



Dave Yost • Auditor of State

VILLAGE OF MT. STERLING
MADISON COUNTY

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FRAUD EXAMINATION REPORT

Village of Mt. Sterling
1 South London Street
Mt. Sterling, OH 43143

To the Village of Mt. Sterling Council Members, Mayor Anderson, and Village Citizens:

Summary

The Auditor of State (AOS) conducted a criminal investigation and special audit of the Village of Mt. Sterling (the Village) based on a call from the Madison County Prosecutor and the Madison County Sheriff regarding an alleged theft at the Village. Our investigation identified almost one million dollars in illegal expenditures for which we issued findings for recoveries and also supported criminal charges against Village Administrator Joseph Johnson and others.

Background

On February 24, 2016, AOS received information from the Madison County Prosecutor and Sheriff's Office regarding an alleged theft at the Village. The information indicated the Village Administrator, Joseph Johnson, and Mayor, Charles Neff, recently resigned, and the Village was concerned a number of assets were missing. One of the items missing included a lawn mower recently purchased by Mr. Johnson with a Village check. It was also noted documentation supporting the purchase was not maintained. The Village contacted the dealership where the lawn mower was purchased and obtained a copy of the invoice. The Village could not locate the lawn mower. In addition, the Mayor's computer hard drive had been erased. The Attorney General's Office Bureau of Criminal Investigation (BCI) was also contacted by the Village to assist in the investigation.

After preliminary meetings with the Village, Prosecutor's office, and BCI, and a preliminary examination of available documentation, the information was considered by the Auditor of State's Office Special Audit Task Force on April 11, 2016; the Task Force declared a special audit of the Village of Mt. Sterling.

On July 13, 2016, Mr. Johnson was indicted by the Madison County grand jury on 30 counts, including one count of engaging in a pattern of corrupt activity, a first degree felony, 22 counts of theft in office, one count of theft, two counts of money laundering, one count of tampering with records, and three counts of failure to file tax returns. Mr. Johnson was alleged to have used the Village credit card to purchase vehicles, vehicle parts, mechanical equipment, televisions and other miscellaneous items all of which were for personal use. On July 19, 2016, AOS, with assistance from the Madison and Jackson County Sheriff's Offices, and the National Insurance Crime Bureau (NICB), executed a search warrant on Mr. Johnson's residence where items purchased with Village funds were seized. These items included televisions, a washer and dryer, video game system, vehicles, motorcycle, John Deere tractor, iPad, safe, guns, and a trailer. On July 28, 2016, AOS also executed a search warrant on a former Village employee's residence where items seized had previously been provided to the employee by Mr. Johnson, however, were purchased with Village funds. These items included a television, a washer and dryer, sofa, love seat, ottoman, safe, and a vehicle.

Scope

In conducting our special audit of the Village, we used the information from the complaint and our preliminary findings to define the areas we should investigate and the relevant time period for our review. This helped define our specific objectives, or questions, which could be audited (i.e. either documents existed or at least should exist which could be tested, there were relevant laws or internal procedures in place) and would answer whether the Village spent public money appropriately. In order to answer whether the Village spent public money appropriately, we audited for compliance with applicable Revised Code provisions; for compliance with internal procedures, such as rules governing employee leave payouts; and for compliance with grant agreements entered into with the Attorney General's office. We defined our audit period as covering January 1, 2012 through January 14, 2016 (the Period) based on the risk factors identified. Having defined our objectives and period, we developed specific procedures designed to address each of our objectives.

The objectives and procedures are described more fully in the attached Supplement to the Special Audit Report for the Period.

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

- Examine whether disbursements made by the Village during the period were supported and were for a proper purpose;
- Examine whether certain disbursements from the Village's payroll account were proper and for purposes related to Village operations; and
- Examine whether the Village administered the Move Ohio Forward Grant in accordance with applicable grant and contract requirements.

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

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

Findings

After completing our audit work, we determined there were instances where Village personnel used public funds to make illegal purchases and were paid illegally. Our report includes several findings for recovery. A finding for recovery generally constitutes a finding that an individual or entity (e.g. a vendor) illegally received public money. Pursuant to Ohio Rev. Code Section 117.28, when the Auditor of State's office issues a finding for recovery, the individual or entity can repay the amount voluntarily; however, the finding for recovery empowers the public office's statutory legal counsel or the Attorney General's office to institute legal proceedings to collect that amount.

We issued eight findings for recovery against 11 Village employees totaling \$998,050. The details are discussed more fully in the attached Supplement, but below is a summary of the findings we are issuing:

Non-Payroll Disbursements

Joseph Johnson was hired as the Village Administrator in January 2012. During the Period, in addition to his administrator role, Mr. Johnson assisted the fiscal officer with preparing disbursements, had the authority to issue and sign Village checks and electronically pay bills from Village bank accounts. We examined certain disbursements made by the Village during the Period. Mr. Johnson received payments totaling \$85,733 that were not for Village purposes and not supported by documentation or supported only by a check stub. Mr. Johnson also signed and issued 26 Village checks to vendors for personal or non-Village related expenditures totaling, \$78,844. Furthermore, Mr. Johnson was assigned six additional Verizon wireless telephone numbers during the Period, totaling \$5,989, and paid by the Village. We were unable to determine whether these additional telephone numbers were for Village purposes.

Mr. Johnson made \$228,420 in personal or non-Village related purchases on the Village's Chase credit card issued in his name. We identified an additional \$83,016 not supported by documentation that was charged to the Village credit card in the name of Mr. Johnson. Mr. Johnson redeemed credit card points valued at \$3,731 for personal use. Mr. Johnson also charged \$17,130 for personal out of state travel and ethanol purchases on the Village's fleet fuel cards during the Period.

As a result, we issued a finding for recovery against Joseph Johnson totaling \$502,863. We also issued findings for recovery to Village employees for unsupported or unauthorized disbursements totaling \$48,522. Mr. Johnson was named jointly and severally liable for \$3,863 of this amount. We also named the fiscal officer, Vicki Sheets, jointly and severally liable for \$372, and the mayor, Charles Neff, jointly and severally liable for \$6,700, of this amount.

We issued four noncompliance citations regarding the Village Clerk/Treasurer position, record retention, public records policies, and taxable fringe benefits and four management recommendations regarding segregation of duties and internal controls, lack of council oversight, Village credit cards, and lack of health insurance reimbursement policies.

Payroll Disbursements

We examined available documentation supporting compensation paid to Mr. Johnson, the Village Mayor, Charles Neff, and leave balance payouts to Village employees during the Period. Mr. Johnson was responsible for processing and authorizing payroll disbursements through the Village's payroll vendor, ADP. Mr. Johnson was paid \$368,682 in excess of the Village approved annual compensation for the Period. The additional unapproved compensation included bonuses, leave payouts, and other miscellaneous payments. All additional unapproved compensation was not supported by documentation nor approved by Village Council. We issued a finding for recovery against Mr. Johnson totaling \$368,682. Mr. Neff was named jointly and severally liable for \$57,851 which he authorized to Mr. Johnson for leave balance payouts and overcompensation of Mr. Johnson's final pay check.

Mr. Neff was paid \$1,250 in excess of Council authorized amounts. We issued a finding for recovery against Mr. Neff for this amount. In addition, we identified seven Village employees who received leave balance payouts totaling \$76,733 for the Period. These leave balance payouts were not authorized and documentation was not maintained to support the available leave balance at the time of payout. We issued finding for recoveries against all seven employees totaling \$76,733. One finding for recovery totaling \$8,504 was repaid under audit. Mr. Johnson was named jointly and severally liable for the excess amount paid to Mr. Neff and the leave balance payouts to the remaining six Village employees for an aggregate total of \$68,229.

Move Ohio Forward Grant

During the Period, the Village received \$185,825 in reimbursement from the Ohio Attorney General's (AG) office to demolish 16 condemned properties in Madison County. Mr. Johnson was responsible for administering the Move Ohio Forward Grant awarded by the AG. We examined the grant agreement, invoices and other documentation for expenses incurred for the 16 properties demolished. The grant was administered in accordance with applicable grant and contract requirements.

On November 1, 2017, we held an exit conference with the following individuals representing the Village:

Lowell Anderson, Mayor
Mark Pitstick, Village Law Director
Courtney Bricker, Fiscal Officer
Jim Davis, Council Member

David Timmons, Council Member
Mary Lou Stiverson, Council Member
Diane Spradlin, Council Member
Rebecca Burns, Council Member

The attendees were informed that they had five business days to respond to this special audit report. A response was received on November 8, 2017. The response was evaluated and changes were made to this report as we deemed necessary.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

October 12, 2017

Supplement to the Special Audit Report

Objective No. 1 - Examine whether disbursements made by the Village during the Period were supported and were for a proper purpose.

PROCEDURES

We determined whether certain disbursements made during the Period were supported and for purposes related to the operations of the Village.

We determined whether certain expenditures made during the Period using Village credit cards were supported and for purposes related to the operations of the Village.

RESULTS

General Non-Payroll Disbursements

In January 2012, Joseph Johnson was hired as the Village Administrator for the Village of Mt. Sterling. Prior to becoming Village Administrator, he was the Village's Street Superintendent. During the Period, in addition to his administrator role, Mr. Johnson assisted the fiscal officer with preparing disbursements, was responsible for processing and authorizing payroll disbursements through the Village's payroll vendor, ADP, had the authority to issue and sign Village checks, and electronically pay bills from Village bank accounts. It is important to note, at the beginning of 2014, Village Council adopted new Rules of Council delegating all administrative duties to the Mayor and Village Administrator. These duties included hiring and firing of employees and financial decision making. The Village Council's powers were legislative only.

We examined 409 non-payroll disbursements made by the Village during the Period, totaling \$1,031,524. The following is a summary of the disbursements examined:

Vendor Name	Employee / Vendor	Number of Disbursements	Amount Examined
Joseph Johnson	Village Administrator	34	\$163,001
Vicki Sheets	Village Fiscal Officer	41	\$38,478
David Cline	Water/Sewer Operator	5	\$5,757
Bonnie Liff	Utilities Clerk/Asst. Admin.	19	\$34,435
Christopher Ladley	Water Operator	4	\$6,940
Madison Newsome	Utilities Clerk/ Admin. Asst.	3	\$680
Brett Towler	Utilities	2	\$1,892
Ronnie Vansickle	Utilities	2	\$440
Dennis Case	Utilities	5	\$2,400
Christopher Beaver	Utilities	2	\$4,945
Jack Dill	Sheriff Deputy / Park	1	\$260
Tyler Curtis	Utilities	6	\$4,566
Darrell McGraw	Hired Contractor	28	\$106,296
Verizon Wireless	Vendor	49	\$45,720
Shoaf Trailer Repair	Vendor	4	\$21,382
Rocks Trailer	Vendor	2	\$17,130
Green & Sons	Vendor	28	\$30,925
B&B Inc.	Vendor	1	\$6,616
Miscellaneous Disbursements	Miscellaneous Vendors	173	\$539,661
		409	\$1,031,524

Supplement to the Special Audit Report

Of the 34 non-payroll disbursements to Joseph Johnson, 21 totaling \$85,733 were not for purposes related to the operations of the Village and not supported by documentation or supported only by a check stub. Disbursements to Mr. Johnson were for miscellaneous reimbursements, including health insurance reimbursements, travel and mileage, and miscellaneous equipment. Mr. Johnson also received three payroll related payments totaling \$57,851 that were not properly supported. We included these results and related findings within our payroll expenditure testing.

Of the remaining disbursements examined, we noted 57 disbursements totaling \$101,845 to Village employees and vendors were not supported and were not for the purposes of the Village or, because the support was not maintained, the purpose could not be determined. The disbursements were for miscellaneous reimbursements and purchases, including health deductible reimbursements, clothing, food, supplies, and equipment.

We also noted 21 disbursements totaling \$25,279 where support was maintained; however, we determined the purchases were not for Village purposes. These purchases included food, gift cards, clothing, equipment, and a medical device. We noted one invoice maintained by the Village as support for a purchase had been manipulated. The amount and item description had been whited out and a new amount and item written in by Mr. Johnson. The item written on the invoice indicated the Village had purchased a sewer snake for \$3,800. We contacted the vendor and obtained a copy of the original invoice and noted the original item purchased was a used hydraulic jack hammer and a tree boom for \$3,800. We also noted several payments to a clothing and footwear vendor used by the Village to purchase employee work clothes. On three invoices examined, we identified \$728 in woman's clothing purchased. These purchases appear to be personal and not for the operations of the Village.

We identified an additional 60 disbursements totaling \$248,959 that were not supported. Based on the description and nature of the vendors, however, and alternative procedures completed over the transactions, we concluded the disbursements were for Village purposes and did not require findings for recovery. All other disbursements examined, except as otherwise noted in the finding for recoveries below, were considered to be for purposes related to the operations of the Village.

We identified seven individual Verizon telephone numbers assigned to Mr. Johnson for the Period, totaling \$12,113. We were able to identify Mr. Johnson's primary account; however, we were not able to determine the purpose for the remaining six accounts, totaling \$5,989.

We identified \$1,470 in late charges and finance fees paid by the Village on disbursements made during the Period. Timely payment of Village bills was the responsibility of the fiscal officers, both Lana Cydrus and Vicki Sheets during the Period.

Credit Cards

During the Period, the Village made 890 purchases totaling \$317,341 to a Chase credit card issued to and used by the Village Administrator, Joseph Johnson. There were no itemized receipts provided by the Village to support the transactions made during the Period.

We contacted 34 vendors and obtained 338 receipts and invoices totaling \$234,325. Of those 338 transactions, we noted 334 totaling \$228,420 were for personal purchases or other non-Village related transactions made by Mr. Johnson, as follows:

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<u>Vendor</u>	<u>Amount</u>	<u># of transactions</u>
Jegs High Performance, Inc	\$ 24,197	19
Menards	\$ 23,339	27
Rocks Trailer Sales	\$ 16,005	8
Home Depot	\$ 15,954	44
Tractor Supply Company	\$ 15,612	30
Shoaf Trailer Repair	\$ 15,449	13
Kaffenbarger Truck	\$ 14,357	2
Walmart	\$ 13,079	43
Bob Boyd Ford	\$ 12,359	6
Bush Auto Place	\$ 10,196	4
Rural King	\$ 7,201	14
The Wooden Branch	\$ 6,283	2
Sam's Club	\$ 5,644	8
CJ Pony Parts Inc.	\$ 5,464	14
LMC Truck	\$ 5,060	4
Performance Chrysler Jeep	\$ 5,000	1
Best One Tire	\$ 4,522	3
Sunoco	\$ 4,013	64
Harbor Freight Tools	\$ 3,541	8
Ohio Valley Outdoors	\$ 3,303	4
JD Equipment	\$ 3,000	1
National Auto Tools	\$ 2,450	2
Engine and Transmission	\$ 1,980	1
Value Tire Center	\$ 1,795	1
Tire Discounters	\$ 1,600	1
A.D. Farrow Company	\$ 1,593	3
Westin (Westin Hotels)	\$ 1,468	1
United Garage Door	\$ 1,351	2
Cabela's Retail	\$ 1,147	2
Nourse Family Dealerships	\$ 1,000	1
Coughlin Automotive	\$ 458	1
	\$ 228,420	334

During the four years Mr. Johnson was Village Administrator, he purchased and sold over 50 vehicles and motorcycles for personal use. We identified seven vehicles purchased, totaling \$24,507, where the down payment was paid using Mr. Johnson's Village-issued credit card. Mr. Johnson traded these seven vehicles in toward his next vehicle purchases. In several cases, the value of the trade-in was less than his original purchase price. In addition, Mr. Johnson used his Village-issued credit card to purchase snow plows, trailers, a camper, a John Deer tractor, a 12x20 storage shed, and \$24,197 in high performance vehicle accessories. Mr. Johnson used his Village issued credit card to purchase a 9,000 lb. overhead automotive lift for \$2,450 from National Auto Tools in December 2014.

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We confirmed the automotive lift was installed at Mr. Johnson's residence; however, it had been removed from his residence prior to the beginning of our investigation. Mr. Johnson also used his Village issued credit card for a personal vacation at the Westin Resort in Cape Coral Florida over Christmas in 2014. Mr. Johnson spent four days at the resort and upgraded his room upon arrival. We confirmed these purchases were for personal use.

For the remaining transactions, totaling \$83,016 the Village did not provide support for the purchases and therefore we were not able to determine whether the purchases were for Village purposes.

We also identified several instances where points earned on credit card purchases were redeemed. We noted 369,074 points were redeemed during the Period by Mr. Johnson for two Apple iPod's valued at a total of \$598, two video games valued at a total of \$82, \$2,860 in gift cards to various vendors, and a \$191 statement credit that was used to purchase unauthorized items.

The Village also made \$63,434 in purchases on their fleet fuel cards, issued by Wex, Inc. The Village maintained fuel cards for their street, water, sewer and former police departments. The Village did not maintain itemized receipts to support the transactions made during the Period.

Mr. Johnson used several of these fuel cards during the Period. We identified a total of 705 gas purchases made by Mr. Johnson totaling \$34,290. Of this amount, \$1,046 was for personal out of state travel and \$16,083 was for ethanol fuel purchases, for a total of \$17,130. Through an examination of Mr. Johnson's subpoenaed personal bank account charges, we were able to determine the out of state fuel purchases corresponded with Mr. Johnson's personal vacations. Ethanol fuel is used for high performance vehicles for which the Village did not maintain any such vehicles during the Period.

FINDINGS FOR RECOVERY

Joseph Johnson

During the Period, Mr. Johnson assisted the fiscal officer with preparing disbursements, was responsible for processing and authorizing payroll disbursements through the Village's payroll vendor, ADP, and had the authority to issue and sign Village checks and electronically pay bills from Village bank accounts.

Mr. Johnson received payments totaling \$44,852 for reimbursements that were not supported by documentation. Due to the lack of documentation, we were unable to determine whether the expenditures were for purposes related to the Village. Mr. Johnson also received duplicate reimbursements totaling \$17,346 for items paid for with the Village's Chase credit card or claimed more than once for health insurance reimbursements. Mr. Johnson also received payments totaling \$13,035 for travel reimbursements or mileage claimed where there was no documented Village related reason for traveling. Mr. Johnson also received \$1,500 in Christmas bonuses, authorized by the Mayor; however, were never approved by Village Council. Mr. Johnson also received a \$9,000 payment for his 2016 yearly health insurance reimbursement. However, Mr. Johnson was only employed at the Village through January 14, 2016 and not entitled to the full yearly health insurance reimbursement amount. In addition, Mr. Johnson did not provide documentation to support he had incurred health expenses eligible for reimbursement.

We identified ten Village checks written to vendors and signed by Mr. Johnson totaling \$51,953 for personal related purchases. These purchases included equipment, trailers, a vehicle, a vehicle scanner, high performance vehicle tires, women's clothing, and a shed. An investigation conducted by AOS determined that none of these items had ever been in the possession of the Village. Additionally, we also identified eight Village checks written to vendors totaling \$14,862 for personal expenses incurred for the benefit of Village employees or other individuals other than Mr. Johnson. These checks were signed by Mr. Johnson and included purchases of hearing aids and food items. We also identified eight Village checks written to vendors and signed by Mr. Johnson totaling \$12,029 for purchases that were not supported by documentation. Due to the lack of documentation, we were unable to determine whether the expenditures were for purposes related to the Village.

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We also identified six additional Verizon telephone numbers assigned to Mr. Johnson for the Period, totaling \$5,989, and paid by the Village. We were unable to determine whether the additional telephone numbers were for purposes related to the Village.

During the Period, Mr. Johnson charged \$228,420 for personal or other non-Village related transactions on the Village's Chase credit card issued in his name. During the four years Mr. Johnson was Village Administrator, he purchased and sold over 50 vehicles and motorcycles for personal use. We identified seven vehicles purchased, totaling \$24,507, where the down payment was paid using Mr. Johnson's Village issued credit card. Mr. Johnson traded these seven vehicles in toward his next vehicle purchase. In several cases, the value of the trade-in was less than his original purchase price. In addition, Mr. Johnson used his Village issued credit card to purchase snow plows, trailers, camper, John Deer tractor, lift, and \$24,197 in high performance vehicle accessories. We identified these purchases were for personal use. We also identified \$83,016 charged to the Village's Chase credit card issued to Mr. Johnson that was not supported by documentation. Due to the lack of documentation, we were unable to determine whether the expenditures were for purposes related to the Village. Items charged included personal travel expenses, vehicles, equipment, tools, household appliances, and other miscellaneous expenses. Some of these items purchased were identified during the search warrant executed at Mr. Johnson's residence. The Village paid these charges.

Mr. Johnson also redeemed 369,074 points from his Village Chase credit card during the Period. Mr. Johnson received two Apple iPod touches valued at \$598, two video games valued at \$82, \$2,860 in gift cards to various vendors, and a \$191 statement credit that was used to purchase unauthorized items.

Mr. Johnson also charged \$17,130 for personal out of state travel and ethanol purchases on the Village's fleet fuel cards during the Period. Ethanol fuel is used for high performance vehicles and the Village did not maintain vehicles that used ethanol fuel during the Period.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public property converted or misappropriated is hereby issued in the amount of \$502,863 against Joseph Johnson and his bonding company, Ohio Plan Risk Management, Inc., in favor of the Village of Mt. Sterling.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

Mr. Neff authorized and signed two Village checks totaling \$1,500 to Mr. Johnson as bonus payments. Village Council did not approve the bonus payments to Mr. Johnson; therefore, Mr. Neff did not have the authority to issue the payments. In addition, Mr. Neff authorized and signed a Village check totaling \$5,200 for the purchase of a vehicle. Through our investigation, we identified the vehicle as a personal vehicle purchased by Mr. Johnson.

Accordingly, a finding for recovery is hereby issued against Charles Neff in the amount of \$6,700 for public monies expended in favor of the Village of Mt. Sterling. Mayor Neff shall be jointly and severally liable for such illegal expenditure and to the extent that recovery or restitution is not obtained from Mr. Johnson.

Supplement to the Special Audit Report

Unsupported/Unauthorized Disbursements

We noted the following employees received payments during the Period that were not supported by documentation:

<u>Name</u>	<u>Unsupported/ Unauthorized Amount</u>	<u>Expense Approved By</u>	<u>Issue</u>
Chris Beaver	\$124	Vicki Sheets	Unauthorized clothing purchase
Chris Ladley	\$97	Joseph Johnson	Unsupported Parts Reimbursement
Bonnie Liff	\$248	Vicki Sheets	Health Reimbursement overpayment
Madison Newsome	\$400	Joseph Johnson	Unsupported Food Reimbursement
Ronnie Vansickle	\$440	Joseph Johnson	Unsupported Clothing Reimbursements
	<u>\$1,309</u>		

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued in the amount of \$1,309 against the identified employees in favor of the Village of Mt. Sterling.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp. , 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. Village of Linndale v. Masten , 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

During the Period, Ms. Sheets was the fiscal officer and Mr. Johnson assisted the fiscal officer with preparing disbursements, had the authority to issue Village checks and electronically pay bills from Village bank accounts, and had authority to sign Village checks.

Accordingly, Vicki Sheets and Joseph Johnson, and their bonding company, Ohio Plan Risk Management, Inc., will be jointly and severally liable in the amount of \$372 and \$937, respectively, and in favor of the Village of Mt. Sterling.

Lana Cydrus

As the fiscal officer for the Village of Mount Sterling, Ms. Cydrus was responsible for preparing disbursements and maintaining support for expenditures. We identified three disbursements totaling \$1,732 that were not supported by detailed receipts or invoice documentation. Due to the lack of documentation, we were unable to determine whether the expenditures were for purposes related to the Village. We also identified two disbursements totaling \$221 Ms. Cydrus authorized that were not for Village operations. Items purchased included food items and gasoline.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp. , 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. Village of Linndale v. Masten , 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a separate finding for recovery for public monies illegally expended is hereby issued in the amount of \$1,953 against Lana Cydrus and her bonding company, Ohio Plan Risk Management, jointly and severally, and in favor of the Village of Mt. Sterling.

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Vicki Sheets

As the fiscal officer for the Village of Mount Sterling, Ms. Sheets was responsible for preparing disbursements and maintaining support for expenditures. We identified thirty one disbursements totaling \$40,102 that were not supported by detailed receipts or invoice documentation. Due to the lack of documentation, we were unable to determine whether the expenditures were for purposes related to the Village. We identified an additional three disbursements totaling \$1,515 made by Ms. Sheets that were not for Village purposes. Items included a team golf registration, gift cards, political signs, and other miscellaneous purchases. Ms. Sheets also made \$338 in duplicate payments to vendors. We were not able to determine whether the Village received a credit on any future invoices due to the overpayments.

Ms. Sheets also received a reimbursement from the Village totaling \$18 that was not supported by documentation. Due to the lack of documentation, we were unable to determine whether the expenditures were for purposes related to the Village. In addition, Ms. Sheets received two payments identified as bonuses or vacation leave payout, totaling \$2,926. The payments were authorized by the Village Administrator; however, the bonus payments were not approved by Village Council. Ms. Sheets was considered a contract employee and not a full-time employee under the direction of the Village Administrator.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. rel. Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a separate finding for recovery for public monies illegally expended is hereby issued in the amount of \$44,899 against Vicki Sheets and her bonding company, Ohio Plan Risk Management, Inc., jointly and severally, and in favor of the Village of Mt. Sterling

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

Mr. Johnson authorized and signed two Village checks totaling \$2,926 to Ms. Sheets as bonus payments. Village Council did not approve the bonus payments to Ms. Sheets, as she was considered a contract employee and not a full-time employee under the direction of the Village Administrator. Therefore, Mr. Johnson did not have the authority to issue the payments.

Accordingly, a finding for recovery is hereby issued against Joseph Johnson and his bonding company, Ohio Plan Risk Management, Inc., in the amount of \$2,926 for public monies expended in favor of the Village of Mt. Sterling. Mr. Johnson shall be jointly and severally liable for such illegal expenditure and to the extent that recovery or restitution is not obtained from Ms. Sheets.

Charles Neff

During our examination of disbursements made by the Village during the period, Mr. Neff authorized and signed a Village check totaling \$242 that was not supported by detailed receipts or invoice documentation. Due to the lack of documentation, we were unable to determine whether the purchase was for purposes related to the Village. In addition, we also identified a \$119 payment where Mr. Neff authorized and signed a Village check. The payment was for food purchased for a local school district and does not appear to be for Village operations.

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Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a separate finding for recovery for public monies illegally expended is hereby issued in the amount \$361 against Charles Neff and in favor of the Village of Mt. Sterling.

NONCOMPLIANCE CITATION

Village Clerk/Treasurer

Ohio Rev. Code Section 733.26 and 733.42 states the village clerk and treasurer shall be elected for a term of four years. Ohio Rev. Code Section 733.262 provides that rather than having the elected offices of village clerk and treasurer, or the combined elected office of clerk-treasurer, as provided in Ohio Rev. Code Section 733.261, a village may combine the duties of the clerk and treasurer into one appointed office, to be known as the village fiscal officer. To make this change, the village legislative authority shall pass, by a two-thirds vote, an ordinance or resolution proposing to make the change.

Ohio Rev. Code Section 733.27 provides the village clerk shall attend all meetings of the legislative authority of the village and keep a record of its proceedings and of all rules, bylaws, resolutions, and ordinances passed or adopted, which shall be subject to the inspection of all persons interested. Ohio Rev. Code Section 733.28 also provides that the village clerk shall keep the books of the village, exhibit accurate statement of all moneys received and expended, of all the property owned by the village and income derived therefrom, and of all the taxes and assessments. Ohio Rev. Code Section 733.43 states that the treasurer of a municipal corporation shall keep an accurate account of all moneys received by him, showing the amount thereof, the time received, from whom, and on what account received; and all disbursements made by him, showing the amount thereof, the time thereof, the time made, to whom, and on what account paid.

During the Period, Ms. Sheets was employed part time as the acting Village fiscal officer. However, Village Council did not pass an ordinance or resolution combining the duties of the clerk and treasurer into one fiscal officer position. In addition, Village Council did not pass an ordinance or resolution formally hiring Ms. Sheets as the Village fiscal officer.

During the Period, Ms. Liff was appointed Village clerk of council. By performing duties of the clerk of council, including attending all council meetings and keeping a record of all minutes, ordinances and resolutions, Ms. Liff was acting as the Village clerk. However, Ms. Liff did not perform any additional duties of a Village clerk.

In addition, the Village clerk/fiscal officer did not maintain complete books of the Village, failed to maintain accurate statements of moneys received and expended, and of all the property owned by the Village. The Village clerk/fiscal officer did not prepare accurate and complete monthly bank to book reconciliations. Failure to comply with applicable laws regarding the appointment of village officials increases the risk job duties are not properly completed or completed at all. In addition, the lack of compliance increases the possibility financial information will not be properly communicated to the governing board and errors or irregularities could occur and not be discovered in a timely manner. This ultimately increases the possibility for fraud to occur.

We recommend Village Council become familiar with the Village Clerk and Treasurer positions and demonstrate compliance with the stated requirements. In addition, the Village Clerk/Treasurer or Fiscal Officer should record all the financial activity of the Village in the receipts ledger, appropriation ledger, and cash journal as appropriate, so that accurate statements of all monies received and expended can be prepared. The Village Clerk/Treasurer or Fiscal Officer should perform monthly bank reconciliations.

Supplement to the Special Audit Report

Financial statements and monthly bank reconciliations should be presented to Council for review. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

Records Retention

Ohio Rev. Code § 149.39 provides that each Village shall establish a records commission composed of the Mayor or the Mayor's appointed representative, as chairperson, and the Treasurer, the Village Solicitor, and a citizen appointed by the Mayor. The commission shall appoint a secretary, who may or may not be a member of the commission and who shall serve at the pleasure of the commission. The commission may employ an archivist or records manager to serve under its direction. The commission shall meet at least once every six months and upon call of the chairperson.

The functions of the commission shall be to provide rules for retention and disposal of records of the Village and to review applications for one-time disposal of obsolete records and schedules of records retention and disposition. The commission may dispose of records pursuant to the procedure outlined in this section. The commission at any time may review any schedule it has previously approved and for good cause shown may revise that schedule.

When the Village records commission has approved any application for one-time disposal of obsolete records or any schedule of records retention and disposition, the commission shall send that application or schedule to the Ohio Historical Society for its review. The Ohio Historical Society shall review the application or schedule within a period of not more than sixty days after its receipt of it. Upon completion of its review, the Ohio Historical Society shall forward the application for onetime disposal of obsolete records or the schedule of records retention and disposition to the Auditor of State for the Auditor's approval or disapproval. The auditor shall approve or disapprove the application or schedule within a period of not more than sixty days after receipt of it. Before public records are to be disposed of, the commission shall inform the Ohio Historical Society of the disposal through the submission of a certificate of records disposal and shall give the society the opportunity for a period of fifteen business days to select for its custody those public records that it considers to be of continuing historical value.

Furthermore, Ohio Rev. Code § 149.43(B)(2) provides that a public office shall have available a copy of its current records retention schedule at a location readily available to the public.

The Village was unable to provide the following records:

- Detailed support or voucher packets for 160 of 409 (39%) disbursements examined;
- Complete bank statements and copies of cancelled checks received from Chase Bank for the Period;
- Any payroll records for calendar year 2015; and
- Complete payroll records for calendar years 2012, 2013, and 2014.

Additionally, the Village did not maintain monthly statements or itemized receipts supporting expenditures charged on the Village's Chase credit card and Wex, Inc. fleet fuel card. All credit card transactions lacked itemized receipts or other detailed receipts or invoices.

In addition, the Village had neither established a records commission nor established rules for the retention and disposal of Village records. Lack of supporting documentation for disbursements limits management's ability to review and approve transactions and increases the risk of errors. Failure to adequately control and maintain documents could result in the inability to review prior transactions for accuracy or fraud. Also by not establishing a proper records retention policy, the Village risks being in noncompliance and not properly maintaining public documents.

We recommend the Village take measures to ensure all records are adequately safeguarded. We further recommend the Village establish a records commission for the purpose of establishing rules for the retention and disposal of Village records and to review applications for one-time disposal of obsolete records and schedule of records retention and disposition.

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Public Records Policy

Ohio Rev. Code § 149.43(E) provides that all public offices shall adopt a public records policy for responding to public records requests. In adopting a public records policy, a public office may obtain guidance from the model public records policy developed and provided to the public office by the attorney general under § 109.43 of the Revised Code. Except as otherwise provided in this section, the policy may not limit the number of public records that the public office will make available to a single person, may not limit the number of public records that it will make available during a fixed period of time, and may not establish a fixed period of time before it will respond to a request for inspection or copying of public records, unless that period is less than eight hours.

Furthermore, the public office shall distribute the public records policy adopted by the public office to the employee of the public office who is the records custodian or records manager or otherwise has custody of the records of that office. The public office shall require that employee to acknowledge receipt of the copy of the public records policy. The public office shall create a poster that describes its public records policy and shall post the poster in a conspicuous place in the public office and in all locations where the public office has branch offices. The public office may post its public records policy on the internet web site of the public office if the public office maintains an internet web site. A public office that has established a manual or handbook of its general policies and procedures for all employees of the public office shall include the public records policy of the public office in the manual or handbook.

During the Period, the Village had not established a public records policy.

By not adopting a public records policy, the Village risks being in noncompliance with public record laws. All Village employees need to be aware of the public record laws and what procedures to follow when a member of the public requests to examine public records.

We recommend the Village adopt a public records policy that is modeled after the example published by the Ohio Attorney General. The model public records policy is available on the Attorney General's website. This policy should be distributed to Village employees and posted at the Village or available on the Village's internet web site. Additionally, the Village's elected officials are required to attend public records training. The Village should identify a records custodian or records manager. The Village should also consider having the records custodian or records manager attend public records training.

Taxable Fringe Benefits

26 C.F.R § 1.61-21(a)(1) provides that, except as otherwise provided in subtitle A of the Internal Revenue Code of 1986, gross income includes compensation for services, including fees, commissions, fringe benefits, and similar items. Internal Revenue Service (IRS) Publication 5137, Section 15 Equipment and Allowances, the Fringe Benefit Guide, documents that clothing or uniforms were excluded from wages of an employee if they were (1) specifically required as a condition of employment; and (2) were not worn or adaptable to general usage as ordinary clothing.

During the period, the Village purchased work clothing for the Village Administrator, water and sewer employees, and Utilities Clerk, totaling \$6,236. The clothing included boots, jeans, sweatshirts, overalls, jackets, socks, and hats. The clothing did not meet the exclusive definition. As such, these payments were taxable fringe benefits for the Village employees. However, these fringe benefits were not reported as gross income on the employee's W-2 forms. As a result, there is an increased likelihood of federal taxes being paid at an incorrect amount. In addition, the Village lacked formalized written policies and procedures over the clothing allowance benefit, including the classification of employees receiving the allowance and yearly allowance amount.

We recommend the Village review the IRS regulations regarding taxable fringe benefits. The Village should review W-2s upon creation and determine if all taxable income is included. This will help ensure that the W-2s report all income subject to taxation.

In addition, the Village should establish formal written policies and procedures over the clothing allowance benefit. The policies should include but not be limited to a description of the classification of employees receiving the clothing allowance and yearly allowance amount for each employee.

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This matter will be referred to the Internal Revenue Service.

MANAGEMENT RECOMMENDATIONS

Lack of Council Oversight

Monitoring controls include management and governing board activities established to ensure compliance with policies and procedures, achievement of operational objectives, and proper and effective use of available resources.

Our audit noted the following conditions which are indicative of weak management and governing board oversight of Village activities:

- At the beginning of 2014, Village Council adopted new Rules of Council delegating all administrative duties to the Mayor and Village Administrator. These duties included employee hiring and firing, payroll compensation and employee benefits. The Village Council's powers were legislative only;
- Lack of employee knowledge of Village approved policies and procedures;
- Purchase orders, detailed invoices, receipts, and monthly reconciliations, were hardly ever reviewed and approved by the Council's Finance Committee, to evidence approval of expenses; and
- Failure to require the Village fiscal officer to attend Village Council meetings in order to report financial information and address Council member questions and concerns. Instead, the Council allowed the Village Administrator to perform the fiscal officer duties at Council meetings. This was an inappropriate role of the Village Administrator and a lack of segregation of duties.

Lack of proper governing board oversight increases the risk that established policies and procedures are not followed, whether misinterpreted or intentional, and operational objectives are not met. In addition, the lack of oversight increases the possibility errors or irregularities could occur and not be discovered in a timely manner and increases the opportunity for fraud to occur.

We recommend Council take a more active role in monitoring compliance with Village policies and procedures. We also recommend Council strengthen their internal controls in the Village to help provide financial stability going forward.

Segregation of Duties/Internal Controls

We noted an inadequate segregation of duties and lack of established internal controls at the Village. The Village Administrator had the ability to perform fiscal responsibilities, including preparing disbursements, processing and authorizing payroll disbursements through the Village's payroll vendor, issuing and signing Village checks and electronically paying bills from Village bank accounts. There was no documented review or approval by management of the invoices or detailed receipts supporting the checks written and signed by the Village Administrator. The Village Administrator also presented the financial information at Village Council meetings. We also noted the Village lacked formalized written policies and procedures over the payroll and non-payroll disbursement processes.

The lack of segregation of duties increases the possibility of errors or irregularities occurring and not being discovered timely. Not establishing internal controls can lead to payroll and non-payroll disbursements being made that are improper and increase the opportunity for fraud to occur.

We recommend the Village develop internal control procedures that promote an adequate segregation of duties for the payroll and non-payroll processes. Job duties should be separated between employees to strengthen controls, including separating daily fiscal responsibilities, including preparing disbursements, writing and signing checks, and processing payroll disbursements, from the Village Administrator, thereby decreasing the risk of fraud. These procedures should also promote effective management oversight by Council to ensure the non-payroll and payroll systems are providing complete, accurate, and timely information.

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We also recommend the Village develop and implement council-approved written policies and procedures over the payroll and non-payroll disbursement processes. Periodic monitoring should be performed by Council to ensure the established policies and procedures are operating as intended.

Village Credit Cards

During the Period, the Village paid credit card expenses that were not itemized or supported by receipts. The Village did not maintain a written credit card policy identifying guidance regarding allowable expenses, limitations, required supporting documentation, or review and approval of use. Neither the Village fiscal officer nor Council reviewed monthly credit card expenditures to ensure items purchased were properly supported and allowable. The lack of documentation made it difficult to determine the nature of certain charges and whether each related to the operations of the Village. Through review of available documentation obtained from vendors, we identified the Village Administrator charged personal expenses on the Village credit cards for non-business related items.

It was the Village fiscal officer and Council's responsibility to implement internal controls to reasonably ensure credit card transactions were supported, accurately recorded and for Village purposes. It was the Village fiscal officer and Council's responsibility to monitor these control procedures and verify they were operating effectively. Failure to provide detailed guidance addressing required supporting documentation and allowable expenditures, and failing to review transactions resulted in personal purchases being paid by the Village.

We recommend the Village establish written policies and procedures related to credit card transactions that specifically address items such as authorized users, allowable and prohibited expenditures, and required documentation, including the submission of original, itemized receipts. The Village should also establish procedures for review and approval of credit card transactions and specifically designate those individuals required to review and approve transactions to ensure sufficient documentation is provided to support the nature and business purpose of credit card charges prior to paying bills. To be effective, the performance of internal controls must be sufficiently documented to provide assurance the control was in place and function as management intended.

Health Insurance Reimbursement

Through a review of the Village of Mount Sterling Employee Manual, we determined the Village had not adopted a health insurance reimbursement policy that addressed items such as reimbursable medical expenses, total yearly maximum employee reimbursement, and appropriate support documentation. In addition, Village management did not adequately track employee's health insurance reimbursements to ensure they didn't exceed the yearly maximum amount. The risk of inappropriate health insurance reimbursement is increased without a formal policy.

During the Period, the Village reimbursed employees for health insurance expenses totaling \$67,189. Our examination of employee reimbursements noted the Village inconsistently reimbursed employees for health insurance expenses, including out of pocket deductibles, copays, prescriptions, and procedures not covered by the insurance. Documents supporting the reimbursements did not identify whether or not the employee paid the expenses prior to seeking reimbursement. The Village also purchased hearing aids totaling \$6,850 for a contract employee who was not eligible for benefits through the Village.

Failure to have a health insurance reimbursement policy and established internal controls to verify that all expenses were paid by the employee and within the reimbursement limit, resulted in the Village paying for charges that may have been excessive and/or not paid by the employee.

We recommend the Village implement a policy that specifically identifies allowable health insurance reimbursement expenses and the maximum yearly employee reimbursement amount. The Village should also include in the policy that all employees are required to provide evidence the health insurance expense was paid by the employee prior to requesting reimbursement. In addition, the Village should establish internal controls for reviewing and approving the health insurance reimbursements prior to payment. Village Council or the Administrator should review the reimbursements for compliance with Village policies prior to payment. The review and approval must be sufficiently documented to provide assurance the control was in place and functioning as management intended.

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Objective No. 2 - Examine whether certain disbursements from the Village's payroll account were proper and for purposes related to Village operations.

PROCEDURES

We examined the Village's Employee Manual, Council meeting minutes and ordinances to determine the salaries, bonuses, leave payouts, and other compensation approved during the Period for the Village employees and Mayor.

We obtained payroll reports from ADP used by the Village to process payroll disbursements in order to determine the amounts posted during the Period as compensation paid to the Village Administrator, Joseph Johnson and the Mayor, Charles Neff, and as bonuses, leave payouts and other miscellaneous compensation paid to other Village employees.

We compared the actual compensation paid during the Period to Mr. Johnson and Mr. Neff to the Council approved amounts noting any variances.

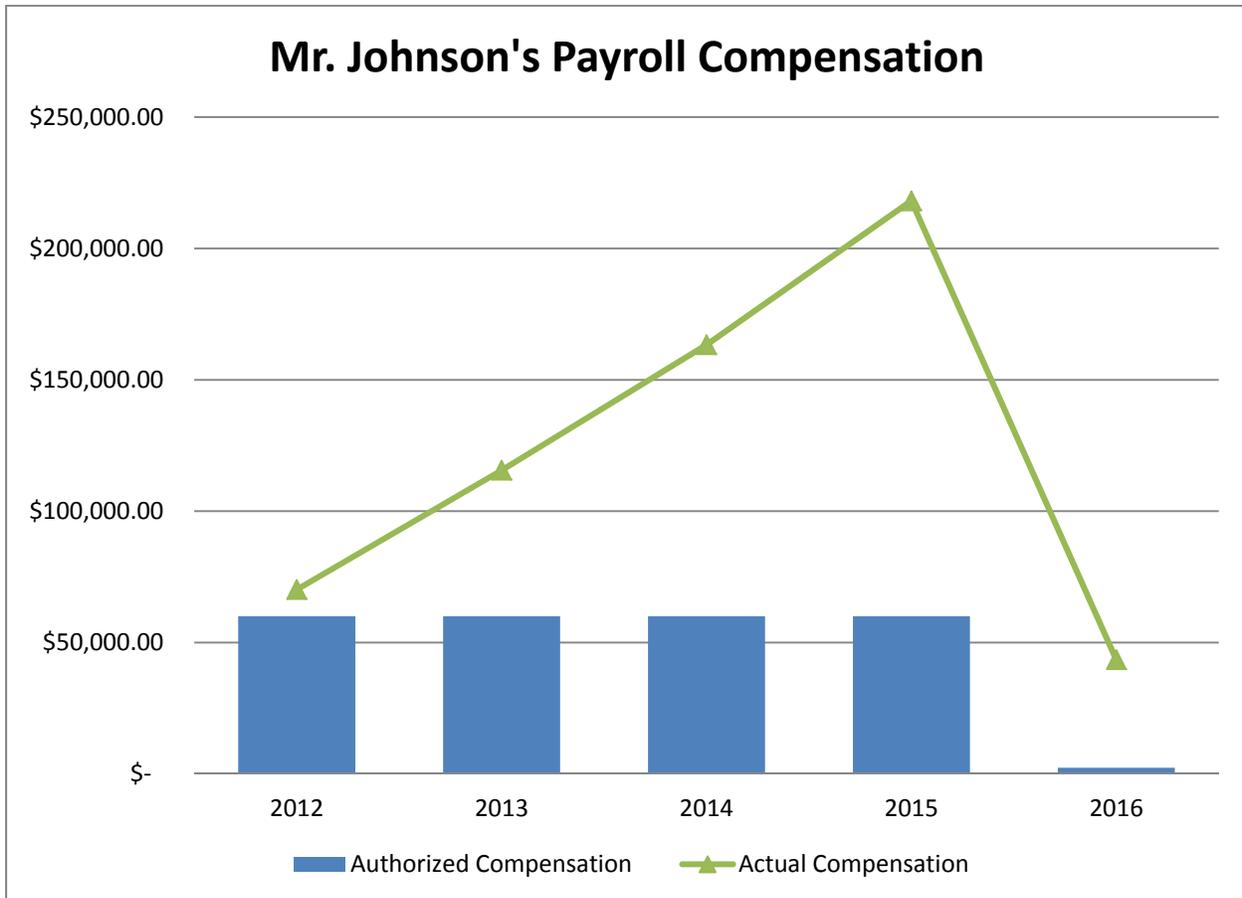
RESULTS

According to Ordinance 2012-01, Joseph Johnson was hired as the Village Administrator and Street Superintendent. His authorized annual gross compensation was \$60,000, for a total of \$242,028 for the Period. However, Mr. Johnson was compensated a total of \$610,710 for the Period, as identified below:

	Approved Compensation	Actual Compensation	Additional Unapproved Compensation
2012	\$ 59,719 ¹	\$ 70,164	\$ 10,445
2013	\$ 60,000	\$ 115,580	\$ 55,580
2014	\$ 60,000	\$ 163,371	\$ 103,371
2015	\$ 60,000	\$ 218,138	\$ 158,138
2016	\$ 2,309	\$ 43,457	\$ 41,148
Total	\$ 242,028	\$ 610,710	\$ 368,682

¹Mr. Johnson's gross compensation for 2012 did not reach the \$60,000 approved amount due to timing of hiring as Village Administrator.

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Mr. Johnson was responsible for processing and authorizing the Village's payroll disbursements. At the end of each pay period, Mr. Johnson would enter all Village employees' payroll compensation into the payroll system. The Village utilized the payroll vendor ADP as their payroll system. Our audit identified Mr. Johnson was compensated \$368,682 in excess of the Village approved annual compensation for the Period. Mr. Johnson's hourly rate of pay when hired as Village Administrator totaled \$28.85 per hour. Upon his resignation, Mr. Johnson was being paid \$47.65 per hour. We were unable to identify documentation to support the pay rate increase. During 2013, Mr. Johnson's additional unapproved compensation was identified within the payroll system as either "other", "advance" or "bonus" payments. However, these types of payments were all taxable. However, we identified an instance in which Mr. Johnson issued an additional payment to himself for the amount of taxes calculated on one of those unapproved compensation payments. And then, beginning in 2014, Mr. Johnson started identifying his additional unapproved compensation as a miscellaneous income and therefore the Village no longer was automatically removing taxes from the payments. On September 11, 2015, Mr. Johnson issued a \$16,702 payment to himself. The payment was unsupported; however, the check stub indicated Mr. Johnson had a family emergency and was cashing in 350 hours of his accrued sick leave. An investigation conducted by AOS determined Mr. Johnson purchased a 2015 Dodge Challenger on September 30, 2015 for \$16,414. In addition, the Village's Employee Manual states, "(e)mmployees who do not use any sick time within the year (November 30th to November 30th) may cash in 80 hours, with Village Administrator's approval." The Village did not maintain documentation supporting Mr. Johnson's accrued sick leave balance or whether Mr. Johnson used any sick leave during the year. All of Mr. Johnson's additional unapproved compensation was unsupported and lacked approval by Village Council.

According to Council resolution 1999-47, the Mayor was authorized to receive \$7,500 per year, or \$625 per month. In 2013 and 2015, Mr. Neff received \$625 more than the authorized \$7,500. He was paid twice in December 2013 and March 2015, resulting in a \$1,250 overpayment for the period.

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During the Period, the Village paid \$30,838 in bonuses to seven Village employees besides Mr. Johnson. Because the Village Council had delegated all administrative authority to the Mayor and/or Village Administrator, the bonuses paid appear to have been properly authorized.

In addition, the Village paid \$76,733 to the seven Village employees for leave balance payouts. Based on the Village's Employee Manual and lack of documentation to determine each employee's available leave balance and whether proper approval was obtained, we identified unapproved, unauthorized and unsupported payroll compensation to the following Village employees:

Employee	Amount
Bonnie Liff	\$44,887
Brett Towler	\$8,504
Chris Beaver	\$6,731
Chris Ladley	\$3,207
David Cline	\$4,340
Madison Newsome	\$6,564
Ronnie Vansickle	\$2,500
Total	\$76,733

These disbursements were not properly authorized and documentation was not maintained to support the leave payout was approved and available leave balance existed at the time the payout was made. These payments were processed by Mr. Johnson through the Village's payroll system.

FINDING FOR RECOVERY

Joseph Johnson

In January 2012, Joseph Johnson was hired as the Village Administrator for the Village of Mt. Sterling. Prior to being Village Administrator, he was the Village's Street Superintendent. During the Period, Mr. Johnson assisted the fiscal officer with preparing disbursements, processing and authorizing payroll disbursements through the Village's payroll vendor, signing and issuing Village checks and electronically paying bills from Village bank accounts. Village Council Ordinance 2012-01 authorized Mr. Johnson's annual compensation as \$60,000. Mr. Johnson was compensated a total of \$610,710 for the Period, as identified below:

	Approved Compensation	Actual Compensation	Additional Unapproved Compensation
2012	\$ 59,719	\$ 70,164	\$ 10,445
2013	\$ 60,000	\$ 115,580	\$ 55,580
2014	\$ 60,000	\$ 163,371	\$ 103,371
2015	\$ 60,000	\$ 218,138	\$ 158,138
2016	\$ 2,309	\$ 43,457	\$ 41,148
Total	\$ 242,028	\$ 610,710	\$ 368,682

Mr. Johnson was responsible for processing and authorizing the Village's payroll disbursements. At the end of each pay period, Mr. Johnson would enter all Village employees' payroll compensation into the payroll system. The Village utilized the payroll vendor ADP as their payroll system. Our audit identified Mr. Johnson was compensated \$368,682 in excess of the Village approved annual compensation for the Period. Mr. Johnson's hourly rate of pay when hired as Village Administrator totaled \$28.85 per hour. Upon his resignation, Mr. Johnson was being paid \$47.65 per hour. We were unable to identify documentation to support the pay rate increase. In addition, the additional unapproved compensation also included bonuses, leave payouts, and other miscellaneous payments. All of the additional unapproved compensation was unsupported and lacked approval by Village Council.

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In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public property converted or misappropriated is hereby issued in the amount of \$368,682 against Joseph Johnson and his bonding company, Ohio Plan Risk Management, Inc. in favor of the Village of Mt. Sterling.

Mayor Neff authorized the fiscal officer to compensate Mr. Johnson for 800 hours of unused leave and 14 days of pay prior to Mr. Johnson's separation from employment. The Village did not maintain documentation to support Mr. Johnson had the available leave balances. In addition, Mr. Johnson only worked 10 of the 14 days compensated. Mayor Neff also authorized and signed a Village check totaling \$16,702 to Mr. Johnson for 350 hours of unused sick leave. However, the Village did not maintain documentation to support Mr. Johnson had the available leave balance. In addition, the Village's Employee Manual only allows "(e)mloyees who do not use any sick time within the year (November 30th to November 30th) may cash in 80 hours, with Village Administrator's approval."

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. Village of Linndale v. Masten , 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

Accordingly, Charles Neff will be jointly and severally liable in the amount of \$57,851 in favor of the Village of Mt. Sterling.

Charles Neff

Council resolution 1999-47 authorizes the Mayor of Mt. Sterling to be compensated \$7,500 per calendar year or \$625 per month. Charles Neff was compensated \$8,125 in calendar years 2013 and 2015, for a total of \$1,250 in excess of Council authorized amounts.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued in the amount of \$1,250 against Charles Neff in favor of the Village of Mt. Sterling.

Village payroll disbursements were authorized through the Village's payroll vendor, ADP, by the Village Administrator, Joseph Johnson.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* , 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. Village of Linndale v. Masten , 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

Joseph Johnson and his bonding company Ohio Plan Risk Management will be jointly and severally liable in the amount of \$1,250 in favor of the Village of Mt. Sterling.

Employee Paid Leave Balances – Partially Repaid Under Audit

The Village's Employee Manual states, "(e)arned vacation days may not be converted to cash in lieu of time off unless approved by a supervisor because of extenuating circumstances and approved by the Mayor. In such cases the Clerk/Treasurer must be notified in writing." Also, "(e)mloyees who do not use any sick time within the year (November 30th to November 30th) may cash in 80 hours, with Village Administrator's approval."

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We noted the following employees received unauthorized or unsupported payroll compensation identified as leave balance payouts during the Period. The Village did not maintain documentation supporting the extenuating circumstance, the required approvals, or the employees' available vacation and/or sick leave balances at the time the leave was paid out.

<u>Employee</u>	<u>Amount</u>
Bonnie Liff	\$44,887
Brett Towler	\$8,504
Chris Beaver	\$6,731
Chris Ladley	\$3,207
David Cline	\$4,340
Madison Newsome	\$6,564
Ronnie Vansickle	\$2,500
Total	\$76,733

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued in the amount of \$76,733 against the identified employees in favor of the Village of Mt. Sterling.

The following finding for recovery was paid under audit:

<u>Employee</u>	<u>Amount Paid</u>	<u>Date Paid</u>
Brett Towler	\$8,504	10/31/2017

Village payroll disbursements were authorized through the Village's payroll vendor, ADP, by the Village Administrator, Joseph Johnson.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. *Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

Accordingly, Joseph Johnson and his bonding company Ohio Plan Risk Management will be jointly and severally liable in the amount of \$68,229 in favor of the Village of Mt. Sterling.

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Objective No. 3 - Examine whether the Village administered the Move Ohio Forward Grant in accordance with applicable grant and contract requirements.

PROCEDURES

We examined available documentation for the Move Ohio Forward Grant to determine whether the Village administered the grant in accordance with applicable grant and contract requirements.

We obtained grant information from the Ohio Attorney General's office, the granting agency, to determine the amount of funds reimbursed to the Village for the Move Ohio Forward Grant.

RESULTS

In November 2013, the Village was awarded the Move Ohio Forward Grant from the Ohio Attorney General's office (AG). The grant provided funds to approved organizations for demolition of residential housing determined to be a nuisance or a public health concern. Village Council approved participation in the grant on November 12, 2013. The Village Administrator, Joseph Johnson, was responsible for administering the grant.

During the Period, the Village received \$185,825 in reimbursement from the AG's office to demolish 16 condemned properties in Madison County. We examined invoices and other documentation for expenses incurred for the 16 properties demolished. We concluded each was properly supported and for a proper purpose.

In addition, the Village was allowed a maximum of 5% or \$9,545, of the grant agreement as administrative costs associated with administering the grant. We noted the Village received \$8,849 in administrative costs for the Move Ohio Forward Grant.



Dave Yost • Auditor of State

VILLAGE OF MOUNT STERLING

MADISON 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
JANUARY 23, 2018