



**VILLAGE OF GANN
KNOX COUNTY**

SPECIAL AUDIT

FOR THE PERIOD OF JANUARY 1, 1998 THROUGH OCTOBER 7, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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SCHEDULE OF ELECTED OFFICIALS

VILLAGE OF GANN

<u>VILLAGE COUNCIL MEMBERS</u>	<u>TERM ENDING</u>	<u>BOND</u>
Mr. Steve Hammons*	12/31/99	N/A
Mr. Gary Short	12/31/03	N/A
Mr. Gary Worster	12/31/03	N/A
Mr. Dick Craven	12/31/03	N/A
Mrs. Joann Worster	12/31/03	N/A
Mrs. Velma Short**	Appointed	
 <u>OTHER PERSONNEL</u>		
Betsy McCombs, Clerk/Treasurer***	12/31/99	\$10,000 (1)
Nancy Gardner, Mayor	12/31/99	\$5,000 (2)

* - Mr. Hammons was elected Mayor for the term beginning January 1, 2000

** - Ms. Short replaced Ms. McCombs as Clerk/Treasurer on October 26, 1999

*** - Ms. McCombs resigned effective October 7, 1999

(1) Auto Owners (Mutual) Insurance Company

(2) Western Surety Company

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STATE OF OHIO
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Report of Independent Accountants

Honorable Nancy Gardner
Mayor
Velma Short, Clerk/Treasurer
Members of Village Council
Village of Gann
201 State Street
Brinkhaven, Ohio 43006

Pursuant to information provided by you on November 5, 1999, we have conducted a "Special Audit" and performed the procedures summarized below and detailed in our "Supplement to the Special Audit Report," which were agreed to by you for the period January 1, 1998 through October 7, 1999 ("the Period"). These procedures were performed solely to determine whether there were expenditures made without supporting documentation by the former Clerk/Treasurer and to determine whether Ms. McCombs repaid any of the monies she received from checks written to herself. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the users of the report. Consequently, we make no representation regarding the sufficiency of the procedures discussed below for the purpose for which this report has been requested or for any other purpose. The procedures we performed are summarized as follows:

1. We reviewed all canceled checks and compared the canceled checks to supporting documentation to determine if there were expenditures made without supporting documentation. In addition, we determined the amount of salary due to Ms. McCombs and whether Ms. McCombs paid herself more than she earned during the Period.
2. We reviewed the support for all of the bank deposits made during the Period to determine whether there were monies repaid to the Village by the former Clerk/Treasurer who had written checks to herself for cash payments.
3. On April 25, 2000, we held an exit conference with the following Officials representing the Village:

Steve Hammons	Mayor
Velma Short	Clerk/Treasurer
Sue L. Ortiz	Council Member
Gary Stone	Council Member
Richard Craven	Council Member
Gary Short	Council Member

The attendees were given an opportunity to respond to this Special Audit, however they chose not to submit a written response.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report." Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the accounts or items referred to above. Also, we express no opinion on the Village's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of the Village taken as a whole.

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

Jim Petro
Auditor of State

February 28, 2000

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

BACKGROUND

On September 23, 1999, Mayor Nancy Gardner contacted Clerk/Treasurer, Betsy McCombs and left a message requesting that Ms. McCombs issue checks for two bills that needed to be paid. Mayor Gardner indicated she would pick up the bills and the checks at the Council Building the next morning. Upon arrival at the Council Building, Mayor Gardner could not locate the checks so she reviewed the check book to determine whether or not the checks had been issued. At that time, Mayor Gardner observed that Ms. McCombs had issued checks to herself. The Mayor then contacted Council President Gary Worster regarding the checks which Ms. McCombs had issued to herself. Mr. Worster and the Mayor agreed that Council would not act until the monthly bank statement was received and reviewed. Mayor Gardner contacted the First Knox Bank and was told the bank statement would be ready on September 29, 1999.

On September 27, 1999, Mayor Gardner showed the check stubs to the Village Solicitor who made copies of the stubs. On September 29, 1999, Mayor Gardner obtained the bank statement for the month of September 1999 and requested a special meeting of the Village Council. During the special meeting, which was held September 30, 1999, Mayor Gardner presented Council with the check stubs. Council requested the Mayor contact the bank to freeze the Village checking account to prevent any further activity until Council felt the issue was resolved. Ms. McCombs did not attend this special meeting because she was working at the time.

On Friday October 1, 1999, Pat Durbin of the Danville branch of First Knox Bank contacted the main branch at Mayor Gardner's request to determine if additional checks had cleared the bank. According to Ms. Durbin, one check in the amount of \$1,000 which was issued to Ms. McCombs had been presented for payment. Mayor Gardner requested the bank place a stop-payment on the check since she was not aware of the expenditure. Mayor Gardner then presented this information to Detective Robert Durbin of the Knox County Sheriff's Office.

Another special meeting of Council was called by the Mayor on October 3, 1999. At this meeting Ms. McCombs was questioned about the checks she had issued to herself. Ms. McCombs represented that she had receipts to support the checks. When questioned specifically about the recent \$1,000 check, Ms. McCombs represented that she was required to pay \$1,000 cash for insurance on the Village's Uniform Accounting Network (UAN) computer. She indicated she gave the \$1,000 cash to a staff member of the Auditor of State's UAN Department and the purchase order was the receipt. Council requested McCombs provide receipts to support the other checks which she had issued to herself at the next Council meeting to be held on October 7, 1999.

On October 4, 1999, Mayor Gardner contacted the Auditor of State's UAN Department to inquire as to whether or not the \$1,000 cash payment was received from Ms. McCombs. Mayor Gardner was informed by the UAN Help Desk that the payment was not received since the UAN Department does not collect payments.

At the Council meeting held October 7, 1999, Ms. McCombs did not provide the requested receipts and resigned her position.

Mayor Gardner contacted the Auditor of State's Special Audits Department on October 8, 1999 to inform us of the above described events. According to Mayor Gardner, Ms. McCombs had issued approximately \$1,500 of checks to herself during the period April 1, 1999 through October 7, 1999.

On October 12, 1999, this information was presented to the Special Audit Committee which voted to initiate a Special Audit of all checks issued by Ms. McCombs during the period she was employed by the Village.

On November 1, 1999, Ms. McCombs was indicted by the Knox County Grand Jury for theft in office. She was arraigned on November 19, 1999 and pled not guilty to theft in office. On February 25, 2000, Ms. McCombs pled guilty to theft in office. A sentencing hearing was held on April 21, 2000 during which she was sentenced to three years community control sanctions, ordered to pay restitution of \$1,591.91, prohibited from holding public office, and ordered to serve 12 months in jail if her probation is violated.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 1 - Review of Expenditures

We reviewed all canceled checks issued during the Period and related supporting documentation to determine whether there were expenditures made without supporting documentation. In addition, we recalculated Ms. McCombs' salary for the Period and compared it to actual salary payments made during the Period to determine whether she was paid in accordance with the salary established by the Village Council.

Procedures:

1. We reviewed minutes of Village Council meetings to determine Ms. McCombs's salary during the Period as well as, any Council approved payments made to Ms. McCombs over and above her salary during the Period. We also determined whether the amount she was paid exceeded the amount authorized by the Village Council.
2. We compared all of the checks written during the Period to supporting documentation to determine if the expenditures were for proper public purposes.
3. We reviewed the endorsements on the canceled checks to determine whether the former Clerk, Ms. McCombs, endorsed checks written to payees other than herself.

Results

1. Based on review of the Village Council minutes for the period of January 1, 1996 through October 31, 1999, no Council approval for the position of Clerk was noted until the April 2, 1999 Council Meeting. Based on review of the expenditure ledgers for 1997 and 1998, the Clerk was paid \$100 each month. Village Council Resolution 1999-2, passed April 2, 1999, combined the Clerk and Treasurer positions into one position with a salary of \$1,450 per year. During the same meeting, the Village Council passed a motion to make this salary increase effective April 1, 1999.
2. We determined for 1998 that the former Clerk/Treasurer, Ms. Betsy McCombs, was paid \$1,098 and \$102 was remitted to the Public Employees Retirement System for her retirement. This resulted in her being paid a salary \$1,200 for 1998. We agreed this information to the 1996 and 1997 Village Cash Journal listing payments of salary to the former Clerk of the Village and the canceled checks written to the former clerk, Ms. Diana Tharp. In addition, we noted the Village is delinquent in submitting the report for the annual employee's contribution for 1998. This was verified with the Public Employees Retirement System.
3. A Village Council motion passed in December 1998 stated the Clerk/Treasurer would be paid in December of each year rather than monthly. We determined Ms. McCombs wrote check number 1611 to herself for salary in the amount of \$800 on June 15, 1999 through a review of the canceled check. On June 18, 1999, we noted, through a review of the canceled check, Ms. McCombs wrote check 1612 to herself for \$650. As a result, Ms. McComb paid herself \$1,450 in June 1999 contrary to the motion passed by Council in December 1998. In addition, a review of the canceled checks and the Village cash journal indicated she did not withhold the employees share of retirement. We verified, with the Public Employees Retirement System, the employee and employer shares were not remitted to the Public Employees Retirement System.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

4. For calendar year 1999, the Clerk should have received \$1,052 in gross pay less \$90 in retirement withholdings for a net pay of \$962. For the first three months of 1999, Ms. McCombs would have been entitled to a gross pay of \$100 per month to be paid in December of 1999 totaling \$300. Ms. McCombs was entitled to a gross pay of \$121 a month for the period of April 1, 1999 through September 30, 1999 totaling \$726. For October of 1999, her monthly salary of \$121 would be prorated for the number of days she worked. Based on this information, Ms. McCombs was entitled to the following salary:

Month	Amount of Salary to be Paid
January 1999	\$100
February 1999	100
March 1999	100
April 1999 (a)	121
May 1999 (a)	121
June 1999 (a)	121
July 1999 (a)	121
August 1999 (a)	121
September 1999 (a)	121
October 1999 (b)	<u>26</u>
	1,052
Actual Payment	<u>(1,450)</u>
Over Payment	<u>\$398</u>

- (a) The \$121 a month was calculated by dividing annual salary of \$1,450 by 12 months.
- (b) The month of October, Ms. McCombs was entitled to pay for 7 of the 31 days or \$26. The \$26 was calculated by taking 7 days divided by 31 days times \$121.

A finding for recovery will be issued against Ms. Betsy McCombs, and her bonding company, Auto Owners (Mutual) Insurance Company, in favor of the Village of Gann's General Fund for \$398.

5. John Baker, Knox County Prosecutor, issued a subpoena to the First Knox Bank in Danville to obtain copies of all of the canceled checks processed for the Village of Gann for the period of December 1, 1997 through November 23, 1999. We extended the date of the subpoena past the audit period to ensure we obtain copies of all of the canceled checks issued during the audit period. Based on review of the canceled checks and related supporting documentation, we noted the following:
- A. On March 2, 1998, Ms. McCombs wrote check 1490 to Progressive Communications for \$74.64 for "15-11483". We were unable to match specific ads to payments by the Village. We were unable to obtain support for this expenditure from the Village records or determine the time frame in which the ad ran. As a result, a management comment will be issued for the Village personnel receiving the goods/services at the time of the purchase to sign the invoice indicating the goods/services were received by the Village.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- B. On March 20, 1998, Ms. McCombs wrote check 1498 to herself in the amount of \$105.60 for "phone/travel". No phone or travel logs or other documentation was presented to support this payment. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$105.60.
- C. On June 15, 1998, Ms. McCombs wrote check 1532 to herself in the amount of \$150 for "sweep". No supporting documentation was provided for this purchase. Based on interviews with Velma Short (current Clerk/Treasurer and former Council member), Nancy Gardner (Mayor), and Steve Hammons (current Council member), the sweeper located in the Town Hall was several years old. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$150.00.
- D. On July 1, 1998, Ms. McCombs wrote check 1536 to Miller's True Value in the amount of \$22.86. The memo on the check indicated a bulletin board was purchased. We were unable to locate supporting documentation for this purchase. Based on interviews and correspondence with Velma Short, Nancy Gardner, and Steve Hammons, they were not aware of the purchase of a bulletin board on the Village's behalf. As a result, a management comment will be issued for the Village personnel receiving the goods at the time of the purchase to sign the invoice indicating the goods were received by the Village. The invoice should also indicate the location of the asset purchased to allow the Village to track all assets owned.
- E. On August 20, 1998, Ms. McCombs wrote check 1555 to herself in the amount of \$200 for "typewriter + supplies (Sun tv)." The October 1998 Council Meeting minutes indicated Velma Short would pick up the typewriter. Based on interviews with Velma Short, Ms. Short indicated that she picked up the word processor currently used by the Village from a repair shop in Millersburg, Ohio. Ms. Short also stated that she was not aware of any other typewriters owned by the Village. No other supporting documentation was provided for this purchase. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$200.00.
- F. On December 14, 1998, Ms. McCombs wrote check 1580 to herself in the amount of \$135.77 for "phone." No phone logs or other documentation was provided to support this payment. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$135.77.
- G. On December 14, 1998, Ms. McCombs wrote check 1581 to herself in the amount of \$229 for "travel". No mileage logs or other documentation was presented to support this payment. Through review of documentation, we noted the Mayor provided a travel log documenting the date of the trip, where she went and the mileage, when she was reimbursed for mileage. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$229.00.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- H. On March 6, 1999, Ms. McCombs wrote check 1587 to Lonsingers Pharmacy for \$51.39 for a “calculator”. The invoice provided as support showed school supplies and “giftware”. The “giftware” was for \$39.97. Based on an interview with Velma Short, Ms. Short indicated she felt Lonsingers would not classify the calculator as “giftware.” In addition, the calculator the Village uses is a few years old. This was verified through an interview with Ms. Gardner. As a result, a management comment will be issued for the Village personnel receiving the goods at the time of the purchase to sign the invoice indicating the goods were received by the Village. The invoice should also indicate the location of the asset purchased to allow the Village to track all assets owned.
- I. On April 7, 1999, Ms. McCombs wrote check 1596 to herself for \$100 for “filing cabinet”. In her response to Village officials at the October 3, 1999 meeting, Ms. McCombs indicated the check was for a filing cabinet and office supplies. During an interview on February 25, 2000, Ms. McCombs indicated there was no filing cabinet purchased; however, she did purchase supplies. Ms. McCombs was given until March 13, 2000 to provide additional documentation but did not provide additional documentation to support this expenditure. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$100.00.
- J. On April 14, 1999, Ms. McCombs wrote check 1597 to herself for \$100 for “Progress. com”. In her response documented in the minutes of the October 3, 1999 Council meeting, Ms. McCombs indicated she had placed an ad for the Village and paid cash. We reviewed the ads normally placed in March/April of each year and traced those ads included in the newspaper to other payments made to Progressive Communications. The Mayor obtained a statement from Progressive Communications indicating that based on a dollar amount and no other information, Progressive Communications was unable to provide support for this expenditure. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$100.00.
- K. On June 30, 1999, Ms. McCombs issued check 1613 to herself in the amount of \$150 for “travel”. Ms. McCombs did not provide any mileage logs to support the payment of this mileage. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$150.00.
- L. On July 17, 1999, Ms. McCombs issued check 1619 to herself in the amount of \$200 for “travel”. On August 2, 1999, Ms. McCombs issued check 1622 to herself in the amount of \$110.50 for “travel”. When questioned at the Council meeting in October 1999, she indicated that she attended a seminar in Columbus for three days. Ms. McCombs did not indicate the organization sponsoring the meeting or the dates of the three day seminar. The October 3, 1999 minutes indicated Ms. McCombs stated upon arrival at the seminar, she was informed the seminar was extended to five days. She also indicated she was informed that she had to be in class at 6:00 am for one of the days. As a result, she stayed in a hotel for \$100. In the April 2, 1999 minutes, the Village Council approved \$25/day for meals for Ms. McCombs for work related seminars.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We confirmed with the Auditor of State's UAN Department that Ms. McCombs attended a two day seminar on July 27th and 28th, 1999 that started at 9:00 to allow for driving to the site. In addition, we contacted the Ohio Municipal League to determine what seminars were provided during July and August of 1999. The Ohio Municipal League indicated in August of 1999 there was only a Mayor's Court seminar which was not necessary for the Clerk to operate the Village. At the February 25, 2000 interview with Ms. McCombs, she indicated she attended seminars attended by the State Auditor's Office in July and the local Clerks Association in August. Ms. McCombs indicated she had a brochure relating to the Clerks Association seminar and would send it to us by March 13, 2000. No response was received from Ms. McCombs. No other support was provided as to the training Ms. McCombs attended. Therefore, we determined Ms. McCombs was entitled to \$50 for meals at the two day training seminar on July 27-28, 1999.

We then obtained Ms. McCombs's address and utilized www.mapquest.com to determine the longest and shortest route to the UAN training site from her address. We determined the fastest route as a possible route for Ms. McCombs. Map Quest calculated this route as 79 miles one way. Based on a reimbursement rate of \$.25 a mile (using the mileage reimbursement rate approved for the Mayor), Ms. McCombs would be entitled to \$79 in reimbursement for the two days of travel.

Based on the documentation provided, Ms. McCombs is entitled to reimbursement for the mileage driven to the conference (\$79) and for two days of meals (\$50) for a total of \$129. Based upon the supporting documentation available, Ms. McCombs overpaid herself \$181.50. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$181.50.

- M. On August 2, 1999, Ms. McCombs wrote check 1627 to herself for \$137.49 for "phone". Ms. McCombs provided a purchase order to United Telephone dated July 27, 1999 for the installation of 2 phone jacks, wiring and labor. A hand-written note on the purchase order indicated that Ms. McCombs paid \$137.49 in cash for this service. We contacted Sprint (which has since purchased United Telephone) to determine if a work order existed for this service and if it was standard practice for their staff to collect cash. A Customer Representative at Sprint indicated there was no such work order in their records. She also indicated it is not normal business practice to have their servicemen accept payment. Instead, the service is charged on the next phone bill. We reviewed another payment during the Period (check 1632) for the installation of a telephone line to confirm the method of billing by Sprint. The payment had an invoice attached from Sprint documenting the service performed. Mrs. McCombs indicated at the interview on February 25th, 2000 she paid a person who performed the work and that person was employed by Sprint; however the individual performed the service "on the side" rather than as an employee of Sprint. Ms. McCombs was given until March 13, 2000 to provide additional supporting documentation; however, no additional documentation was received. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$137.49.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- N. On August 9, 1999, Ms. McCombs wrote check 1628 to herself in the amount of \$800 for “desk, chair, materials, and light”. We obtained a copy of the receipt for the desk and chair purchased from Staples in the amount of \$420. Based on interviews, both Velma Short and Nancy Gardner indicated they were not aware of the purchase of the light or materials and could not locate these items in the Town Hall or provide documentation to support this purchase. At the October 3rd, 1999 Council Meeting, Ms. McCombs provided a purchase order for Viking Office Products in the amount of \$404.13. Ms. McCombs indicated on the purchase order she paid “Cash COD 07.10.99”. We contacted Viking Office Products where a representative indicated it is their policy not to accept COD orders. The representative of Viking Office Products also indicated the company had no record of this order. Ms. McCombs indicated during an interview on February 25th, 2000 she did not purchase a light. As a result, Ms. McCombs received \$380 for materials which were not supported by documentation. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$380.00.
- O. On August 28, 1999, Ms. McCombs wrote check 1629 to herself in the amount of \$800 for “fan, floor”. We reviewed a copy of the 84 Lumber invoice for the purchase of floor tiles installed in the Town Hall for \$44.10. Based on interviews, Nancy Gardner and Velma Short indicated they could neither locate in the Town Hall the fan purchased in 1999 nor provide receipts to support the remaining monies expended by Ms. McCombs. Ms. McCombs indicated during an interview on February 25, 2000 she purchased a ceiling fan and the receipt was taped to the box. Ms. McCombs was given until March 13, 2000 to present documentation supporting this expenditure. No such documentation was presented. As a result, Ms. McCombs received \$755.90 for which there is no documentation to support the expenditure. As a result, a finding for recovery will be issued against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, for monies illegally expended and in favor of the Village of Gann General Fund in the amount of \$755.90.
- P. Ms. McCombs indicated on the Village check stubs she had repaid \$596 on September 27, 1999 to the Village. However, upon further review of the deposit slip, this money was not redeposited into the Village’s accounts. See Issue No. 2 for further explanation.
- Q. On September 27, 1999, Ms. McCombs wrote a check to herself for \$1,000. The check stub in the checkbook indicated the check was for “Insurance for computer. UAN Requires this before hook-up.” On October 1, 1999, the Mayor stopped payment on the \$1,000 check. The minutes of the Village Council meeting on October 3, 1999, indicate Ms. McCombs stated she gave the \$1,000 cash to Angela Currens of the UAN Department at the Auditor of State’s Office. Ms. McCombs also indicated the purchase order with Ms. Currens signature was her receipt. During an interview with Ms. Currens, a copy of this purchase order was shown to Ms. Currens who indicated the writing was similar, however, she stated it was not her signature as she signs her middle initial on documents. Ms. Currens indicated she remembered Ms. McCombs from the UAN training class in July which Ms. McCombs attended. Ms. Currens also indicated she did not receive any money from Ms. McCombs.
- R. We noted the Village does not have policies or procedures in place to ensure Council Members do not have conflicts of interest with expenditures they approve. A recommendation will be made to create and implement a policy regarding conflicts of interest.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- S. We noted the 1999 Cash Journal was incomplete and there were numerous posting errors in the 1998 Cash Journal. A citation will be made for not maintaining the cash journal.
- T. The remaining expenditures were traced to supporting documentation with no exceptions and were determined to be for proper public purposes. However, we noted the Village Clerk did not utilize purchase orders when making purchases, the Village Council did not approve vouchers authorizing payments of the expenditures and the Village did not encumber funds before making purchases. A citation will be made regarding the usage of purchase orders, and encumbrance of funds. A recommendation will be made for Council to document their approval of the payment of bills in the minutes.
- U. We reviewed the endorsements of the canceled checks. The endorsements on the checks agreed to the Payee of the check with no exceptions.

Based upon the above results, we hereby issue a total finding for recovery against Ms. Betsy McCombs and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally in the amount of \$2,625.26 for monies illegally expended and in favor of the Village of Gann's General Fund.

- 6. On January 19, 2000, a letter was sent to Ms. McCombs's attorney requesting she provide the Auditor of State's Office with "any and all financial records, documents, or the like that remain in her possession including, but not limited to, financial ledgers, phone logs, and mileage logs." The letter also requested that Ms. McCombs "return any Village property that she has in her possession so that we may make an accurate inventory." On February 2, 2000, we received a telephone call from Robert F. Folland, Ms. McCombs's attorney, who indicated she did not have any records or assets in her possession.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

FINDINGS FOR RECOVERY

1. At the December 14, 1998 Council Meeting, the Village Council passed a motion to “pay the clerk in December instead of every month.” This was approved by all of the Council members present. Prior to April of 1999, the Clerk received \$100 per month. In the April 2, 1999 meeting, the Village Council made a resolution to merge the Clerk and Treasurer into one position with a salary of \$1,450 (effective April 1, 1999) or \$121 per month. This salary would apply for the period April 1, 1999 through March 31, 2000, to correspond with the Clerk/Treasurer’s term which concludes at the end of March.

The salary due to the Clerk/Treasurer for calendar year 1999 is as follows:

Month	Amount of Salary to be Paid
January 1999	\$100
February 1999	100
March 1999	100
April 1999	121
May 1999	121
June 1999	121
July 1999	121
August 1999	121
September 1999	121
October 1999	<u>26</u>
	<u>\$1,052</u>

During 1999, Ms. McCombs paid herself the entire year’s salary in two checks written in June of 1999. The first check was written for \$800 on June 15, 1999. The second check was written for \$650 on June 18, 1999.

Since the Ms. McCombs resigned on October 7, 1999, she was not entitled to her entire salary of \$1,450. Ms. McCombs should have received a gross payroll for the period totaling \$1,052. As a result, she overpaid herself \$398.

Based upon the above information and in accordance with Ohio Rev. Code §117.28, a Finding for Recovery is hereby issued against Ms. Betsy McCombs, and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, in the amount of \$398 for monies illegally expended and in favor of the Village of Gann’s General Fund.

2. Ms. Betsy McCombs served as Clerk of the Village of Gann from January 1, 1998 through March 31, 1998. On April 1, 1999, her title changed from Clerk to Clerk/Treasurer of the Village of Gann. She held this position until she resigned on October 7, 1999. During the period of April 1, 1999 through October 7, 1999, she was the only check signatory. Prior to April 1, 1999, Ms. McCombs signed the checks and the Treasurer, Martha Durbin, also signed the checks upon receiving an explanation for the expenditure from Ms. McCombs.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

During the period of January 1, 1998 through October 7, 1999, Ms. McCombs wrote various checks to herself as reimbursement of expenditures she allegedly made on behalf of the Village. The Village does allow the Clerk to reimburse herself for expenditures she personally incurred on behalf of the Village providing she has documentation to support the expenditures. There were checks written to herself in which there was supporting documentation such as receipts or invoices available. For the following checks, we were unable to locate supporting documentation or the assets indicated as purchased:

Check Number	Date	Amount Unsupported	Purpose per Check
1498	03.16.98	\$105.60	Phone/ Travel
1580	12.14.98	135.77	Phone
1581	12.14.98	229.00	Travel
1555	08.20.98	200.00	Typewriter plus supplies
1532	06.15.98	150.00	Sweep
1597	04.16.99	100.00	Progress.com
1596	04.07.99	100.00	Filing Cabinet
1613	06.30.99	150.00	Travel
1619 and 1622	07.17.99 and 08.02.99	181.50	Travel
1629	08.28.99	755.90	Fan, Floor
1627	08.02.99	137.49	Phone
1628	08.09.99	<u>380.00</u>	Desk Chair, Materials, Light
	Total	<u>\$2,625.26</u>	

Based upon the above information and in accordance with Ohio Rev. Code §117.28, a Finding for Recovery is hereby issued against Ms. Betsy McCombs, and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, in the amount of \$2,625.26 for monies illegally expended and in favor of the Village of Gann's General Fund.

NON-COMPLIANCE CITATIONS

- Ohio Admin. Code Section 117-5-13 (A) states "all purchase orders shall be numbered consecutively."

Ohio Admin. Code Section 117-5-13 (B) states "each purchase order shall be made out in triplicate with the original given to the vendor. The second copy shall be filed with the Village clerk to be used as a posting media to encumber the line-item appropriation as prescribed as Rule 117-5-11 of the Administrative Code. The third copy shall be returned to the individual initiating the purchase order or requisition, as the case may be. This third copy shall serve as a receiving report and be given to the clerk when the items are received and verified."

Ohio Admin. Code Section 117-5-14 (C) states "each executed purchase order shall provide the date, appropriation fund classification, executed clerk's certificate, and the other required information."

During the period January 1, 1998 through October 7, 1999, the former clerk did not utilize purchase orders for most of the expenditures. If purchase orders were utilized, they were generally not completed in entirety or not attached to an invoice.

We recommend the Village obtain purchase orders and execute them as noted in paragraphs A, B, and C of the stated Administrative Code Section.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. Ohio Admin. Code Section 117-5-14 (A) states a “voucher” is a written order authorizing the drawing of a warrant in payment of a lawful obligation of a village.”

Based on review of expenditures during the Period, no voucher’s existed authorizing the drawing of a warrant in payment of a lawful Village obligation. For various expenditures noted in the Findings For Recovery section, there was no documentation for expenditures made.

We recommend the Village create a voucher, place the supporting documentation on the inside of the voucher, and have Council members review and/or sign the voucher authorizing the drawing of a warrant for payment. This will assist the Council in monitoring the expenditures of the Village for accuracy and appropriateness.

3. Ohio Rev. Code Section 733.28 provides “the village clerk shall keep books of the village, exhibit accurate statements of all moneys received and expended, of all the property owned by the village and the income derived therefrom, and of all taxes and assessments.”

The former village clerk did not maintain a Cash Journal for fiscal year 1999.

We recommend the village maintain books of record in accordance with Ohio Admin. Code Section 117-05. In addition, we recommend the current Clerk/Treasurer work with the County Auditor’s office and the Uniform Accounting Network Department of the Auditor of State’s office to ensure a system is implemented to record all financial activities of the Village.

4. Ohio Rev. Code Section 5705.41(D) states that no subdivision or taxing unit shall make any contract or any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation in the fiscal year in which the contract is made has been lawfully appropriated for such purpose and is in the treasury of in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section, also provides two “exceptions” to the above requirements:

- A. Then and Now Certificate - if no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was appropriated and free of previous encumbrances, the Board may authorize the issuance of a check in payment of the amount due upon such contract of order by resolution within thirty days of the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without affirmation of the Village Council.

It was noted that none of the transactions occurring during the Period were certified by the Clerk as to the availability of funds.

We recommend the Village Clerk encumber funds needed to make purchases for the Village utilizing purchase orders for individual expenditure or blanket purchase orders in accordance with the Ohio Revised Code.

5. Ohio Rev. Code Section 145.01 requires that PERS contributions be deducted from public employees payroll.

PERS contributions were not deducted or paid for the Clerk/Treasurer’s salary during 1999. In addition, the Village is delinquent in filing their annual report for 1998.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We recommend that the current Clerk/Treasurer contact PERS to determine the amounts owed to PERS and make the related payments. If this is not corrected in the next regular audit, a referral will be made to PERS.

6. At the December 14, 1998 Council Meeting, the Village Council passed a motion to “pay the clerk in December instead of every month.” This was approved by all of the Council members present. During 1999, the Clerk/Treasurer paid her entire year’s salary in two checks written in June of 1999. This payment was neither approved by the Village Council nor did the Village Council amend their previous motion. The salary payments for the Clerk/Treasurer were not made in accordance with this motion.

We recommend the Clerk/Treasurer pay salaries to herself and others in accordance with the motions passed by Council documented in the Council Meeting minutes.

7. Ohio Rev. Code Section 149.351 establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Ohio Revised Code Sections 149.38 to 149.42.

There were several expenditures for which no supporting documentation was provided in the Village records.

We recommend the Village maintain all records in accordance with a records retention schedule. If the Village does not have a schedule, a records retention schedule should be created and implemented.

MANAGEMENT COMMENTS

1. Each year the Village pays the Clerk/Treasurer, Mayor, and Council members for their services. No documentation supporting the salary amounts or appropriate deductions was maintained for the Period.

We recommend the Clerk/Treasurer create and maintain personnel files which contain salary authorizations and deduction forms for retirement, federal and state income taxes. We also recommend the Clerk/Treasurer maintain a payroll ledger which shows the gross pay and any deductions to ensure all required deductions are made.

2. During the period of April 1, 1999 through October 7, 1999, the former Clerk/Treasurer, Ms. McCombs, wrote checks to herself without supporting documentation. These expenditures were not submitted for Council’s approval. Prior to April 1, 1999, checks for expenditures required two signatures (the Treasurer also signed the checks). Subsequent to the combination of the Clerk and Treasurer positions, only one individual (Clerk/Treasurer) was required to sign the checks. By requiring only one signature, the risk of improper expenditures increases. The Village Council did not monitor the overall operations of the Village by performing periodic reviews of bank statements, expenditures or the Village accounting records. This condition lessens the control and accountability over the management and operation of the Village and increases the risk of theft.

We recommend all checks be signed by the Clerk/Treasurer and reviewed and approved by Council and Council’s approval be documented in the Council Meeting minutes. In addition, we recommend the Village Council review the overall operation of the Village at least monthly to monitor the Village’s expenditures and receipts. This review may include review of monthly receipt and expense ledgers prepared by the Clerk/Treasurer and review of the bank statements and account reconciliations to ensure the information recorded in the books agrees with the activity recorded by the bank.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. During the Period, Ms. McCombs wrote checks to various vendors for purchases on behalf of the Village. These purchases included a calculator, bulletin board, and an unknown item from Progressive Communication. The Village currently does not have a policy indicating the individual receiving the goods/services should sign off on the invoice documenting he or she has actually received the goods. In addition, there were expenditures made for a bulletin board and calculator in which the asset could not be located by the Village Council or Mayor.

We recommend the Village create and implement policies which provide when an employee of the Village purchases items on behalf of the Village, the individual should sign the invoice as receiving the goods/services. In addition, if the items received are an asset of the Village, the location of the asset should be indicated on the invoice as well as an asset listing to ensure the Village can track where the assets of the Village are located.

4. The Village does not have policies addressing conflicts of interest between employees and the Village. By not implementing such a policy, inappropriate related party transactions could occur without the Village's knowledge.

We recommend the Village implement a conflict of interest policy and require individuals to complete a disclosure form each year listing any companies the individuals have some type of interest. A summary of the conflicts of interest should be compared against the vendors the Village utilizes to ensure no inappropriate related party transactions occur.

5. The Village does not have a written policies and procedures manual detailing the Village policies regarding mileage and meal reimbursement for Village officials on Village business.

The lack of written policies and procedures could result in inconsistent or improper treatment of reimbursements and could result in errors or irregularities occurring which are not detected in a timely manner. Failure to accurately and consistently process reimbursements could result in inaccurate payments.

We recommend the Village develop written policies and procedures for the processing reimbursements. The Village Council, or their designee, should be involved in the development of these policies and procedures and the Village Council should formally adopt them.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 2 - Review of Village Deposits

We reviewed supporting documentation for deposits made during the Period to determine whether the former Clerk/Treasurer, Ms. Betsy McCombs, repaid the Village for checks written to herself which she cashed and which only a portion of the money received was used for purchases on behalf of the Village.

Procedures:

1. We reviewed the deposits listed on the bank statement for the Village Checking Account for the Period to determine the deposits which were not made by wire transfer.
2. For those deposits not made by wire transfer, we traced the deposits to supporting documentation from outside sources such as the Knox County Auditor and Public Employees Retirement System, to determine whether the former Clerk/Treasurer repaid any of the money for expenditures questioned in Issue No. 1.

Results

1. John Baker, Knox County Prosecutor issued a subpoena to the First Knox Bank in Danville to obtain copies of all bank deposit slips and any supporting documentation of bank deposits made by the Village of Gann for the period of December 1, 1997 through November 23, 1999 to ensure we obtained all of the deposits slips for deposits made during the audit period.
2. We reviewed the support for the deposits for the period of January 1, 1998 through November 23, 1999 to determine the sources of revenue for the Village to ensure we obtained all of the deposit slips for deposits made during the audit period. The support documentation for the deposits consisted of checks from various agencies including Public Employees Retirement System, Ohio Bureau of Workers Compensation and the Knox County Auditor. We also noted numerous wire transfers from the Department of Taxation and Department of Highway Safety for various local government revenue monies. In addition there was one deposit each year from Lora and David Howell for land leased from the Village.
3. We compared those deposits made via deposit slips (non-wire transfers) to the warrant stubs from the Ohio Bureau of Workers Compensation, Public Employees Retirement System, and the Knox County Auditor. We were able to trace all of the warrants listed on the bank deposit slips maintained by the bank to the warrant stubs for the Public Employees Retirement System and the Ohio Bureau of Workers Compensation warrants without exception. However, we noted several deposits were not made within 24 hours of receipt.
4. We traced the deposits to pay-ins issued by the Village and noted for 10 deposits no pay-ins were issued.
5. In reviewing the warrants listed on the bank's copy of the deposit slip dated September 27, 1999, we noted there were four County Auditor warrants. These warrants agreed to a printout of warrants issued to the Village of Gann from the Knox County Auditor's office.

The Village's records also contained a deposit slip dated September 27, 1999 for the same total amount. However, the Village's copy of the deposit slip indicated \$596 in cash was deposited with the four County Auditor warrants. One of the warrant amounts on the Village's deposit slip was different than the amount listed on the bank's deposit slip. The difference between the two, \$596, equaled the "cash" deposited per the Village's copy of the deposit slip. Based on review of the support documentation from the bank, no cash was deposited on the deposit slip dated September 27, 1999.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Based on a discussion with the Assistant Branch Manager, she indicated the Village's copy of the deposit slip had the code RE on the bank endorsement. This code means the deposit slip was a duplicate receipt. It was noted that the two deposit slips were stamped by the bank approximately 30 seconds apart. The Assistant Branch Manager indicated it would have been possible for the former Clerk/Treasurer to prepare two different deposit slips; one with the four warrants listed which were actually deposited and the other listing the cash and four checks to be deposited being stamped as a duplicate receipt. Based on the documentation maintained by the bank, we determined the former Clerk/Treasurer, Ms. Betsy McCombs, did not repay any moneys to the Village's account.

6. We noted in comparing the warrants issued to the Village for the period of January 1, 1998 through November 30, 1999 provided by the Knox County Auditor, there was one warrant which was not received by the Village Clerk. We contacted the Knox County Auditor's Office which indicated the warrant had not been cashed. The Village is in the process of working with the County Auditor's office to reissue this warrant.

NON-COMPLIANCE CITATIONS

1. Ohio Rev. Code Section 9.38 states that a public official other than a state officer, employee, or agent shall deposit all public monies received by him/her with the treasurer of the public office or properly designated depository as required in the section. This section was amended effective November 2, 1999 by Substitute House Bill Number 220 to state that monies received exceeding \$1,000 should be deposited the next business day. Amounts less than \$1,000 should be deposited within three business days unless the entity has a policy stating otherwise.

During the Period, we noted 24 of 110 instances where the timing of the deposit ranged from three days to 1.5 months from the date of receipt.

We recommend the Village review the amended Ohio Revised Code Section and implement policies and procedures to ensure compliance with the amended requirement.

2. Ohio Admin. Code Section 117-5-12 (A) states "when money is received by a village, a pay-in order shall be executed. The date, amount received, payor, and other information shall be entered in spaces provided. The pay-in order shall be made in duplicate with the original given to the person making the payment. The duplicate copy shall remain in the binding and be used as a posting source for the cash journal as provided in Rule 117-5-09 of the Administrative Code. Pay-in orders shall be numbered consecutively."

During the Period, the Village did not issue pay-ins for 13 of the 110 deposits.

We recommend the Clerk/Treasurer record all moneys received on a pay-in order as described above. The pay-in orders should be reconciled to the receipts ledger and cash journal monthly to ensure accuracy.

MANAGEMENT COMMENTS

1. A scan of the Pay-In book maintained by the Village indicated pay-ins were not issued in sequential order. For example, pay-in 1027 was dated November 12, 1998. Pay-in 1028 was dated September 30, 1998 and pay-in 1029 was dated October 13, 1998. We also noted there were 13 deposits in 1999 which were not recorded in the Village's Pay-In book.

We recommend the Village enter all monies received into the Pay-In book at the time of the receipt in sequential order. The Pay-in book should be reconciled to bank statements monthly to ensure all monies deposited are recorded in the Village's books.

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VILLAGE OF GANN

KNOX 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
MAY 4, 2000**