether certain receipts were deposited intact and whether adjustments made to customer accounts were accurately recorded.

This engagement was conducted in accordance with the 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 selected expenditures and disbursements, including purchases of material and equipment, payments to selected vendors, petty cash disbursements, and payments to former General Manager Anthony Quebodeaux to determine whether the expenditures were made for the personal benefit of Mr. Quebodeaux.

Significant Results: Between May 1997 and March 2005, NORW funded improvements made to Mr. Quebodeaux's personal residence totaling \$29,100. Vendors stated that they performed work at Mr. Quebodeaux's residence, falsified invoices at Mr. Quebodeaux's direction, and submitted the bills to NORW for payment. Additionally, Mr. Quebodeaux directed NORW employees to perform work, including the installation of a sidewalk, culvert, and gas line, at his residence during working hours.

We issued findings for recovery against Mr. Quebodeaux totaling \$29,100 for funds illegally expended on improvements made to his personal residence. Of this amount, Donald and Seth Sabo and Sabo Construction were named jointly and severally in the amount of \$22,321 and Kenneth Fickey, jointly and severally, in the amount of \$325, as a result of falsified invoices.

We identified instances where Mr. Quebodeaux misappropriated NORW funds for personal purchases and his personal use. Vendors stated that they performed work on Mr. Quebodeaux's personal computers and vehicles and at Mr. Quebodeaux's direction, billed NORW for payment. Mr. Quebodeaux used NORW funds to pay for cellular telephone usage by his son, FedEx shipments to relatives and personal associates, and other miscellaneous purchases. Mr. Quebodeaux received reimbursements by check and through petty cash for duplicate, personal, and unsupported expenditures, as well as for purchases of alcohol.

We issued findings for recovery totaling \$24,488 as follows:

- Against Mr. Quebodeaux for computer work performed at his residence totaling \$3,273; for repair of his personal vehicles totaling \$2,153; for personal FedEx shipments totaling \$1,536; for the purchase of a lawnmower in the amount of \$470; for personal expenditures that NORW reimbursed totaling \$2,888; for duplicate payments totaling \$1,526; for additional charges related to his family's attendance at a conference, meals, and movies totaling \$534; and for hotel accommodations and related expenditures prior to an out-of-state conference totaling \$703.
- Against Mr. Quebodeaux and his son, Joseph Quebodeaux, jointly and severally, totaling \$198 for payment of a personal cellular telephone.
- Against Mr. Quebodeaux and James Ruggles, jointly and severally, in the amount of \$848; and against Mr. Quebodeaux for \$3,341 for unsupported petty cash disbursements.
- Against Mr. Quebodeaux and Mr. Ruggles, jointly and severally, in the amount of \$720; against Mr. Quebodeaux and the NORW Board members, jointly and severally, in the amount of \$2,270; and against Mr. Quebodeaux for \$29 for the purchase of alcohol.
- Against Mr. Quebodeaux and Mr. Ruggles, jointly and severally, in the amount of \$767 for hotel accommodations and related expenditures two days prior to their attendance at a conference.
- Against Mr. Quebodeaux and Mr. Ruggles, jointly and severally, in the amount of \$1,800 for unsupported expenditures related to conference travel.
- Against Mr. Ruggles in the amount of \$175 for hotel accommodations and per diem received for an additional night prior to an out-of-state conference.
- Against Mr. Quebodeaux and his mother-in-law, Margie McMullen, jointly and severally, in the amount of \$1,257 for expenses related to her attendance at an out-of-state conference.

We considered a finding for recovery against NORW attorney Dennis O'Toole in the amount of \$150 for conference related expenses that were paid by NORW. On August 29, 2006, Mr. O'Toole remitted \$150 to NORW, and accordingly, we considered this a finding for recovery repaid under audit.

We considered a finding for recovery against Mr. Quebodeaux in the amount of \$762 for the purchase of a lawnmower, generator, and dolly for personal use. The items were recovered and returned to NORW as part of the forfeiture specifications of Mr. Quebodeaux's plea agreement. Accordingly, we considered this a finding for recovery repaid under audit.

We identified instances where Mr. Quebodeaux was improperly compensated by vendors used by NORW. Mr. Quebodeaux participated in a scheme in which an inspector used by NORW falsified work reports and diverted funds totaling \$36,313 to Mr. Quebodeaux. Additionally, Mr. Quebodeaux solicited and received funds for political contributions, hunting trips for himself and his two sons, and other gifts.

We issued findings for recovery totaling \$43,388 for funds illegally spent, jointly and severally, against Mr. Quebodeaux and the estate of Richard Shepard. Of this amount, Patricia Ramage was also named jointly and severally for \$18,275. We issued a noncompliance citation for the improper compensation that Mr. Quebodeaux received from the vendors. We referred this matter to the Ohio Ethics Commission for its consideration.

We also issued eight management comments related to disbursements, Board oversight of disbursements, petty cash usage, travel reimbursements and conference expenses, meal per diem rates, award banquets, alcohol purchases, and capital assets.

2. We reviewed supporting documentation for purchases made through NORW credit cards assigned to Mr. Quebodeaux to determine whether the charges were for purposes related to the operations of NORW, and were made in accordance with applicable laws, regulations, contract provisions, and NORW policies governing the disbursement of funds and the use of NORW credit cards.

Significant Results: Mr. Quebodeaux used an NORW Visa credit card for business and personal purchases. We identified payments made on the account by NORW for duplicate, personal, and unsupported expenditures, and for purchases of alcohol. We also identified instances where Mr. Quebodeaux used NORW merchant account credit cards issued by Sears and Lowe's to make personal purchases.

We considered a finding for recovery against Mr. Quebodeaux in the amount \$829 for purchases of tools and equipment for personal use from Sears. The items were recovered and returned to NORW as part of the forfeiture specifications of Mr. Quebodeaux's plea agreement. Accordingly, we considered this a finding for recovery repaid under audit.

We issued findings for recovery against Mr. Quebodeaux totaling \$5,461 for funds illegally spent and/or collected but unaccounted for. We also issued a management comment related to the implementation of a written policy regarding credit card usage.

3. We reviewed supporting documentation for selected receipts and adjustments made to customer accounts to determine whether funds were deposited intact and transactions were accurately recorded.

Significant Results: We noted 10 deposit slips for miscellaneous receipts which could not be traced to the bank statements because the deposit slips for those dates did not have a breakdown of the funds deposited. We noted no reportable matters regarding the customer account adjustments reviewed.

We issued a management comment related to deposit slip information.

The special audit determined that the Board failed to monitor the management and operation of NORW. There were no comprehensive written policies in place to govern its operations, and where informal policies did exist, they were not consistently enforced. Although not directly the result of the procedures outlined above, we noted additional internal control weaknesses and issued five management comments regarding Board oversight, segregation of duties, personal use of assets, ethics, and the administrative supervisor. The Board should consider these matters to reduce the risk of fraud and theft.

On May 8, 2006, Mr. Quebodeaux entered a plea of guilty to 13 counts relating to the results of the special audit. Also on that day, Mr. Ruggles entered a plea of guilty to one count of complicity to tampering with records for his part in presenting fraudulent and altered reports to the Board, effectively concealing the illegal expenditures. On June 20, 2006, Mr. Quebodeaux was sentenced to eight years in prison and ordered to pay restitution to NORW. Mr. Ruggles was sentenced on June 27, 2006 to two years of probation, 200 hours of community service and a \$5,000 fine.

On August 29, 2006, we held an exit conference with the Board and General Manager Thomas Reese. The attendees were informed that they had until September 13, 2006, to respond to this Special Audit Report. A response was received September 13, 2006, and modifications were made to the attached Supplement to the Special Audit Report as we deemed appropriate.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 14, 2006

Supplement to the Special Audit Report

Background

Erie Huron County Rural Water Authority was formed on December 12, 1988, under Chapter 6119 of the Ohio Revised Code in order to provide a safe, potable water supply to the residents of portions of Erie, Huron, Lorain and Sandusky Counties, Ohio. In September 1989, the water district was legally empowered and declared a political subdivision pursuant to an Order of the Huron County Court of Common Pleas. In May 2000, the Erie Huron County Rural Water Authority legally changed its name to Northern Ohio Rural Water ("NORW").

Construction of the initial water distribution system was started in April 1990. NORW began water service to its customers in the spring of 1991. Since its initial construction, NORW has steadily expanded its water system and presently provides service to approximately 7,000 customers.

NORW is governed by a Board of Trustees that is composed of representatives from the townships served within the regional water district. The township trustees of each township appoint one member to the NORW Board, which consisted of 15 members on March 31, 2005. The Board appoints a general manager, who is a full-time employee of NORW. The general manager, subject to the approval of the Board, conducts the day-to-day operations and hires all agents and employees of NORW. During the Period, Anthony Quebodeaux served as general manger for NORW.

In March 2005, Auditor of State staff met with a group of complainants consisting of current and former NORW employees relative to concerns they had regarding Mr. Quebodeaux. These concerns included the following:

- Work preformed at Mr. Quebodeaux's residence using NORW employees, equipment, and material paid for by NORW.
- Tools, equipment, and other items purchased by NORW but maintained at Mr. Quebodeaux's residence for his personal use.
- Mr. Quebodeaux receiving work on his residence, gifts, or other items of value from certain vendors.
- NORW credit cards used by Mr. Quebodeaux for personal purposes.
- Tap-in fees and/or water deposits not being properly recorded and deposited.

The Auditor of State's Special Audit Task Force considered the matter and on April 20, 2005, the Auditor of State initiated a special audit of NORW. In May 2005, Auditor of State representatives and agents from the U.S. Department of Agriculture executed search warrants at NORW offices in Norwalk and Mr. Quebodeaux's residence in Lorain County.

The Auditor of State's assistant chief legal counsel was named special prosecutor on the case by the Huron County Prosecutor. In November 2005, Mr. Quebodeaux was indicted on 19 counts by the Huron County Grand Jury. Mr. Quebodeaux was arrested and arraigned in December 2005.

On May 8, 2006, Mr. Quebodeaux entered a plea of guilty to 13 counts including:

- One count of engaging in a pattern of corrupt activity (first-degree felony).
- One count of theft in office (third-degree felony).
- Four counts of theft (all fifth-degree felonies).
- Two counts of bribery (both third-degree felonies).
- One count of complicity to tampering with records (third-degree felony).
- One count of tampering with records (third-degree felony).
- One count of money laundering (third-degree felony).
- Two counts of improper compensation (both first-degree misdemeanors).

Mr. Quebodeaux was sentenced in June 2006 to eight years in prison and ordered to pay restitution to NORW.

Supplement to the Special Audit Report

Also on May 8, 2006, NORW administrative supervisor and fiscal officer James Ruggles entered a plea of guilty to one count of complicity to tampering with records, a third-degree felony. Among other things, Mr. Ruggles was responsible for tracking the water district's expenditures. Mr. Ruggles submitted monthly reports to Mr. Quebodeaux, who then instructed Mr. Ruggles to remove certain expenditures relating to Mr. Quebodeaux's personal expenses. Mr. Ruggles then presented the fraudulent, altered reports to the Board, effectively concealing the illegal expenditures.

Mr. Ruggles was sentenced in June 2006 to two years of probation, 200 hours of community service, and a \$5,000 fine.

Supplement to the Special Audit Report

Issue No. 1 – Review of Expenditures and Disbursements

PROCEDURES

We interviewed pertinent individuals to determine the nature and extent of transactions of personal benefit to Mr. Quebodeaux.

We reviewed selected expenditures and disbursements, including purchases of material and equipment, payments to selected vendors, petty cash disbursements, and payments to Mr. Quebodeaux to determine whether the charges were for purposes related to the operations of NORW or were made for the personal benefit of Mr. Quebodeaux.

Where appropriate, we traced selected equipment or capital asset purchases to the physical location of the items to determine whether the assets were in NORW's possession.

RESULTS

Complainants alleged that Mr. Quebodeaux directed certain vendors and NORW employees to perform work for him on improvement projects at his personal residence in Lorain County. The complainants further alleged that Mr. Quebodeaux purchased items for personal use with NORW funds. The complainants asserted that Mr. Quebodeaux had developed improper relationships with certain vendors and contractors from which he solicited and received bribes and gratuities.

NORW employees substantiated these claims and provided specific information regarding the activities of Mr. Quebodeaux. Employees confirmed that they had assisted with improvement projects at Mr. Quebodeaux's residence in 1997. They identified items purchased by Mr. Quebodeaux with NORW funds, including certain items that had been returned to NORW after the special audit was initiated.

Vendors provided information regarding Mr. Quebodeaux's requests that they bill certain purchases to NORW. In some instances, vendors stated that they falsified invoices at Mr. Quebodeaux's direction.

Based on the information obtained from these interviews, we selected specific purchases and vendors for review. Where appropriate and as available documentation allowed, we expanded the audit period back to 1997.

FINDINGS FOR RECOVERY

Misappropriation of NORW funds for improvements to Quebodeaux's residence

1.1 Sabo Construction – Remodeling of Residence: \$22,321

Complainants alleged that Mr. Quebodeaux had remodeling work performed at his personal residence by Sabo Construction. The work was alleged to have been paid for by NORW.

Sabo Construction is a sole proprietorship owned and operated by Donald Sabo with his son, Seth. The business is operated from their residence located in Elyria, Ohio, approximately 25 miles from NORW and eight miles from Mr. Quebodeaux's residence. Between June 2000 and February 2005, NORW made 21 payments to Sabo Construction totaling \$86,342. Three of the checks written were dated prior to the invoice date. NORW employees reviewed the Sabo Construction invoices and identified 10 invoices for work that had not been completed for NORW.

Donald and Seth Sabo stated that they performed work at Mr. Quebodeaux's residence, falsified certain invoices, and billed the work to NORW. The Sabos turned over their original estimate sheet for the initial work to be performed at NORW which showed amounts crossed out and increased to include the work performed for Mr. Quebodeaux.

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The Sabos confirmed that the 10 invoices identified totaling \$22,321 were for work performed at Mr. Quebodeaux's residence. This work included the remodeling of Mr. Quebodeaux's kitchen and bathrooms, and the installation of laminate flooring, granite countertops, concrete slabs for a storage shed and barbeque, an air conditioner, garage door opener, and side entrance door.

The Sabos further stated that after the special audit was initiated, Mr. Quebodeaux met with the Sabos and directed them to destroy their files related to the work. Mr. Quebodeaux then provided the Sabos with two rifles and two handguns and instructed them to tell investigators that the guns were used to pay for the countertop installed at his residence.

In May 2006, Mr. Quebodeaux entered a plea of guilty to two counts of theft, two counts of bribery and one count of complicity to tampering with evidence resulting from his relationship with Sabo Construction.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux, Donald Sabo, Seth Sabo, and Sabo Construction, jointly and severally, in the amount of \$22,321, and in favor of Northern Ohio Rural Water.

1.2 Fickey Painting – Painting of Residence: \$476

Complainants alleged that Mr. Quebodeaux had work performed at his personal residence by Fickey Painting. The work and paint used for the projects were alleged to have been paid for by NORW.

Kenneth Fickey operated a painting business from his home in Lorain, Ohio. Between September 1997 and September 2003, NORW made nine payments to Mr. Fickey totaling \$9,845. Mr. Fickey stated that he performed work at Mr. Quebodeaux's residence, falsified two invoices, and billed the work to NORW. Mr. Quebodeaux promised additional work at NORW if Mr. Fickey would lower the price charged for the work performed at his residence. Mr. Fickey was paid \$325 by NORW for painting Mr. Quebodeaux's kitchen and bathrooms. NORW paid \$151 for paint obtained from Sherwin Williams that was used for the projects.

In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of tampering with records resulting from his relationship with Fickey Painting.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux in the amount of \$151, and against Anthony Quebodeaux and Kenneth Fickey, jointly and severally, in the amount of \$325, and in favor of Northern Ohio Rural Water.

1.3 Sidewalk, Culvert and Gas Line – Improvements to Residence: \$6,303

Complainants alleged that Mr. Quebodeaux had NORW employees install a concrete sidewalk, culvert, and gas line at his personal residence during 1997. The material and equipment used to complete the three projects were alleged to have been paid for by NORW.

NORW employees stated that they assisted in the installation of the sidewalk, culvert, and gas line at Mr. Quebodeaux's personal residence during 1997. NORW foreman Bryan Puder was shown related invoices and confirmed that the purchases were for the three projects.

Documents related to the installation of the sidewalk show that NORW paid \$194 for the rental of a mini-excavator and \$680 for the purchase of cement forms. The forms are currently located in the NORW shop, and NORW employees stated that they have not been used other than for the sidewalk project. For the installation of the culvert, NORW paid \$1,101 for the purchase of the culvert pipe and \$2,982 for the topsoil used for the project. For the installation of the gas line, NORW paid \$190 for the rental of a mini-excavator, \$170 for the purchase of the gas line, and \$986 for a pipe threader and parts used for the project. The pipe threader is currently located in the NORW shop, and NORW employees stated that it has not been used since the project.

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In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of theft in office which included the three projects completed at his residence.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux, in the amount of \$6,303, and in favor of Northern Ohio Rural Water.

Misappropriation of NORW funds for Quebodeaux's personal purchases and use

1.4 Holland Computers – Computer Work at Residence: \$3,273

Complainants alleged that Mr. Quebodeaux received computer equipment and had work performed on the personal computers at his residence by Holland Computers. The equipment and work were alleged to have been paid for by NORW.

Holland Computers is located in Elyria, Ohio, approximately 29 miles from NORW and five miles from Mr. Quebodeaux's residence. Holland Computers provided NORW and Mr. Quebodeaux with their computer related equipment and service. Between February 1997 and March 2005, NORW made 133 payments to Holland Computers totaling \$93,172. Support for four of the payments could not be located in the NORW files.

Pursuant to a subpoena for documents, Holland Computers provided copies of invoices, service orders, customer payment and service histories for NORW and Mr. Quebodeaux's personal account. There were 11 instances totaling \$3,273 where Holland Computers billed NORW for the work performed at Mr. Quebodeaux's residence. Seven of the NORW invoices had specific references to service order numbers for the work performed on Mr. Quebodeaux's personal account.

William Holland, president of Holland Computers, confirmed that his company performed work at Mr. Quebodeaux's residence and at Mr. Quebodeaux's direction billed certain work to NORW. The work performed on the computer at Mr. Quebodeaux's residence was personal in nature and not for a proper public purpose. In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of theft resulting from his relationship with Holland Computers.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux in the amount of \$3,273 and in favor of Northern Ohio Rural Water.

1.5 Ray's Auto & Truck Service – Repair of Personal Vehicles: \$2,153

Complainants alleged that Mr. Quebodeaux had his personal vehicles repaired by Ray's Auto & Truck Service ("Ray's Auto"). The repair work was alleged to have been paid for by NORW.

Ray's Auto is located in Avon, Ohio, approximately 36 miles from NORW and two miles from Mr. Quebodeaux's residence. Ray's Auto provided vehicle repair and service to NORW and Mr. Quebodeaux. Between April 1997 and March 2005, NORW made 156 payments to Ray's Auto totaling \$89,513.

Ray Giles, owner of Ray's Auto, stated that his company performed work on Mr. Quebodeaux's personal vehicles and billed the work to NORW at Mr. Quebodeaux's direction. NORW paid a total of \$2,153 for repairs performed on Mr. Quebodeaux's personal vehicles on five occasions. In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of theft resulting from his relationship with Ray's Auto.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux in the amount of \$2,153, and in favor of Northern Ohio Rural Water.

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1.6 AT&T Wireless – Cellular Telephone: \$198

NORW administrative supervisor James Ruggles stated that Mr. Quebodeaux had received an extra cellular telephone from NORW and believed it may have been for personal use.

NORW paid \$23,493 to AT&T Wireless for cellular service between January 2002 and February 2005. Documentation showed that in November 2004, a new telephone number was added to the NORW account and in February 2005, Mr. Quebodeaux asked the sales representative on the account to cancel the number. An analysis of the calling history for the number determined it was used by Mr. Quebodeaux's son, Joseph Quebodeaux. NORW paid \$198 for the personal usage of the cell phone by Mr. Quebodeaux's son.

In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of theft in office which included the personal usage of the cellular telephone.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux and Joseph Quebodeaux, jointly and severally, in the amount of \$198, and in favor of Northern Ohio Rural Water.

1.7 FedEx – Shipments: \$1,536

NORW employees indicated that Mr. Quebodeaux used FedEx to make personal shipments to relatives and others for which NORW subsequently paid.

NORW made 261 shipments using FedEx from January 1997 through February 2005 totaling \$7,274. Shipping receipts and/or billing statements containing the names and addresses of the recipients were included in the NORW files as support for the payments. The shipping documents reviewed indicated that NORW paid \$1,536 for 51 FedEx shipments of a personal nature to Mr. Quebodeaux's relatives and other associates. The shipments were determined to be personal in nature based on the recipients' names and addresses and their relationships to Mr. Quebodeaux. In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of theft in office which included the FedEx shipments.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux in the amount of \$1,536, and in favor of Northern Ohio Rural Water.

1.8 Miscellaneous Purchases – Lawnmower: \$470

Complainants alleged that Mr. Quebodeaux purchased certain items for personal use which were paid for by NORW. They also stated that once Mr. Quebodeaux became aware of the special audit, the items were returned to NORW.

NORW paid a total of \$1,052 for the purchase of a lawnmower, generator, and hand-cart dolly from Worcester Sales. NORW employees stated that they had not seen this equipment prior to the start of the special audit. The generator and dolly were found at an NORW water tank site and the lawnmower has not been located to date. NORW employee James Upchurch confirmed that he moved the generator and hand-cart dolly in spring 2005 from Mr. Quebodeaux's residence to NORW upon Mr. Quebodeaux's direction.

NORW also paid \$180 for the purchase of another lawnmower from Tractor Supply Company. Mr. Upchurch stated that he purchased this lawnmower at Mr. Quebodeaux's direction in 2004 and delivered it to Mr. Quebodeaux's residence. After the start of the special audit, Mr. Upchurch moved the lawnmower from Mr. Quebodeaux's residence to the NORW water tank site.

In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of theft in office which included the purchase of these items for personal use. We considered a finding for recovery against Mr. Quebodeaux in the amount \$762 for the lawnmower, generator and dolly. The items were recovered and returned to NORW as part of the forfeiture specifications of Mr. Quebodeaux's plea agreement. Accordingly, we considered this a finding for recovery repaid under audit.

Supplement to the Special Audit Report

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux in the amount of \$470, and in favor of Northern Ohio Rural Water for the purchase of the lawnmower that has not been located to date.

1.9 Personal Expenditures: \$2,888

We identified \$1,248 in personal expenditures reimbursed to Mr. Quebodeaux through petty cash and \$1,640 in personal expenditures reimbursed to him by NORW check. Of the total, \$902 was spent during personal trips to South Carolina to visit his son. Twenty-four receipts had the vendor's name and location and/or the description of the items purchased removed in an apparent attempt to hide the personal nature of the purchase. In one instance, a torn receipt was submitted for the purchase of ammunition.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux in the amount of \$2,888, and in favor of Northern Ohio Rural Water.

1.10 Duplicate Payments: \$1,526

We found that expenditures were paid twice by NORW. In these instances, NORW paid the credit card bill, and Mr. Quebodeaux later submitted the receipt for reimbursement by check or through petty cash. We identified 23 duplicate expenditures paid by NORW to Mr. Quebodeaux totaling \$1,526.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux in the amount of \$1,526, and in favor of Northern Ohio Rural Water.

1.11 Unsupported Expenditures: \$4,189

Administrative supervisor James Ruggles served as the fiscal officer for NORW and was responsible for the maintenance of petty cash funds and records. Mr. Ruggles collected the receipts for petty cash expenditures from NORW employees and prepared the petty cash replenishments which were approved by Mr. Quebodeaux. We noted 24 petty cash slips created by Mr. Ruggles for unsupported expenditures totaling \$598 and one petty cash replenishment check in the amount of \$250 which was also unsupported. Additionally, support could not be located in the NORW files for three reimbursements paid to Mr. Quebodeaux totaling \$3,341.³

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended and/or collected but unaccounted for is hereby issued against James Ruggles and Anthony Quebodeaux, jointly and severally, in the amount of \$848, and against Mr. Quebodeaux in the amount of \$3,341, and in favor of Northern Ohio Rural Water.

1.12 Alcohol Purchases: \$749

During the Period, NORW paid \$720 in alcohol purchases through petty cash. These expenditures were processed by Mr. Ruggles and were approved by Mr. Quebodeaux. Additionally, \$29 was reimbursed to Mr. Quebodeaux for purchases of alcohol during meals.

Government entities may not make expenditures of public monies unless they are for a proper public purpose. Although the determination of what constitutes a public purpose is primarily a legislative function of the entity's governing body, Auditor of State Bulletin 2003-005 clearly states that the expenditure of public funds for alcoholic beverages is not considered a proper public purpose and decisions by the Board to allow such expenditures are considered arbitrary and incorrect.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended and/or collected but unaccounted for is hereby issued against Anthony Quebodeaux and James Ruggles, jointly and severally, in the amount of \$720, and against Anthony Quebodeaux in the amount of \$29, and in favor of Northern Ohio Rural Water.

³ For two other reimbursement payments to Mr. Quebodeaux, only a Visa credit card statement was attached as support without specific, detailed vendor receipts.

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1.13 NRWA Conference, Spokane – Hotel: \$767

In October 2002, Mr. Quebodeaux, Mr. Ruggles, certain Board members, and spouses attended a National Rural Water Association (“NRWA”) conference held in Spokane, Washington. Prior to the conference, Mr. Quebodeaux and Mr. Ruggles flew to Seattle, stayed two nights, rented a vehicle and drove approximately 280 miles across the state to Spokane to meet the rest of the party. Mr. Ruggles stated that Mr. Quebodeaux provided no reason for the two of them to be in Seattle prior to the conference. Mr. Quebodeaux and Mr. Ruggles incurred charges of \$542 for hotel, food, and beverages for the unexplained stay in Seattle. NORW also paid a total of \$225 for an extra night stay in Spokane for Mr. Ruggles and Mr. Quebodeaux two days prior to the conference and one day prior to the rest of the attendees’ arrival.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux and James Ruggles, jointly and severally, in the amount of \$767, and in favor of Northern Ohio Rural Water.

1.14 NRWA Conference, Spokane – Additional Charges: \$534

Mr. Quebodeaux’s wife and two sons joined him in Spokane for the NRWA conference. Additional charges totaling \$1,172 were incurred by the family for air fare and to attend the NRWA banquet and tours. Mr. Quebodeaux also spent \$129 at restaurants in Spokane and \$148 for movies and room service, all of which was paid by NORW. In accordance with NORW policy, Mr. Quebodeaux was entitled to a per diem total of \$330 for the trip. He also paid NORW \$585 as a reimbursement for the additional charges. The net total of these additional charges, after the per diem allowance and payment by Mr. Quebodeaux, left a balance owed of \$534.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux in the amount of \$534, and in favor of Northern Ohio Rural Water.

1.15 NRWA Conference, Spokane – Mr. O’Toole: \$150

NORW paid \$1,160 for the registration fee, air fare, and hotel stay for their legal consultant Dennis O’Toole to attend the NRWA conference. Additionally, NORW paid \$531 for additional charges to his hotel room, and fees and air fare for his wife. Mr. O’Toole reimbursed NORW \$381 toward his wife’s additional costs; the remaining \$150 was not repaid.

We considered a finding for recovery for public money due but not collected against Mr. O’Toole in the amount of \$150. On August 29, 2006, Mr. O’Toole remitted \$150 to NORW. Accordingly, we considered this a finding for recovery repaid under audit.

1.16 NRWA Conference, Spokane – Cash: \$800

An NORW check to “Cash” for \$1,000 was issued on October 1, 2002. Mr. Ruggles stated that he prepared the check at Mr. Quebodeaux’s direction to pay for expenses incurred during the Spokane trip. A miscellaneous receipt for the deposit of \$200 on December 31, 2002, was identified as “extra cash remaining from the Spokane Convention”. There were no receipts to substantiate the expenditure of the \$800.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended and/or collected but unaccounted for is hereby issued against Anthony Quebodeaux and James Ruggles, jointly and severally, in the amount of \$800, and in favor of Northern Ohio Rural Water.

1.17 NRWA Conference, Oklahoma City – Mr. Quebodeaux: \$703

In October 2003, Mr. Quebodeaux, Mr. Ruggles, certain Board members, and spouses attended an NRWA conference held in Oklahoma City, Oklahoma. Mr. Quebodeaux flew to Oklahoma City one day prior to the Board members arriving for the conference. NORW paid \$131 for the extra night for Mr. Quebodeaux. Mr. Quebodeaux incurred additional hotel charges during the conference in the amount of \$79 which were paid by NORW. Additionally, food and miscellaneous purchases, in the total amount of \$493 were charged on NORW’s credit card by Mr. Quebodeaux and subsequently paid by NORW.

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In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux in the amount of \$703, and in favor of Northern Ohio Rural Water.

1.18 NRWA Conference, Oklahoma City – Mr. Ruggles: \$175

Mr. Ruggles also flew to Oklahoma City with Mr. Quebodeaux one day prior to the Board members arriving for the conference. NORW paid \$120 for the extra night spent by Mr. Ruggles. Mr. Ruggles received a per diem of \$55 for the extra day spent prior to the conference.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against James Ruggles in the amount of \$175, and in favor of Northern Ohio Rural Water.

1.19 NRWA Conference, Oklahoma City – Ms. McMullen: \$1,257

NORW paid the registration fee and hotel bill in the total amount of \$1,257, for Mr. Quebodeaux's mother-in-law, Margie M. McMullen to attend the NRWA conference. There was no documentation provided to identify her affiliation with NORW, nor was there a Board resolution authorizing payment of her costs.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux and Margie M. McMullen, jointly and severally, in the amount of \$1,257, and in favor of Northern Ohio Rural Water.

1.20 NRWA Conference, Oklahoma City – Cash: \$1,000

An NORW check to "Cash" for \$1,000 was issued on October 14, 2003. Mr. Ruggles stated that he prepared the check at Mr. Quebodeaux's direction to pay for expenses incurred during the Oklahoma City trip. There were no receipts to substantiate the expenditure of \$1,000.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended and/or collected but unaccounted is hereby issued against Anthony Quebodeaux and James Ruggles, jointly and severally, in the amount of \$1,000, and in favor of Northern Ohio Rural Water.

1.21 Awards Banquets: \$2,270

NORW held annual awards banquets for Board members, NORW employees, vendors, and spouses. The December 2002 banquet was held at Great Bear Lodge in Sandusky with 75 people in attendance. NORW spent \$6,173 for the hall rental, hors d'oeuvres, buffet, "open bar (premium brand liquors)", tip, and tax. The December 2003 banquet was also held at Great Bear Lodge with 68 people in attendance at a cost of \$3,207. An awards banquet was held in January 2005 at the Huron Yacht Club with 54 people in attendance costing \$1,931.

There were no indications in the Board minutes identifying who was invited to the banquets or the total approved cost of each. NORW paid for alcohol as part of these banquets in the amount of \$1,803 for 2002, \$150 for 2003 and \$317 for January 2005 for a total of \$2,270. Auditor of State Bulletin 2003-005 states that the expenditure of public funds for alcoholic beverages is not considered a proper public purpose and decisions by the Board to allow such expenditures are considered arbitrary and incorrect.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux and the NORW Board members, jointly and severally, in the amount of \$2,270, and in favor of Northern Ohio Rural Water.

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Improper Compensation

1.22 Richard Shepard/Golden Field Services: \$43,388

Complainants alleged that an improper relationship existed between Mr. Quebodeaux and Richard Shepard, a project inspector for Golden Field Services, Inc. ("Golden Field"). This resulted in Mr. Shepard receiving excess compensation from Golden Field and, according to complainants, Mr. Shepard then paid Mr. Quebodeaux unknown sums of money.

Golden Field's offices are located in Tulsa, Oklahoma. Between March 2000 and December 2003, NORW made 81 payments to Golden Field totaling \$513,698 for inspection services on water line construction projects. During this period, Mr. Shepard resided in Hardy, Arkansas, and stayed in Ohio while working on NORW projects.

We determined that Mr. Quebodeaux and Mr. Shepard arranged for Mr. Shepard, his nephew, and his girlfriend to be hired by Golden Field as inspectors on NORW projects. In exchange for this arrangement, Mr. Shepard paid \$36,313 to Mr. Quebodeaux between April 2000 and January 2004.

NORW paid Golden Field \$18,275 for Mr. Shepard's girlfriend, Patricia Rumage, who allegedly completed inspection work from January through February 2000. However, NORW employees confirmed that Ms. Rumage did not perform any work at NORW. Ms. Rumage claimed to have performed NORW related tasks for Mr. Shepard in Arkansas, but stated that she did not know that she was employed by Golden Field and did not complete the daily inspection report forms submitted to NORW. Ms. Rumage admitted to not being in Ohio, although the inspection work required a physical presence on site and the inspection reports indicated that she performed work at the project location. During the same time frame, checks totaling \$11,200 were issued from Mr. Shepard to Mr. Quebodeaux.

NORW paid Golden Field \$223,114 for Mr. Shepard's service over two periods; May 2001 through January 2002, and February 2003 through December 2003. Checks totaling \$13,917 and \$11,196 were issued from Mr. Shepard to Mr. Quebodeaux during each of those periods. Mr. Shepard stated that the payments were loans made to Mr. Quebodeaux, although no documentation of the loans or evidence of repayment was produced.

In March 2006, Mr. Shepard was indicted by the Huron County Grand Jury on one count each of theft, bribery, tampering with records and money laundering. Mr. Shepard died in Arkansas on April 7, 2006, prior to an arrest, and the charges were dismissed in May 2006. As part of Mr. Quebodeaux's sentencing, restitution in the amount of \$36,313 was awarded to NORW pertaining to the amounts Mr. Quebodeaux received from Mr. Shepard.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux, Patricia Rumage, and the estate of Richard Shepard, jointly and severally, and in favor of Northern Ohio Rural Water in the amount of \$18,275, and against Anthony Quebodeaux and the estate of Richard Shepard, jointly and severally, and in favor of Northern Ohio Rural Water in the amount of \$25,113.

NONCOMPLIANCE CITATION

Improper Compensation

Ohio Rev. Code Section 102.03 (D) states "(n)o public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties."

Ohio Rev. Code Section 102.03 (E) states "(n)o public official or employee shall solicit or accept anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties."

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In addition to the relationships mentioned previously in this report, Mr. Quebodeaux solicited and/or received improper compensation from the following:

Radio Link Communications, Inc. ("Radio Link")

Radio Link is located in Elyria, Ohio, and provided NORW with its communication needs including the radio systems used within NORW vehicles. John Jones, owner of Radio Link, stated that he gave items, including a fishing depth finder, binoculars, and meat grinder to NORW and Mr. Quebodeaux. The depth finder, which Mr. Jones valued at \$241, was installed on a fishing boat owned by Mr. Quebodeaux. Mr. Jones stated that he and Mr. Quebodeaux used it for fishing.

Mr. Jones stated that he gave Mr. Quebodeaux binoculars valued at \$500 because it was something that he provided to a good customer and Mr. Quebodeaux had mentioned that NORW needed binoculars because of a graffiti problem on the water tanks. Mr. Jones also stated that he provided a \$400 meat grinder because Mr. Quebodeaux said the NORW employees were hunters and could use it for grinding deer meat.

In May 2006, Mr. Quebodeaux pleaded guilty to one count of receiving improper compensation for his relationship with Radio Link Communications.

A review of Richard Shepard's personal checking account revealed two checks written to Mr. Quebodeaux totaling \$5,660 that were the result of the proceeds Mr. Shepard received on two occasions from Radio Link.

Mr. Jones stated that he and Mr. Quebodeaux discussed installing a platform on NORW's water tower for use as an antenna site by Radio Link. Mr. Quebodeaux requested Mr. Jones pay \$3,000 to Mr. Shepard to install the platform. Mr. Jones wrote the check to Mr. Shepard, and on the day it was deposited to his account, Mr. Shepard wrote a check in the same amount back to Mr. Quebodeaux.

Regarding the second Radio Link check to Mr. Shepard, Mr. Jones stated that Mr. Quebodeaux requested payment for inspection costs on a new construction project. Mr. Quebodeaux informed Mr. Jones that NORW's vendors had to pay a share of the costs, and that Mr. Jones' share of \$3,800 had to be mailed directly to Mr. Shepard. Upon deposit of the check, Mr. Shepard wrote a check for \$2,660 (70 percent) to Mr. Quebodeaux.

In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of money laundering resulting from his part in securing the Radio Link check for \$3,800 for Mr. Shepard.

Clow Valve Company, a Division of McWane, Inc. ("Clow Valve")

Clow Valve is located in Oskaloosa, Iowa, and produces valves used by NORW in its water distribution system. Clow Valve did not sell its products directly to NORW, but through distributors located in Ohio.

Jeffrey Shivers, a sales representative for Clow Valve, paid for meals with Mr. Quebodeaux and other NORW employees where business was discussed totaling \$2,132 between September 1997 and February 2005. Clow Valve also paid for two trips to Oskaloosa, Iowa, during 1998 totaling \$1,760 and 1999 totaling \$3,062 for Mr. Quebodeaux, his son(s), and Richard Shepard to tour the Clow Valve facility and go pheasant hunting.

In May 2006, Mr. Quebodeaux pleaded guilty to one count of receiving improper compensation resulting from his relationship with Clow Valve Company.

GRW Engineers, Inc. ("GRW")

GRW is located in Indianapolis, Indiana, and is the contractor responsible for overseeing the planning and installation of NORW's water delivery system. Prior to his employment with NORW, Mr. Quebodeaux had worked as a construction manager for GRW. Between January 1999 and August 2004, NORW made 421 payments to GRW totaling \$1,668,959.

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We noted three checks totaling \$1,500 that were written to Mr. Quebodeaux from Daniel Cutshaw of GRW. Mr. Cutshaw stated that on two occasions Mr. Quebodeaux requested checks totaling \$750 to allow him to attend fund raising dinners for elected officials in Ohio. Mr. Cutshaw stated that he wrote the checks directly to Mr. Quebodeaux because it allowed Mr. Quebodeaux to further the cause for rural water issues.

Mr. Cutshaw stated that a third check written to Mr. Quebodeaux was provided as an advance of \$750 to cover Mr. Quebodeaux's expenses to visit a water treatment plant in Sweetwater, Texas. GRW intended to bill the expenses of the trip to NORW after Mr. Quebodeaux returned and submitted his receipts to GRW.

NORW's policies did not address soliciting and receiving improper compensation. We recommend that NORW implement policies to specifically prohibit this practice, and monitor the relationships between employees and vendors for any violations of the policy. This matter was forwarded to the Ohio Ethics Commission for further review.

MANAGEMENT COMMENTS

Disbursements

NORW did not have a formal written financial accounting manual outlining the prescribed purchasing and disbursement cycle procedures. Voucher packets did not have a purchase order or requisition attached. The administrative supervisor, who was responsible for the preparation of voucher packets, did not document his review of the packets for completeness. Not establishing and following specific purchasing procedures and not requiring and/or maintaining supporting documentation undermines the Board's ability to verify that all transactions were for a purpose related to the operations of NORW.

We recommend the Board institute a written financial accounting manual to include procedures for purchasing and disbursements. Purchasing and payment procedures should require the voucher packet to include the invoice, purchase order, requisition, and certification by the fiscal officer that he has reviewed the invoice and attached documentation for accuracy and completeness.

Board Oversight of Disbursements

We noted the following weaknesses in the Board's oversight of the disbursement cycle:

- The signatures of two Board members were required on checks; however, Board members did not review the corresponding voucher packets prior to signing the checks;
- Blank checks were sometimes signed by Board members; and
- The Board attached the monthly list of bills to the resolution approving payment; however, the Board did not sign the list, making it possible to alter, add, or delete expenditures after the fact and without the Board's knowledge or approval.

Mr. Ruggles was responsible for preparing the list of paid bills for presentation at Board meetings. Mr. Ruggles submitted the monthly reports to Mr. Quebodeaux, who then instructed Mr. Ruggles to remove certain expenditures relating to Mr. Quebodeaux's personal expenses. Mr. Ruggles then presented the fraudulent, altered reports to the Board, effectively concealing the illegal expenditures. On May 8, 2006, Mr. Ruggles entered a plea of guilty to one count of complicity to tampering with records for assisting Mr. Quebodeaux in misleading the Board in this manner.

We recommend that Board members sign checks only after reviewing the corresponding voucher packets, and that blank checks not be signed prior to being completed. Although we acknowledge the Board only meets monthly and this may require some bills to be paid in advance of approval, NORW should strive to ensure all payments are reviewed by the Board prior to payment. When bills have been paid prior to the Board meeting, the Board should take special care to ensure the supporting documents are adequate and substantiate the expenditure after the fact.

Finally, we recommend that the monthly list of paid bills include information regarding the check number, payee, date, and amount paid, and that the Board president and treasurer sign each page of the bill listing as approved by the Board to help deter the possibility of alterations.

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Petty Cash

NORW did not have a written policy regarding petty cash usage or documentation required describing the purpose for the expenditures. Many of the receipts submitted for meals were not itemized and may have contained alcohol purchases. Petty cash slips were created for unsupported expenditures. This lack of documentation made it difficult to determine the nature of certain expenditures and whether each related to the operations of NORW. Also, the expenditures made using petty cash funds did not appear to be of an “emergency” nature.

We recommend that the Board adopt a formal written policy regarding petty cash usage. This policy should establish, at a minimum, the dollar amount of the account, the employee responsible for its maintenance and replenishment, how often it will be replenished, what it can be used for, and the documentation required to be maintained for the account. Expenses which are routine should flow through the normal purchasing process and not through petty cash.

Travel Reimbursements and Conferences

NORW’s reimbursement policy states “Officers, Board Members, their agents, General Manager, and Employees who are authorized by the General Manager, may attend meetings or institutes beneficial to such person(s) and NORW. Reasonable and necessary expense for attendance of such meetings shall be paid by NORW upon submission of proper statement prescribed by NORW, provided however if the total expense for any one person exceeds One Hundred Dollars (\$100) it shall require approval of the Board of Trustees before such expenses can be reimbursed.”

Certain Board members, employees, spouses and family members attended national and state conferences, the expenses for which were paid for by NORW. NORW also paid certain expenses for their legal consultant and engineers to attend these conferences and related functions. The attendees incurred extra charges paid by NORW for non-business activities. Board members and employees received per diem amounts, and in some instances, reimbursed NORW for the excess charges they incurred.

There were no Board resolutions indicating the Board’s intent to pay for the expenses of attending the conferences or identifying who was authorized to attend. Additionally, NORW’s policy required a Travel Expense Form to be attached for reimbursement of expenditures to employees. The form was not attached to two reimbursements to Mr. Quebodeaux. When the forms were attached, Mr. Quebodeaux did not provide a detailed description of the reason for the expenditure as required on the form.

We recommend the Board clearly document its intentions and approval of reimbursements and travel by issuing resolutions identifying the destination, purpose, estimated cost, and the benefit to NORW and attendees. We recommend that the current policy be expanded to identify allowable expenses and require the submission of original itemized receipts and a completed Travel Expense Form.

We recommend that Travel Expense Forms be defined to require adequate supporting documentation, descriptions of the purpose for the expenditures, and indication of the Board’s prior approval. The attached supporting documentation should include, but not be limited to, a registration form, program description, itemized receipts, and airline ticket stubs, so that an uninformed person reviewing the form and documentation can determine the destination, purpose, dates, and nature of the trip. The Travel Expense Forms should be completed and signed by the employee and the supervisor approving the form.

Meal Per Diem Rate

Board resolution 01-93 authorized Board members and employees to receive \$55 per diem while attending conferences. For each of the NRWA conferences reviewed, we identified two days per conference when meals were included as part of the registration fee. Additionally, on three occasions, Board members, employees, and their wives received meals paid by NORW and on two occasions paid by vendors.

The Board’s current policy regarding meal per diem rates does not address meals included in the registration fee for conferences, meals provided by vendors and other sources, or whether the per diem should be paid when meals are provided.

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We recommend the Board amend its current policy concerning meal per diem rates to address the treatment of conference meals when these costs are included in the conference registration fees or provided by vendors and other sources.

Awards Banquets

NORW did not have a documented budget, written policy, or objective criteria for hosting its annual awards banquets. Further, the justifications of the awards allegedly being presented were not documented in NORW files. This report includes findings for recovery for the alcohol purchases related to these banquets.

Without the Board establishing and approving a budget for the awards banquets, excessive and unreasonable expenses may be incurred. We recommend the Board review and approve all expenses related to the annual awards banquets. The Board should adequately document their justification for the costs of the banquets, as well as the justification for the employees' spouses to attend. Also, objective criteria should be developed and documented to support the distribution of awards.

Alcohol

Ohio Attorney General Opinion 82-006 addresses the expenditure of funds for public purposes. This opinion, citing the Ohio Supreme Court case of State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides guidance as to what may be construed as a public purpose. First, the expenditure is required for the general good of all inhabitants. Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

The determination of what constitutes a public purpose is primarily a legislative function. As such, the decision to expend public funds "...must be made in accordance with the procedural formalities governing the exercise of legislative power. Specifically, the decision must be memorialized by a duly enacted ordinance or resolution and may have prospective effect only." 1982 Op. Atty. Gen. No. 82-006.

During our audit, we determined that NORW purchased alcoholic beverages with public monies. The purchases were made using petty cash, the NORW credit card(s), and through employee reimbursements. Auditor of State Bulletin 2003-005 states that the Auditor of State's Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and views such expenditures as manifestly arbitrary and incorrect.

We recommend NORW not expend public monies for alcoholic beverages in the future and review Auditor of State Bulletin 2003-005 for further guidance.

Capital Assets

NORW did not have a written policy regarding asset management, a dollar threshold for capital asset designation, or controls over non-capitalized items. By not having a policy with specific procedures to safeguard assets, it may be difficult to determine whether assets are being removed, added or exchanged with the inventory on hand.

We recommend that NORW develop a written asset policy to include the following:

- Designation of an individual(s) to be responsible for the preparation and recording of NORW's capital assets;
- Designation by the Board of a dollar threshold for asset purchases to be recorded as capital assets;
- Tagging of assets, including tools and equipment, with a sticker identifying it as property of NORW;
- Performance of a physical inventory of all capital assets at least annually;
- Based on the physical inventory, a capital asset listing should be assembled to include, but not be limited to, the following: location, tag number, description, date of acquisition, cost (or estimated historical cost), source of funding, depreciation, and accumulated depreciation;
- Implementation of procedures to record capital asset additions and deletions as items are acquired or disposed, preferably through the use of asset addition and deletion forms. When these forms are completed, the information should then be recorded or deleted from NORW's capital asset listing, as appropriate;

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- At or near the end of each fiscal year, a summary of capital assets purchased and disposed should be prepared. The amounts recorded on the capital asset listing should be reconciled (prior period assets, plus current year additions, less current year deletions), and then be recorded on NORW's financial statements;
- Progress reports should be made on a monthly basis (or more frequently, if necessary) to NORW's Board regarding the preparation and completion of NORW's capital asset listing;
- Someone independent of preparing this list should periodically compare the list to the physical items and investigate any discrepancies, and;
- The Board should review and periodically update the capital asset policy as needed.

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Issue No. 2 – Review of Credit Card Expenditures

PROCEDURES

We obtained monthly statements for NORW credit cards issued to and/or controlled by Mr. Quebodeaux and reviewed supporting documentation for the expenditures to identify any unusual vendors, purchases, or other non-business activity.

RESULTS

We identified credit card accounts issued jointly in the names of NORW and certain employees that consisted of a National City Bank Visa card in Mr. Quebodeaux's name and MBNA Bank cards issued in the names of Mr. Quebodeaux, Mr. Ruggles, and Bryan Puder. We also identified merchant account cards issued to NORW by Sears, Lowe's, BP Oil, Carter Lumber, CompUSA, Costco, Northern Tool & Equipment, Office Max, and Tractor Supply Company.

NORW did not have formal written policies governing the disbursement of funds and the use of credit cards. Board members stated that they were unaware of certain credit card accounts maintained by NORW.

FINDINGS FOR RECOVERY

2.1 National City Bank Visa: \$3,596

The National City Bank ("NCB") Visa credit card was a business account issued in the name of Anthony Quebodeaux at NORW. Statements were addressed to the NORW post office box in Collins, Ohio. Mr. Quebodeaux used the credit card for NORW business, as well as for personal purchases and made 20 payments totaling \$10,484 between January 2002 and March 2005. The payments made by Mr. Quebodeaux were typically small, round amounts and a balance was maintained on the account throughout much of the period.

NORW made 18 payments on the account between January 2002 and June 2004 totaling \$15,514. Support could not be located in the NORW files for four payments made to NCB totaling \$2,655. For 11 payments, the credit card statements, with no corresponding vendor receipts, were attached as support in the NORW files. Additionally, non-Visa receipts for expenditures paid by cash or other credit cards were attached as support for payments to NCB.

We found that charges were paid twice by NORW. In these instances, NORW paid the credit card bill, and Mr. Quebodeaux would also submit the receipt for reimbursement by check or through petty cash. We identified seven duplicate expenditures paid to Mr. Quebodeaux totaling \$420.

We also identified \$469 in personal purchases charged by Mr. Quebodeaux and paid by NORW. Two receipts submitted had the vendor's name and location and the description of the items purchased removed in an apparent attempt to hide the personal nature of the purchase. Another \$52 was spent by Mr. Quebodeaux for purchases of alcohol.

In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of theft in office which included the findings related to the NCB Visa credit card.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended and/or public money collected but unaccounted for is hereby issued against Anthony Quebodeaux in the amount of \$3,596, and in favor of Northern Ohio Rural Water. This amount includes \$2,655 for unsupported payments, \$420 for duplicate payments, \$469 personal purchases and \$52 for purchases of alcohol.

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2.2 Sears: \$1,450

Complainants alleged that Mr. Quebodeaux purchased items for personal use through out the period from Sears, and in spring 2005, delivered similar items of lesser quality to NORW. The items purchased at Sears were alleged to have been paid for by NORW.

NORW made 36 payments totaling \$8,830 on the Sears commercial credit account between October 1997 and January 2005. NORW employees stated that they had not seen specific Sears Craftsman brand items including a workbench, grinder, tools and two automobile jacks at NORW prior to the start of the special audit. NORW employee James Upchurch stated that Mr. Quebodeaux directed him to move the two jacks to NORW from Mr. Quebodeaux's residence after the start of the special audit.

Of the \$8,830 paid to Sears, we identified \$2,279 in personal purchases made by Mr. Quebodeaux. During the execution of a search warrant at Mr. Quebodeaux's residence, we found two receipts dated February 2005 for the purchase of a workbench and tool kit. The purchases were made with cash and were believed to have been used to substitute for the items previously purchased and taken by Mr. Quebodeaux. The substitute workbench was located in the upstairs storage area at the NORW office building and the tool kit was located in Mr. Quebodeaux's vehicle.

In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of theft in office which included the purchase of these items from Sears for personal use. We considered a finding for recovery against Mr. Quebodeaux in the amount of \$829 for the workbench, grinder, tools and two automobile jacks. The items were recovered and returned to NORW as part of the forfeiture specifications of Mr. Quebodeaux's plea agreement. Accordingly, we considered this a finding for recovery repaid under audit.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended on the remaining items not located is hereby issued against Anthony Quebodeaux in the amount of \$1,450, and in favor of Northern Ohio Rural Water.

2.3 Lowe's: \$415

NORW made 33 payments totaling \$6,840 on the Lowe's business account between February 1999 and March 2005. Billing statements were attached as support for the payments; however, 21 of the 33 expenditures reviewed did not have a detailed itemization for the purchases made.

Mr. Ruggles stated that he felt items of a personal nature were purchased by Mr. Quebodeaux from Lowe's. We noted the purchase of a Troy-Built power washer and deck cleaning supplies in the amount of \$415. Mr. Puder indicated that he could not recall NORW ever purchasing a power washer from Lowe's. In May 2006, Mr. Quebodeaux entered a plea of guilty to one count of theft in office which included the purchase of items from Lowe's for personal use.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Anthony Quebodeaux in the amount of \$415, and in favor of Northern Ohio Rural Water.

MANAGEMENT COMMENTS

Credit Cards

NORW did not have a written policy regarding credit card usage and documentation of purchases. Not requiring documentation made it difficult to determine the nature of certain charges and whether each related to the operations of NORW. The lack of controls and oversight resulted in double payments and personal purchases. Additionally, we found that receipts submitted for meals were not itemized and may have contained alcohol purchases.

We recommend the creation of a policy and the implementation of controls over credit card usage, including the submission of original, itemized receipts. We recommend all purchases made by credit card be supported as to purpose and the benefit that NORW derives. Credit card statements should be reviewed and approved by the Board. Credit cards should be used for emergencies and not simply as a convenience or a way to circumvent normal purchasing procedures. Purchases not of an emergency nature should be processed using NORW's normal purchasing procedures.

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Issue No. 3 – Review of Receipts and Adjustments to Customer Accounts

PROCEDURES

We reviewed selected miscellaneous receipts to determine whether the funds were accurately recorded and deposited. As part of this review, we identified payments and reimbursements made by NORW employees and Board members to determine whether such payments fulfilled any liability of those individuals.

We reviewed documentation of selected adjustments made to customer accounts to determine their validity and whether the adjustments were accurately recorded.

RESULTS

NORW received funds from other sources for payments of tap-in and impact fees, tenant deposits, licensing agreements, and other miscellaneous reimbursements. Between January 2002 and April 2005, NORW used a duplicate receipt book to record these miscellaneous receipts. All receipts were signed by an NORW employee and contained a notation of whether the receipt was in the form of cash, check, money order, or credit card.

All receipts, except for 10 in 2003, traced to the deposit slips and bank statements. The 10 exceptions could not be traced because the deposit slips in these instances did not have a breakdown of the funds deposited. We also traced the payments and reimbursements made by NORW employees and/or Board members related to travel reimbursements identified in other sections of this report.

We noted no reportable matters regarding the customer account adjustments reviewed.

MANAGEMENT COMMENTS

Deposit Slips

We noted 10 deposit slips for miscellaneous receipts which could not be traced to the bank statements because the deposit slips did not have a breakdown of the funds deposited. This practice makes it difficult for a reviewer to effectively confirm that all receipts were deposited and accurately recorded.

We recommend that all deposit slips be completed in detail to confirm that all receipts have been deposited and recorded.

Supplement to the Special Audit Report

Additional Internal Control Weaknesses

Although not directly the result of the issues and procedures of the special audit, we noted the following additional internal control weaknesses that we wanted to bring to the Board's attention:

Oversight

As indicated throughout this report, the Board's failure to adequately reflect its intentions in the Board minutes and resolutions, to institute written policies, and to thoroughly review disbursements prior to payment, contributed to fraudulent actions taken by the general manager and the administrative supervisor of which the Board was unaware. Failure by the Board to institute adequate internal control procedures and clearly show its knowledge and approval of business activity can lead to the misappropriation of assets and poor communications throughout the entity. Although the Board must rely on its employees, it is ultimately responsible for its employees and their actions.

We recommend that the Board clearly show its knowledge and approval of all business conducted in its name in the minutes and resolutions. The Board minutes and resolutions are the only written record of the Board's intent.

We also recommend the Board institute written policies covering, at a minimum, the management comments issued in this report. Board members and employees should document their receiving, reading and understanding of the Board's policies. The policy should include specific disciplinary actions and procedures for documenting failure to follow the policies.

Segregation of Duties

The administrative supervisor performed the majority of the accounting functions, including but not limited to, the creation of various accounting reports and the preparation of voucher packets, bank reconciliations, and adjustments to customer accounts, without being reviewed by another party. The lack of segregation of duties could result in errors and/or irregularities not being discovered in a timely manner.

We recommend that duties be segregated to ensure that no single individual has control over all phases of a transaction. In a small operation, such as NORW, it is not always possible to have enough staff to properly segregate duties. Understanding this, the Board should take a more active role in monitoring transactions, such as checking the work completed by others.

We recommend that an employee other than the administrative supervisor be responsible for performing either the daily cash balancing reconciliations or monthly bank reconciliations to provide segregation of duties over cash collections. Further, we recommend that the person performing the daily reconciliation 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.

Separation of duties will only limit problems stemming from incompatible duties. It is possible, as noted in this report, that collusion may occur, making some control procedures ineffective. The Board needs to be aware of relationships, including employees' families and friends, and be alert to the possibility of collusion.

Personal Use of Assets

NORW had no written policy regarding the personal use of its assets. Mr. Quebodeaux directed employees to use NORW equipment for improvement projects at his personal residence. NORW credit cards were used by employees for personal purchases and maintained balances on the accounts. Additionally, Mr. Quebodeaux's son used an NORW cellular telephone for personal calls. As a result, NORW incurred expenses unrelated to its business.

Supplement to the Special Audit Report

NORW should adopt a formal policy prohibiting the personal use of its assets to ensure those assets are only used for business related purposes. If NORW chooses to permit employees to use its assets for personal reasons, the policy should address how employees will reimburse NORW for expenses incurred.

Additionally, we recommend that NORW establish a policy addressing usage of cellular telephones for personal calls and requiring reimbursement for personal use. Monthly telephone logs should be maintained by each employee or by each telephone to track long distance calls made. The logs should identify the date, time, name, and number of the person called, and a general description of the purpose. These logs should be reviewed each time the telephone bills arrive and any personal use should be reimbursed to NORW for the costs incurred.

Ethics

NORW does not have a written policy regarding employee conflicts of interest and the acceptance of meals, entertainment, trips, gifts, or other things of value from vendors or customers. As noted in this report, the general manager received items of value from vendors doing business with NORW. Receiving things of value could result in the appearance of an improper business relationship and may result in vendors deliberately using their influence to raise costs to NORW.

We recommend the Board institute a written policy regarding the acceptance of things of value by NORW Board members and employees. Additionally, we recommend that NORW adopt a written policy covering potential conflict-of-interest situations. Signed conflict-of-interest statements should be obtained from all Board members and employees and should identify all business relationships and other dealings between NORW, its Board, employees, and other parties with whom NORW conducts business.

Administrative Supervisor

NORW's Employee and Employers Rules and Regulations, "General Conduct" section states "(t)he following shall be sufficient cause for immediate suspension subject to discharge:

- C. Falsifying information on reports.
- D. Theft of property of NORW..."

During the Period, James Ruggles, administrative supervisor, knowingly falsified documents, received special benefits and trips, and was responsible for the lack of documentation for petty cash reimbursements in his position. Although Mr. Ruggles stated his actions were the result of influence by Mr. Quebodeaux, he still had a duty to perform his job specifications in an ethical and honest manner.

The Board demoted Mr. Ruggles and on May 8, 2006, he entered a plea of guilty to one count of complicity to tampering with records. Although it is ultimately the Board's decision to keep Mr. Ruggles on staff, we recommend that he not work in any financial capacity for NORW.



**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

**NORTHERN OHIO RURAL WATER
HURON 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
SEPTEMBER 21, 2006**