



VILLAGE OF SWANTON
FULTON COUNTY

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FRAUD EXAMINATION REPORT

Village of Swanton
Fulton County
219 Chestnut Street
Swanton, OH 43558

To Village Officials:

Summary

The Auditor of State (AOS), Special Investigations Unit (SIU) conducted a criminal investigation and special audit of the Village of Swanton (the Village) predicated on fraud red flags discovered during the 2016-2017 financial audit by the AOS.

The investigation identified over \$64,000 of misappropriated utility receipts, which resulted in a finding for recovery and supported criminal charges against former utility clerk, Kari Rowe.

On October 17, 2022, Kari Rowe was indicted by the Fulton County grand jury on one count of Theft in Office and one count of Tampering with Records.

On February 3, 2023, Ms. Rowe entered a negotiated plea to one count of Theft in Office, in violation of Ohio Rev. Code § 2921.41(A)(1), a felony of the third degree.

On April 14, 2023, the Honorable Judge Scott A. Haselman sentenced Ms. Rowe to 18 months in prison with a discretionary post-release control period of up to two years. In addition, Judge Haselman ordered Ms. Rowe to pay restitution of \$128,684, which includes the theft amount and cost of the special audit.

Background

The investigation began on October 19, 2018, after SIU received a memorandum from the AOS financial auditors based on discrepancies noted in the 2016-2017 utility testing. It was alleged Kari Rowe was stealing utility cash collections. In 2016, approximately \$25,000 less in utility receipts were recorded in the Village's Uniform Accounting Network (UAN) accounting system than were recorded in the Village's Ohio Software Services (OSS) utility system. Further, there were multiple utility receipt batches throughout the year which were not receipted in UAN nor deposited in the Village's bank account. No discrepancies were noted in 2017. Ms. Rowe resigned from her position at the Village on January 12, 2018.

After the information obtained from interviews and a preliminary examination of Village and subpoenaed records was considered, a special audit was declared by the Auditor of State.

Scope and Approach

We defined our audit period as covering June 1, 2015 through January 31, 2017, and September 1, 2017 through December 31, 2017 (the Period) based on the risk factors identified.

The specific objective we tested to establish whether fraud was committed at the Village, was to examine available documentation supporting utility collections during the Period to determine whether the amounts collected were deposited intact into the Village bank account. The objective and procedures are described more fully in the attached Supplement to the Fraud Examination Report for the Period.

This engagement was conducted in accordance with the [Auditor of State Special Investigations Unit, Quality Standards](#).

Findings

Based on the special audit procedures and investigation, the Auditor of State confirmed the allegation that Kari Rowe misappropriated utility receipts over a span of one and a half years.

Ms. Rowe was employed by the Village as the utility clerk from May 28, 2002 through January 12, 2018. She was responsible for all aspects related to utilities: inputting meter readings into the utility system, updating customer accounts, collecting customer payments, and subsequently preparing and making the deposit at the bank with no formal review or monitoring by an outside party. Due to lack of management oversight and proper segregation of duties, Ms. Rowe was able to perpetrate a check substitution scheme and an inflated bill scheme, resulting in the theft of \$64,342 in cash from the Village.

Our report includes a finding for recovery. In general terms, a finding for recovery means that an individual or entity (e.g. a vendor) illegally spent or 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, or the finding for recovery also empowers the public office's statutory legal counsel or the Attorney General's office to institute legal proceedings to collect that amount.

We issued a finding for recovery in the amount of \$128,684 against Ms. Rowe for misappropriated cash and audit costs during the Period.

In addition to the finding for recovery, we issued management recommendations regarding utility account adjustments, segregation of duties, cashing personal checks, utility receipts and cash register reconciliation, and timely deposit of public money. The full details of the finding for recovery and management recommendations are located in the Appendix.

On June 5, 2023, we held an exit conference with the following individuals representing the Village:

Shannon Shulters, Administrator
Holden Benfield, Fiscal Officer
Neil Toeppe, Mayor
David Pilliod, Council Member

The attendees were informed they had five business days to respond to this fraud examination report. A response was not received by the Village.



Keith Faber
Auditor of State
Columbus, Ohio

May 24, 2023

**SUPPLEMENT TO THE FRAUD
EXAMINATION REPORT**



SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Objective – Examine available documentation supporting utility collections during the Period to determine whether the amounts collected were deposited intact into the Village bank account.

PROCEDURES

We obtained Cash Receipt Journals from the utility system for the Period and performed the following:

- Determined the utility billing process.
- Agreed each customer utility receipt posting to a copy of the deposited check/money order or to the cash amount deposited for the corresponding utility journal entry(s).
 - For cash payments, we ensured the amount of cash deposited for the utility journal entry(s) agreed in total to all customer postings noted as paid in cash.
 - If the transaction was an adjustment that reduced the customer's balance, we determined the reason for the adjustment and if it was approved by the Village Administrator.
- Documented if a billing stub existed for each receipt.
- Examined 100% of bank deposits in the Village bank account for the Period.
 - For bank deposits not corresponding to a utility journal entry(s), we determined the purpose of the deposit and agreed to a corresponding receipt in the UAN Receipt Detail report.

RESULTS

Utility Billing Process

The Village used OSS for utility billing and recording utility payments to customer accounts. OSS was installed on one computer which was located in the utility office and could be accessed by Ms. Rowe and the Administrative Assistant. Each had their own password to access OSS.

There are approximately 2,000 utility accounts in the Village. Water department employees physically walk the Village and hand-record meter readings in meter reading books. Beginning in 2017, the Village began the process of converting from hand-recording meter readings to electronic meter readers. About 200 accounts were converted during 2017. Previously, Ms. Rowe entered the hand-recorded meter readings into OSS and an amount owed was automatically calculated by the system. She then uploaded a file from OSS to Smartbill via their website. Smartbill generated utility bills from the file and subsequently mailed them to utility customers. Utility bills were mailed out around the 1st of the month with a due date of the 15th of the month.

Customers made utility payments at the Village utility office, by mail, or via a drop box located at the Village administration building. During the Period, the Village accepted payments in the form of cash, personal checks, money orders, credit card and PayPal. If a customer paid with cash, it was entered into the Village's cash register, which was maintained in the locked utility office. On occasion, it was necessary to enter a check payment in the cash register, but only when a customer made a payment in both cash and check. The cash register drawer was not counted or deposited daily; typically, the cash register drawer was balanced and deposited approximately two times a month.

Ms. Rowe prepared a batch journal entry for all payments collected over the counter into OSS. Credit card and PayPal utility payments were entered into OSS in their own batch journal entry. Utility billing stubs were filed by batch. When the cash register drawer was ready for deposit, Ms. Rowe printed a Cash Receipts Journal from OSS and completed a manual form called "Daily Cash Summary of Receipts". This form included the following information: date, journal entry #, total amount of cash, total amount of checks, total amount on cash register close-out tape, total amount per receipt type, total deposit, and cashier signature.

The cash register close-out tape was stapled to the "Daily Cash Summary of Receipts" form and given to the Fiscal Officer. The Fiscal Officer used the "Daily Cash Summary of Receipts" form to record the

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

receipts/deposit in UAN. For the Period, there were 26 of these forms completed on days when cash was misappropriated. Ms. Rowe signed 22 of these forms and four were unsigned. Ms. Rowe normally took the deposit to the bank.

The Village could not locate the “Daily Cash Summary of Receipts” forms or the billing stubs from 2015. The Village had experienced a flood in their storage room and believed these records were destroyed.

Beginning in June 2016, the Village Administrator began reporting utility adjustments over \$100 to Village Council and a form was created to document approval of the adjustments. The Administrator reviewed the adjustment report from OSS and any supporting documentation provided by Ms. Rowe before signing the form. The form and the adjustment report are maintained in a binder. Prior to June 2016, there was not a process for adjustments to be approved.

Customer Utility Receipt Testing

We tested 41,773 utility transactions, totaling \$3,178,313 during the Period.

During our testing, we uncovered two schemes to conceal misappropriated cash. The first scheme was an inflated bill scheme. Ms. Rowe altered the file sent to Smartbill increasing the amount owed by the customer; however, the amount owed in the OSS system remained the correct amount according to the gallons used per the meter reading book. Ms. Rowe would use the difference between the inflated bill sent by Smartbill compared to the amount owed in the OSS system to conceal misappropriated cash.

The following are a couple examples of the inflated bill scheme:

Utility bill				Meter Reading Book	Meter Reading Book & OSS system		Per subpoenaed bank records	
Customer Name	Date	Gallons used	Amount owed	Gallons used	Amount owed	Amount received	Amount Paid by Customer	Amount overpaid
Customer A	December 2015	150	\$1,897.79	120	\$1,525.79	\$1,525.79	\$1,897.79	\$372
Customer B	October 2015	80	\$374.67	2	\$22.11	\$22.11	\$374.67	\$352.56

The second scheme was a check substitution scheme. Check substitution occurs when cash is stolen and replaced with a check intended for other purposes. This creates the impression no money is missing. Ms. Rowe would use checks for utility payments and checks for other purposes to substitute in utility bank deposits to conceal misappropriated cash.

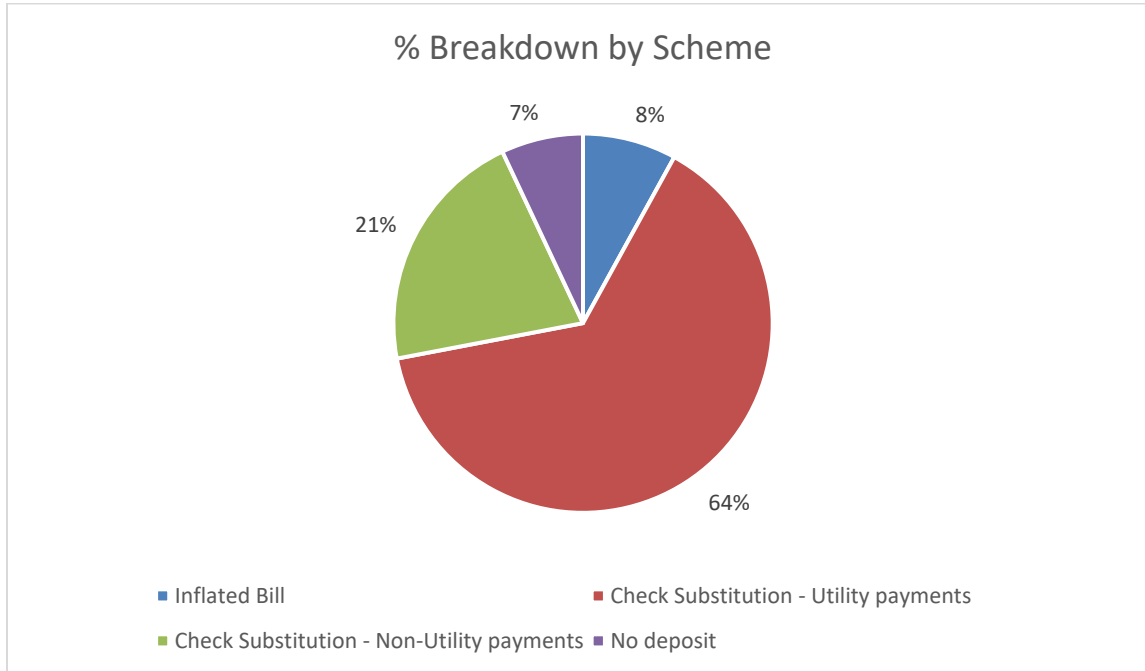
A breakdown of the schemes for the Period is as follows:

- 14 utility bills were inflated by \$4,818 which in turn was used to conceal misappropriated cash.
- 106 utility payment checks totaling \$41,471 were not credited to the customer’s account at the time payment was made, but were instead substituted in deposits to conceal misappropriated cash.
 - As a result, 52 utility adjustments and 42 utility receipts were made to these accounts in the utility system on a separate date to reflect the payment made. The remaining utility accounts never received credit for their payment made.
- 39 non-utility payment checks totaling \$13,266 were substituted in deposits to conceal misappropriated cash. Examples of these over-the-counter payments included, but are not limited to:
 - Utility security deposits.
 - Income taxes.
 - Police department coverage.
 - Park rentals.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

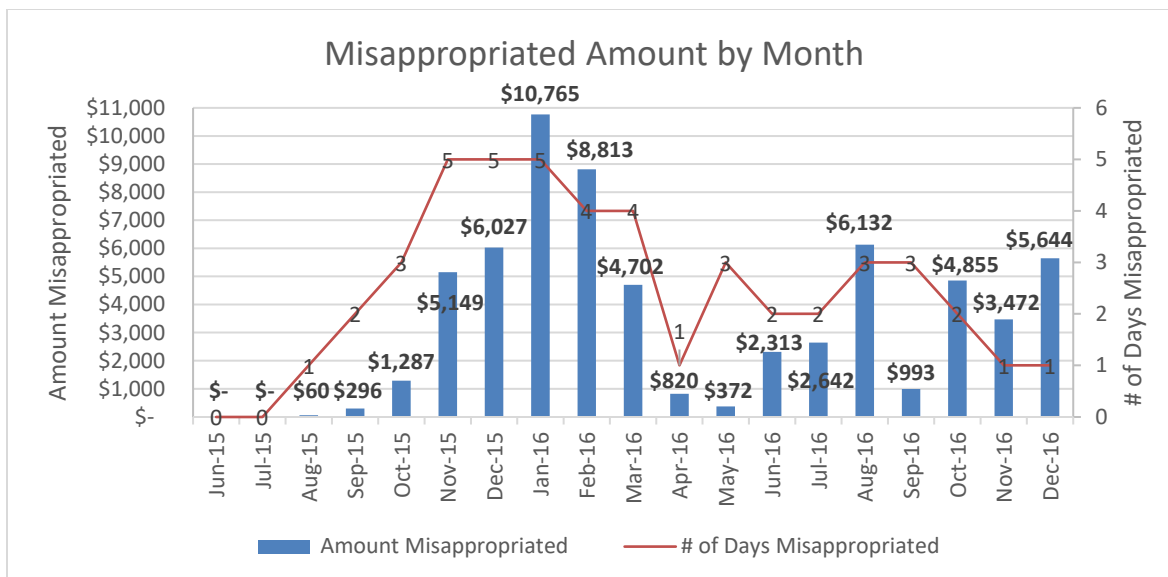
In addition, there were 28 utility receipts totaling \$4,787 entered in the utility system with no corresponding deposit.

The following is a breakdown by scheme:



In total we identified \$64,342 in utility receipts collected but not deposited into the Village's bank account during the Period.

A breakdown of this amount along with the number of days misappropriated by month is as follows:



SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

We also compared all regular deposits, credit card deposits and PayPal deposits from the Village bank statements to the utility receipt testing for June 2015 through December 2016. If the deposit did not correspond to a posting from the Cash Receipt Journal, we determined the purpose of the deposit through examining the subpoenaed bank deposit detail. We also agreed each deposit to the corresponding receipt in the UAN Receipt Detail Report. We did not identify any deposits with utility payments not already included in the utility receipt testing. However, we did note 16 bank deposits totaling \$3,349, where Ms. Rowe and other employees cashed personal checks using cash collected from utility customer payments.

We examined the bank account statements, deposit slips and deposit support detail for Ms. Rowe and her husband for the Period for cash deposits. A total of 44 cash deposits totaling \$19,016 were made into the Rowes' bank account during the Period. Of those deposits, 33 totaling \$15,715 occurred during months when cash was misappropriated from the Village.

On August 25, 2021, we interviewed Ms. Rowe. During this interview, Ms. Rowe admitted to stealing cash from the Village. She stated she started stealing cash sometime after the death of a family member in late 2014. Ms. Rowe noted she stole the cash to make up for the loss of income previously contributed by the late family member. She said the theft stopped in 2017 because she knew it was wrong. Ms. Rowe eventually resigned from the Village at the beginning of 2018 to stop the temptation of taking cash from the Village.

The seal of the Ohio Auditor of State, Special Investigations Unit, is centered in the background. It features a circular design with a green outer ring containing the text "SPECIAL INVESTIGATIONS UNIT" at the top and "OHIO AUDITOR OF STATE" at the bottom. Inside this ring is a yellow circle with a smaller green circle in the center. The text "SPECIAL INVESTIGATOR" is visible within the yellow circle, and "OHIO" is written across the bottom of the inner green circle.

APPENDIX

**SCHEDULE OF FINDING FOR RECOVERY AND
MANAGEMENT RECOMMENDATIONS**

APPENDIX

FINDING FOR RECOVERY

Ms. Rowe was responsible for all aspects of processing Village utility transactions. Due to a control structure that lacked segregation of duties, Ms. Rowe prepared monthly utility bills, recorded utility receipts in the utility system, prepared the deposit slips for monies collected for payments and took the deposits to the bank.

We identified utility receipts totaling \$64,342, in which monies collected were not deposited into the Village's bank account during the Period.

On April 14, 2023, Judge Haselman ordered restitution of \$128,684 against Kari Rowe in Case #22CR110, which included special audit costs.

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 Kari Rowe and her bonding company, Western Surety Company, jointly and severally, in the amount of \$128,684 and in favor of the Village's General, Water Operating, Sewer Operating and Storm Water Utility Funds, in amounts to be determined by the Village.

MANAGEMENT RECOMMENDATIONS

Utility Account Adjustments

Utility account adjustments are used by the Village to make corrections to customer accounts. Due to the inherent riskiness of non-cash adjustments, the Village should have a control structure in place to ensure all adjustments made to customer accounts are proper. The Village did not have a formal policy in place regarding utility account adjustments; however, beginning in June 2016, the Village Administrator began approving adjustments and reporting adjustments over \$100 to Village Council.

We identified 52 utility adjustments totaling \$11,772 made in the utility system to conceal utility payments, which were, in turn, substituted in deposits to conceal misappropriated cash. Of those, only five were approved.

Failure to obtain supervisory approval and maintain documentation supporting utility account adjustments resulted in unwarranted and unauthorized transactions being posted to customer accounts, thereby resulting in lost revenue due to theft.

We recommend the Village implement a written policy to ensure all utility account adjustments are approved by management, periodically reviewed by Village Council, and are properly supported.

Segregation of Duties

Ohio Admin. Code § 117-2-01(D)(4) requires, in part, that entities plan for adequate segregation of duties or compensating controls. Segregation of duties provides two significant benefits: (1) a deliberate fraud is more difficult because it requires collusion of two or more persons and (2) it is more likely an error will be detected. When designing the Village's system of internal control and the specific control activities, management should plan for adequate segregation of duties or compensating controls.

Proper segregation of duties is not possible when only one or two people handle all four aspects of the internal control cycle (record keeping, authorization, custody and reconciliation).

During the Period, Utility Clerk, Kari Rowe, was responsible for billing, collecting, receipting and depositing utility receipts.

APPENDIX

Monitoring controls were not developed by management and in place to compensate for the lack of segregation of duties, allowing Ms. Rowe to have unmonitored access to the overall system. The lack of segregation of duties led to public monies that were unaccounted for. In this report, we issued a finding for recovery against Ms. Rowe for misappropriated Village receipts.

While it is not always possible to segregate duties in a small government, appropriate monitoring controls should be implemented to help reduce the risk of errors or irregularities not being detected in a timely manner. Periodically, the audit committee comprised of members of Council or other appropriate individuals should review the utility records.

Procedures performed during the reviews should include:

- Verifying receipts are posted and subsequently deposited timely.
- Utility billing rates are accurate in the system and agree to the most recent ordinance.
- Receipts per the utility system agree to the postings in the accounting system.
- Utility adjustments are supported with a written explanation along with evidence of Administrator approval.

Cashing Personal Checks

Strong internal controls are necessary to prevent mishandling of funds and to safeguard assets. Checks and cash collected by the Village should be deposited intact and should be reconcilable by tender type. Personal use of these funds should not be permitted; however, there is no Village policy addressing such actions.

The former Utility Clerk and other employees cashed 16 personal checks totaling \$3,349 using cash collected from utility customer payments as a substitute for their personal bank.

By cashing personal checks, the Village increases its exposure to loss due to returned non-sufficient funds checks and related fees or charges. Further, it creates an environment whereby personal use of government resources is permitted without disciplinary action.

To ensure proper accountability over Village funds, we recommend the Village discontinue the practice of allowing employees to write personal checks for cash and/or cashing personal checks.

Utility Receipts and Cash Register Reconciliation

The Village should have internal controls in place to reasonably assure receipt collections entered into the cash register agree to the Daily Cash Summary of Receipts and the bank deposit by tender type. In addition, the Village should have internal controls in place to reasonably assure utility receipt collections are entered into the system and agree to the amount deposited, specifically by tender type.

Ms. Rowe completed the Daily Cash Summary of Receipts reconciliation, prepared the bank deposit slip and physically took the money to the bank to be deposited. This occurred a few times a month and was not done on a daily basis. At no point in the process was there an independent verification agreeing the following: total on the cash register tape to the total cash and check amounts on the Daily Cash Summary of Receipts and bank deposit; total cash, check and money order amounts on the utility Cash Receipts Journal reports to the total cash, check and money order amounts on the bank deposit; and recorded utility receipts and utility bank deposits agreed to the Village's accounting system, UAN.

Failure to perform supervisory reviews over the reconciliation and deposit of Village funds increases the risk that fraud or discrepancies due to errors or irregularities will not be detected in a timely manner.

APPENDIX

We recommend a control process be established that, at a minimum, establishes reviews of the detail of the items being deposited compared to the receipt into the cash register and the eventual deposit of funds into the Village bank account. In addition, an individual, who is independent of the utility collection process, should reconcile the utility system receipts with the amounts deposited per the bank deposit slips and the utility receipts entered into the UAN system. Any identified variances should be promptly investigated. These reconciliations should be documented by the reviewer's signature and date.

Timely Deposit of Public Money

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.

During the Period, cash collections exceeding \$1,000 were only deposited on average twice a month.

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

We recommend all Village departments either deposit monies collected with the Village Fiscal Officer or its local depository on the next business day following the day of receipt or establish a deposit policy allowing a different time period for receipts under \$1,000.

OHIO AUDITOR OF STATE KEITH FABER



**VILLAGE OF SWANTON
SPECIAL AUDIT**

FULTON COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 6/27/2023

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This report is a matter of public record and is available online at
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