



OHIO AUDITOR OF STATE
KEITH FABER



**CITY OF NELSONVILLE
ATHENS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Fraud Examination Report	1
Supplement to the Fraud Examination Report	
Objective 1 – Disbursements	6
Objective 2 – Income Tax Receipts	10
Objective 3 – Miscellaneous Activities and Disbursements.....	12
Appendix	
Schedule of Findings for Recovery and Management Recommendations.....	18

THIS PAGE INTENTIONALLY LEFT BLANK



OHIO AUDITOR OF STATE KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
FraudOhio@ohioauditor.gov
(800) 282-0370
Report fraud: 866-Fraud-OH

FRAUD EXAMINATION REPORT

City of Nelsonville
Athens County
211 Lake Hope Drive
Nelsonville, Ohio 45764

To the City of Nelsonville Council Members, City Manager, City Auditor and Citizens:

Summary

The Auditor of State, Special Investigations Unit (SIU) conducted a criminal investigation and special audit of the City of Nelsonville (the City) predicated on a request by Athens County Prosecutor Keller Blackburn to assist in the investigation of an alleged theft in office from the City.

The investigation identified over \$336,000 in misappropriated City expenses, including restitution related to the criminal cases as well as additional findings that were not included in the criminal prosecution, which resulted in findings for recovery and supported criminal charges against the former Deputy Auditor, Stephanie Wilson.

On February 10, 2020, Stephanie Wilson was indicted by the Athens County grand jury on three counts, including tampering with records, forgery, and telecommunications fraud. On February 24, 2020, a superseding indictment was filed in order to add one count of theft in office to the original three counts.

On December 22, 2020, Ms. Wilson entered a plea of guilty to one count each of tampering with records, in violation of Ohio Rev. Code § 2913.42(A)(1) (felony of the 4th degree), forgery, in violation of Ohio Rev. Code § 2913.31(A)(3) (felony of the 4th degree), telecommunications fraud, in violation of Ohio Rev. Code § 2913.05(A) (felony of the 3rd degree), and theft in office, in violation of Ohio Rev. Code § 2921.41(A)(1) (felony of the 3rd degree).

On April 12, 2021, the Honorable Judge George McCarthy sentenced Stephanie Wilson to a total of 59 months in prison. In addition, Judge McCarthy ordered Ms. Wilson to pay restitution of \$241,839.31, which includes both the payroll theft amount and the special audit costs, as well as a total fine of \$20,000.

While the court proceedings for the above charges were on-going, additional charges were brought against Ms. Wilson. On March 8, 2021, Stephanie Wilson was indicted by the Athens County grand jury on two counts, including engaging in a pattern of corrupt activity and theft in office.

On April 5, 2022, Stephanie Wilson entered a plea of guilty to one count each of engaging in a pattern of corrupt activity, in violation of Ohio Rev. Code § 2923.32(A)(1) (felony of the 2nd degree) and theft in office, in violation of Ohio Rev. Code § 2921.41(A)(1) (felony of the 3rd degree).

On April 5, 2022, Judge McCarthy sentenced Stephanie Wilson to a total of four years in prison, which will run concurrently to the 59 months in prison Ms. Wilson is serving related to the first indictment. In addition, Judge McCarthy ordered Ms. Wilson to pay additional restitution of \$49,956.95.

Background

The investigation began on February 10, 2020, after SIU received a complaint from Athens County Prosecuting Attorney Keller Blackburn. It was alleged that former Deputy Auditor Stephanie Wilson engaged in a false employee payroll theft scheme, overpaid herself for undocumented vacation, overtime, and additional salary to which she was not entitled, and may have misappropriated cash payments made to the City for residents' income taxes. Stephanie Wilson resigned from her position at the City on February 5, 2020.

After the information obtained from interviews and preliminary examination of payroll records was considered, a Special Audit was declared by the Auditor of State.

Scope and Approach

We defined our audit period as covering January 1, 2012 through February 5, 2020 (the Period) based on the risk factors identified.

The specific objectives we tested to establish whether fraud was committed at the City, were as follows:

- Examine available documentation supporting certain disbursements made by the City of Nelsonville during the Period to determine whether the disbursements were supported and made for purposes related to the operations of the City.
- Examine available documentation supporting certain receipts received by the City of Nelsonville during the Period to determine whether the income tax receipts were deposited into a City bank account and properly recorded in the City's financial records.
- Examine available documentation supporting certain miscellaneous activities or disbursements made by the City of Nelsonville during the Period to determine whether the disbursements were supported and made for purposes related to the operations of the City.

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

This engagement was conducted in accordance with the Auditor of State Special Investigations Unit, Quality Standards.

Findings

Based on the Special Audit procedures and investigation, the Auditor of State confirmed the allegation that Stephanie Wilson misappropriated payroll expenditures over a span of eight years. In addition to the original allegation, the Auditor of State also confirmed that Stephanie Wilson misappropriated income tax refund payments during the same timeframe.

Stephanie Wilson was hired by the City in January 2012 as the Payroll / Income Tax Administrator and after April 2018 she became the Deputy Auditor¹. Due to a lack of segregation of duties within the City's payroll function, Ms. Wilson was able to modify employee information in the City's payroll system, input payroll hours, generate the direct deposit file, and approve the processing of direct deposit payments with no evidence of a formal review by other City personnel. As a result, during the Period, Ms. Wilson stole \$100,237 by paying herself in excess of her approved compensation, and stole an additional \$113,681 through a ghost employee scheme. While it was not part of the original allegation, the Auditor of State also discovered and confirmed that Stephanie Wilson misappropriated \$42,344 in City income tax refund payments, again due to a lack of segregation of duties and proper internal controls. Ms. Wilson was responsible for receiving and collecting City income tax payments, recording the payment amounts in the City's income tax system, as well as creating City income tax refund payments. Therefore, Ms. Wilson was able to issue fraudulent City income tax refund payments to herself.

¹ The personnel file for Ms. Wilson was unable to be located, so an exact date is unknown.

While the following were not included in Ms. Wilson's criminal cases, we confirmed Ms. Wilson was responsible for collecting \$17,407 of income tax receipt monies that were not deposited, and the City incurred a total of \$33,757 of penalties and interest due to untimely filings or late payments by Ms. Wilson. As with the findings stated above, a lack of segregation of duties and proper internal controls allowed deposits not to be made and late filings and payments to go unchecked.

Our report includes findings for recovery. In general terms, a finding for recovery means that an individual or entity (e.g. a vendor) illegally spent or received public money. Pursuant to Ohio Rev. Code Section 117.28, when the Auditor of State's office issues a finding for recovery, the individual or entity can repay the amount voluntarily, or the finding for recovery also empowers the public office's statutory legal counsel or the Attorney General's office to institute legal proceedings to collect that amount.

We issued findings for recovery in the amount of \$336,325 against Stephanie Wilson and \$540 against Brenda Anderson for misappropriated or illegally expended City funds during the Period.

In addition to the findings for recovery, we issued management recommendations regarding maintaining supporting documentation, unlawful interest in a public contract, fraudulent income tax refunds, segregation of duties, non-compliance with union agreements, and internal controls. The full details of the findings for recovery and management recommendations are located in the Appendix.

On July 27, 2022, we held an exit conference with the following individuals representing the City:

Scott Frank, City Manager
Taylor Sappington, City Auditor
K. Robert Toy, City Attorney
Justin Booth, City Council
Gregg Clement, City Council

Nick Smith, City Council
Cory Taylor, City Council

The attendees were informed they had five business days to respond to this fraud examination report. A response was received on August 3, 2022. A response was provided by Taylor Sappington, City Auditor and was evaluated in the final preparation of this report.



Keith Faber
Auditor of State
Columbus, Ohio

September 16, 2022

THIS PAGE INTENTIONALLY LEFT BLANK



**SUPPLEMENT TO THE FRAUD
EXAMINATION REPORT**



SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Objective 1 – Examine available documentation supporting certain disbursements made by the City of Nelsonville during the Period to determine whether the disbursements were supported and made for purposes related to the operations of the City.

PROCEDURES

We scanned the City's payroll registers and identified for examination:

- Payroll disbursements made to Stephanie Wilson. We compared actual compensation paid to Ms. Wilson during the Period to authorized amounts.
- Payroll disbursements made to Stephanie Wilson's relatives, potential ghost employees, or other fake names as identified by the City. We examined available documentation for the selected payroll disbursements to determine whether payroll disbursements were supported and were for purposes related to the operations of the City.

We scanned the disbursements made by the City during the Period and identified for examination:

- Non-payroll disbursements made to Stephanie Wilson. We examined available documentation for the selected disbursements to determine whether the disbursements were supported and were for purposes related to the operations of the City.
- Non-payroll disbursements made to Stephanie Wilson's husband or his construction company, Wilson Construction. We examined available documentation for the selected disbursements to determine whether disbursements were supported and were for purposes related to the operations of the City.

RESULTS

Stephanie Wilson - Payroll

Bi-weekly, City employee timesheets were completed and signed by the employee and then provided to the employee's supervisor. The supervisor would then review the employee's timesheet to ensure it was accurate and sign the timesheet as evidence of their approval. The approved timesheets were then submitted to Ms. Wilson in the City Auditor's office, who prepared a worksheet for each timesheet indicating the hours worked, any requested leave hours, overtime hours worked, shift differentials, etc.

If a City employee used leave during the pay period, the employee completed the appropriate leave request form which was approved by the employee's supervisor, City Manager, and City Auditor. The former City Auditor either manually signed his name or utilized a stamp with his name to document his approvals. All approved leave forms were submitted with the employee's bi-weekly timesheet and maintained in the City Auditor's office.

City employees received bi-weekly paychecks by electronic direct deposit. After receiving all approved timesheets and leave request forms, Ms. Wilson utilized the City's Visual Intelligence Portfolio (VIP) system to enter the employees' hours, apply the appropriate taxes or union dues, and selected the date when the direct deposit amounts were to be paid and then hit the Submit button. During City personnel interviews, it was stated that Ms. Wilson also had blanket approval authority in VIP and therefore did not require a separate City supervisor to review or approve the payroll information as entered by Ms. Wilson. After the timesheets were approved, Ms. Wilson created the direct deposit report in VIP. Ms. Wilson then logged into the People's Bank website and uploaded the direct deposit report from VIP. People's Bank then automatically generated either a phone call or text message to Ms. Wilson with a confirmation code that Ms. Wilson had to enter into the People's Bank website as approval to process the direct deposit payments.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

During the Period, the City could only locate 56 of Ms. Wilson's timesheets for approximately 211 pay periods. Due to the lack of timesheets, we were unable to accurately calculate the leave hours accrued by Ms. Wilson and the potential hours of leave used during a pay period. In addition, the hours identified on some timesheets did not match the number of hours paid by direct deposit to Ms. Wilson. Finally, Ms. Wilson was able to issue herself two paychecks for one pay period in at least four instances.

Since the timesheets could not be relied on for testing purposes, we obtained the approved City Council ordinances which established Ms. Wilson's hourly rate of pay for the Period and used 80 hours per pay period to calculate Ms. Wilson's gross wage amount to be \$264,695. However, the payroll register's gross payroll amount for Ms. Wilson during the same period totaled \$364,932, for an overpayment of \$100,237. In addition to regular wages, these payments represented overtime, holiday pay, comp time used, sick leave, vacation leave, personal leave, shift 2 differential, in lieu of time off, comp time buyout, longevity, and retroactive pay, which we were unable to determine were proper based on lack of documentation.

A comparison of the calculated gross wages for Ms. Wilson compared to the amount of gross wages she was paid is as follows:



"Ghost" Employees

While reviewing payroll records, the City identified two employee accounts in the name of "Samantha Maikut" and "Michael McCollister" as fictitious City employees. A review of the Detail Audit Trails² for the two employee accounts indicated Ms. Wilson created the initial entry of Samantha Maikut in June 2012 and Michael McCollister in June 2016; albeit, both accounts started out listed under different names. Since the original creation, the Detail Audit Trails indicated Ms. Wilson sporadically revised the fictitious names which included revising to her own name and children's names, before ending with Samantha Maikut and Michael McCollister.

² This report shows the life of an account and the details of any change made, including by who, when and the old/current value.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Utilizing the City's payroll registers, payroll disbursements to Samantha Maikut (originally listed as Christopher Wilson) began in June 2012 and ended in September 2018. Based upon a review of the City's pool documentation, Ms. Wilson's son, Christopher Wilson, was employed as a pool cashier during the summers of 2012 and 2013 and, therefore, the payroll disbursements were determined to be legitimate for those years. However, Ms. Wilson then changed her son's name in the City's Payroll system from Christopher Wilson to Christopher Williams in June 2014. Beginning with Christopher Williams, Ms. Wilson changed the name at least four more times, and each name was not an actual City employee. Therefore, the remaining gross payroll disbursements from June 2014 through September 2018 totaling \$35,531 were determined to be illegitimate. These payroll disbursements were electronically deposited into either Christopher and Stephanie Wilson's personal joint bank account or Richard and Stephanie Wilson's personal joint bank account. From there, amounts were electronically transferred to Tyler and Stephanie Wilson's personal joint bank account, Richard and Stephanie Wilson's personal joint bank account, a second personal bank account for Stephanie Wilson, or the Wilson Construction bank account (which Stephanie Wilson had access to) on numerous occasions. Two other payroll deposits were not electronically transferred but instead one was withdrawn as cash and a second was utilized for a payment to Ohio University.

Current City personnel are unsure if Ms. Wilson specifically disclosed her relationship to her son, Christopher Wilson, as he was hired as a seasonal pool employee for 2012 and 2013. Current City personnel believe the City employee running the pool during those two years would have had to approve the hiring of Christopher Wilson. SIU reviewed Christopher Wilson's 2012 hiring documents and Stephanie Wilson signed and approved the I-9 Employment Eligibility Verification and the Personal History Record as well as initialed the Ohio New Hire Reporting Form. For Christopher Wilson's 2013 hiring documents, Stephanie Wilson again signed and approved the I-9 Employment Eligibility Verification and the Personal History Record. However, a Record of Employee Action Taken for Christopher's hire and termination was signed and approved by the former City Auditor Sue Powell.

Utilizing the City's payroll registers, payroll disbursements to Michael McCollister began in June 2016 and ended in November 2019. This account was originally listed as TR Willis and Ms. Wilson changed the first and last names at least nine times. On November 6, 2018, Ms. Wilson changed the name from "wilson nosliw" to "Stephanie Wilson". Then on January 15, 2019, Ms. Wilson changed "Stephanie" to "S" and on June 4, 2019 changed "Wilson" to "Willson". The gross payroll disbursements, totaling \$78,150, were determined to be illegitimate and were electronically deposited into Tyler and Stephanie Wilson's personal joint bank account. From there, amounts were electronically transferred to Christopher and Stephanie Wilson's personal joint bank account, Richard and Stephanie Wilson's personal joint bank account, or the Wilson Construction bank account.

Stephanie Wilson – Non-Payroll

We obtained a listing of all non-payroll payments from the City of Nelsonville to Stephanie Wilson for the Period totaling \$1,580 and we reviewed the provided invoices, purchase orders, and checks payable to Ms. Wilson. Of the 14 non-payroll payments, we identified eight payments totaling \$978 that did not have an invoice supporting the expenditure. One of these payments also did not have a purchase order. While the remaining seven payments had a corresponding purchase order, the purchase orders were not signed by the City Manager or the City Auditor. The majority of these eight payments were for mileage reimbursement. As a result, the eight payments totaling \$978 were not properly supported and therefore we were unable to determine whether the purposes related to the operations of the City.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Income Tax Refund Payments

We reviewed the City's bank statements to identify any manual checks or reimbursements issued to or checks endorsed by Ms. Wilson during the Period. We identified one check payable to Richard Willison on January 7, 2015 purported to be for 2012 and 2013 City income tax refunds totaling \$7,612. The City provided a letter written by Ms. Wilson to Richard Willison explaining the purpose of the check, the signed purchase orders for the tax refunds, as well as completed 2012 and 2013 City of Nelsonville tax returns in the names of Richard and Edith Willison (though one tax return did identify the names as Willison and Edith Richard). Further investigation of the documentation revealed suspicious inconsistencies and discrepancies in the information provided, which lead to the following discoveries:

- The letter and tax returns listed addresses in Dublin and New Albany, Ohio; however, neither of these addresses could be located on the Franklin County or Delaware County Auditors' websites.
- The letter written by Ms. Wilson was addressed to the Dublin, Ohio address but used the zip code for New Albany, Ohio.
- The social security numbers on the tax returns do not belong to either name listed on the tax returns.
- The primary social security number on the tax return belongs to an individual who lives in New Albany, Ohio and on the same street that was used on one of the tax returns. This individual confirmed in an interview he does not know Ms. Wilson, has never met her, and has never had any business with her through the City of Nelsonville. The individual did live in Athens County until approximately 2015 and confirmed he previously worked for a company based in Nelsonville. The individual indicated his accountant likely had applied for an income tax refund on his behalf from the City of Nelsonville. This individual also confirmed he has never given anyone, including Ms. Wilson, permission to use his social security number.

The check payable to Richard Willison was deposited on January 7, 2015 in the personal bank account of Richard and Stephanie Wilson. It was noted that this check was deposited along with a handwritten "counter" check purporting to be for a business identified as CBS Solutions & Services, in the amount of \$700, payable to Stephanie Wilson and also signed by Stephanie Wilson. The handwritten vendor name of CBS Solutions & Services matched the name of a company identified as receiving questionable income tax refund payments from the City, as described further below.

Due to the fraudulent income tax refund check identified above, we obtained a listing of all income tax refund checks issued by the City for the Period to evaluate whether there were any additional fraudulent checks. We identified seven City checks payable to RW Construction or REW Contractor totaling \$14,528. The City was only able to provide four Income Tax Refund Request forms which included the reason why the income tax refund was being issued. However, a number of the explanations did not make sense to current City personnel. In addition, each of the seven checks was deposited into the Wilson Construction bank account. Throughout the same period, Wilson Construction did receive non-payroll payments, as described further below, from the City for various construction work, but the vendor name on the related purchase orders and checks was Wilson Construction and not RW Construction or REW Contractor. Further, the vendor number associated with Wilson Construction, WIL370, was not used on any of the payments to RW Construction or REW Contractor. Also, the Income Tax Receipt report provided by City personnel did not include any payments received from RW Construction or REW Contractor and the only income tax payment from Wilson Construction was \$25.00 in February 2016.

We also identified two income tax refund checks payable to CBS Solutions Services/BSC Solution and Service totaling \$7,069 as well as three income tax refund checks payable to Special Retailers, Inc./ Specialty Retailers totaling \$13,135 as potential false payments because of the large dollar amounts but also because of the slight variation in the vendor name. We requested the City to provide any and all documentation supporting the payments as an income tax refund; however, the City did not have any documentation supporting these payments other than two Tax Refund Request forms, both initialed by Stephanie Wilson. We previously identified a hand written check from a CBS Solution & Services bank account payable to Stephanie Wilson. As a result, we subpoenaed the bank statements, checks, and deposit detail associated with the account number and were provided two accounts opened by Stephanie

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Wilson as Doing Business As CBS Solutions & Services as well as Special Retailers. Both accounts had application dates of November 17, 2014. The five income tax refund checks totaling \$20,204 were deposited in the bank accounts of Stephanie Wilson. Subsequent analysis of the transactions for these accounts determined a significant portion of the deposited funds were almost immediately withdrawn by Stephanie Wilson in cash or checks payable to her, or used to pay for personal purchases by debit card.

A table summarizing the fraudulent income tax refund payments is as follows:

FRAUDULENT CITY INCOME TAX REFUND PAYMENTS	
Richard and Edith Willison	\$7,612
RW Construction / REW Contractor	\$14,528
CBS Solutions Services / BSC Solution and Service	\$7,069
Special Retailers, Inc. / Specialty Retailers	\$13,135
TOTAL	\$42,344

Wilson Construction Non-Payroll

We obtained a listing of all non-payroll payments totaling \$15,094 from the City of Nelsonville to Wilson Construction for the Period, and we reviewed the provided estimates, invoices, purchase orders, and checks payable to Wilson Construction. While two payments did not have a corresponding invoice, a signed purchase order was provided for the disbursements. The purchase order was originally for a blanket amount of \$5,000 but was then split into two handwritten \$2,500 payments. The first handwritten \$2,500 purchase order was signed but the second handwritten \$2,500 purchase order was not. However, since the signed purchase order was originally completed for \$5,000, we did not take exception to these amounts. Therefore the \$15,094 paid to Wilson Construction was supported and was issued for purposes related to the operations of the City.

In addition, we requested a copy of all contracts between the City of Nelsonville and Wilson Construction to determine whether the payments received by Wilson Construction were within the contracted amounts. City personnel stated they were not aware of any contracts for the work completed at the City by Wilson Construction and there were no City Council actions authorizing the work.

Current City personnel are unsure if Stephanie Wilson specifically disclosed her relationship to her husband, Richard Wilson or Wilson Construction. The personnel also do not know if there were any unofficial discussions by City management or Council but indicated the purchase orders for payments to Wilson Construction should have been approved by the City Manager and prior City Auditor.

Objective 2 – Examine available documentation supporting certain receipts received by the City of Nelsonville during the Period to determine whether the income tax receipts were deposited into a City bank account and properly recorded in the City’s financial records.

PROCEDURES

We scanned the receipt books and income tax return data during the Period and identified for examination income tax receipts received by the City to determine whether income tax receipts were deposited and properly recorded in the City’s financial records.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

RESULTS

City of Nelsonville residents can either make quarterly payments for their taxes or pay for the entire year when filing their annual tax return. Businesses that withhold City of Nelsonville income tax from their employees must make quarterly or monthly payments to the City. We obtained a listing of income tax receipts per the City's income tax system for the period, which included the individual or entity's account number and name, the date of the tax payment, the tax payment amount, and the tax period. We also obtained a listing of the income tax receipts per the City's financial ledgers for the period. While these two reports should match in total, we identified numerous variances between the two reports and the financial ledger amount was exceedingly greater than the income tax system amount as a result of Ms. Wilson not consistently posting receipts to the income tax system. Due to these variances, we completed more in-depth procedures to analyze whether the income tax receipts were deposited and properly recorded in the City's financial records.

We first compared the receipts recorded in the income tax system to the amounts posted to the financial ledger. This comparison identified the financial ledger being \$2,176,262 greater than the income tax system amount.

We then compared the income tax system amount and financial ledger amount to the City's bank statements to determine if the amounts were deposited into a City bank account. The City's deposits were \$1,966,430 greater than the income tax system amount and \$3,557 greater than the financial ledger amount.

As part of the original concern regarding missing income tax receipts, City personnel provided numerous duplicate receipt books as well as duplicate receipts attached to some income tax returns and others not attached to any document. City personnel indicated a duplicate receipt is issued to a resident if they paid their income tax at the City Hall and the yellow copy of the duplicate receipt should be attached to the income tax return as proof of payment. The majority of the duplicate receipts provided by City personnel were the yellow copies of the receipt. Since the duplicate receipts were for different sources of funds, we identified the receipt as being for income tax collections if "Income Tax" or some other variation was identified on the duplicate receipt. Those receipts were then compared to the income tax system records to determine if the amount was not only recorded as being received but also deposited into the City's bank account. If the receipt information was not found in the income tax system records, we examined the City's income tax receipt deposits from the date of the receipt to 30 days later to determine if the receipt amount was deposited. We could not find corresponding deposits for 74 receipts in the amount of \$17,407 and we could not definitively tell if a receipt was included in a deposit for 4 receipts totaling \$193.

For each of the 74 receipts which we could not find a corresponding deposit, we reviewed the personal bank accounts in the name of Stephanie Wilson as well as Wilson Construction to determine if the income tax amount was deposited into one of these accounts. We identified 44 receipts that were dated within 30 days prior to a cash deposit into a personal bank account in the name of Stephanie Wilson or Wilson Construction. The 44 receipts totaled \$10,967 while the cash deposits totaled \$14,980.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Objective 3 – Examine available documentation supporting certain miscellaneous activities or disbursements made by the City of Nelsonville during the Period to determine whether the disbursements were supported and made for purposes related to the operations of the City.

PROCEDURES

Vacation Leave Buyback

- We obtained the City's union agreements for the buyback of employee vacation time which was applicable during the Period.
- We obtained the City's expenditure ledger and identified all payments made to Stephanie Wilson and any police officer for buyback of their vacation time.
- We determined whether the buyback was completed in accordance with the City's union agreements.

Ohio Public Employees Retirement System (OPERS) / Internal Revenue Service (IRS)

- We examined the City's expenditure ledger and identified all disbursements to OPERS and IRS for the Period.
- We determined if the City properly withheld and remitted the amount of contributions to the appropriate entity.
- We identified any penalties or interest paid by the City as a result of untimely filings.

Charles Barga

- We identified the dates when Mr. Barga was employed as the City Manager.
- We obtained any contracts between Mr. Barga and the City and all 1099's issued to Mr. Barga for the Period.
- We examined the City Council's minutes to determine if the contracts were approved and what benefits, if any, were to be received by Mr. Barga.
- We identified all benefits received by Mr. Barga from the City during the time he was an independent contractor and determined whether the benefits were allowable.

Brenda Anderson

- We identified the dates when Ms. Anderson was employed by the City.
- We examined the City Council's minutes to determine if Ms. Anderson was approved to receive any benefits after ending her employment with the City.
- We determined if the City had a policy governing health care coverage after retirement.
- We identified all benefits received by Ms. Anderson from the City after the date of her retirement and determined whether the benefits were allowable.

Greg Smith

- We obtained the City's expenditure ledger and identified all payments issued to Mr. Smith during the Period.
- We examined available documentation for the selected disbursements to identify any suspicious payments.

Compensatory Time Buyouts

- We obtained the City's union agreements for compensation time buyouts which were applicable during the Period.
- We obtained the City's payroll registers for the Period and identified all individuals who received compensation time buyouts.
- We determined whether the buyouts were completed in accordance with the City's union agreements.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

RESULTS

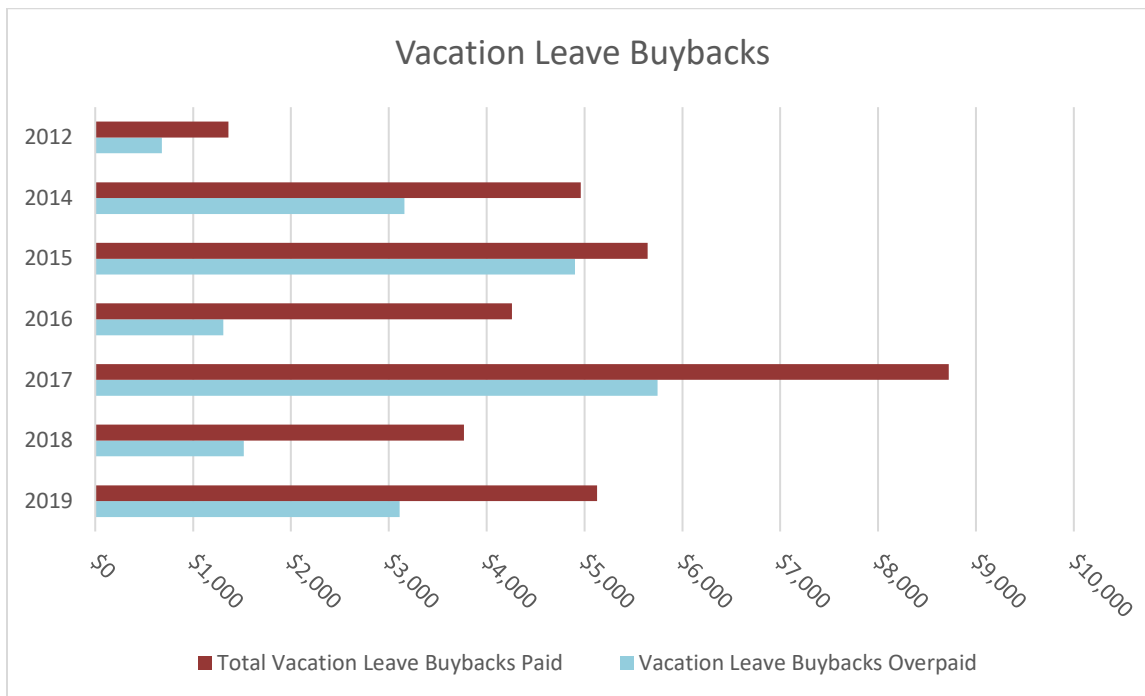
Vacation Leave Buyback

We obtained the City's Service Union and Police Union Agreements for the buyback of employee vacation time which was applicable during the Period. As City employees accrue vacation leave based upon their years of service with the City, the union agreements allow employees to work but annually receive a certain amount of vacation time paid out, as recorded on the City's payroll registers as "In Lieu of Time Off". The maximum annual amount allowed to be paid to each employee is dependent on the specific union agreement as well as what years the union agreement covers. For example, the Patrol Union Agreement only allowed one week of each year's vacation leave entitlement to be paid out for the Period, whereas the Service Union Agreements allowed for two or three weeks during the Period. City employees complete an Application for Vacation Pay In Lieu of Time Off in order to request a buyback of their accrued vacation leave time.

We obtained the City's payroll registers for the Period and identified all hours and payments made to Stephanie Wilson and any police officer for buyback of their vacation time (the "In Lieu of Time Off" line item on the payroll registers). We identified the "In Lieu of Time Off" hours and payments and compared these to the specific union agreements to determine whether the vacation leave buybacks were completed in accordance with the union agreements.

We identified 13 instances where the City employee's vacation leave buyback was not completed in accordance with City Police Union Agreements. These 13 instances were attributed to five City police officers who received more in vacation leave buyback than the one week allowed per the Patrol Union Agreement. The total overpayment amount attributed to the five City police officers was \$20,426.

The below graph depicts the total vacation leave buybacks for the Period and the portion that was overpaid. (Note – Vacation leave buybacks from 2013 were not included in our analysis as a Payroll Register was unable to be generated by the City.)



SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

We also identified five instances where Stephanie Wilson received more in vacation leave buyback than the two weeks allowed per the 2012-2014 Service Union Agreement and the three weeks allowed per the 2015-2017 and 2018-2020 Service Union Agreements, but her vacation leave buyback is already included in her overall payroll overage analysis in Objective 1.

Ohio Public Employees Retirement System (OPERS) / Internal Revenue Service (IRS)

We obtained a listing of all payments made by the City to OPERS for the Period totaling \$2,155,433. We also obtained the OPERS Account Summaries for the Period which identified the City's retirement contribution liability as well as any specific penalty or interest charges. When we reviewed the OPERS Account Summaries, we determined only \$2,152,682 was paid from the City to OPERS during the Period, for a variance of \$2,751 compared to the original accounting listing provided by the City. We reviewed the City's bank statements and confirmed the amounts paid on the OPERS Account Summaries were correct and we did not identify any additional payments. Of the \$2,152,682 paid to OPERS, \$6,211 was paid for penalties and interest as a result of untimely filings.

We obtained the IRS Account Transcripts for the period to identify all quarterly tax return filed amounts as well as the payments made by the City to the IRS. We reviewed the Account Transcripts to identify whether the IRS assessed a penalty or interest due to the City filing an untimely return or amount. For the quarterly tax periods occurring during the Period, we determined the City paid \$27,546 in penalties and interest as a result of untimely filing or late tax payments.

Charles Barga

At the February 27, 2017 City Council meeting, Council enacted Ordinance 09-17 authorizing a contract with Charles Barga as a Transition Officer to perform the duties of the City Manager. A contract was signed on March 1, 2017 by Mr. Barga, the City Council President, and the City Law Director detailing that Mr. Barga was an "at will" contractee who would perform the duties of the City Manager Transition Officer until Mr. Barga resigns or his employment is terminated by City Council. Ordinance 16-17 was also enacted by Council on April 24, 2017 authorizing a contract with Mr. Barga to perform duties as the City Manager. Per the contract, Mr. Barga was to be compensated a bi-weekly rate of \$2,211 and was not to be entitled to overtime compensation.

We obtained a listing of all payments to Charles Barga from the City totaling \$169,427 for the Period to determine whether the benefits received were allowable as a contracted employee. Of this total, \$168,077 was for Mr. Barga's contracted bi-weekly payroll rate. In addition to this total, Mr. Barga's last day with the City was January 30, 2020 and his last paycheck was prorated for \$884.

Mr. Barga received three other payments totaling \$466 that were not related to his contracted bi-weekly payroll rate. These payments were reimbursements for recording easement fees paid by Mr. Barga and were determined to be allowable.

We agreed the amounts paid to Mr. Barga in 2017, 2018, 2019, and 2020 to his City issued 1099 without exception.

Brenda Anderson

Brenda Anderson was the City's Deputy Auditor before her retirement effective April 21, 2018. Ms. Anderson began her employment with the City as a part-time employee and became full-time on December 1, 2009.

City of Nelsonville Ordinance 13-18 granted a severance package to Ms. Anderson upon her retirement consisting of one year's salary and her accumulated sick leave balance of 240 hours. We identified in the City's Employee Policy Manual, Article 15 Health and Welfare Benefits, Section 5 – Retirement Benefits (effective January 1, 2001) that employees are entitled to the retirement benefits provided by the Public Employees Retirement System, a retirement plan administered by the State of Ohio, but no other specific details of the benefits were covered.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

We obtained a listing of all payments to Ms. Anderson during 2018 to determine whether the benefits she received after the date of her retirement were allowable. We confirmed Ms. Anderson was paid \$32,677 for her one year's salary as well as payment for her accumulated sick leave balance of 240 hours. These benefits were determined to be allowable based on the approved City Ordinance 13-18 approving the severance package.

As part of her accumulated sick leave payment, Ms. Anderson also received payment for ten hours of accumulated vacation leave. We reviewed Ms. Anderson's vacation leave accrual to verify she had a ten hour balance to receive this payment. This analysis determined Ms. Anderson's overall vacation leave balance would have been negative 20 hours because 20 hours used as In Lieu of Time Off was not properly deducted from Ms. Anderson's overall vacation leave balance in January 2018. This resulted in Ms. Anderson being overpaid \$314 for the In Lieu of Time Off payments.

In June 2018, Ms. Anderson received a check payment for her longevity pay totaling \$565. Ms. Anderson's years of service would be based upon her full-time start date of December 1, 2009 until the date of her retirement on April 21, 2018, resulting in only eight full years of service and receiving a longevity payment of three percent of her total compensation. Instead, Ms. Anderson received a longevity payment of five percent, resulting in an overpayment of \$226.

Greg Smith

While it was not part of the original complaint information, we received an anonymous complaint alleging that Greg Smith had been helping Ms. Wilson while she was stealing from the City. The complaint provided no other information or documentation to support this allegation. Due to the limited information in the complaint, we requested and were provided an expenditures listing of all payments issued to Greg Smith from the City during the period to identify any suspicious payments. The payments to Greg Smith during the period were monthly payroll payments as a City Council Member. No suspicious payments were identified.

Compensatory Time Buyouts

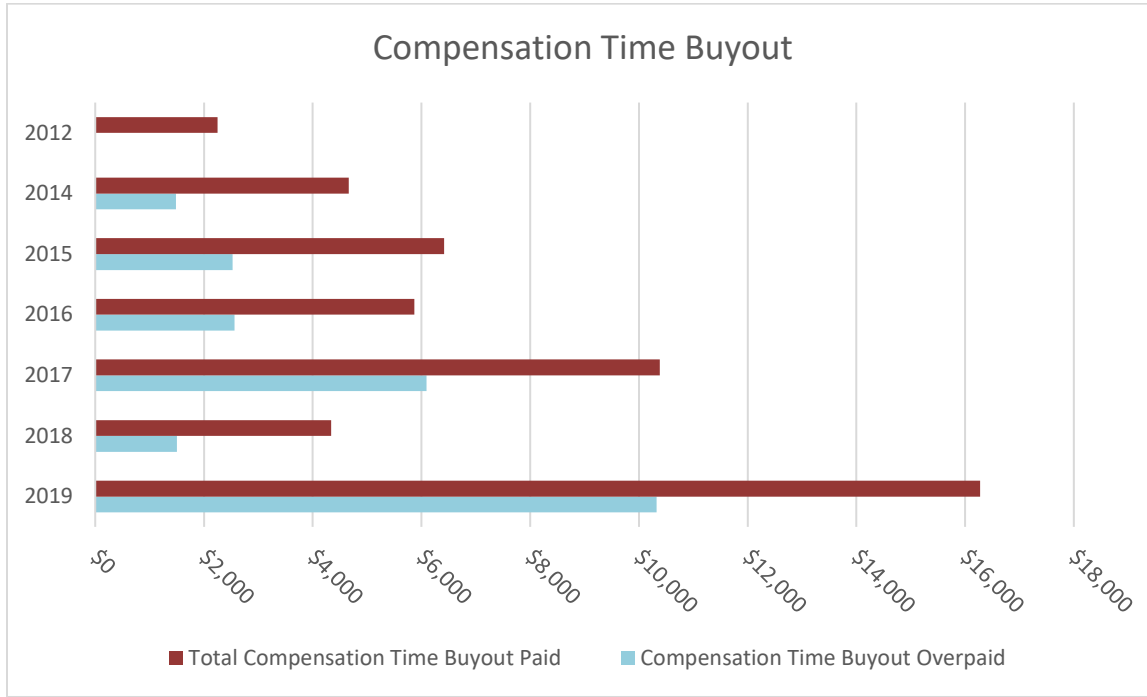
We obtained the City's Service Union, Police Union, and Fire Union Agreements for the compensation time buyouts which were applicable during the Period. Compensatory time is offered in lieu of overtime pay and it is granted at time and one-half. The union agreements do not allow a City employee to accumulate in excess of a certain amount of hours each year, but the employee may re-accumulate compensatory time as it is used. The maximum amount an employee may accumulate is dependent on the specific union agreement as well as what years the union agreement covers. For example, the Service Union Agreement allowed those employees to accumulate no more than 40 hours of compensatory time but the Police Union Agreement for 2012-2014 only allowed police officers to accumulate no more than 24 hours of compensatory time. In addition, compensatory time is not carried over into the following year and any remaining balance as of December 31st is "cashed-out" to a zero balance and is paid to the employee during the pay period encompassing December 31st.

We obtained the City's payroll registers for the Period and identified all hours and payments made for compensation time buyouts to any City employee. The payroll registers include a pay code line "Comp Time Used" which is for regular compensation time hours used by employees during the year. The pay code line "Comp Time Buyout" is used for the compensatory time that is cashed-out at the end of each year. Once we identified the compensation time buyout hours and payments, we compared these to the respective union agreements to determine whether compensation time buyouts were completed in accordance with the union agreements. In theory, if a City Service employee can accumulate no more than 40 compensatory hours in a year, then that employee's Comp Time Buyout should not exceed 40 hours for the "cash-out" at the end of the year.

We identified 20 instances where 12 City employees received compensation time buyouts for more than the maximum number of hours allowed by the City's union agreements. These 20 buyouts resulted in an overpayment totaling \$24,495.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

The below graph depicts the total compensation time buyouts for the Period and the portion that was overpaid: (Note – Compensation time buyouts from 2013 were not included in our analysis as a Payroll Register was unable to be generated by the City.)



We also identified four instances where Stephanie Wilson received compensation time buyouts for more than the maximum number of hours allowed by the Service Union Agreement, but her compensation time buyout is already included in her overall payroll overage analysis in Objective 1.



APPENDIX
SCHEDULE OF FINDINGS FOR RECOVERY AND
MANAGEMENT RECOMMENDATIONS

APPENDIX

FINDINGS FOR RECOVERY

Payroll Compensation

City Ordinances 15-12, 19-15, 32-17, 37-18, and 40-18 were approved by City Council establishing Ms. Wilson's hourly rate of pay.

Based on the ordinances, Ms. Wilson's gross wage amount should have been \$264,695 for the Period. However, the payroll register's gross payroll amount for Ms. Wilson during the Period totaled \$364,932, for an overpayment of \$100,237.

Ghost Employee

During the Period, Ms. Wilson was responsible for utilizing the City's Visual Intelligence Portfolio (VIP) system to create accounts for new employees, enter the employee hours, apply the appropriate taxes or union dues, and select the date when the direct deposit amounts were to be paid. Also, City personnel indicated Ms. Wilson had blanket approval authority in VIP.

The City identified two employee accounts in the name of "Samantha Maikut" and "Michael McCollister" as fictitious City employees. Gross payroll disbursements from June 2014 through September 2018 for Samantha Maikut, totaling \$35,531, as well as gross payroll disbursements from June 2016 through November 2019 for Michael McCollister, totaling \$78,150, were determined to be illegitimate. Each of these payroll amounts were deposited into accounts in the name of Stephanie Wilson and a related family member.

Non-Payroll Expenditures

The **City Employee Manual, Section 5.1 Expense Reimbursements** states, in part, employees are eligible for expense reimbursement only when travel has been authorized, in writing, by the Department Head and City Manager, and with appropriate receipts documenting claimed expenses.

The **City Auditor's Office Personnel Policy and Procedure Manual, Section 10 Mileage, Parking and Tolls** states, in part, claims for mileage reimbursement must be included on the Travel Expense form and attached to the purchase order.

During the Period, Ms. Wilson received eight payments totaling \$978 for various mileage reimbursements and miscellaneous expenditures that were not properly supported and therefore not issued for a purpose related to the operations of the City.

Income Tax Refund Payments

As the Payroll / Tax Administrator, Ms. Wilson was responsible for determining the issuance of City income tax refunds. Ms. Wilson attached the income tax return to a completed purchase order for the City Manager and City Auditor to review and approve the refund.

We identified \$42,344 in check payments from the City, deposited into accounts held by Ms. Wilson for income tax refunds based on returns she fraudulently created, as follows:

- One check payable to Richard Willison totaling \$7,612.
- Seven checks payable to RW Construction or REW Contractor totaling \$14,528.
- Two checks payable to CBS Solutions Services / BSC Solution and Service totaling \$7,069.
- Three checks payable to Special Retailers, Inc. / Specialty Retailers totaling \$13,135.

Income Tax Duplicate Receipts

As City income tax payments were received at City Hall or by mail, the income tax return and payment were provided to Ms. Wilson for processing. If a resident paid in person at City Hall, a duplicate receipt was issued to the resident and the yellow copy of the receipt was attached to the income tax return.

APPENDIX

We identified 74 duplicate receipts totaling \$17,407 in which the monies collected were not deposited into the City's bank account.

Federal Withholding Remittance and Ohio Public Employee Retirement System Remittance

Internal Revenue Code (IRC) Chapter 26, §§ 3401 through 3405, and 3102(a) require the employing government to withhold federal, state, and local income and employment related taxes (such as Medicare). They also require the government to report and remit those tax matters to the appropriate tax authorities and to the recipients.

Internal Revenue Service Publication 15 states, in part, "Penalties may apply if you don't make required deposits on time or if you make deposits for less than the required amount...For each whole or part month a return isn't filed when required, there is a failure-to-file (FTF) penalty...Also, for each whole or part month the tax is paid late, there is a failure-to-pay (FTP) penalty..."

Ohio Rev. Code § 147.47(B) states, in part, the fiscal officer of each local authority shall transmit promptly to the Ohio Public Employees Retirement System a report of contributions together with payment covering the deductions. Also, a penalty shall be added when such report, together with payment, is filed thirty or more days after the last day of the reporting period. Also, **Ohio Rev. Code § 147.47(C)** states, in part, interest shall be charged on the amount of the penalty if the penalty is not paid within thirty days after it is added to the regular employer billing.

As a result of untimely filings or late tax payments incurred by Ms. Wilson during the Period, the City paid the following in penalties and interest:

- IRS - \$27,546
- OPERS - \$6,211

Severance Package

City Ordinance 13-18 granted a severance package to Brenda Anderson upon her retirement effective April 21, 2018, consisting of one year's salary and her accumulated sick leave balance of 240 hours.

Ms. Anderson also received payment for her accumulated vacation leave. As a result of 20 hours not properly deducted from Ms. Anderson's overall vacation leave balance in January 2018, Ms. Anderson was overpaid \$314.

In addition, Ms. Anderson received a final longevity payment calculated based on 15 and over years of service instead of eight years of service, resulting in an overpayment of \$226.

Finding for Recovery Conclusion

On April 12, 2021, Judge McCarthy ordered restitution of \$241,839.31 against Stephanie Wilson in Case # 20CR0064, which included payroll compensation and ghost employees theft as well as special audit costs incurred by the City. Also, on April 5, 2022, Judge McCarthy ordered restitution of \$49,956.95 against Stephanie Wilson in Case #21CR0048, which included the income tax refund payments theft.

Under Ohio law, public officials are strictly liable for all public money received or collected by them or their subordinates under color of law. Ohio Rev. Code § 9.39; *Cordray v Internatl. Preparatory School*, 128 Ohio St.3d 50 (2010). The City Auditor was responsible for authorizing non-payroll expenditures as well as monitoring the employees paid by City. Former City Auditors Garry Dickerson and Mike Elliot authorized expenditures that were not properly supported. Additionally, Mr. Dickerson failed to monitor the employees being paid by the City, which created increased opportunity for the ghost employee scheme to occur. As a result, the former City Auditors and their bonding company will be jointly and severally liable. Further, Ms. Wilson was responsible for processing all payroll transactions, while the City Auditor authorized the expenditures. Therefore, they will be jointly and severally liable for the severance overpayment.

APPENDIX

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a finding for recovery for public property converted or misappropriated and a finding for recovery for public monies illegally expended is hereby issued in favor of the City of Nelsonville General Fund (\$59,973), Street Levy Fund (\$135), Water Fund (\$9,447), Sewer Fund (\$9,442), Capital Improvement Fund (\$8,574), Parks and Recreation Fund (\$1,619), and to be determined Fund(s) (\$247,675)³ as follows:

Finding Against	Finding Type	Finding Amount	Bonding Company
Stephanie Wilson	Public property converted or misappropriated Public monies illegally expended	\$336,325 \$540	
Brenda Anderson	Public monies illegally expended	\$540	
Garry Dickerson	Public property converted or misappropriated Public monies illegally expended	\$114,575 \$540	The Ohio Casualty Insurance Company
Mike Elliot	Public property converted or misappropriated	\$84	

From May 2021 through August 3, 2022, six restitution payments totaling \$26,508 were issued to the City of Nelsonville by the Athens County Clerk of Courts. Accordingly, we consider these partial repayments of the public property converted or misappropriated finding relating to Stephanie Wilson and a balance of \$309,817 remains unpaid. All other balances remain unpaid.

MANAGEMENT RECOMMENDATIONS

Maintaining Supporting Documentation

Ohio Admin Code § 117-2-02 states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, and record its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code. It also states the management of each local public office is responsible for the assertions underlying the information in the public office's financial statements.

During the Period, the City did not have controls in place to ensure the maintenance of underlying documentation and support for:

- Stephanie Wilson's personnel file, including any Employee Action Forms.
- Stephanie Wilson's timesheets for approximately 155 pay periods.
- Stephanie Wilson's vacation, sick, and comp time leave request forms.
- Eight non-payroll expenditures paid to Stephanie Wilson.
- Applications for Vacation Pay In Lieu of Time Off for various employees' vacation leave buybacks.
- 2013 Payroll Register was not maintained by the City and could not be reproduced by the City's payroll system.

Failure to maintain underlying documentation and support of financial transactions led to fraudulent payroll transactions and unsupported non-payroll transactions that were determined not to be for a proper public purpose. This can also increase the risk of additional fraudulent transactions, result in financial statement or employee leave balance misstatements, as well as the City not being in compliance with their own collective bargaining agreements.

We recommend the City take measures to ensure all records are adequately maintained and safeguarded in their original form to support all financial transactions.

³ This amount includes the finding amounts from the payroll compensation, ghost employees, and federal withholding remittance and OPERS remittance. The fund allocation was not readily determinable based on the audit support and should be determined by the City.

APPENDIX

Unlawful Interest in a Public Contract

Ohio Rev. Code § 2921.42(A)(1) states, in part, no public official shall knowingly authorize, or employ the authority or influence of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest.

The **City's Employer Standards & Guidelines, Section 3.1 General Standards of Ethical Conduct, paragraph four**, states that no public employee shall use his or her public position to obtain benefits for the employee, family member, or anyone with whom the employee has a business or employment relationship.

During 2012, Ms. Wilson, as the City's Payroll Administrator, signed and approved her son Christopher Wilson's seasonal hiring paperwork, specifically the I-9 Employment Eligibility Verification, the Personal History Record, and initialed the Ohio New Hire Reporting Form. During 2013, Ms. Wilson again signed and approved Christopher Wilson's I-9 Employment Eligibility Verification and the Personal History Record.

Failure of the City to identify any possible conflict of interest or involvement in potential related party transactions or contracts could result in a violation of Ohio ethics laws or entering into a contract or transaction that might not be in the best interest of the City.

We recommend the City clarify their policies and procedures regarding nepotism and the hiring of family members. This policy should include language that all City employees and Council members disclose and abstain from discussing, voting, or approving any related party or family member transaction, contract, or employment document.

Segregation of Duties

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

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

During a majority of the Period, the former Payroll / Income Tax Administrator was the only City employee who had access to the City's Visual Intelligence Portfolio computer system to input, review, approve, and process payroll. Additionally, the former Payroll / Income Tax Administrator was solely responsible for collecting the income tax receipts, creating the deposit slip for the receipts, and entering the amounts into the City's income tax system. Finally, the former Payroll / Income Tax Administrator was responsible for creating the income tax refund payments and attaching the payments to a purchase order. While a purchase order should have been created for each income tax refund, multiple refunds were included on one purchase order which was then provided to the City Auditor and Manager for their review and approval.

The lack of segregation of duties led to an opportunity for a City employee to create and modify fake employees and vendors, issue fraudulent payroll deposits and income tax refund payments, collect and not record City income tax receipts, fraudulently use unauthorized personal identifiable information, and could allow additional errors to go undetected.

APPENDIX

We recommend duties be segregated to ensure no single individual has control over all phases of a transaction. In certain operations, it is not always possible to have enough staff to adequately segregate duties. Understanding this, the City Auditor, City Manager, and even City Council should take a more active role in monitoring the payroll disbursements, such as the input, review, approval, and processing in the City's payroll system. For the income tax receipts, this should include separate individuals who are collecting the receipts, completing the deposit slips, entering the receipt information into the City's income tax system, and finally reconciling the income tax deposits with the amounts recorded in the income tax system.

Fraudulent Income Tax Refunds

Ohio Rev. Code § 705.09 states, in part, the legislative authority of a municipal corporation shall choose an auditor, who shall keep an accurate account of all taxes and assessments, and of all money due to, all receipts and disbursements by, and of all assets and liabilities of the municipal corporation, and of all appropriations made by the legislative authority.

Ohio Rev. Code § 718.35 states no person shall knowingly make, present, aid, or assist in the preparation or presentation of a false or fraudulent report, return, schedule, statement, claim, or document authorized or required by municipal corporation ordinance or state law to be filed with a tax administrator, or knowingly procure, counsel, or advise the preparation or presentation of such report, return, schedule, statement, claim, or document, or knowingly change, alter, or amend, or knowingly procure, counsel, or advise such change, alteration, or amendment of the records upon which such report, return, schedule, statement, claim, or document is based with intent to defraud the municipal corporation or a tax administrator.

As the City's Tax Administrator, Ms. Wilson created and approved eight income tax refund request slips, as well as accompanying income tax refund letters, that were not accurate, which allowed her to receive fraudulent income tax refund payments from the City totaling \$42,344 in theft.

A lack of proper oversight and review when City income tax administrative and accounting functions were handled by a single person led to the creation of fake vendors, falsified and fraudulent tax documentation, the unauthorized use of personal identifiable information, inaccurate City income tax accounts, theft, and errors going undetected.

We recommend the City develop policies and procedures and implement a system of oversight of the Tax Administrator to prevent and detect errors of these types in the future. Among the factors the City should consider include separate individuals creating, reviewing, and approving each individual income tax refund payment, verifying the documentation supports the refund payment and the individual or vendor are legitimate people or businesses.

Non-Compliance with Union Agreements

Article 14 of the Collective Bargaining Agreement between the Ohio Patrolmen's Benevolent Association and the City of Nelsonville, Ohio – Police Department, states, "It is the express policy of the City that all vacation time so earned be taken by each employee, except one week of each year entitlement may be worked and paid."

Article 9 (January 1, 2012 – December 31, 2014) / Article 10 (January 1, 2015 – December 31, 2020) of the Collective Bargaining Agreements between the Ohio Council 8, AFSCME, AFL-CIO and AFSCME Local 2845/2845B and the City of Nelsonville Service Department and Fire Department as well as **Article 9 (January 1, 2015 – December 31, 2020) of the Collective Bargaining Agreements between the Ohio Patrolmen's Benevolent Association and the City of Nelsonville Police Department** state "Compensatory time may not be accumulated in excess of forty (40) hours but

APPENDIX

employees shall be permitted to re-accumulate compensatory time throughout the year as it is used...Compensatory time shall not be carried over into the following year and any remaining balance as of December 31 of each year shall be 'cashed out' to a zero balance and the time paid to the employee in the pay period encompassing December 31." **Article 9 (January 1, 2012 – December 31, 2014) of the Collective Bargaining Agreement between the Ohio Patrolmen's Benevolent Association and the City of Nelsonville Police Department** states "Compensatory time may not be accumulated in excess of twenty-four (24) hours but employees shall be permitted to re-accumulate compensatory time throughout the year as it is used. Compensatory time shall not be carried over into the following year and any remaining balance as of December 31 of each year shall be 'cashed out' to a zero balance and the time paid to the employee in the pay period encompassing December 31."

We noted the following noncompliance with the union agreements during the Period:

- 13 instances, totaling \$20,426, were identified where the City employee's vacation leave buyback was not completed in accordance with the City Police Department's Collective Bargaining Agreement. These instances were attributed to five City police officers who received more in vacation leave buyback than the one week allowed per the collective bargaining agreement.
- 20 instances, totaling \$24,495, were identified where City employees received compensation time buyouts for more than the maximum number of hours allowed by the respective collective bargaining agreement. These instances were attributed to 12 City employees from the Service Department, Fire Department, and Police Department.

Violation of these collective bargaining agreements could result in an employee receiving more benefits than agreed to by the City and the bargaining unit, which equate to unnecessary financial losses by the City, and grievances filed because the City is not in compliance with the provisions of the agreements.

We recommend the City establish and implement policies and procedures to verify the agreed-upon terms of the Collective Bargaining Agreements are followed by all parties. This should include utilizing the Visual Intelligence Portfolio software's capability to limit the amount of vacation leave buybacks and compensation time buyouts to be in compliance with the Agreements. Management should ensure all appropriate request forms to utilize vacation leave buybacks are completed by the employee, approved by the necessary supervisors, and properly maintained. The City should ensure each employee in a Bargaining Unit receives a copy of the Agreement in order for the employee to review.

Internal Controls

Ohio Admin. Code § 117-2-01(A) states, in part, all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance for the safeguarding of public funds. Weaknesses noted in the internal controls over disbursements and receipts due to a lack of proper oversight, segregation of duties, nepotism, and documented policies and procedures are as follows:

Payroll

- The former City Auditor allowed a stamp with his name to be used to document his approvals. While the current City Auditor no longer allows any similar type of stamp to be used, this enabled documents to be approved without the former City Auditor actually reviewing or approving the documents.
- Stephanie Wilson was able to issue herself two paychecks for one pay period in at least four instances.
- Stephanie Wilson was able to create two ghost employees and issue City paychecks to both accounts from June 2014 through November 2019.
- Stephanie Wilson signed and approved various new hire documents for her son as a seasonal pool employee.

APPENDIX

- The City did not have the proper monitoring in place or utilize the full capability of the Visual Intelligence Portfolio (VIP) software to limit the amount of vacation leave buybacks and compensation time buyouts to be in compliance with the appropriate collective bargaining unit agreements.
- The City did not have the proper controls in place to ensure all payroll withholdings and retirement contributions are remitted to the proper authorities in the time frame prescribed by law.

Income Tax

- The City does not have a process in place to ensure each taxpayer submits a tax return.
- Duplicate receipts were not properly attached to their corresponding tax returns as proof of receipt and payment.
- The former City Auditor reviewed the income tax payments received by the City before the payments were posted to the General Ledger; however, there was no evidence of this review.
- Income tax refunds were posted as a batch to one purchase order under a general vendor name of Income Tax Refund. While the former City Auditor and City Manager approved the purchase order as evidenced by their signature, there is no evidence or indication that each income tax refund payment was reviewed prior to this approval.
- The City Auditor and City Manager did not ensure a City income tax payment was received before an income tax refund was issued.
- The former Income Tax Administrator was not consistently posting income tax payments received to the City's income tax system. This resulted in large variances when comparing the income tax system amounts to the City's financial accounting records and bank deposits.
- A reconciliation is not completed of the amounts recorded in the City's income tax system compared to the City's accounting system.

Non-Payroll

- Purchase orders for non-payroll expenditures to Stephanie Wilson were not signed by the City Manager or City Auditor.

Failure to design and implement sufficient controls over the disbursement and receipt of public funds increases the risk that loss or misappropriation of funds could occur and not be detected in a reasonable time period. A lack of internal controls at the City allowed the opportunity to issue fraudulent payroll deposits and income tax refunds, create ghost employees and fake vendors, issue payments not in compliance with the City's collective bargaining unit agreements, maintain inaccurate and incomplete tax receipts, and remit untimely payroll withholdings and retirement contributions.

We recommend the City develop and put into operation internal controls to prevent and detect errors of these types in the future. An example of this is adopting a policies and procedures manual that defines roles and responsibilities for City officials and employees, nepotism, as well as the processing of financial transactions. The policies should be reviewed and approved by City Council and then distributed to all employees for review. The City should periodically monitor these controls to help ensure they are in place and operating as intended. Additional internal controls should include, but are not limited to:

- Ensuring employee payroll is processed accurately and completely and is appropriately documented.
- Ensuring City income tax payments are recorded accurately and timely in the City's income tax system.
- Reviewing and approving each individual income tax refund payment, verifying the documentation supports the refund payment and the individual or vendor are legitimate people or businesses.
- Utilizing the VIP software capability to ensure employee benefit payments do not exceed the limits as identified by collective bargaining unit agreements.
- Impress upon staff the importance of complying with all cited code sections for remitting payroll withholdings and retirement contributions.

OHIO AUDITOR OF STATE KEITH FABER



**CITY OF NELSONVILLE
SPECIAL AUDIT**

ATHENS COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 11/10/2022

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov