



**ASHLAND COUNTY CLERK OF COURTS
ASHLAND COUNTY**

SPECIAL AUDIT REPORT

JANUARY 1, 1988 THROUGH NOVEMBER 19, 1999



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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SCHEDULE OF CERTAIN ELECTED OFFICIALS AS OF NOVEMBER 19, 1999

<u>ELECTED OFFICIALS</u>	<u>TERM OF OFFICE</u>	<u>SURETY</u>	<u>AMOUNT</u>
<u>Commissioners:</u>			
Marilyn L. Byers	01/01/99-12/31/02	(C)	\$ 5,000
Robert L. Valentine	01/02/97-01/01/01	(B)	5,000
C. R. Meyers	01/03/97-01/02/01	(A)	5,000
<u>Auditor</u>			
Phil Leibolt	03/08/99-03/10/03	(F)	5,000
<u>Treasurer</u>			
Cindy A. Funk	09/01/97-08/31/01	(A)	60,000
<u>Prosecuting Attorney</u>			
Robert P. DeSanto	01/06/97-01/05/01	(D)	1,000
		(D)	43,438
<u>Clerk of Courts</u>			
Juanita D. Wright	01/03/97-01/02/01	(E)	10,000

(Note: Ms. Wright resigned on 11/22/99, and Annette Shaw was appointed Clerk of Courts effective 11/22/99.)

- (A) Western Surety Company
- (B) Cincinnati Insurance Company
- (C) Personal Service Insurance Company
- (D) Aetna Casualty and Surety Company
- (E) Ohio Farmers Group
- (F) American Casualty Company

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OFFICE OF THE AUDITOR**

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REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable C.R. Dick Meyers
President, Ashland County Commissioners

The Honorable Annette Shaw
Ashland County Clerk of Courts

The Honorable Robert DeSanto
Ashland County Prosecutor
Suite 307, Orange Street
Ashland, Ohio 44805

Pursuant to your request dated February 29, 2000, we have conducted a Special Audit and performed the procedures summarized below, and detailed in our "Supplement to the Special Audit Report", which were requested by you, for the period January 1, 1988 through November 19, 1999 ("the Period"). These procedures were performed solely to identify operational policies and procedures exercised by the Ashland County Clerk of Courts Office ("the Clerk of Courts Office"), to describe what is meant by the accounting term "lapping," to document outstanding deposits at calendar year-end, to compare amounts of cash and checks from daily bank reconciliations to the amounts of cash and checks on bank-stamped deposit tickets, and to compare County records of daily activity with bank records of the last deposits made by former Clerk of Courts, Juanita Wright (Ms. Wright's last deposit transaction was for two deposits made on November 16, 1999). This engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. We make no representation regarding the sufficiency of the procedures discussed below, for the purpose for which this report has been requested or for any other purpose. The procedures we performed and the results of those procedures are summarized as follows:

1. We reviewed operational policies and procedures followed by the Clerk of Courts Office when reconciling and depositing daily cash receipts.
2. We defined the term "lapping," and described the process by which a person can "lap" funds.
3. Using available records, we documented outstanding deposits as of December 31 of each year during 1988 through 1998, for the months January through October 1999, and also the outstanding deposits as of the date of our cash count on November 19, 1999, to determine the amount and length of time deposits were held without being deposited.

4. For those years within the Period (fiscal 1991 and 1992) where bank-stamped deposit tickets were available, we compared the total amount of cash per the daily reconciliations (prepared in the Clerk of Courts Office) to the total amount of cash deposited, and we compared the total amount of checks per the daily reconciliations to the total amount of checks deposited.
5. We reviewed checks deposited with National City Bank on November 16, 1999, to determine whether or not checks were deposited with the day's activities for which they were recorded by the Clerk of Courts Office.
6. On June 16, 2000, we held an Exit Conference with the following elected officials and administrative staff:

C.R. Dick Meyers, President, Ashland County Commissioners
Marilyn Byers, Ashland County Commissioner
Annette Shaw, Ashland County Clerk of Courts
Robert DeSanto, Ashland County Prosecutor.

The attendees were given until July 5, 2000 to respond to this Special Audit. On July 6, 2000, the County Prosecutor provided us with a response signed by the Board of Commissioners and Annette Shaw, the current Clerk of Courts. The response was evaluated and changes were made where we deemed appropriate.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report". Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion on the County's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of the County, taken as a whole.

This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.



Jim Petro
Auditor of State of Ohio

June 12, 2000

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

BACKGROUND INFORMATION

On November 18, 1999, Robert DeSanto, Ashland County Prosecutor, contacted the Auditor of State regarding an anonymous tip from the Clerk of Courts Office that daily revenues were not being deposited in a timely manner by then Clerk of Courts, Juanita Wright. Additionally, concerns were raised regarding the Clerk of Courts Office bank account being overdrawn multiple times in October 1999.

On November 19, 1999, we interviewed the Deputy Clerk of Courts and gained an understanding of the policies and procedures within the Clerk of Courts Office for collecting and depositing cash receipts.

We obtained the daily cash reconciliations ("Daily Balance Reports") for October 1, 1999 through November 18, 1999 from the Deputy Clerk. From these reports, we scheduled the receipts collected for each day during the period, and traced and agreed them to the daily deposits on the October, 1999 bank statement or to the "Daily Transaction Report" obtained from National City Bank on November 19, 1999, showing all deposits recorded by the bank from November 1 through November 18, 1999.

As of Thursday, November 18, 1999, the following daily cash receipts (as rounded), including checks and currency, had not been deposited in the Clerk of Courts bank account:

<u>Receipt Date</u>	<u>Amount</u>
11/05/99	\$48,953
11/09/99	12,619
11/10/99	18,073
11/12/99	24,082
11/15/99	35,775
11/16/99	12,900
11/17/99	<u>25,722</u>
	<u>\$178,124</u>

We performed a cash count at 1:30 p.m. on Friday, November 19, 1999 for the cash receipts which were in the safe located in the Clerk of Court's office (Juanita Wright was not at work that day.) The cash count revealed that there was \$22,946 on hand, which was the total receipted on November 18, 1999. The daily cash receipts collected from November 5, 9, 10, 12, 15, 16, and 17 totaling \$178,124 were neither in the safe, nor had these daily cash receipts been deposited in the bank account.

A follow up review of the Tuesday, November 23, 1999 "Daily Transaction Report" indicated that these receipts had not been deposited with the bank through Monday, November 22nd.

On Monday, November 22, 1999, we interviewed the Clerk of Courts, Juanita Wright, concerning the \$178,124 deposit deficiency. This interview was the morning after her taped confession to the prosecutor concerning embezzling funds from the Clerk of Courts checking account by "lapping" deposit monies. More specifically, she would take cash from daily collections and cover those shortages with subsequent receipts; those subsequent shortages would then be covered with still later receipts, and so on. In carrying out this scheme, the cash shortages were always made up by subsequent monies, so that the total daily deposits made by Ms. Wright were always in agreement to the total daily collections actually receipted by the Clerk's office; they were just deposited late to the bank.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Ms. Wright's belief, upon interview, was that she had "only" stolen about \$90,000 over a 12-year period. However, her own listing of deposits made and not made, which the Sheriff's Department obtained from her, and which we examined, showed four days' deposits (November 5, 9, 10 and 12) not made totaling \$103,727. Since her schedule was not up to date, it did not include the receipts for Monday, November 15 through Wednesday, November 17 which totaled \$74,397. When these are added to her schedule, the total deficiency becomes \$178,124.

It should be noted that the total deficiency of \$178,124 is before deducting one check for \$418 and \$683 in cash that was in Ms. Wright's apartment and confiscated by the Sheriff's office on Monday, November 22.

As a result of Prosecutor DeSanto's contact with the Auditor of State and the testing disclosed above, we issued a Preliminary Report on December 14, 1999, detailing the results of interviews, tests of reconciliations, and a surprise cash count at the Clerk of Courts Office on November 19, 1999. On November 22, 1999, Ms. Wright signed a resignation letter which stated in part, "I am solely responsible for all the wrongdoing, and I understand that I will be held accountable for it. No other person or employee knew of my thefts."

Subsequent to the release of the Preliminary Report, we began fieldwork on this Special Audit Report in an attempt to determine the amount of money missing by year, to determine the disposition by Ms. Wright of any missing monies, and to determine how this alleged theft could have been prevented, or its effects mitigated. In a letter dated February 29, 2000, Prosecutor DeSanto, Clerk of Courts Shaw, and Commissioner Meyers requested we advise them of procedures which might prevent this type of situation from occurring again, and determine and/or confirm the accounts of the Clerk of Courts have been balanced and are correctly stated. The scope of this Special Audit is to report on the procedures outlined in the Report of Independent Accountants (see pages 2 and 3). Our Office is currently conducting a financial audit of the County for the year ended December 31, 1999, and as part of that audit, we have confirmed the Clerk of Courts bank account balance at December 31, 1999. Additionally, we tested the December 1999 monthly bank reconciliation and found no exceptions or unusual items.

There are two collection points which are reconciled in the Clerk of Courts Office, the Title Department and the Legal Fees Department. The Title Department is managed by a Supervisor, and there are four Deputy Clerks. The Legal Fees Department is managed by a Chief Deputy, with four full-time Deputy Clerks (including a Bookkeeper) and one part-time Deputy Clerk. The Clerk of Courts has oversight for both of these departments.

Ms. Juanita Wright was sentenced on May 17, 2000 to the following: thirty days in jail, five years on community control, eleven months under electronic house arrest, \$5,000 fine, \$182,523 in restitution, perform 400 hours of community service and receive counseling for gambling addiction and financial management.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

RELEVANT INDIVIDUALS AND ENTITIES

Juanita Wright, Clerk of Courts through November 22, 1999

Annette Shaw, Clerk of Courts effective November 22, 1999

Cathy Bishop, Bookkeeper, effective March 1994

Robert DeSanto, Prosecutor, Ashland County

Dean Holman, Special Prosecutor, Medina County

David Sheldon, Assistant Special Prosecutor, Medina County

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

SUMMARY OF RESULTS

ISSUE 1 - Operational Policies and Procedures

We reviewed operational policies and procedures which were exercised by the Clerk of Courts Office, to determine the procedures followed when reconciling and depositing daily receipts.

PROCEDURES

We interviewed Clerk of Courts employees to determine the reconciliation procedures which were followed throughout the Period.

Interviews were conducted with Cathy Bishop, Bookkeeper, on February 15, 2000, and with Annette Shaw, Clerk of Courts, on March 13, 2000.

RESULTS

1. Each day, a Clerk in the Title Department balanced the receipts to the cash/checks in that office, and generated a computer printout of daily receipt activity, which was given to the Bookkeeper, Cathy Bishop. The Title Clerk delivered the funds collected to the Clerk of Courts Office, and placed them in the safe. The Bookkeeper reconciled the Legal Department receipts, by counting the funds, running a calculator tape of cash and checks, and comparing these amounts to the receipts generated by the clerks. These daily reconciliations were documented in the form of a Daily Balance Record, which summarized each departments' fees, the total receipts generated for the day, and the amount of cash and checks received.

After reconciling the Legal Department receipts, the Bookkeeper generated a calculator tape which combined cash and checks from both the Legal and Title Departments. She then gave the Clerk of Courts copies of each separate reconciliation along with the combined calculator tape.

2. The Clerk of Courts was responsible for depositing funds at the bank. Bank statements were normally picked up at the branch office by the Bookkeeper. Ms. Bishop explained an occasion several years ago where the bank statement had been lost by the Post Office. After that incident, Ms. Bishop requested they be able to pick up the statements instead of receiving them through U.S. Mail. Ms. Bishop was the employee who normally picked up the statements.
3. Ms. Bishop set up an Excel computer program to easily reconcile the checking account, using the same format as that on the back of the bank statements. In performing the monthly bank reconciliations, Ms. Bishop used the Daily Balance Records to determine the amount of outstanding deposits. After the bank statements were reconciled, they were filed in the office without any oversight or review from the Clerk of Courts.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

4. Through 1992, the bank sent copies of bank-stamped deposit tickets to the County with the monthly bank statements. These stamped deposit tickets provided a break-down of the amount of cash and checks included within the deposit. Beginning in 1993, these stamped tickets were no longer provided, and Ms. Wright would only receive a receipt for the total dollar value of each deposit with no breakdown.
5. Ms. Wright had not established policy or procedure manuals for internal control procedures or the accounting system of the Clerk of Courts Office.
6. Several changes have taken place in the Clerk of Courts Office since Annette Shaw was appointed to replace Ms. Wright:
 - A. Duplicate deposit tickets are being presented to the bank staff who stamp the duplicates at the same time the original is presented for deposit. The duplicate is now maintained by the Clerk of Courts Office.
 - B. The Title Department no longer remits its receipts to the Clerk of Courts Office. Instead, they make a daily pay-in to the County Treasurer for each business day's activities. Additionally, the employees of the Title Department rotate the duty of balancing daily records of activity.
 - C. In the Legal Department, a Deputy Clerk counts the daily revenue, and the Bookkeeper verifies the funds received agree to the actual receipts. Duties for depositing funds at the bank are now rotated among the Deputy Clerks in the office, with Ms. Shaw providing oversight for these activities.
 - D. Job descriptions are currently being drafted for both the Bookkeeper and Deputy Clerk positions, and a procedures manual is being compiled. Additionally, a "Policy for Recording and Reconciling Receipts and Deposits" has been established and communicated to the employees of the Clerk of Courts office. Each employee has signed the policy to indicate their understanding of revised procedures for processing receipts.

MANAGEMENT COMMENTS

Policy/Procedure Manuals

The Clerk of Courts Office did not have a policy/procedure manual detailing the various processes that needed to be performed for receiving, documenting, and depositing funds received in the Title and Legal Fees Departments. A policy/procedure manual is an important part of the control process because it outlines the exact procedures that must be performed and who is responsible for those procedures. Without a policy/procedure manual, there is no clear instruction for the performance of routine tasks at the Clerk of Courts Office, and the employees have no source of reference when they experience uncertainty.

We recommend the Clerk of Courts Office continue its efforts to develop a policy/procedure manual which details the procedures and processes to be performed when receiving, documenting, and depositing funds. This manual should also state the position or person responsible for each process or procedure. A policy/procedure manual should be provided to all personnel involved in these areas and should be updated periodically.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Oversight of Bank Account Reconciliations/Segregation of Duties

Bank account reconciliations were performed by the Bookkeeper in the Clerk of Courts Office, with no oversight or monitoring of another employee. When deposits were outstanding for extended periods of time, or when unusual reconciling items appeared on the bank statements, the only employee with knowledge of this was the individual performing the bank reconciliations. By allowing a sole employee full responsibility for bank reconciliations, deposits outstanding for unusual lengths of time or miscellaneous charges to the account can go unreported and therefore undetected.

As a result of discussions and verbal recommendations during fieldwork on this audit engagement, Ms. Shaw currently has the bank reconciliations being performed by an employee of the Clerk of Courts Office, and a second employee reviews the reconciliations for errors or irregularities. Since the bank statements are received and reconciled only once a month, the monitoring oversight provided by the second employee does not require a substantial amount of his or her work day to complete. Additionally, the Clerk of Courts performs a cursory review of the bank reconciliations each month. We recommend this process for reconciling the Clerk of Courts bank account continue, and further recommend that all three employees initial and date the bank reconciliation, to demonstrate these duties have been performed.

Clerk of Courts Role

It seems unusual that Ms. Wright, the former Clerk of Courts was intimately involved in handling cash and making deposits at the Clerk of Courts Office. This position generally takes on a more supervisory role, whereby employees within the Office would generally be responsible for handling cash and making deposits, with the Clerk of Courts providing monitoring oversight of activities within the Office. Ms. Wright's level of hands-on involvement of daily receipt activity aided in the perpetration of her lapping scheme.

As of the date of this report, the Title Department no longer remits its receipts to the Clerk of Courts Office. Instead, they make a daily pay-in to the County Treasurer for each business day's activities. Additionally, duties for depositing funds for the Legal Department are now rotated among the Deputy Clerks in the office, with the Clerk of Courts providing oversight for these activities. We recommend that the Clerk of Courts continue to refrain from being involved in activities where cash is handled and deposited and continue to provide monitoring oversight for these activities.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Internal Audit Function

Periodic internal review of financial systems can identify deterioration or weaknesses in application and monitoring controls. Internal reviews should be a part of every organization's control structure. The internal review process is most often accomplished by use of an internal auditor.

Internal auditing is an independent activity within an organization that reviews operations as a service to management. It is a managerial control that functions by measuring and evaluating the effectiveness of other controls. The basic objective of internal auditing is to assist all members of management in the discharge of their responsibilities. An internal audit department provides this assistance by furnishing management with analyses, appraisals, recommendations, and comments concerning the activities reviewed. Frequently, this involves going beyond accounting and financial records to obtain a full understanding of the operations under review.

The scope of an internal audit function should encompass the examination and evaluation of the adequacy and effectiveness of the Clerk of Courts Office system of internal control, and the quality of performance in carrying out assigned responsibilities including:

- Reliability and integrity of information;
- Compliance with policies, plans, procedures, laws, and regulations;
- Safeguarding assets;
- Economical and efficient use of resources; and
- Accomplishment of established objectives and goals for operations or programs.

The internal auditor should also coordinate the efforts and assist in the performance of the external financial audit. Effective internal audit departments have historically reduced the cost of external audits.

County policy should clearly establish the responsibilities of the internal auditor within the organization. The County should expressly provide the internal auditor with the authority to obtain full access to all of the organization's records, properties, and personnel that could be relevant to the subject under review. The internal auditor should be free to review and appraise policies, plans, procedures, and records.

Internal auditors have no direct responsibility or authority over any of the activities reviewed. Therefore, the internal audit review and appraisal process does not in any way relieve other people in the organization of the responsibilities assigned to them.

Independence is critical to the effectiveness of internal auditing. This independence is obtained primarily through organization status and objectivity. The status of the internal audit function within the organization and the support accorded to it by management are major determinants of its range and value. Therefore, the head of the internal audit function should report to a person or body whose authority is sufficient to assure both a broad range of audit coverage and the adequate consideration of, and effective action on, the audit findings and recommendations. At Ashland County Clerk of Courts Office, we believe the reporting level should be to a committee comprised of the Clerk of Courts and several Judges.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Objectivity is essential to the internal audit function. Therefore, an internal auditor should not develop and install procedures, prepare records, or engage in any other activity that he or she would normally review and appraise, or activities which could be reasonably construed to compromise his or her independence. The internal auditor's objectivity need not be affected adversely by determining and recommending the standards of control to be applied in the development of the systems and procedures being reviewed.

Internal auditors should possess adequate knowledge of the audit process, and an education background appropriate to the audits they will perform. Experience as an external auditor or an internal auditor of another organization is desirable. He or she should have experience working through others in a diverse, multi-disciplinary culture.

We recommend the County establish an internal audit function which possesses the characteristics and functions outlined above.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE 2 - Definition of Lapping

We defined “lapping,” and described the process by which a person can “lap” funds.

PROCEDURES

Using Oran’s Dictionary of the Law and the Montgomery Auditing Guide, we obtained the formal definition of “lapping.”

We translated the formal definition of lapping into “layman’s terms” to describe how Juanita Wright, former Clerk of Courts, lapped funds to perpetrate a theft of Clerk of Courts Office revenue.

RESULTS

1. Oran’s Dictionary of the Law defines lapping as “stealing or “borrowing” from an employer by taking money paid by a customer, not recording the payment, then covering the theft by putting the next customer’s payment into the first’s account, and so on.” Loosely translated and applied to the Clerk of Courts Office, this means cash and checks were received and not recorded (deposited) on the date of the transaction, then the theft was covered by using subsequent cash and checks to make up the prior day’s book of business.
2. Using the description of lapping in Montgomery Auditing Guide as a basis, the following is an explanation of the process used by Ms. Wright to perpetrate a lapping scheme:

Cash shortages were concealed by manipulating checks received on subsequent business days. Ms. Wright was able to lap funds because she had direct access to the daily revenues, the bank deposit slips, and was the sole depositor of public funds for her office. This lack of segregation of duties is a strong indicator that a fraud could be perpetrated in this area.

Specifically, Ms. Wright perpetrated lapping in the following manner: She removed the funds from the office safe each day, and while preparing the revenues for deposit, she misappropriated the cash receipts and set the remainder of the deposit (the checks) aside. Subsequent days’ collections of checks were used to replace the amount of cash misappropriated from the original collection so that the original day’s deposit agreed to what was actually collected. This was evidenced during our comparison of daily receipts to daily deposits described in Issues No. 4 and No. 5. By using subsequent collections of checks to make up the cash shortages, receipts were held for long periods of time before being deposited. This was evidenced during our review of the Clerk of Courts Office monthly bank reconciliations described in Issue No. 3.

Lapping must continue indefinitely, or until the total cash shortage is replenished.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. During an interview held with Ms. Wright on November 22, 1999, she admitted to taking cash from the Clerk of Courts Office daily revenues for approximately twelve years. She stated the money she had taken was spent buying food and other items for her family.

FINDING FOR RECOVERY

Juanita Wright, Clerk of Courts, was responsible for depositing revenues with the bank on a daily basis. On November 19, 1999, the results of a surprise cash count conducted by Auditor of State employees revealed seven days for which deposits had not been made (See Background Information at the beginning of this report for the details of the cash count). On November 22, 1999, officials from the Ashland County Sheriff's Office confiscated cash and checks in the amount of \$1,101 from Ms. Wright's residence.

The following day's receipts were neither located in the office safe, nor had they been deposited into the Clerk of Courts bank account:

<u>Daily Activity Receipt Date</u>	<u>Amount</u>
November 5, 1999	\$48,953
November 9, 1999	12,619
November 10, 1999	18,073
November 12, 1999	24,082
November 15, 1999	35,775
November 16, 1999	12,900
November 17, 1999	<u>25,722</u>
Total	\$178,124
Less amounts confiscated by Ashland County Sheriff on November 22, 1999 at Ms. Wright's home	<u>1,101</u>
Total Finding for Recovery	<u>\$177,023</u>

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public property converted or misappropriated is hereby issued against Juanita Wright and Ohio Farmers Group, her bonding company, jointly and severally, and in favor of the Ashland County Clerk of Courts Office, in the amount of \$177,023.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENT

Whistle Blower Policy

Organizations of people delivering a complex set of services in a highly regulated environment can sometimes find themselves in noncompliance with laws and regulations, policies and procedures or provisions of contract and grants that affect their operations. Governmental organizations have a duty to exhibit effective stewardship over the resources entrusted to it by the public. This duty should lead to a heightened awareness on the part of each individual employed by governmental organizations of whether public resources are being administered in accordance with laws, regulations, and provisions of contracts and grants.

Whistle Blower policies existing within the overall framework of an ethics policy serve as tangible evidence of an organization's commitment to locate fraud or other illegal activities wherever they may occur. These policies should provide a safety net for employees who fear reprisal for performing a valuable duty for the public, and are likely to serve as a preventive control over the initiation of illegal activities.

A Whistle Blower policy should detail to whom the employee should report such violations and how they should report them, and should prohibit the employer from disciplining or retaliating against the reporting employee if that employee has made a reasonable and good faith effort to determine the accuracy of the information recorded.

We recommend the County establish a Whistle Blower policy to be integrated into the County ethics policies. In developing such a policy, we suggest you seek input and approval from the County Prosecutor. As with all County policies, the Whistle Blower policy should be regularly communicated to all employees.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE 3 - Outstanding Deposits at Calendar Year-End

Using available records, we documented outstanding deposits as of December 31 of each year during 1988 through 1998, for the months January through October 1999, and also the outstanding deposits as of the date of our cash count on November 19, 1999, to determine the amount and length of time deposits were held without being deposited.

PROCEDURES

We obtained all available daily receipt records and bank statements of the Clerk of Courts Office during the Period.

As of December 31 for each of the years 1988 through 1998, for the months January through October 1999, and for November 19, 1999, we documented the outstanding deposits as recorded on the monthly bank reconciliations, detailing the sum value of outstanding deposits, and the number of days activity for which deposits had not been made at year-end.

RESULTS

1. At each calendar year-end, there were multiple deposits outstanding, as shown in the table below:

<u>For the Period Ending</u>	<u>Value of Outstanding Deposits</u>	<u>Number of Business Days which were not Deposited at Year-End</u>
December 31, 1988	\$52,229	5
December 31, 1989	Bank reconciliations were not available ¹	N/A
December 31, 1990	\$51,105	5
December 31, 1991	\$79,015	7
December 31, 1992	\$106,738	10
December 31, 1993	\$97,263	7
December 31, 1994	\$113,331	6
December 31, 1995	\$126,904	9
December 31, 1996	\$127,642	8
December 31, 1997	\$146,422	8
December 31, 1998	\$214,420	11
November 19, 1999	\$178,124	9

¹Based on the records retention schedule set forth by the Ohio Supreme Court, Ashland County was not required to maintain records from 1989. However, the Clerk of Courts Office had maintained records from 1988, which were used to complete this schedule.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We also scanned the bank reconciliations for each month of 1999, and noted the following outstanding deposits at month end:

<u>For the Month Ending</u>	<u>Value of Outstanding Deposits</u>	<u>Number of Business Days which were not Deposited at Month-End</u>
January 1999	\$167,760	10
February 1999	\$206,259	9
March 1999	\$196,570	8
April 1999	\$251,346	10
May 1999	\$228,521	8
June 1999	\$183,905	7
July 1999	\$205,665	8
August 1999	\$234,793	10
September 1999	\$200,281	10
October 1999	\$216,103	9
November 19, 1999	\$178,124	9

As demonstrated with the above tables, it was common for many days' deposits to be held for long periods of time which is typical of a "lapping" scheme.

2. During an interview with Cathy Bishop, she told us of an occasion in March 1999 where an unidentified deposit of \$3,000 appeared on the bank statement. She questioned Ms. Wright, who denied knowledge of such deposit. The next month, Ms. Wright told Ms. Bishop she thought she had lost two checks, and admitted to moving \$3,000 in checks from one day's activity to make up the shortage. Ms. Wright went on to state the bank must have found the alleged missing checks and automatically processed them as a separate deposit. At that point, Ms. Bishop wrote up a statement describing the \$3,000 deposit, and had Ms. Wright sign it.

Around the same time as the \$3,000 deposit mentioned above (March 1999), Ms. Bishop informed us she began questioning Ms. Wright as to why deposits were always made so many days after the receipt of funds. Ms. Wright declined to answer, so Ms. Bishop called the bank to determine if there were some procedural steps which could cause the deposit to be delayed from posting to their account. The bank informed Ms. Bishop that funds are credited to the account when they are received by the bank.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

NON-COMPLIANCE CITATION

Timely Deposits of Public Money

Ohio Revised Code Section 9.38² states that a public official other than a state officer, employee, or agent shall deposit all public monies received by him/her with the treasurer of the public office or properly designated depository once every twenty-four (24) consecutive hours. During the Period, daily deposits were routinely held for as many as four to eleven days before being deposited. Untimely deposits can result in undeposited funds being more susceptible to theft or misappropriation, and could cause revenues to be recorded in the wrong fiscal period. Additionally, by not depositing in a timely manner, cash can be under or overstated, requiring adjustments to the cash reconciliations.

We recommend the Clerk of Courts Office perform daily deposits of revenues.

MANAGEMENT COMMENT

Bank Reconciliations

The Bookkeeper responsible for performing the monthly bank reconciliations routinely observed numerous days of outstanding deposits when performing bank reconciliations, yet she did not begin to question such outstanding items until March 1999. She directed her questions to Ms. Wright, who was the person responsible for making those deposits. The Bookkeeper stated she did not feel comfortable questioning her superior as to why the daily deposits were not being made. Ohio Revised Code requires that all monies received by a public official be deposited with the treasurer of the public office or properly designated depository once every twenty-four (24) consecutive hours.

We recommend the Clerk of Court Office employees responsible for reconciling the bank account be made aware of the applicable laws and County policies governing timely deposit of public funds, so that numerous days of outstanding deposits noted during reconciliations can be adequately addressed in a timely manner.

²House Bill 220 amends Ohio Rev. Code Section 9.38 to require public officials (other than a state officer, employee or agent) to deposit all public moneys received with the treasurer of the public office or properly designated depository on the next business day following the day of receipt, if the total amount of such monies received exceeds \$1,000. If the total amount does not exceed \$1,000, the public official has the option of either depositing the money on the next business day following the day of receipt or adopting a policy permitting a different time period. The alternate time period, however, shall not exceed three business days following the day of receipt. Further, the policy must include procedures to safeguard the monies until the time of deposit. If, however, the public official is governed by a legislative authority, only that legislative authority may adopt such a policy. The amendments to Ohio Rev. Code Section 9.38 as listed above became effective November 2, 1999.

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ISSUE 4 - Comparison of Receipts and Deposits

For those years within the Period (fiscal 1991 and 1992) where bank-stamped deposit tickets were available, we compared the total amount of cash per the daily reconciliations (prepared in the Clerk of Courts Office) to the total amount of cash deposited, and we compared the total amount of checks per the daily reconciliations to the total amount of checks deposited.

PROCEDURES

We obtained all available daily receipt records and bank statements of the Clerk of Courts Office for the Period.

Using the monthly bank reconciliations, we selected the deposits outstanding at 12/31/91 (seven deposits) and 12/31/92 (ten deposits), and prepared a spreadsheet to document the days on which funds were received, the days on which those funds were subsequently deposited, and the number of days the deposits were outstanding.

On the same spreadsheet, we documented the cash versus checks received for each day's deposit using the Daily Balance Sheet, prepared by the Bookkeeper, which provides a detailed breakdown of cash and checks received each day. Finally, we used bank-stamped deposit tickets to document the actual breakdown of cash versus checks presented for deposit on each day, and summarized all variances.

RESULTS

1. The Clerk of Courts Office had maintained the bank-stamped deposit tickets for calendar years 1991 and 1992. During 1993, the Clerk of Courts Office no longer received bank-stamped deposit tickets from the bank, and although the County maintained unstamped deposit tickets from 1993, no reliance could be placed on the unstamped deposit tickets prepared by Ms. Wright, with regard to the actual amounts of cash and checks deposited. For this reason, we tested deposits in 1991 and 1992 only. The bank-stamped tickets were copies of the bank deposit slips reflecting a break-down of the amount of checks and cash included within the deposit. The slip was stamped by the bank when received and returned with the monthly bank statement.
2. According to the monthly bank reconciliation, seven days of receipts representing December 1991 daily activity for the 20th, 23rd, 24th, 26th, 27th, 30th, and 31st had not been deposited in the Clerk of Courts Office bank account at December 31, 1991. These receipts were recorded in the Clerk of Courts Office on the Daily Balance Record sheet. The Daily Balance Record documented the dollar value of cash and checks received each business day. When comparing cash and checks from the Daily Balance Record to the bank-stamped deposit tickets, there were five days in which variances occurred between the amounts of cash and checks received in the Clerk of Courts Office and the amount of cash and checks deposited into the bank account. The sum total of variances are summarized below:

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

<u>Outstanding Deposits at December 31, 1991</u>	<u>Cash</u>	<u>Checks</u>	<u>Total</u>
Per the Clerk of Court Records	\$6,028	\$72,987	\$79,015
Per Bank-stamped Deposit Tickets	<u>5,422</u>	<u>73,594</u>	<u>79,015</u>
Variance	<u>(\$606)</u>	<u>\$606</u>	<u>\$0.00</u>

As demonstrated from the above table, when the December 1991 undeposited receipts were eventually deposited, there was \$606 less in cash deposited as compared to cash received in the Clerk of Courts Office which corroborates Ms. Wright's confession that she misappropriated cash from daily collections and replaced that cash with checks collected on subsequent days.

3. According to the monthly bank reconciliation, ten days of receipts representing December 1992 daily activity for the 16th, 17th, 18th, 21st, 23rd, 24th, 28th, 29th, 30th, and 31st had not been deposited in the Clerk of Courts Office bank account at December 31, 1992. These receipts were recorded in the Clerk of Courts Office on the Daily Balance Record sheet. The Daily Balance Record documented the dollar value of cash and checks received each business day. When comparing cash and checks from the Daily Balance Record to the bank-stamped deposit tickets, there were eight days in which variances occurred between the amounts of cash and checks received in the Clerk of Courts Office and the amount of cash and checks deposited into the bank account. The sum total of variances are summarized below:

<u>Outstanding Deposits at December 31, 1992</u>	<u>Cash</u>	<u>Checks</u>	<u>Total</u>
Per the Clerk of Court Records	\$7,969	\$98,770	\$106,739
Per Bank-stamped Deposit Tickets	<u>7,042</u>	<u>99,696</u>	<u>106,739</u>
Variance	<u>(\$927)</u>	<u>\$927</u>	<u>\$0</u>

As demonstrated from the above table, when the December 1992 undeposited receipts were eventually deposited, there was \$927 less in cash deposited as compared to cash received in the Clerk of Courts Office which corroborates Ms. Wright's confession that she misappropriated cash from daily collections and replaced that cash with checks collected on subsequent days.

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ISSUE 5 - Bank Records of Deposit Activity

We reviewed checks deposited with National City Bank on November 16, 1999, to determine whether or not the checks were deposited with the day's activities for which they were recorded by the Clerk of Courts Office.

PROCEDURES

We issued a subpoena to National City Bank, requesting all documents presented for deposit on November 16, 1999. Ms. Wright made two deposits on that day, allegedly representing the daily activity of November 1 and November 8.

We attempted to reconcile the bank copies of the checks deposited on November 16, with the daily check activity of the 1st and 8th using the Clerk of Court's Daily Balance Records

RESULTS

1. In response to our subpoena issued to National City Bank, we received photocopies of all the checks presented for deposit, as well as the deposit ticket for each of the two deposits made on November 16, 1999, which allegedly represented the daily activity of November 1st and November 8th.
2. While reviewing receipt records maintained in the Clerk of Courts Office, we noted that Ms. Wright generated a calculator tape of all checks received with each day's activity, and on this tape she would document from whom each check was received.
3. On Ms. Wright's calculator tape of receipts for November 1, 1999, sixty-seven (67) checks were listed, with the dollar amounts and the payees names included. However, none of these sixty-seven (67) checks were included in the National City Bank records as checks deposited on November 16, 1999. Rather, the National City Bank records document sixty-eight (68) checks were included within this deposit.

All of the checks allegedly representing November 1, 1999 receipts (deposited on November 16) were recorded on Ms. Wright's calculator tapes as having been received on November 15, 1999.

Sixty-seven (67) of sixty-eight (68) checks presented for this deposit were dated after November 1, 1999, which is the day's activity for which they allegedly represent which corroborates Ms. Wright's confession that she misappropriated cash from daily collections and replaced that cash with checks collected on subsequent days.

4. On Ms. Wright's calculator tape of receipts from November 8, 1999, sixty-two (62) checks were listed, with the dollar amounts and the payees names included. However, none of these sixty-two (62) checks were actually included in the National City Bank records as checks deposited on November 16, 1999. Rather, the National City Bank records document forty-nine (49) checks were included in this deposit.

All of the checks allegedly representing November 8, 1999 receipts (deposited on November 16) were recorded on Ms. Wright's calculator tapes as having been received on November 15 and 16, 1999.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Forty-two (42) of forty-nine (49) checks were dated after November 8, 1999, which is the day's activity for which they allegedly represent which corroborates Ms. Wright's confession that she misappropriated cash from daily collections and replaced that cash with checks collected on subsequent days.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

CONCLUSION

Juanita Wright, former Ashland County Clerk of Courts, was able to misappropriate State and County funds through a scheme of “lapping” without detection due to:

- 0 a lack of oversight by either an internal auditor or an audit committee;
- 0 weak internal control procedures maintained by Juanita Wright which provided her direct access to daily collections and charged her with the responsibility of making daily deposits; and
- 0 the bookkeeper responsible for preparing monthly bank reconciliations listed numerous deposits-in-transit as reconciling items with knowledge that such deposits were not in the safe located in the Clerk of Courts office.

While performing the 1998 financial statement audit of Ashland County, the same fraud indicators and internal control weaknesses noted above were present within Juanita Wright’s office. These indicators and weaknesses should have alerted our auditor to the possibility of fraud or misappropriation of assets by means of “lapping”. Although our auditor reviewed the Clerk of Courts’ monthly bank reconciliations, she did not question the large number of deposits-in-transit or the extensive delays in depositing daily collections. These fraud indicators should have been brought to the attention of her manager and the scope of the audit expanded to include a review of these unusual events. This did not occur. We have since reviewed this employee’s performance and have taken appropriate disciplinary action.

Subsequent to the completion of our fieldwork for this special audit, the newly appointed Clerk of Courts instituted certain internal control procedures to increase accountability within her office. In addition, to those improvements we have included additional recommendations within this report and have issued additional guidance to our staff to ensure that accounts outside of the direct control of the County Treasurer, such as accounts maintained by Courts, are scrutinized more extensively.



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ASHLAND COUNTY CLERK OF COURTS

ASHLAND 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
JULY 18, 2000**