



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CITY OF BEDFORD  
CUYAHOGA COUNTY**

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# OHIO AUDITOR OF STATE KEITH FABER



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## FRAUD EXAMINATION REPORT

City of Bedford  
Cuyahoga County  
165 Center Rd.  
Bedford, OH 44146

To the City Council:

### **Summary**

The Auditor of State (AOS) conducted a special audit and criminal investigation of the City of Bedford (the City) based on a call received from the City Finance Director regarding an alleged theft at the City. Our investigation identified almost \$80,000 in monies collected by the City that were not deposited into the City bank account for which we issued findings for recovery and also supported criminal charges against former City employees, Linda Yarish and Joan Law.

### **Background**

On September 20, 2016, a City utility customer presented a receipt of payment to City Water Department Clerk, Linda Yarish, which had not been posted to the client's account. Ms. Yarish notified City Manager, Mike Mallis, of the incident. City video surveillance indicated the payment was collected by Water Department Clerk Joan Law.

On September 28, 2016, Ms. Law was interviewed by the City Police Chief and City Manager, and admitted to stealing from the Water Department for approximately 18 months. As a result, Ms. Law was terminated by the City.

On September 29, 2016, the City contacted the Auditor of State's Office to report the theft. The City also suspected Ms. Yarish of stealing and reviewed receipts collected on days when Ms. Law was absent. The City identified missing monies in the amount of \$574 for May 20, 2016 – May 31, 2016 collections, a period when Ms. Law was on vacation.

On November 30, 2016, Ms. Yarish was interviewed by the City Police Chief and City Manager, and was presented examples of missing monies as identified by the City. Ms. Yarish did not have an explanation for the monies identified as missing when Ms. Law was on vacation. As a result, Ms. Yarish was also terminated by the City.

On December 12, 2016, the Auditor of State initiated a special audit of the City of Bedford Water Department's utility collections.

On May 24, 2019, Ms. Yarish was indicted by the Cuyahoga County grand jury on two counts of theft in office, one count of tampering with records, and one count of falsification to which she plead guilty to one count of theft in office and forfeited her pension in the amount of \$43,523 to be withheld from her accumulated contributions as restitution. On June 5, 2019, Ms. Law was indicted by the Cuyahoga County grand jury on one count of theft in office to which she plead guilty and forfeited her pension in the amount

of \$47,277 to be withheld from her accumulated contributions as restitution. The court ordered restitution amounts were reflective of the total costs incurred by the City including the cost of the fraud, and special audit costs, net of payments received by the City for insurance claims for the fraud.

### **Scope**

In conducting our special audit of the City, we used the information provided to us by the City and our preliminary findings to define the areas we should investigate and the relevant time period for our review. This helped define our specific objectives, or questions, which could be audited (ie: either documents existed, or should exist which could be tested, there were relevant laws or internal procedures in place) and would answer whether the City properly handled public monies. In order to answer whether the City handled public monies appropriately, we audited for compliance with applicable Revised Code provisions and for compliance with internal procedures, such as rules governing the collection of utility receipts and the subsequent posting to the utility billing system and deposit. We defined our audit period as covering January 1, 2015 through November 30, 2016 (the Period) based on the risk factors identified. Having defined our objectives and period, we developed specific procedures designed to address each of our objectives. The objectives and procedures are described more fully in the attached Supplement to the Fraud Examination Report for the Period.

The specific objectives we tested to determine whether fraud was committed at the City, and if so, to what extent are as follows:

- Determine whether cash and check utility receipts collected for water and sewer utility billings were posted to the City Water Department utility billing system and deposited.
- Determine whether cash and check utility receipts collected for miscellaneous utility fees were reported and deposited.
- Determine whether credit card utility receipts collected for water and sewer utility billings were posted to the City Water Department utility billing system and deposited.

In order to test these objectives, we reviewed available documentation, subpoenaed records, and interviewed key City personnel.

This engagement was conducted in accordance with the Quality Standards for Inspection and Evaluation established by the Council of the Inspectors General on Integrity and Efficiency (January 2012).

### **Findings**

After completing our audit work, we determined there were instances in which City personnel did not properly account for or deposit public funds. Our report includes findings for recovery. A finding for recovery generally constitutes a finding that an individual or entity (e.g.: a vendor) illegally received public money. Pursuant to Ohio Rev. Code Section 117.28, when the Auditor of State's Office issues a finding for recovery, the individual or entity can repay the amount voluntarily; additionally, the finding for recovery empowers the public office's statutory legal counsel or the Attorney General's Office to institute legal proceedings to collect that amount.

We issued two findings for recovery against two former City employees totaling \$79,900. The details are discussed more fully in the attached Supplement, below is a summary of the findings we are issuing:

#### *Water and Sewer Utility Receipts*

We examined utility receipt reports, records maintained in the utility computer system, deposit documentation, and other available supporting documentation to determine whether cash and check receipts collected during the Period for water and sewer utility billings were deposited into the City bank

account.

We identified \$76,869 in which the monies collected were not deposited into the City bank account. Of that amount, \$19,359 was directly attributable to former City Water Department Clerk, Joan Law, \$7,183 was directly attributable to former City Water Department Clerk, Lynda Yarish, and the remaining \$50,327 was attributable to both Ms. Law and Ms. Yarish. Findings for Recovery were issued accordingly.

*Miscellaneous Utility Receipts*

We examined utility receipt books, receipt reports, deposit documentation, and other available supporting documentation to determine whether utility miscellaneous fees receipts collected during the Period were deposited into the City bank account.

We identified \$3,031 in monies collected but not deposited into the City bank account. Former Water Department Clerk, Lynda Yarish, was solely responsible for processing and deposits of utility miscellaneous fees; therefore, a Finding for Recovery was issued against Ms. Yarish.

On January 29, 2020, we held an exit conference with the following individuals representing the City:

Stanley Koci, Mayor  
Michael Mallis, City Manager  
Frank Gambosi, Finance Director  
Walter Genutis, Council Representative  
Paula Mizak, Council Representative

Clint Bellar, Service Dept. Director  
John Montello, Law Director

The attendees were informed that they had five business days to respond to this special audit report. A response was received on January 10, 2020. The response was evaluated and changes were made to this report as appropriate.



**Keith Faber**  
Auditor of State

January 7, 2020

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# Supplement to the Fraud Examination Report

**Objective No. 1** - Determine whether cash and check utility receipts collected for water and sewer utility billings were posted to the City Water Department utility billing system and deposited.

## PROCEDURES

We obtained the City's Utility Billing (UB) system Payment Reports received directly from the UB system vendor and identified all water and sewer receipts posted to the UB system.

We obtained the cash register tapes generated from the Cash Receipt system and identified water and sewer receipts collected at the City Water Department counter. We compared these amounts to the UB system Payment Reports.

We obtained the Detail Distribution Receipt Reports generated from the Cash Receipt system which reported receipts collected at the City Water Department counter. We compared these amounts to the cash register tape amounts identified.

We obtained the printed UB Receipt Report generated from the UB system which reported receipts collected for the day. We compared these amounts to the UB system Payment Reports.

We obtained the bank deposit detail from the bank for all City Water Department deposits. We compared these deposits to the UB Receipt Reports as well as the UB system Payment Reports.

## RESULTS

The City of Bedford issued monthly bills for water and sewer usage. The bills were calculated based on water meter reads conducted by City Water Department meter reader employees. Bills were issued on the last working day of the month and were due on the 15<sup>th</sup> of the subsequent month. The bills included a remittance slip to be submitted along with the payment. The City maintained five collection points for customer payments which included over-the-counter at the City Water Department payment desk, the drop box in the municipal center parking lot, through the mail, through automatic deductions from customer checking or savings accounts, or through credit card payments online at the City website.

Over-the-counter receipts collected by the City were processed through the cash register utility billing Cash Receipt system maintained in the Water Department, in which a register tape was generated for each counter receipt transaction. A Detail Distribution Receipt Report was generated from the Cash Receipt system denoting the counter collections at the end of each day.

Payments received were processed and entered into the utility billing system in batches, generally by counter, parking lot, mail, and online receipts batches. The utility billing system maintained a running total of receipts entered for the batch which was compared to a calculator tape of the remittance slips and payments received in order to reconcile payments received to the payments entered into the system. The batch was then posted to the utility billing system and a UB receipt report was printed for the batch. A deposit slip was completed by a City Water Department Clerk which agreed to the total for the batches as reported on the printed UB receipt reports. The deposit was then submitted to the City Finance Department.

During the Period, the City employed two Water Department Clerks. The Clerks were responsible for the customer billing process, including posting consumption data from meter reads and billing customers. Both Clerks were also responsible for the processing, and deposit of customer payments including posting payments to the utility billing system and preparing deposits. The utility billing system did not denote the user ID who posted the receipt during the period of review. As a result, we additionally reviewed the two Clerks' leave records to determine which employee was responsible for the day's receipt collections while the other employee was on leave.

We examined 88,357 receipts totaling \$11,368,469 collected during the Period.

# Supplement to the Fraud Examination Report

We identified the following discrepancies:

- 580 receipts totaling \$66,388 in which the receipts were reported in the UB system, but were not reported on the City's printed records maintained which denoted the City's receipt collections. These receipts were reported in the UB system indicating the payments were received, but were not reported on the City's daily reports or included in the deposit.
- 45 receipts totaling \$6,708 in which the receipts were not reported in the UB system. UB balance data denoted the receipts were posted and subsequently deleted from the UB system. Although these receipts were not reported in the UB system, the UB balance data for these individual accounts denoted a receipt was posted and subsequently deleted indicating the payments were received. Additionally, they were not reported on the City's daily reports or included in the deposit.
- 8 receipts totaling \$466 in which the receipts were not reported in the UB system.
- 53 receipts totaling \$720 in which the receipts were Miscellaneous Fee receipts which were not reported.
- 27 receipts in which the receipts were reported in the UB system for less than the deposited amount by a total of \$2,287.
- One receipt in the amount of \$300 in which the receipt was reported on the City UB printed report but was not deposited.

In total, we identified 714 receipts totaling \$76,869 in which monies collected were not deposited into the City bank account.

Former City Water Department Clerks, Lynda Yarish and Joan Law were the two City employees responsible for City Water Department receipt collections, processing, and deposits. As such, we reviewed their leave records and identified the following:

- 50 days in which Ms. Law was solely responsible for the day's receipt collections as Ms. Yarish was absent from work. For those days we identified missing monies of 182 receipts totaling \$19,359.
- 18 days in which Ms. Yarish was solely responsible for the day's receipt collections as Ms. Law was absent from work. For those days we identified missing monies of 58 receipts totaling \$7,183.
- 142 days in which Ms. Law and Ms. Yarish were jointly responsible for the day's collections as they were both present at work. For those days we identified missing monies of 474 receipts totaling \$50,327.

## **FINDINGS FOR RECOVERY REPAID UNDER AUDIT**

### Utility Billing Receipts

During the Period, the City employed two Water Department Clerks, Lynda Yarish and Joan Law. The Clerks were responsible for the customer billing process, including posting consumption data from meter reads and billing customers on a monthly basis. The Clerks were also responsible for the collection, processing, and deposit of customer payments. Both Clerks posted payments to the utility billing system and prepared deposits. We examined all utility billing receipts for the period January 1, 2015 through November 30, 2016, and compared the receipts to the revenues posted to the City accounting records. Additionally, we compared the receipts to deposits made to the City bank account.

We identified 714 out of 88,357 receipts totaling \$76,869 in which the monies were collected but were not deposited into the City bank account. Of those receipts, 182 receipts totaling \$19,359 were directly attributable to Ms. Law, and 58 receipts totaling \$7,183 were directly attributable to Ms. Yarish, as the respective City employee responsible for the collection and reporting of the receipts. The utility billing system did not denote the user ID who posted the receipt during the period of review. As a result, we reviewed the two employee's leave records to determine which employee was responsible for the day's receipt collections while the other employee was on leave. The remaining 474 receipts totaling \$50,327 were attributable to both Ms. Law and Ms. Yarish.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery

# Supplement to the Fraud Examination Report

for public property converted or misappropriated is hereby issued against former City Water Department Clerk, Joan Law, in the amount of \$19,359, against former City Water Department Clerk, Lynda Yarish, in the amount of \$7,183, and against both Ms. Law and Ms. Yarish, jointly and severally, in the amount of \$50,327, and in favor of the City Water Fund in the amount of \$48,387 and City Sewer Fund in the amount of \$28,482. On December 21, 2018, Traveler's Insurance repaid \$76,869 which was posted to the City's Water and Sewer Funds.

## RECOMMENDATION

### Maintenance of Records

Ohio Admin. Code §117-2-01 states,

- (A) All public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories.
- (B) "Internal control" means a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
  - (1) Reliability of financial reporting;
  - (2) Effectiveness and efficiency of operations;
  - (3) Compliance with applicable laws and regulations; and
  - (4) Safeguarding of assets against unauthorized acquisition, use or disposition.
- (C) Internal control consists of the following five interrelated components:
  - (1) Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
  - (2) Risk assessment, which is the entity's identification and analysis of relevant risks to the achievement of its objectives, forming a basis for determining how the risks should be managed so as to identify and assess the risks of material misstatements, whether due to fraud or error, at the financial statement and relevant assertion levels.
  - (3) Control activities, which are policies and procedures that help ensure management directives are carried out so as to identify and assess the risks of material misstatements, whether due to fraud or error, at the financial statement and relevant assertion levels.
  - (4) Information and communication, which are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
  - (5) Monitoring, which is a process that assesses the quality of internal control performance over time.
- (D) When designing the public office's system of internal control and the specific control activities, management should consider the following:
  - (1) Ensure that all transactions are properly authorized in accordance with management's policies.
  - (2) Ensure that accounting records are properly designed.
  - (3) Ensure adequate security of assets and records.
  - (4) Plan for adequate segregation of duties or compensating controls.
  - (5) Verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

### Utility Billing Receipts

An examination of Water Department Utility Billing revenues identified the following:

- Missing monies totaling \$76,869 for 714 out of 88,357 receipts examined, in which the monies were collected by the City, but were not properly reported on the City accounting records or deposited in the City bank account.

## Supplement to the Fraud Examination Report

### Miscellaneous Utility Fees Receipts (See Objective 2 in this Supplement)

An examination of Miscellaneous Utility Fees revenues identified the following:

- Missing monies totaling \$3,031 for 21 out of 733 receipts examined, in which the monies were collected by the City, but were not properly reported on the City accounting records or deposited in the City bank account.
- The Miscellaneous Fee receipt type tendered was improperly reported in the amount of \$1,699 for 28 out of 733 receipts examined.

The City did not have sufficient policies and procedures in place to maintain compliance with the requirements denoted above. Failure to accurately prepare and reconcile the accounting records could 1) reduce accountability over City Water Department funds, 2) reduce the City Management's ability to monitor financial activity and make informed decisions, 3) increase the likelihood that monies will be misappropriated and not detected, and 4) increase the likelihood that the City's financial statements will be misstated.

We recommend the City adopt and adhere to formal policies and procedures for controls over the recording and depositing of Water Department receipts in order to maintain oversight and increase control and accountability over City Water Department revenues.

The City has subsequently implemented Water Department Utility Billing software system internal controls including adding user identification tracking for all transactions entered into the system and restricted administrative access to only the City Service Director. We recommend the City continue to pursue improvements to their policies and periodically evaluate the effectiveness of all changes to their process.

# Supplement to the Fraud Examination Report

**Objective No. 2** - Determine whether cash and check utility receipts collected for miscellaneous utility fees were reported and deposited.

## PROCEDURES

We obtained the City Water Department receipt books and receipt reports and identified all Miscellaneous Utility Fees receipts collected during the Period.

We obtained the bank deposit detail from the bank for all City Water Department deposits. We compared these deposits to the Miscellaneous Utility Fees receipts collected.

## RESULTS

In addition to the Utility Billing receipts discussed in Objective 1, Miscellaneous Utility Fees were also collected by the City Water Department Clerks which included a reconnection fee of \$100 for all shut offs, a new meter fee of \$183 per meter, and an insufficient fund fee of \$18 for returned check payments.

Both Clerks collected Miscellaneous Utility Fees and issued receipts to customers for fees collected. Lynda Yarish prepared the Miscellaneous Fees Report and deposit on a monthly basis. The Miscellaneous Fees Report was submitted along with the deposit to the City Finance Department to take to the bank.

We examined 733 receipts totaling \$73,472 collected during the Period.

We identified the following discrepancies:

- We identified 16 receipts totaling \$2,728 in which the receipts were deposited in substitution for cash amounts collected. These receipts represented Miscellaneous Utility Fees check receipts collected in the beginning of the subsequent month that were included in the deposit prepared for the prior month's collections in substitution for prior month Miscellaneous Utility Fees cash receipts collected.
- We identified two receipts totaling \$3 in which the receipts were reported for less than the deposited amount.
- We identified two receipts totaling \$200 in which the receipts were reported but were not deposited.
- We identified one receipt in the amount of \$100 in which the receipt was not reported.

As a result, we identified 21 receipts totaling \$3,031 in which monies collected were not deposited into the City bank account.

Ms. Yarish was responsible for the Miscellaneous Utility Fees receipts reporting and deposits.

Additionally, we identified 28 out of 733 receipts totaling \$1,699 in which the receipt type tendered was improperly reported.

## FINDINGS FOR RECOVERY REPAID UNDER AUDIT

### Miscellaneous Utility Fees Receipts

During the Period, Miscellaneous Utility Fees were collected by the City Water Department Clerks which included a reconnection fee of \$100 for all shut offs, a new meter fee of \$183 per meter, and an insufficient fund fee of \$18 for returned check payments.

Both Clerks collected Miscellaneous Utility Fees and issued receipts to customers for fees collected. Lynda Yarish, prepared the Miscellaneous Fees Report and deposit on a monthly basis. We examined all Miscellaneous Utility Fees receipts for the period January 1, 2015 through November 30, 2016, and

# Supplement to the Fraud Examination Report

compared the receipts to the revenues posted to the City accounting records. Additionally, we compared the receipts to deposits made to the City bank account.

We identified 21 out of 733 receipts totaling \$3,031 in which the monies were collected but were not deposited into the City bank account. All 21 receipts were directly attributable to Ms. Yarish as the City employee responsible for the processing and deposit of the receipts.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for public monies converted or misappropriated is hereby issued against former City Water Department Clerk, Lynda Yarish, in the amount of \$3,031, and in favor of the City Water Fund in the amount of \$2,772 and City General Fund in the amount of \$259. On December 21, 2018, Traveler's Insurance repaid \$3,031 which was posted to the City's Water and Sewer Funds.

## **NONCOMPLIANCE CITATION**

### Ohio Rev. Code §9.38 Deposit of Public Moneys

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

An examination of Miscellaneous Utility Fees deposits identified the following:

- Monies collected totaling \$65,211 for 20 out of 67 deposits examined were not deposited in accordance with the above compliance requirement.

Failure to deposit public money in a timely manner resulted in the City's exposure to theft.

We recommend that all City departments either deposit monies collected with the City Finance Department or its local depository on the next business day following the day of receipt or establish a depositing policy stating a different time period for receipts under \$1,000.

The City has subsequently begun depositing Miscellaneous Utility Fees on a daily basis. We recommend the City continue to pursue improvements to their policies and periodically evaluate the effectiveness of all changes to their process.

## **RECOMMENDATION**

### Maintenance of Records

See Objective 1 results for Maintenance of Records recommendation.

# Supplement to the Fraud Examination Report

**Objective No. 3** - Determine whether credit card utility receipts collected for water and sewer utility billings were posted to the City Water Department utility billing system and deposited.

## PROCEDURES

We randomly selected one day for each month during the Period.

We obtained the City's Utility Billing (UB) system Payment Reports received directly from the UB system vendor and identified all water and sewer receipts posted to the UB system for the selected days.

We obtained the printed UB Receipt Report generated from the UB system which reported receipts collected for the day. We compared these amounts to the UB system Payment Reports.

We obtained the bank deposit detail from the bank for all City Water Department deposits. We compared these deposits to the UB Receipt Reports as well as the UB system Payment Reports.

## RESULTS

Online payments were collected and processed in the same manner as discussed in Objective 1.

Online payments were processed as a separate batch in order to differentiate these receipts from the receipts of cash and checks. Both Clerks were responsible for posting online payments to the utility billing system and preparing the online receipt report for the City Finance Department.

We examined a sample of 23 days which included 253 credit card receipts totaling \$25,923 collected during the Period. All receipts were properly reported and deposited.

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# OHIO AUDITOR OF STATE KEITH FABER



**CITY OF BEDFORD**

**CUYAHOGA 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 25, 2020**