



Mary Taylor, CPA
Auditor of State



Dave Yost • Auditor of State

February 22, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Reports completed prior to that date contain the signature of my predecessor.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

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TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	3
Supplement to the Special Audit Report	
Background	7
General Comments	8
Objective No. 1 Utility Collections	12
Objective No. 2 Income Tax Collections	15
Objective No. 3 Non-payroll Disbursements	20
Objective No. 4 Compensation	22
Objective No. 5 2006 Income Tax and Utility Collections: Manual Cash Receipts	23

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INDEPENDENT ACCOUNTANTS' REPORT

The Honorable Mayor Ted Landis
Ms. Annie Sizemore, Village Manager
Village of Germantown
75 North Walnut Street
Germantown, Ohio 45327

We conducted a special audit of the Village of Germantown (Village), Montgomery County, by performing the procedures enumerated in the attached Supplement to the Special Audit Report solely to achieve the following objectives:

- For the period January 1, 2007 through June 30, 2009:
 - Determine whether utility receipts were deposited, accurately posted to the finance system, and whether billing adjustments and credits were issued in accordance with Village policies.
 - Determine whether income tax collections were deposited and whether income tax refunds were valid.
 - Determine whether certain payments were issued for Village-related expenses.
 - Determine whether compensation paid to the former deputy finance director and former finance director was in accordance with Village ordinances and leave records.
- For the period January 1, 2006 through December 31, 2006:
 - Determine whether manual receipts issued for utility and income tax cash collections were deposited into a Village bank account.

This engagement was conducted in accordance with the Quality Standards for Inspections established by the President's Council on Integrity and Efficiency (January 2005). 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 examined available records to determine whether utility receipts collected for the period January 1, 2007 through June 30, 2009 were deposited and posted to the finance system. We also examined documentation supporting utility billing adjustments and miscellaneous invoice credits and determined whether adjustments and credits were in accordance with Village policies.

Significant Results – We determined utility payments totaling \$4,018,582 were posted to the utility system, deposited, and recorded as received in the finance system. Former Utility Clerk Margaret Ireton posted 117 negative account adjustments totaling \$6,443, and 13 miscellaneous invoice credits totaling \$821, for which a revised bill was not issued, no valid reason existed

explaining the reason for the adjustment or miscellaneous invoice credit, no evidence supported customers requested the adjustments or credits, and no corresponding decrease was posted to another customer's account correcting payment posting errors. As such, a finding for recovery was issued against Ms. Ireton for \$7,264.

In determining whether the missing funds were deposited with other Village receipts, we identified one manual receipt issued for \$15 and \$724 of pool receipts provided to Finance Director Rebecca Jamison were not deposited into a Village bank account. Ms. Jamison was responsible for depositing funds received into the Village's bank account and recording funds received in the finance system. On January 14, 2011, Ms. Jamison repaid the Village \$739 which is reported as a finding for recovery repaid under audit.

We issued a noncompliance citation for not maintaining factual evidence supporting reductions in customers' account balances.

We issued three management recommendations regarding utility system postings, recording the type of tender received, and cashing personal checks.

2. We examined available records to determine whether Village income tax collections received for the period January 1, 2007 through June 30, 2009 were deposited. We also examined documentation supporting income tax refunds issued and determined whether the identified refunds were due to the taxpayer.

Significant Results – The Village collected, posted, and deposited income tax payments totaling \$2,697,343. We noted one manual receipt and two tax returns with payments totaling \$691 which could not be traced to a deposit in the Village's bank account. In addition, we identified two receipts totaling \$451 posted to taxpayers' accounts which were removed from the original account posting and were not posted to another account. As deputy finance director, Margaret Ireton was responsible for collecting, posting, and preparing the deposit of income tax collections. Accordingly, we issued a finding for recovery against Ms. Ireton for \$1,142.

We issued two noncompliance citations for not assessing late fees and penalties when applicable and for not requiring employers to remit employer withholdings on a monthly basis.

We issued four management recommendations to consider the benefits of outsourcing income tax collections and related to internal control weaknesses identified in the income tax collection and refund processes.

3. We examined invoices, canceled checks, and other available documentation and determined whether electronic withdrawals and selected payments issued for the period January 1, 2007 through June 30, 2009 were for Village expenses.

Significant Results – The 980 transactions examined totaling \$9,403,507 were for Village-related expenses with the exception of a \$132 purchase of alcohol which was repaid by Ms. Jamison on January 14, 2011 and is reported as a finding for recovery repaid under audit.

We issued two management recommendations regarding the use of memo expenditures and developing a process for voiding checks.

4. We examined council minutes, payroll registers, and supporting payroll documentation and determined whether the former deputy finance director and former finance director were paid in accordance with the council-approved compensation for the period January 1, 2007 through June 30, 2009.

Significant Results – Both Ms. Ireton and Ms. Jamison were paid in accordance with council-approved compensation. However, Ms. Jamison requested and received payment for 12 hours of personal leave, or \$290, contrary to Village policy. Ms. Jamison repaid the Village \$290 on January 14, 2011 which is reported as a finding for recovery repaid under audit.

5. We examined available records and determined whether manual receipts issued for cash utility and income tax payments received during the period January 1, 2006 through December 31, 2006, were recorded in the Village's income tax and utility systems and deposited into a Village bank account.

Significant Results – We determined \$64 of cash income tax payments and \$225 of cash utility payments collected were not deposited. We also identified one additional manual receipt totaling \$20 was not deposited into the Village's bank account. Ms. Jamison was responsible for depositing funds received into the Village's bank account and recording funds received in the finance system. On January 14, 2011, Ms. Jamison repaid the Village \$309 which is reported as a finding for recovery repaid under audit.

6. We also issued four noncompliance citations regarding record keeping, maintaining records, and complying with Village ordinances for depositing funds received and charging returned check fees. Seven management recommendations were issued for management's consideration regarding segregation of duties, developing an operational policies and procedures manual, training employees on the finance, income tax and utility systems, and addressing internal control weaknesses noted in the receipting and expenditure processes. We also identified 14 general weaknesses which the Village should consider in modifying their existing processes.
7. On January 12, 2011, we held an exit conference with the following individuals representing the Village:

Ted Landis, Mayor
Anna M. Sizemore, Village Manager
Terry Klein, Finance Director
Tom Schiff, Law Director
Ed Schwaberow, Councilman

Lynn E. Koogle, Councilman
Michael Kuhn, Councilman
Brian Wafzig, Councilman
Steve Boeder, Councilman

The attendees were provided an opportunity to respond to this special audit report. A response was received on January 21, 2011. The response was evaluated and changes were made to this report as we deemed necessary.



Mary Taylor, CPA
Auditor of State

November 10, 2010

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Supplement to the Special Audit Report

Background

On May 21, 2009, the independent public accounting firm contracted to perform the Village's financial audit for calendar years ended December 31, 2007 and 2008, notified the Auditor of State (AOS) of concerns expressed to them by Village representatives. Those concerns included questionable adjustments posted to certain utility accounts and unauthorized income tax refunds.

On June 11, 2009, AOS representatives met with Village administrators and discussed these concerns. In addition, the Village was concerned the finance director controlled the issuance of non-payroll checks, was the only signatory on the checks issued, and restricted Village administrators' ability to obtain and examine Village bank statements. Concerns were also expressed about whether the former deputy finance director and finance director's salaries and leave usage payments were in accordance with Council-approved ordinances and supported by leave records.

On June 11, 2009, Village representatives requested these matters be reviewed as part of a special audit.

On June 30, 2009, the Auditor of State initiated a special audit of the Village.

On June 30, 2010, Finance Director Rebecca Jamison retired from the Village.

Supplement to the Special Audit Report

General Comments

The following general noncompliance citations and internal control recommendations were identified during the completion of Objectives No. 1 through 5:

NONCOMPLIANCE CITATIONS

Returned Check Fees

Codified Ordinances Section 101.08 states, “the City shall assess a handling charge of \$20 to any person, corporation, association, or other entity for any check submitted to the City which is not honored by the bank for any reasons and the account for which such check was submitted for payment will revert to the same status as though no payment was received.”

The Village charged varying amounts for returned check fees ranging from \$0 to \$20 plus an additional \$10 bank fee. The returned checks and fees were not recorded consistently in the utility, income tax, and finance systems. Failure to charge fees in accordance with this ordinance may result in lost revenue to the Village and could result in inaccurate customer account balances.

We recommend the Village charge for returned checks in accordance with its codified ordinances.

Depositing of Funds

Codified Ordinances Section 135.18 states, “the Finance Director of the Municipality of Germantown shall deposit all public funds received into the Municipality of Germantown’s bank account on the next business day following the day of receipt. If the total amount of such moneys received is less than one thousand dollars, the Finance Director shall deposit the public funds within three business days following the receipt of such funds.”

Village funds were not deposited for up to 23 days after being collected for 32 of the 605 days examined. Failure to deposit these funds in a timely manner increases their susceptibility to loss due to fraud or theft.

We recommend the Village deposit funds in accordance with its codified ordinance.

Maintaining Records

Ohio Rev. Code Section 149.351 provides in part, “all 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.”

The Village was unable to provide leave forms, utility stubs, adjustment journal reports, miscellaneous invoice journal reports, tax refund supporting documents, and certain tax returns, all of which were required to be maintained in accordance with the Village’s records retention schedule.

Failure to maintain these records prevented the Village from determining whether leave paid, negative utility account adjustments, miscellaneous invoice credits, and income tax refunds were authorized and necessary Village actions.

We recommend the Village maintain records in an organized manner and in accordance with its records retention schedule.

Village Records

Ohio Revised Code Section 733.28 states “the village clerk shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all the property owned by the Village and the income derived there from, and of all taxes and assessments.”

Supplement to the Special Audit Report

We noted the following in examining the Village's ledgers:

- Utility receipts posted to the utility system contained 23 keying errors and the wrong type of tender in 34 instances.
- An explanation for 298 negative utility customer account adjustments was not recorded in the utility system.
- Tax returns and employer withholding remittance forms were not filed or maintained.
- Payments received, deposits made, and manual receipts issued were recorded incorrectly or not posted in the income tax system.
- Refund checks posted to the income tax system were not issued in numerical sequence with Village checks issued during the same period.
- Annual employer withholding reconciliations were not maintained, filed, or entered into the income tax system for 2,340 of employer remittances received.

Failure to accurately record payments and revenues received, funds expended, and maintain appropriate supporting documentation prevented the Village from verifying funds received were deposited and funds expended were for Village operations.

We recommend the Village accurately record funds received and expended in the utility, income tax, and finance systems to ensure Village bank account activity is reflected in the Village's ledgers and supported by documentation maintained in its files.

MANAGEMENT RECOMMENDATIONS

Segregation of Duties

The deputy finance director and utility clerk were responsible for collecting, posting, and depositing funds received for income tax and utility payments. In addition, the deputy finance director also prepared checks for income tax refunds, invoices, and payroll. The lack of segregation of duties may prevent the detection of errors and/or irregularities 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 the Village of Germantown, it is not always possible to have enough staff to properly segregate duties. Understanding this, Council members and management should take a more active role in monitoring transactions, such as examining canceled checks, reconciling utility and income tax systems to the finance system, reviewing monthly bank reconciliations, and requiring individuals independent of specific transactions periodically review the work performed for accuracy.

Operational Policies and Procedures Manual

The Village does not have a policy and procedures manual documenting processes to be followed when posting utility and income tax collections, adjusting utility and income tax customer accounts, issuing miscellaneous invoice credits, depositing funds, and issuing checks for both payroll and non-payroll transactions. Without written policies and procedures employees may interpret standard practices incorrectly resulting in inaccurate, inconsistent and undesirable results.

We recommend the Village develop an operational policy and procedure manual addressing these areas. Additionally, the Village should develop job descriptions identifying each employee's responsibilities to ensure adequate segregation of duties.

Employee Training on Utility, Income Tax, and Finance Accounting Software

Village employees do not have a thorough understanding of the capabilities of the income tax, utilities, and finance systems. During our special audit, Village employees were often unable to generate reports to provide requested information and in many cases could not explain transactions reflected on customer account histories. Lack of knowledge and training of employees and managers limits their ability to use the system to its fullest capabilities and hinders management's ability to adequately review transactions for accuracy.

We recommend the Village train all income tax, utility, and finance employees on software used to record financial activity and require attendance at training courses when hired or after an upgrade.

Supplement to the Special Audit Report

Deposit Slips

Each department collecting payments prepared its own deposit slip to deposit funds into the Village's bank account. However, the deposit slip did not reflect who prepared it and who deposited the funds. In some instances there was no documentation supporting repayment of returned checks or the source of the funds deposited. Failing to maintain documentation supporting the amount deposited and its source limits the Village's ability to identify the amount collected for deposit, who last had the funds, who made the deposit, and who to contact when the bank identifies deposit discrepancies.

We recommend the Village require the employee preparing the deposit slip to affix their initials on the deposit slip as preparer and maintain sufficient documentation in the monthly deposit folder identifying the source and amount of funds received for deposit.

Computer Systems

The Village uses a separate computer system to record the receipt of income tax and utility payments. A daily receipt journal is generated from each system supporting payments deposited. No reconciliation was performed between the utility and income tax systems to the finance system to verify payments collected per these two systems were reflected in the Village's receipt ledgers. Failure to perform this reconciliation prevents the Village from ensuring payments collected by the utility and income tax departments were posted to the Village receipt ledger and subsequently deposited.

We recommend an individual independent of the collections process reconcile total collections per the utility and income tax systems on a monthly basis to postings in the finance system and deposits into the bank account to ensure payments collected were posted to the receipt ledger and deposited.

Pool Receipts

Council approved daily admission, annual pool pass, and pool rental rates. Each day a reconciliation sheet documenting the sale of admissions and concessions was provided to the Finance Office with the deposit slip. We noted the daily sheets did not reconcile to collections deposited, daycare participant pool admissions and pool passes purchased after Memorial Day were charged contrary to Council-authorized rates, and pool rental and daycare pool admission receipts were incorrectly posted to the miscellaneous receipt line item. Failure to charge council-approved rates, reconcile collections to supporting documentation, and post receipts to the appropriate line item limits management's ability to determine the pool's profitability and may result in less revenue to operate the pool due to incorrect charging of rates or potential theft of receipts.

We recommend the Village require the pool management company to obtain approval prior to charging rates contrary to those approved by Council. Upon receipt of pool revenue, the finance director should reconcile amounts deposited to those collected per the pay-in sheets and post revenues to the pool fund based on their source.

Voiding Manual Receipts

Village employees did not document a reason for voiding manual receipts, did not maintain voided receipt copies, and did not obtain supervisory approval for voids. Failing to document and obtain approval of the reason for voiding the receipt prevents the Village from determining whether the void was for a valid Village action.

We recommend the Village document the reason for voiding each receipt and obtain supervisory approval for the voided receipt.

Supplement to the Special Audit Report

ADDITIONAL ITEMS

In addition to the noncompliance citations and management comments described in detail within this report, we noted the following general weaknesses to be considered by the Village:

- Revenues and expenditures were not always recorded in the appropriate fund or line item.
- Pay-ins were not issued sequentially and did not reflect the type of tender received.
- Manual receipts were not issued sequentially, receipt books were not used in chronological order, and often did not document the type of tender or the reason for the payment.
- There was no established process for tracking and monitoring cash drawer overages and shortages.
- Income tax and utility payments were not posted accurately or in a timely manner.
- Checks were issued out of sequence, manually generated, not recorded in the finance system, and were outstanding in excess of one year.
- The Village's Administrative Office utility meter was not read for 31 consecutive months.
- Fees for returned checks, utility shut-offs, and restarting fees were posted as miscellaneous revenues without supervisory approval.
- Tax returns were not stamped with the date received and initials of the employee who accepted the return at the Village.
- Taxpayers were not notified of changes made to their tax returns during the Village's processing of returns.
- Income tax corrections, journal entries, and transfers were not approved by a supervisor.
- Documentation was not maintained to support income tax filing extensions.
- Overtime policies did not state who was to approve overtime and did not explicitly define "scheduled" versus "unscheduled" overtime.
- Vacation and sick leave accruals were not monitored for compliance with Village policy.

We recommend the Village make appropriate modifications to their established processes to address each of the above concerns.

Supplement to the Special Audit Report

Objective No. 1 – Utility Collections

PROCEDURES – JANUARY 1, 2007 THROUGH JUNE 30, 2009

Using the Daily Utility Receipts Journal, we identified utility payments collected.

We compared identified utility collections recorded as received in the utility system to the amounts posted in the finance system and amounts deposited and determined whether utility payments collected were posted and deposited.

For selected days, we examined the Daily Utility Receipts Journal and available utility stubs and identified the amount and type of tender collected.

Using copies of deposit slips and related supporting documentation for selected days, we traced amounts collected to the amount deposited and determined whether amounts collected were deposited.

Using the manual receipt books, we identified manual cash receipts issued for utility payments and determined whether the utility payments were recorded in the utility system and deposited.

We identified billing adjustments and miscellaneous invoice credits posted. We examined supporting documentation for these items and determined whether they were in accordance with Village policies. For unauthorized or unsupported adjustments and miscellaneous credits, we contacted the customer to determine whether payment was made and the adjustment or credit was requested. If the customer confirmed a payment was made, we traced the identified payment to the Daily Utility Receipt Journal and bank deposits to determine whether the payment was deposited into a Village bank account.

For identified missing utility funds, we examined the remaining Village deposits and determined whether the missing funds were deposited into the Village's account.

RESULTS

Utility payments totaling \$4,018,582 recorded in the utility system as received were posted to the finance system and deposited.

For selected dates, we examined 12,623 utility billing stubs totaling \$851,394 and determined the payment tender as identified by the utility system was deposited intact.

Village employees issued 340 manual cash receipts totaling \$21,670 for utility payments received. These receipts were recorded in the utility system and deposited into the Village's bank account.

We determined 326 adjustments totaling \$102,490 and 223 miscellaneous invoice credits totaling \$20,960 were posted to customers' utility accounts by former utility clerk Margaret Ireton. Adjustments were recorded for incorrect meter readings, water line leaks, pool credits, and removal of late penalties incorrectly applied. Miscellaneous invoice credits were issued to correct posting errors. No documentation was maintained supporting the reasons for the adjustments or miscellaneous invoice credits.

Of the 326 adjustments, 28 were supported and in accordance with the Village's codified ordinances. For the remaining 298 adjustments and 223 miscellaneous invoice credits, we contacted customers to confirm whether an adjustment was requested and to provide documentation supporting the requested adjustment, credit, or payment made. Of the 130 responses received, we noted the following exceptions for which we are issuing findings for recovery:

- Fifty-two customers responded that adjustments or credits totaling \$2,857 were not requested. Eighteen of the 52 provided documentation supporting payments made totaling \$790, none of which was deposited.

Supplement to the Special Audit Report

- For 78 customers, adjustments posted to their accounts totaling \$4,407 reduced the customers' account balances to zero. In examining the accounts, no payment or a partial payment was posted to the system for the amounts adjusted, no revised bill was issued to the customer, and no explanation was provided documenting the adjustment reason. As such we concluded these adjustments were posted to reduce customer account balances for payments received which were not deposited.

In examining other deposits into the Village's bank account to determine whether the identified missing funds were deposited, we noted \$724 of pool receipts received and a \$15 manual receipt included in the monthly deposit folders were not recorded in the finance system or deposited by former Finance Director Rebecca Jamison.

FINDINGS FOR RECOVERY

Customer Account Adjustments

Customers were billed on a monthly basis for utility services. Upon receipt, the utility clerk posted the payment to the customer's account and prepared the deposit of that day's collections. If a customer reported they were billed for services not received, the utility clerk determined whether an adjustment was warranted and posted the adjustment. No process existed to obtain supervisory approval of adjustments nor did Ms. Ireton obtain documented supervisory approval. Ms. Ireton also recorded miscellaneous invoice credits to correct payment posting errors within the utility system.

In examining available documentation maintained by the Village and customer responses received to our inquiries, we determined 117 adjustments totaling \$6,443 and 13 miscellaneous invoice credits totaling \$821 were not for a valid purpose based on the following:

- The adjustment removed the entire or a part of the amount billed from a customer's account balance with no valid reason.
- No subsequent bill was issued for services provided.
- No evidence existed the customer requested the adjustment or miscellaneous credit.
- No corresponding increase was posted to another utility account supporting a posting error had occurred.
- No valid reason was provided for the miscellaneous invoice credit posted.

During the timeframe these unauthorized adjustments and miscellaneous invoice credits were posted, Margaret Ireton served as utility clerk.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies collected but unaccounted for is hereby issued against Margaret Ireton and her bonding company, Western Surety Company, jointly and severally, for \$7,264 in favor of the Village of Germantown.

FINDING FOR RECOVERY REPAID UNDER AUDIT

Pool Receipts

Each day's pool collections were provided to the finance director with a summary sheet identifying amounts collected for concessions, admissions, and pool pass sales. In comparing summary sheets to amounts deposited, we identified pool receipts totaling \$724 were not deposited. In examining whether utility funds were deposited with other Village funds, we identified one manual receipt issued for \$15 was also not deposited. Ms. Jamison was responsible for depositing funds received.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, we considered issuing a Finding for Recovery for public monies collected but unaccounted for against Rebecca Jamison and her bonding company, Western Surety Company, jointly and severally, for \$739 in favor of the Village of Germantown. On January 14, 2011, Ms. Jamison repaid the Village \$739. Accordingly, we consider this a finding for recovery repaid under audit.

Supplement to the Special Audit Report

NONCOMPLIANCE CITATION

Utility Adjustments and Miscellaneous Invoice Credits

Codified Ordinances Section 919.08 states, "in no event shall the manager adjust a utility bill without some factual evidence that would establish that the consumer has not received the service for which he has been billed."

Of the 326 utility adjustments posted, 254 were not supported by factual evidence. None of the adjustments reflected supervisory approval. The utility clerk also posted 223 negative miscellaneous invoices reducing customer account balances with no explanation or supporting documentation maintained indicating the transaction was a valid Village action.

Failure to obtain documentation supporting utility adjustments can result in unwarranted and unauthorized transactions being posted to customer utility accounts thereby increasing the risk of inaccurate account balances and the potential for lost revenue due to theft or errors.

We recommend the Village ensure only necessary and authorized customer utility account adjustments and credits are posted.

MANAGEMENT RECOMMENDATIONS

Utility System Postings

The utility clerk purged four utility batch reports, voided three utility batch reports, and voided or deleted individual utility payment postings from the utility system. Documentation and explanations supporting the purging, deletion, and voiding of utility batches and individual utility payments were not maintained. Failure to maintain documentation, explanations, and obtain approval of voided, purged, or deleted payments or batches prevents the detection of lost utility collections due to fraud or theft.

We recommend the utility clerk document the reason for voided, deleted, or purged transactions and batches from the utility system, provide explanations and supporting documentation to management, and obtain supervisory approval. Periodically, an individual independent of the utility collection process should review voided or deleted transactions and batches to ensure the transactions and batches are accounted for, gaps in the numerical transaction and batch sequence are supported by documentation explaining the reason for the void or deletion, and required supervisory approval was obtained.

Type of Tender Received

Utility payments posted in the utility system did not reflect the type of tender received in 2,949 instances and in 34 instances reflected the wrong type of tender received. As such, the Village was unable to reconcile the tender received per the utility system to the tender deposited thereby ensuring funds collected were deposited intact. Inaccurately or not recording the type of tender received in the utility system prevents the detection of checks deposited in the place of cash to conceal theft or fraud.

We recommend the utility clerk record the type of tender received for each utility payment in the utility system. At the end of each day an individual independent of the receipting process should verify the tender reflected on the Daily Receipt Journal agrees to the tender to be deposited.

Cashing Personal Checks

The Village permitted residents to issue checks to the Village in excess of the utility amount due and returned the difference to the resident in cash. By cashing personal and third party checks, the Village increases its exposure to loss due to returned bad checks and related returned check fee charges.

We recommend the Village discontinue the practice of allowing residents to write checks for more than the amount due and returning the excess in cash. The Village should establish a policy requiring the posting of any excess payments as a credit to the customer's utility account or require excess payments be returned using a Village check.

Supplement to the Special Audit Report

Objective No. 2 – Income Tax Collections

PROCEDURES – JANUARY 1, 2007 THROUGH JUNE 30, 2009

Using receipt books and income tax returns, we identified income tax collections received.

Using the Village's income tax system and employer withholding remittances maintained by the Village, we determined whether the required number of employer payments were made and subsequently deposited.

We contacted employers whose income tax accounts did not reflect the required quarterly or monthly payments remitted or records could not be located to confirm the amount of withholdings remitted to the Village. For payments confirmed by employers and not receipted by the Village, we examined available deposit documentation and determined whether withholdings paid were deposited.

Using the manual receipt books used by the Village employees, we identified income tax payments and determined whether cash payments were recorded in the Village's income tax system and subsequently deposited.

We examined voided income tax receipts and determined whether the void was supported and for a valid reason.

We obtained available documentation supporting income tax collections and determined whether the identified amounts were deposited.

We examined tax return information maintained in the Village's income tax computer system for tax years 2006, 2007, 2008, and 2009 and determined whether tax returns received for each tax year were recorded in the Village's income tax system. For selected instances in which a gap in income tax return information existed, we contacted the taxpayer to determine why the gap existed, whether a payment was made, and if so, determined whether the payment was deposited.

We identified income tax refunds issued, examined supporting documentation, and determined whether refunds issued were due to the taxpayer.

We examined the remaining Village deposits and determined whether identified missing income tax collections were deposited.

RESULTS

Tax payments were received for individual quarterly payments, employer withholdings, and year-end payments from residents and businesses. Upon receipt of these payments, the deputy finance director prepared the deposit slip for the day's collections and as time permitted, posted payments received to the income tax system and generated a daily receipt journal equaling the amounts deposited. Income tax collections totaling \$2,697,343 were posted to the income tax system and deposited.

In our examination of 5,585 residential and business income tax returns, 2,433 tax returns did not reflect taxes were due and 3,152 tax returns reflected payments totaling \$501,111. We traced these payments to the Daily Receipt Journal generated from the income tax system and determined these payments were posted to the income tax system with the following exceptions:

- For 54 tax returns, the amount reflected on the tax return as paid was less than the amount posted in the income tax system and deposited.
- Detailed deposit information including the tax return information and the total deposit amounts were posted up to 108 days after the funds were deposited.
- No late penalties or interest was assessed for 113 returns with taxes due and not paid by April 15th.

Supplement to the Special Audit Report

Due to the lack of organization of employer withholding remittances and annual reconciliations, we mailed 840 letters to employers with active accounts to confirm payments issued to the Village. Of the 840 letters, 468 employers provided their annual reconciliation of withholdings and copies of withholding remittances, documenting payments made each year. For the remaining 372 employers, we used available employer records maintained by the Village to determine whether employer withholding payments were posted to the income tax system and subsequently deposited. Multiple discrepancies were noted between employer responses, Village records and the income tax system. These discrepancies have been referred to the Village for review and resolution.

When cash payments were made at the Administrative Office, a Village employee issued the taxpayer a manual receipt documenting the amount paid, the payee, the date, and the reason for the payment. During this period, Village employees issued 580 manual receipts totaling \$70,885. Even though the manual receipts issued were posted to the income tax system and deposited, we noted receipts were not completed in their entirety, were posted to the wrong taxpayer account, or were issued twice for the same payment. Of the 580 manual receipts, Village employees voided eight manual receipts of which six were replaced by a subsequent manual receipt and two did not reflect the reason for the void.

In tracing checks and cash in the daily deposit to the tender of payments reflected on the income tax system daily receipt journal, we noted the following exceptions for which we have issued a finding for recovery:

- Two instances totaling \$451 in which Ms. Ireton recorded a payment on an inactive taxpayer's account and then at a later time deducted the payment from another account held in the same taxpayer's name. The latter postings removed the collection of the original payment from the system. We were unable to locate a corresponding transaction posted by Ms. Ireton to support the payment actually received was posted and subsequently deposited.
- Ms. Ireton collected \$617 in income tax payments and was provided a \$74 payment collected by another Village employee, both of which were not recorded in the income tax system as received and were not deposited into the Village's bank account.

In determining whether taxpayers were complying with the mandatory filing requirement, we identified 1,597 instances where a gap in tax return information posted to a taxpayer's account existed. We contacted ten residents to determine why the gap existed and whether a payment was made. From the four responses received, we determined one return was filed without tax due and was not posted to the income tax system, two returns were posted to the taxpayer's business account instead of their individual account, and one taxpayer failed to file a return.

During this period, the Village issued 377 refunds totaling \$57,303 for a valid Village action.

FINDING FOR RECOVERY

Income Tax Collections

During the period January 1, 2007 through June 30, 2009, the deputy finance director was responsible for processing income tax returns and payments. Payments were received by mail and at the Administrative Office's collection window. Taxpayers making a payment in cash were provided a manual receipt by the employee receiving the payment. For each payment received, a notation was also made on the tax return identifying the amount paid. The return and payment received were provided to the deputy finance director for posting in the income tax system and were included in the day's income tax collection deposits.

In comparing payments documented per the tax returns to amounts recorded by the deputy finance director in the income tax system, we identified \$1,068 in which Ms. Ireton issued a manual receipt, documented she received the funds, or posted the funds as received in the income tax system; however, these funds were not deposited. In addition, one tax return reflected a \$74 payment received that was not posted to the income tax system and was not deposited.

Supplement to the Special Audit Report

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies collected but unaccounted for is hereby issued against Margaret Ireton and her bonding company, Western Surety Company, for \$1,142 in favor of the Village of Germantown.

NONCOMPLIANCE CITATIONS

Assessment of Interest and Late Penalties

Codified Ordinances Section 181.03 requires taxes to be assessed at a rate of 1.25% per annum upon individuals working within the Village limits for more than 12 days in a calendar year. Section 181.05 (a) requires a taxpayer to prepare and file a return "on or before April 30 of the year thereafter" regardless of whether any tax is due. Section 181.10 requires the assessment of penalties and interest charges for balances not paid in full by April 15th.

In many cases, we were unable to determine whether a late penalty should be assessed because the Village did not document when the return was received or a return was not filed as required by Section 181.05 (a). Because they did not document when the return was received and delays incurred in posting taxpayer returns and remittances received, the Village did not consistently assess penalties and interest on outstanding amounts due. During our examination of 3,152 returns reflecting taxes owed to the Village, we noted tax returns with taxes due were not assessed late penalties or interest and in other cases tax returns filed late were assessed penalties and interest. We also noted the Village did not have procedures to identify new utility customer accounts residing within the Village limits which should have an income tax account established. Failing to verify taxpayers filed the required return and to assess required interest and penalties on late filings and payments can result in inaccurate account balances and the Village losing revenue lawfully due to them.

To ensure the Village collects income tax payments due to them, we recommend the Village:

- Compare new utility customer accounts to income tax accounts to identify potential new income tax filers and implement a process requiring the utility department to notify the income tax department each time a new utility account is established to allow for the creation of a new taxpayer account.
- Generate a report from the income tax system to identify returns not submitted by April 30th and unpaid taxes as of April 15th.
- Assess the applicable interest, penalties, and late fees for each identified account and notify the taxpayer of the amount due to the Village.
- Consult with the Village solicitor to determine legal action to be taken to collect past due amounts.

Employer Withholdings

Codified Ordinance Section 181.06(a)(1) states in part "(e)ach employer shall on or before the fifteenth day of each month, make a return and pay to the Superintendent, the tax withheld during the preceding month. However, the Superintendent shall have the authority to approve the filing of returns and payment of the tax withheld on a quarterly basis. In such case, the employer shall, on or before the fifteenth day of each month following the calendar quarters ending March 31, June 30, September 30, and December 31, make a return and pay to the Superintendent the tax withheld during the preceding calendar quarter.... The Superintendent shall provide by regulations, the manner in which approval is to be granted or withdrawn."

Village officials stated they were unaware of a requirement documenting the frequency employers were required to remit employer withholdings and allowing employers to make this determination. Failure to approve quarterly remittances and monitor employer payments can result in inaccurate employer withholding account balances and lost revenue due to an employer's failure to remit employee withholdings.

We recommend the Village establish guidelines when approval should be granted and the method for documenting their approval for quarterly remittances. In addition, an individual independent of the collection process should monitor employer remittances and determine whether the prior approval should be revoked for untimely or nonpayment of quarterly withholdings.

Supplement to the Special Audit Report

MANAGEMENT RECOMMENDATIONS

Regional Income Tax Agency (RITA)

The deputy finance director was responsible for the collecting, posting and monitoring income tax funds received throughout the year from residents, businesses, and employers. In addition, the deputy finance director was also responsible for processing, posting and issuing payroll and non-payroll checks. These additional duties resulted in posting delays of the returns received for up to six months and resulted in the Village not assessing late fees, penalties, and interest against delinquent accounts. Failing to timely post returns and payments received, monitor collections, and assess the appropriate late fees, interest, and penalties can result in lost Village revenue which could be used to provide other taxpayer services.

We recommend the Village consider the benefits and disadvantages of hiring a third party service provider such as Regional Income Tax Agency (RITA). Use of a third party service provider could increase collections, allow for the active pursuit of delinquencies, and provide professional management and technical assistance. If the Village chooses not to use a third party administrator, they should reassess staffing levels, job duties, and policies in place to ensure the Village has procedures to collect taxes owed, post payments timely, and assess interest and penalties as required by Village ordinances.

Tax Return Preparation

The Village prepared residents' income tax returns at the Village offices at no charge. The employee preparing the residential return was also responsible for collecting, posting, and preparing the income tax deposit. Village employees preparing and collecting residential tax payments may be perceived as having a conflict of interest and may prohibit the Village from detecting errors, irregularities, and theft of income tax revenues resulting from inflated or inaccurate tax payments calculated by the Village employee.

We recommend the Village discontinue this practice and adopt a policy prohibiting Village employees involved in the collection, posting, and depositing of income tax monies from preparing residential tax returns.

Income Tax Credits

Information from income tax returns should be entered into the income tax system in a timely manner and credits earned from a previous tax year should be applied prior to calculating refunds or credits owed to the taxpayer. Documentation was not maintained supporting the calculation of 33 credits totaling \$5,616, credits were calculated incorrectly, were not applied to the next tax year, and in some cases were not posted to the income tax system. We also noted in our review of the 1099G reports that issued credits were reported to the Internal Revenue Service for tax years prior to the report year, credits should have been included on the report but were not, and credits were improperly reported.

Failure to maintain accurate records supporting the credit calculation can result in credits not being issued when required, can result in unauthorized credits being issued to taxpayers, and can result in fines assessed by the Internal Revenue Service for filing inaccurate 1099G reports.

When posting a return in the income tax system, we recommend the Village review the taxpayer's account for prior tax year credits, verify the taxpayer included the credit in his or her calculation, and document changes made to the income tax return to include prior year credits. We have provided the Village with a listing of credits requiring further review to determine whether the credit is valid and should have been reported to the Internal Revenue Service.

Employer Annual Withholding Reconciliations

At the end of each calendar year, employers remit an annual reconciliation form documenting amounts remitted for the year. The deputy finance director often did not record the annual reconciliations received in the income tax system to ensure remitted withholdings were posted and deposited. For tax years 2007 and 2008, 2,340 monthly and quarterly employer withholding remittances reported on an annual reconciliation were not reconciled in the income tax system. Failure to post reconciliations in the income tax system led to the Village's inability to determine the accuracy of their income tax records and prevented the Village from determining whether payments sent to them were received and deposited.

Supplement to the Special Audit Report

We recommend the Village post annual reconciliations in the income tax system and resolve any discrepancies. An individual independent of this process should generate a report from the income tax system identifying employers who have not submitted their annual reconciliation and contact those employers to determine whether any activity existed requiring the filing of the annual reconciliation.

Supplement to the Special Audit Report

Objective No. 3 – Non-payroll Disbursements

PROCEDURES – JANUARY 1, 2007 THROUGH JUNE 30, 2009

We identified electronic withdrawals reflected on the Village's bank account statements, examined supporting documentation, and determined whether payments were issued for a Village expense.

We examined documentation supporting manual checks issued to the Village, reimbursements issued to or checks endorsed by the former deputy finance director and former finance director, and determined whether the checks were issued for a Village expense.

RESULTS

Ms. Jamison made 354 electronic withdrawals and 16 wire transfers totaling \$5,043,749, and issued 608 manual checks totaling \$4,359,760 for vendor payments, payroll-related expenses, payroll deductions, payments between Village departments, and payments to herself and the former deputy finance director. We determined these payments were supported and were for Village expenses.

During the audit, Village Manager Annie Sizemore expressed concerns whether certain Saturday Night Out event expenditures were allowable Village expenses. We examined documentation supporting 26 transactions totaling \$5,578, conducted necessary interviews, and determined with the exception of a \$132 alcohol purchase, the payments were for Village expenses.

FINDING FOR RECOVERY REPAID UNDER AUDIT

Alcohol Purchase

Auditor of State Bulletin 2003-005 *Expenditure of Public Funds/Proper "Public Purpose"* states the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states the Auditor of State's Office does not view the expenditure of public funds for alcoholic beverages a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

Former Finance Director Rebecca Jamison issued a \$132 check for the purchase of a keg of beer to be sold during the Village's Saturday Night Out event.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code 117.28, we considered issuing a Finding for Recovery for public monies illegally expended against Rebecca Jamison and her bonding company, Western Surety Company, jointly and severally, for \$132 in favor of the Village of Germantown. On January 14, 2011, Ms. Jamison repaid the Village \$132. Accordingly, we consider this a finding for recovery repaid under audit.

MANAGEMENT RECOMMENDATIONS

Memo Expenditures

The Finance Office issued 240 hard-copy checks to document electronic payments and 488 checks to document the movement of funds between bank accounts and Village departments. These manual checks were issued to ensure the transactions were posted to the Village's expenditure ledger. Issuing checks which are not meant to be cashed increases the risk of those checks mistakenly being cashed, thereby resulting in a duplicate payment.

We recommend the Village issue memo checks using the available memo check module in the finance system to record electronic payments or payments between departments at the time they are made.

Supplement to the Special Audit Report

Voiding Checks

Instead of voiding and reissuing a lost original check in the finance system, the Finance Office issued a manual check to the employee or vendor and did not void the original check in the finance system. Once the manual check cleared the bank, the original check was marked as reconciled in the finance system. Failing to void the original check and issuing the replacement check using the finance system will result in inaccurate outstanding check list information, prevents the Village from reconciling expenditure ledger information to bank account activity, and may result in the loss of Village funds should the original and the replacement check both be cashed by the bank.

When issuing a replacement check, we recommend the Finance Office void the original check and issue a replacement check using the finance system. A list of voided checks should be maintained and compared to the monthly bank statements to ensure the originally issued checks did not clear the Village's bank account

Supplement to the Special Audit Report

Objective No. 4 – Compensation

PROCEDURES – JANUARY 1, 2007 THROUGH JUNE 30, 2009

We compared salary and benefits paid to former deputy finance director Margaret Ireton and former finance director Rebecca Jamison to the council-approved resolutions and supporting documentation and determined whether they were paid in accordance with the approved resolutions.

RESULTS

We determined Ms. Ireton and Ms. Jamison were compensated in accordance with council-approved resolutions. However, we noted Ms. Jamison was paid for 12 hours of personal leave totaling \$290 contrary to the Village's policy manual.

FINDING FOR RECOVERY REPAID UNDER AUDIT

Personal Leave Overpayment

Municipality of Germantown Personnel Policies and Procedures Manual Article 8.2 states, "all permanent employees, upon successful completion of their probationary period, shall be granted two (2) personal leave days per year, to be updated on the anniversary date of employment each year thereafter. Personal leave not taken before the anniversary date of their employment shall not be accrued." Unlike vacation leave, the manual does not include a provision for the payout of personal leave.

During an interview with Ms. Jamison, she indicated employees were not permitted to be paid for personal leave. The leave had to be used or it was forfeited. However, Ms. Jamison was paid 12 hours or \$290 of personal leave not used contrary to this policy.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, we considered issuing a Finding for Recovery for public monies illegally expended against Rebecca Jamison and her bonding company, Western Surety Company, jointly and severally, for \$290 in favor of the Village of Germantown. On January 14, 2011, Ms. Jamison repaid the Village \$290. Accordingly, we consider this a finding for recovery repaid under audit.

Supplement to the Special Audit Report

Objective No. 5 – 2006 Income Tax and Utility Collections: Manual Cash Receipts

PROCEDURES – JANUARY 1, 2006 THROUGH DECEMBER 31, 2006

From the manual receipt books used by Village employees, we identified manual receipts issued for cash income tax and utility payments for the period January 1, 2006 through December 31, 2006, and determined whether the payments were recorded in the Village's income tax and utility systems and subsequently deposited.

We examined voided manual income tax and utility receipts and determined whether the void was supported and for a valid reason.

For identified missing funds, we examined the remaining Village deposits and determined whether the missing funds were deposited into the Village's account.

RESULTS

Village employees issued 191 income tax manual receipts totaling \$24,852 and 20 utility manual receipts totaling \$1,642. We determined two of the 191 income tax manual receipts totaling \$64 were not posted to the income tax system and were not deposited. Of the 20 utility receipts issued, \$225 was not recorded as paid in the utility system and was not deposited. We also identified a \$20 manual receipt in the monthly deposit folders which had not been deposited. During this period, Ms. Jamison was responsible for depositing income tax and utility payments into the Village's bank account.

Of the eight voided manual receipts, three were voided with no explanation and the remaining five receipts were voided for a valid reason.

FINDING FOR RECOVERY REPAID UNDER AUDIT

Manual Receipts

Village employees issued manual receipts for income tax and utility payments documenting the amount received, the type of tender, and the reason for the payment. These monies were then placed in the cash register maintained in the Administration Office. Former Finance Director Rebecca Jamison was responsible for depositing funds collected into the Village's bank account. We identified \$309 collected from nine manual receipts was not deposited into a Village bank account.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, we considered issuing a Finding for Recovery for public monies collected but unaccounted for against Rebecca Jamison and her bonding company, Western Surety Company, jointly and severally, for \$309 in favor of the Village of Germantown. On January 14, 2011, Ms. Jamison repaid the Village \$309. Accordingly, we consider this a finding for recovery repaid under audit.

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Dave Yost • Auditor of State

VILLAGE OF GERMANTOWN

MONTGOMERY 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
FEBRUARY 22, 2011