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Stark County Treasurer’s Office
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INDEPENDENT ACCOUNTANTS’ REPORT

The Honorable Gary D. Zeigler  
Stark County Treasurer  
County Administration Building  
110 Central Plaza - Suite 250  
Canton, Ohio 44702-1410  

We conducted a special audit of the Stark County Treasurer’s Office (SCTO) by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period January 1, 2005 through April 13, 2009 (the Period), solely to:

- Examine reconciliations of SCTO’s depository activity to the Stark County Auditor’s Office (SCAO) adjusted fund balances at each month end during the Period and at April 13, 2009, to determine whether funds received were deposited into SCTO’s bank and investment accounts.
- Examine available documentation supporting certain SCTO disbursements for the Period to determine whether the disbursements were for SCTO-related purposes.

This engagement was conducted in accordance with the Quality Standards for Inspections established by the President’s Council on Integrity and Efficiency (January 2005). The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We examined month-end reconciliations, bank statements and other relevant documentation and determined whether the SCTO depository and book balance agreed to the total fund balance maintained by the SCAO for the period January 1, 2005 through April 13, 2009.

   Significant Results – In examining these documents and using the reconciled bank balances, we determined the SCTO’s depository balance did not agree with its book balance or SCAO’s adjusted fund balance due to shortages identified in the head cashier’s vault; inaccurate posting of interest/investment income and related service charges/investment expenses; and unauthorized manual checks issued and cashed by a SCTO employee.

   We recalculated the head cashier’s vault cash balance and determined the vault cash was short $2,734,560 on April 13, 2009. In Issue No. 2, we noted two unauthorized checks totaling $230,000 were issued from SCTO’s bank accounts. Accordingly, we issued a finding for recovery against Vince Frustaci, chief deputy treasurer, for $2,734,560 of public monies collected but unaccounted for and $230,000 of public monies illegally expended.

   We made one noncompliance citation for maintaining a vault cash balance in excess of amounts established by SCTO policies.
We made nine management recommendations addressing internal control weaknesses noted in the reconciliation process, vault cash collection process, cash drawer overages/shortages, tracking and recording unclaimed wires, recording interest income earned and fees incurred, and segregating the cash collection and reconciliation processes.

2. We examined bank, investment, and trust account statements, wire transfers, canceled checks and other relevant documentation and determined whether certain SCTO disbursements during the Period were for SCTO-related operations.

Significant Results – We examined available documentation supporting 1,285 canceled checks and wire transfers totaling $1,219,076,533 and 201 deposits into SCTO's First Merit Bank trust accounts and determined these transactions were for SCTO-related operations with the exception of two checks. We determined former Chief Deputy Treasurer Vince Frustaci improperly issued and cashed two checks written to First Merit Bank totaling $230,000. These funds were not spent for SCTO-related operations.

We made one noncompliance citation for SCTO to maintain records supporting daily and month-end reconciliations including the amounts reflected on those documents and disbursements of SCTO funds in accordance with the Commissioner's records retention schedule.

We made one management recommendation for SCTO to develop and implement an operations manual documenting procedures for collecting, depositing, and recording payments received; processing wire transfers, and completing daily and monthly reconciliations.

3. On June 14, 2010, we held an exit conference with the following individuals representing the SCTO:

Honorable Gary D. Zeigler, Treasurer
Lem Green, Deputy Treasurer
Honorable John D. Ferrero, Prosecuting Attorney

The attendees were advised they had an opportunity to respond to this special audit report. No response was received.

Mary Taylor, CPA
Auditor of State

February 26, 2010
Background

As part of the 2008 Stark County financial audit, Auditor of State (AOS) Canton regional audit staff attempted to confirm Stark County’s bank balances. On March 26, 2009, AOS received a bank confirmation from First Merit Bank (FMB) and identified a $2,955 million difference between the confirmed U.S. Government Agencies investment line item within the investment account and the amount documented on SCTO’s December 31, 2008, reconciliation.

While AOS worked to resolve the discrepancy with FMB, SCTO Chief Deputy Treasurer Vince Frustaci contacted the AOS and the bank requesting the AOS and the bank stop their review of the discrepancy until he returned from vacation. Further examination of the confirmation, documentation provided by SCTO, and FMB’s assistance led the audit staff to conclude the FMB trust account statement provided to the SCAO by SCTO for the 2008 financial audit had been altered. The FMB trust account statement provided to the SCAO by the SCTO listed a $2,955 million U.S. Government Agency security not included on the trust account statement obtained directly from FMB.

According to Stark County Treasurer Gary Zeigler, on March 30, 2009, he and Mr. Frustaci met with the FMB trust account manager to discuss the altered trust account statement. Also according to Mr. Zeigler, on the way to FMB Mr. Frustaci admitted he had taken county funds.

On March 31, 2009, AOS representatives met with Mr. Zeigler, the former chief deputy treasurer, the head cashier and the operations manager. During this meeting, Mr. Zeigler stated that Mr. Frustaci had admitted to taking $100,000 to $200,000 of county funds.

On April 1, 2009, Mr. Zeigler terminated Mr. Frustaci. On the same date, the AOS initiated a special audit of the SCTO.
Supplement to the Special Audit Report

Issue No. 1 – Auditor-Treasurer Reconciliation

PROCEEDURES

We examined SCTO monthly reconciliations, bank statements and other relevant documentation and determined whether SCTO’s depository balances, used by the SCTO to reconcile on a monthly basis to SCAO’s adjusted fund balance, agreed to bank account balances reported by the identified banks taking into consideration unclaimed wires and other unrecorded transactions.

Using SCAO fund balance and outstanding warrant reports and relevant bank statements, we determined whether SCAO’s monthly reconciliations, used to reconcile with SCTO’s depository balance, agreed to available supporting documentation.

Using bank and investment statements and SCAO receipt and disbursement ledgers, we determined whether bank account interest earned, investment income/expenses, and bank service charges reflected on SCTO’s monthly bank statements were recorded in SCAO’s financial records.

We conducted a cash count to establish and identify the amount of currency collected by and maintained in each cashier’s cash drawer and individual vault and the currency maintained in SCTO’s vault as of April 13, 2009. We also determined whether the amount maintained in the cashiers’ drawers and vaults agreed to the actual amount documented as collected by each cashier for April 13, 2009.

Using bank statements, Head Cashier Daily Balance Sheets, the April 13, 2009 cash count results, and SCAO Fund Balance and Outstanding Warrant reports, we determined whether the SCTO and SCAO were reconciled as of April 13, 2009.

Using SCTO Daily Cashier’s Balance Sheets, we recalculated SCTO’s vault balance during the Period taking into consideration deposits into, and withdrawals from, the vault and determined whether the recalculated balance agreed to SCTO’s vault balance.

RESULTS

We examined documentation including but not limited to the month-end Daily Reconciliation Forms, also known as Form 6, monthly pay-in reports, Daily Cashier Sheets documenting cash collected by each cashier, Head Cashier’s Daily Balance Sheet for the vault documenting cash maintained in the vault, month-end unclaimed wires, and subpoenaed 49 bank and investment account statements and 28 certificates of deposit supporting 51 SCTO month-end reconciliations.

In examining the records supporting the 51 month-end reconciliations of SCTO’s book balances to bank balances, we noted the following exceptions:

- SCTO’s depository balance for certain bank account balances recorded on the Form 6 did not reconcile to the actual month-end bank account balance.
- SCTO improperly reported reconciling items totaling $40,996,012 including but not limited to deposits in transit, returned wire transfers, credit card settlements, and interest earned as unclaimed wires. These items should have been reflected and identified separately on SCTO’s Form 6 as adjustments to the treasury or depository balance.
- Eight instances totaling $1,542,588 reflected as deposits from the vault into SCTO’s bank account on the Head Cashier’s Daily Cashier’s Balance Sheet were not actually deposited.
- SCTO was unable to provide documentation supporting 30 reconciling items totaling $327,357 and was unable to explain the reason for five transactions totaling $636,796 which were not recorded accurately.
- SCTO prepared and paid-in a $7,570 wire transfer to the Unclaimed Monies fund that had not been deposited into a SCTO bank account.

Unclaimed wires are wire transfers deposited into an SCTO bank account during the month in which a county department has not prepared a pay-in to record funds received in SCAO’s receipt ledgers.
Supplement to the Special Audit Report

Based on the above exceptions, we determined SCTO’s book balance did not reconcile to the bank and investment statement balances.

Ohio Rev. Code Section 319.15 requires SCAO to prepare a monthly reconciliation of amounts reflected on its ledgers to the balances held within the county treasury including all investment and bank accounts to ensure all county treasury, bank, and investment activity was reflected on SCAO’s ledgers. We examined month-end fund balance reports, outstanding check reports, warrant clearing account bank statements, and available documentation supporting other adjustments reflected on SCAO’s month-end Auditor to Treasurer Reconciliations prepared during the Period. We also examined the month-end Form 6 provided by SCTO to determine whether the SCAO used the correct amounts when performing its month-end reconciliation. We noted the following exceptions:

- SCAO was unable to provide documentation supporting outstanding Court of Common Pleas warrant amounts reflected on the January through November 2005 month-end reconciliations.
- SCTO issued manual replacement checks for returned Automated Clearing House (ACH) wire transfers and warrants and failed to notify SCAO. As a result, the replacement warrants did not clear through SCTO’s automated warrant clearing process and resulted in adjustments to SCAO’s month-end reconciliation.
- SCTO only provided SCAO with an adding machine tape to support the dollar amounts of warrants clearing the bank, depository balances, and month-end SCTO adjustments.

We were able to obtain documentation supporting or corroborating evidence from other sources to support the above-identified items on the SCAO reconciliations.

In comparing the interest and investment income earned (interest income) and service charges/investment expenses (service charges) incurred in SCTO’s 49 bank and investment accounts and 28 certificates of deposit to interest income earned and service charges posted to SCAO’s receipt and expenditure ledgers, we noted the following exceptions:

- SCTO reduced interest income earned by service charges incurred from the same or other bank accounts prior to preparing a pay-in to record interest deposited on SCAO’s receipt ledger and service charges incurred on SCAO’s disbursement ledger.
- Interest income totaling $419,734 and service charges totaling $38,856 reflected in SCTO bank and investment accounts was not recorded on SCAO’s receipt or expenditure ledgers.
- SCAO recorded $258,101 of interest income and $113 of service charges which were not supported by a subpoenaed bank statement or available supporting documentation maintained by SCAO or SCTO. As such, we could not identify the source of the interest earned or service charges incurred.

Because of the above-identified errors, we were unable to reconcile SCTO’s April 13, 2009 depository and book balances with SCAO’s adjusted April 13, 2009 fund balance.

On April 13, 2009, the AOS conducted a cash count of funds SCTO held in the county treasury. We counted $264,171 which consisted of $170,750 located in the head cashier’s vault and $93,421 located in the individual cashier drawers and vaults. These amounts were supported by pay-ins received during the day plus their previous day’s ending balance.

Funds collected by each cashier were maintained in either their individual cashier drawer or assigned vault until they were periodically directed by a supervisor to “sell” a portion of their funds to the head cashier’s vault. When sold, the head cashier’s vault balance increased by the amount “sold”. In accordance with SCTO policy, the head cashier periodically withdrew funds from the vault and deposited them into one of SCTO’s bank accounts.

Beginning with the December 2004 Daily Cashier Sheets, we recalculated the vault balance by examining each cashiers’ Daily Cashier’s Balance Sheet and the head cashier’s Daily Cashier’s Balance Sheet for the vault to identify sales to, and withdrawals from, the head cashier’s vault. We traced withdrawals from the head cashier’s vault to a deposit into a SCTO bank account.
Supplement to the Special Audit Report

When we compared the AOS’ recalculated vault balance to the amount SCTO reported on the head cashier’s Daily Cashier’s Balance Sheet for the vault, we noted the following discrepancies:

<table>
<thead>
<tr>
<th>Date</th>
<th>AOS Calculated Vault Balance</th>
<th>SCTO Reported Vault Balance</th>
<th>Vault Balance Difference</th>
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<tr>
<td>04/13/2009</td>
<td>$2,905,310</td>
<td>$170,750</td>
<td>$2,734,560</td>
</tr>
</tbody>
</table>

We determined an additional $2,734,560 should have been in the vault during the April 13, 2009 cash count. By examining subpoenaed bank statements, we verified the $2,734,560 was not deposited into any of SCTO’s bank accounts during the Period.

**FINDING FOR RECOVERY**

**County Treasury Shortage**
Each cashier maintained a cash drawer to account for funds collected at the counter. When closing out the day’s business, the cashier prepared a Daily Cashier’s Balance Sheet summarizing the day’s collections. At the direction of their supervisor, SCTO cashiers periodically deposited funds from their individual cash drawers into the head cashier’s vault. When funds were withdrawn from the head cashier’s vault, various SCTO employees prepared a deposit slip and deposited the funds into a SCTO bank account. The Daily Cashier’s Balance Sheet did not reflect any sales from the head cashier’s vault to the individual cashiers’ drawers. Based on documented cashier deposits into the head cashier’s vault and deposits from the head cashier’s vault into a SCTO-bank account, we determined $2,734,560 was deposited into the head cashier’s vault, withdrawn, and was not subsequently deposited into a SCTO bank account.

As reported in Issue No. 2, we identified two unauthorized checks totaling $230,000 issued to First Merit Bank and subsequently cashed by Mr. Frustaci. By issuing these checks to First Merit Bank, Mr. Frustaci as signatory was able to cash these checks and receive $230,000 of SCTO funds in cash.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, we are hereby issuing a finding for recovery against Vince Frustaci for $2,734,560 of public monies collected but unaccounted for and $230,000 of public monies illegally expended in favor of the Stark County Treasurer’s Office.

**NONCOMPLIANCE CITATION**

**Vault Cash**
SCTO’s Vault Cash Balance policy effective January 2, 2002 through June 30, 2006, provided the vault would maintain “an average of $350,000” to allow for the cashing of County warrants and other needs. Section 3 of SCTO’s Policy for Cash, Deposits and Checks effective June 30, 2006 through the end of the audit period, stated the head cashier’s vault cash balance “will be maintained at One Hundred Fifty Thousand dollars.” Contrary to these policies, the head cashier’s Daily Cashier’s Balance Sheet reported vault balances ranging from $0 to $1,365,468 and exceeded the approved amounts at least one day during 44 of the 51 months during the Period.

By not maintaining standard amounts and not depositing excess cash in a timely manner and in accordance with its established policies, SCTO increased its risk of theft and missed the opportunity to earn interest on County funds.

We recommend SCTO contact similarly sized counties to obtain an understanding of those counties’ policies and procedures for maintaining and controlling cash in the vault. We recommend the County also review historic cash activity information to establish a suitable level of cash needed on-hand to meet County needs. Once this assessment has been completed, we recommend SCTO revise its internal policy, as appropriate, and actively monitor compliance with the established cash level.
**MANAGEMENT RECOMMENDATIONS**

**Reconciliation Process**
The monthly bank reconciliation process is an important tool to assist management in determining the completeness and accuracy of recorded transactions and verify transactions recorded on SCAO’s ledgers reflect actual activity. By reconciling the county treasury to SCAO’s accounting system, management is provided with information that can be used to identify and investigate discrepancies between the bank balances and accounting system book balances; to detect errors, irregularities, and inaccurate postings to the accounting system; and to detect unauthorized bank account activity.

During the Period, SCTO completed a daily reconciliation as required by Ohio Rev. Code Section 321.09 and SCAO completed their month-end reconciliation as required by Ohio Rev. Code Section 319.15. However, we determined the month-end reconciliations between the SCTO and SCAO were inaccurate and not reflective of actual SCTO activity. During our examination of these reconciliations, we noted the following:

- Month-end reconciliations reflected balances up to $3,131,447 higher than the actual reconciled bank balance resulting in SCTO overstating month-end book balances for 28 months.
- Actual bank balances were not used when reconciling SCTO’s book balances to adjusted bank balances. Instead, SCTO used the previous month’s book balance adjusted for deposits into the account, and for wire transfers or checks clearing the account.
- A month-end bank reconciliation was not performed for all bank and investment accounts to ensure all bank activity was reflected in SCAO’s ledgers.
- SCTO’s investment book balances reflected certain investments were transferred to the FMB trust accounts in January 2005. However, these transfers did not actually occur until September 1, 2005.
- SCTO’s unclaimed wire list included 193 reconciling items totaling $40,996,012 which should have been separately reported on SCTO’s Form 6. These items included but were not limited to deposits in transit, interest income, returned wire transfers, and credit card settlements.

Failure to complete accurate reconciliations increases the risk that errors, theft, and fraud could occur and not be detected in a timely manner.

We recommend SCTO include the following in its reconciliation process to reduce the likelihood of errors and irregularities from occurring in the future:

- Complete month-end reconciliations of each active bank and investment account.
- Complete SCTO’s month-end reconciliation of its book balances to the reconciled bank balances to ensure all bank activity is reflected in SCTO’s books and was posted to SCAO’s ledgers.
- Provide to SCAO on a monthly basis these reconciliations, SCTO’s Form 6 including relevant documentation supporting adjustments, and the month-end bank statements for Auditor-Treasurer reconciliation purposes.

**Year End Reconciliations**
At year end, SCTO provided copies of the December bank statements to the SCAO. These copies were used to calculate the year-end cash balances reflected on the County’s financial statements. In comparing SCAO’s December bank statement copies for the Period to those obtained by subpoena, we determined the ending balance on three of the year-end bank statement copies provided to SCAO were altered. These alterations inflated the bank account balances to conceal shortages of vault cash and two unauthorized checks issued.

We recommend SCAO consider periodically comparing SCTO’s provided month-end reconciliation documentation to original source records maintained by SCTO to ensure the reconciliations are accurate and reflective of actual activity.
Segregation of Duties
The head cashier was responsible for maintaining the vault cash, depositing vault cash into a SCTO bank account, processing ACH and wire transfers, and preparing the month-end SCTO reconciliations. The same individual also served as a back-up cashier and collected counter payments when needed. No evidence existed that an individual independent of the cash collection process reviewed the month-end reconciliation for accuracy and completeness. The lack of segregation of duties could result in errors or irregularities not being discovered in a timely manner.

We recommend these duties be segregated to ensure that no single individual has control over all phases of the cash collection and reconciliation process. SCTO should appoint an individual independent of the cash collection and reconciliation processes to review the month-end reconciliation and supporting documentation for accuracy, completeness, and unusual activity.

Cash Held in the Head Cashier’s Vault
During the Period, cash maintained in the head cashier’s vault was counted on a sporadic basis by employees in charge of the vault. Documentation provided to support these counts reflected the total dollar amount counted and was signed by two individuals. Cash counts conducted by those in charge of the funds increases the risk that cash could be misappropriated and go undetected.

We recommend SCTO implement a formalized cash count process requiring the vault to be counted on a regular basis by two individuals independent of the cash collection process. Additionally, we recommend surprise cash counts be conducted. One individual should perform the count of the funds maintained in the vault and the other individual should act as a witness to the count. Once completed, the count results should be documented with the date, time, and amount of cash held in the vault and be signed by both the counter and the witness documenting the count was performed and recorded accurately. Once completed, these counts should be compared to the amounts reflected on SCTO’s ledgers and any discrepancies identified should be investigated.

Vault Deposits
The head cashier’s vault cash increased when a cashier sold funds collected from their drawer to the vault. Funds from the head cashier’s vault were deposited on a periodic basis into a SCTO bank account. At times, only one person was involved in counting the funds and preparing the deposit slip before the funds were transported to the bank for deposit.

Failing to have a second person involved in counting funds to be deposited, preparing the deposit slip, and verifying the deposit was reflected on the month-end bank statement increases the cash deposit’s susceptibility to theft or loss. During the Period, eight deposit slips supporting withdrawals from the vault totaling $1,542,588 were prepared but the funds were not deposited into a SCTO bank account.

We recommend two employees be present when vault cash is counted, the deposit slip is prepared, and when the cash is transported to the bank. In addition, the individual responsible for completing the daily and month-end reconciliations should verify the amounts reflected as deposited on the Daily Cashier’s Balance Sheets were actually deposited into a SCTO bank account.

Cashier Drawers
Each cashier was assigned their own individual drawer and vault to hold their daily collections. At the end of the day, the cashier independently counted their drawer and completed their Daily Cashier’s Balance Sheet. Cash collected was maintained in the cashier’s drawer to be used the next day and was not deposited into either the head cashier’s vault or a SCTO bank account.

During our examination, we noted each cashier’s drawer remained unlocked throughout the day and was accessible to both SCTO and non-SCTO personnel. In observing the closing of daily activity by the cashiers, no one monitored the cashiers counting their cash drawer and completing the Daily Cashier’s Balance Sheet to ensure amounts collected were accurately reflected.

Failing to have a cashier count their drawer and complete their Daily Cashier’s Balance Sheet in the presence of another individual increases the likelihood errors or irregularities will go undetected and increases the risk that county funds may be misappropriated.
When closing out daily activity, we recommend a second person observe and verify the amounts counted by the cashier. This independent individual should also observe the completion of the Daily Cashier’s Balance Sheet and verify the accuracy of the information. The independent individual should sign the completed Daily Cashier’s Balance Sheet documenting their agreement with the amounts reflected on the sheet. SCTO should consider the benefits of depositing daily cash collections into a SCTO bank account instead of maintaining the funds in the cashiers’ drawers or head cashier’s vault thereby missing the opportunity to earn interest. In addition, we recommend each cashier secure their drawer when away from their desk and not share their vault combination to reduce susceptibility of its contents to theft.

Cash Drawer Shortage Policy
The Stark County Treasurer’s Office Policy on Cash Drawer Shortages and Overages dated January 2007, states, “Shortages will be paid by cashier with appropriate notation on the daily balance sheet by the Head Cashier or Chief Deputy Treasurer.” Cash handling policies and procedures should be established to ensure proper controls over cash collections and cash drawers. By taking this approach, SCTO is increasing the likelihood of employee turnover and the risk an overage will be misappropriated.

We recommend SCTO revise the current policy on cash drawer shortages and overages to discontinue the practice of cashiers using personal funds to pay for shortages in their cash drawers and implement the following controls to address shortages and overages which may occur:

- Overages should be recorded as other revenue and shortages should be recorded as other expenditures.
- Management should summarize cashiers’ cumulative overages and shortages and use trend information in evaluating employee performance.
- Management should monitor and track daily overages and shortages for each cashier.
- Specify the actions to be taken by management based on the dollar amount and/or frequency of overages and shortages.

Unclaimed Wires
Electronic funds transfers and ACH wire transfers are periodically deposited into the county’s operating checking account. SCTO was responsible for notifying the applicable county department the wire transfers were received. Upon notification of the transfer by the distributing agency, the county department completed the required pay-ins to document which fund these wire transfers should be posted to in SCAO’s ledgers. Wire transfers were not recorded on SCAO’s ledgers until a departmental pay-in was received. During the Period, we noted 97 wire transfers were unclaimed for at least 30 days and 47 wire transfers were unclaimed for at least 60 days. In addition, we identified a $7,570 wire transfer recorded on the unclaimed wire list which was not reflected as received on a SCTO bank statement.

Failing to accurately reflect unclaimed wire transfers on the reconciliation, claim these wire transfers in a timely manner, and request the funds be accurately posted to the department’s budget may result in the department violating the funding source’s guidelines and in other county funds being expended for those purposes.

We recommend SCTO implement a policy and notify county departments of the timeframe in which wires received are to be claimed and that after that date the funds will be paid into the Unclaimed Wires fund. When SCTO issues the pay-in to post the unclaimed wires to the Unclaimed Wires fund, SCTO should notify the appropriate department, when possible that the wire was posted to this fund. In addition, an SCTO employee independent of the preparer of the unclaimed wires list should verify each wire transfer identified as unclaimed was deposited into an SCTO bank account and was not included in the daily pay-in report generated from SCAO’s financial accounting computer system.
Supplement to the Special Audit Report

Interest Income and Service Charges
SCTO earned interest income and incurred service charges each month on 49 bank accounts. Upon receipt of each bank statement, SCTO prepared a pay-in to record interest earned and provided documentation to SCAO to record the disbursement of fees incurred. We determined SCTO did not prepare pay-ins for interest income received in a timely manner, did not record interest earned or fees incurred accurately or at times did not record these items at all.

When comparing interest income and fees reflected on the subpoenaed bank statements to the amounts recorded on SCAO’s receipt and disbursement ledgers, we noted the following exceptions:

- As of April 13, 2009, SCTO had not recorded $419,734 of interest income earned and $38,856 of fees incurred.
- Interest income earned was reduced by fees incurred for the same or multiple bank accounts prior to being recorded on SCAO’s ledgers.
- Fees incurred were reduced by six receipts for interest income earned prior to posting the disbursement on SCAO’s ledgers.
- SCAO’s receipt ledger interest income line item contained receipts totaling $258,101 which were not supported by interest earned per subpoenaed bank statements.
- SCTO commingled interest income and service charges for several bank and investment accounts when posting interest income and related fees preventing the identification of its origin.
- The pay-in descriptions did not accurately reflect the source of the interest income earned.
- Interest receipts and service charges were not posted timely.
- SCTO incorrectly posted adjusting entries for interest income earned and fees received. As a result, SCTO was required to make several adjustments to correct their mistakes.

This situation resulted in inaccurate cash reconciliations and erroneous reporting of earnings on investments, fees, and fund balances. In addition, we were unable to determine the origin of certain receipts and fees thereby preventing AOS from determining whether interest earned and fees incurred per the subpoenaed bank and investment statements were recorded on SCAO’s ledgers.

We recommend SCTO prepare a separate pay-in for interest earned and separate documentation for fees incurred upon receipt of the month-end bank statement and provide the documentation to the SCAO in a timely manner to record the activity accurately in SCAO’s ledgers.
Supplement to the Special Audit Report

Issue No. 2 – Certain SCTO Disbursements

PROCEDURES

We examined canceled checks, bank statements, and relevant supporting documentation and determined whether certain disbursements from SCTO’s FMB operating account were for SCTO-related purposes.

We examined canceled checks, bank statements, and documentation supporting wire transfers to determine whether disbursements from the regional banking accounts were deposited into another SCTO bank account or were for SCTO-related purposes.

We examined documentation supporting trust account additions and deletions from FMB trust accounts and determined whether the additions consisted of SCTO funds disbursed from another SCTO bank account and whether disbursed funds were deposited into another SCTO bank account or issued for an SCTO-related purpose.

RESULTS

During the Period, SCTO maintained its operating checking account at FMB. SCTO used this bank account to deposit wire transfers received from state and federal agencies, deposit monies collected from taxpayers and local businesses, and to fund warrants issued by SCAO. SCTO also used this account to issue manual checks to replace returned SCAO ACH wire transfers because the destination bank account was closed.

We examined available documentation supporting 51 SCTO-issued checks totaling $268,975 and 54 SCTO-initiated wire transfers totaling $621,240,996. We determined the disbursements were for SCTO-related purposes with the exception of two checks issued and cashed by Vincent Frustaci for purposes unrelated to SCTO operations. These two unauthorized checks are included in the Finding for Recovery reported in Issue No. 1.

SCTO maintained 10 bank accounts located at local banks to collect property tax payments. SCTO referred to these accounts as regional banking accounts. SCTO maintained 26 other bank accounts at various local banks and investment firms to earn interest. Periodically, SCTO transferred funds collected from these accounts using a wire transfer, cashier check, or check. We examined 903 disbursements totaling $508,678,963 from the 36 accounts and determined the disbursements were deposited into another SCTO bank account or were used to purchase an investment on behalf of SCTO.

SCTO maintained two trust accounts at FMB during the Period. The first trust account was established to hold certificates of deposit and money market accounts. The second trust account was established to hold government-backed securities purchased by SCTO at the direction of their investment advisor. SCTO made 201 deposits totaling $116,422,890 to the two trust accounts using funds from other SCTO bank accounts. SCTO made 277 disbursements from the trust accounts totaling $88,887,599 to purchase additional investments, pay investment advisory and trust fees, and to distribute interest earned to SCTO’s operating checking account. We examined documentation supporting the additions to, and disbursements from, the two trust accounts and determined the transactions were for SCTO-related purposes.

NONCOMPLIANCE CITATION

Maintaining Supporting Records

Ohio Rev. Code Section 149.351(A) in part, states “(a)ll records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code or under the records programs established by the boards of trustees of state supported institutions of higher education under section 149.33 of the Revised Code.”
Supplement to the Special Audit Report

SCTO was unable to provide the following records during our examination:

- Documentation supporting the purpose and authorization of 25 trust account disbursements, totaling $42,704,048 for the purchase of another investment or a disbursement to SCTO's operating checking account.
- Written directives documenting the purpose for, and authorizing, the transfer of funds from one bank account to another for 72 wire transfers.
- Documentation supporting three days of Daily Cashier Balance Sheets which identify the vault cash balance and individual cashier balances.

By not retaining documentation, the County cannot ensure that actions taken are in accordance with management’s objectives and intentions and the County increases its risk of errors and unauthorized transactions.

We recommend the SCTO maintain records to support deposit and disbursement of county funds and document when investments are purchased and sold in accordance with the Commissioner-approved records retention schedule.

MANAGEMENT RECOMMENDATION

Operational Policies and Procedures
SCTO did not maintain written policies and procedures for collecting payments, closing out daily cash collections, performing daily and monthly reconciliations of its books to bank balances and the SCAO’s fund balances; issuing checks, wire transfers, and ACH transfers of County funds; voiding manual checks, SCAO warrants, and returned ACH wire transfers; and documenting authorizations required for investment purchases, sales, and wire transfers of funds between SCTO bank accounts.

Without written policies and procedures, employees may interpret standard practices incorrectly resulting in inaccurate, inconsistent, and undesirable results.

We recommend SCTO develop an operations manual addressing the following areas:

- Procedures for counting a cashier’s drawer at the end of business, completing the Daily Cashier's Balance Sheet, and selling funds to the vault.
- Procedures for performing and reviewing daily and monthly reconciliations to ensure SCTO’s book balances agree to the reconciled bank and investment account balances and SCAO’s month-end fund balances. Each of the terms and entries on the daily and monthly reconciliations should be specifically defined to reduce confusion when completing daily or monthly reconciliations. This will also enable other SCTO personnel to complete the daily or monthly reconciliation when the head cashier or fiscal officer is absent.
- Procedures and guidelines for transferring funds between SCTO bank accounts including required authorizations to initiate, approve, and review transactions to ensure they were processed correctly and in accordance with management’s objectives and intentions.
- Procedures for re-issuing payments for returned ACH wire transfers, voiding SCTO-issued manual checks, and stopping payment on SCTO-issued manual checks, ACH wire transfers, and SCAO warrants to ensure all disbursements issued are recorded on SCAO’s ledgers and no disbursements to non-SCTO bank accounts are made by the SCTO.
STARK COUNTY TREASURER'S OFFICE

STARK 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
JUNE 25, 2010