



Mary Taylor, CPA
Auditor of State

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HARDIN COUNTY

SCHEDULE OF RELEVANT PERSONNEL

As of December 31, 2006

Hardin County Commissioners

Jerry Cross

Russell Ludwig

Gerald Potter

Hardin County Treasurer

Ruth Ann Cook

Hardin County Deputy Treasurers

Deanna Polen

Rebecca Harpel

Hardin County Auditor

Michael Bacon

Hardin County Prosecutor

Bradford Bailey

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Honorable Jerry Cross
Honorable Russell Ludwig
Honorable Gerald Potter
Hardin County Commissioners
One Courthouse Square, Suite 100
Kenton, Ohio 43326-1575

We have conducted a special audit of the Hardin County Treasurer's Office by performing the procedures described in the attached Supplement to the Special Audit Report for the period July 1, 2005 through December 31, 2006 ("Period"). The audit procedures were performed solely to:

- Determine whether certain real estate, personal property and manufactured home tax payments received by the County were deposited intact into an authorized County bank account and accurately posted to the County's accounting records.
- Determine whether certain remittances of real estate taxes, penalties and interest were valid and authorized.

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

1. We examined available documentation supporting recorded tax receipts posted to the County's computer tax system during the Period.

Significant Results – As deputy treasurer, Deanna Polen was responsible for collecting tax receipts and posting payments to taxpayer accounts in the County's tax system. Checks processed by Ms. Polen for real estate, manufactured home and personal property tax payments totaling \$11,544 were substituted in deposits for cash which had been misappropriated. Additionally, cash payments of real estate taxes totaling \$6,720 were not included in deposits or credited to the taxpayers' accounts; however, payments were later posted through the terminal assigned to Ms. Polen using proceeds received on other accounts. Real estate tax payments totaling \$4,038 were originally posted to the tax system but were later reversed through the computer terminal assigned to Ms. Polen in order to post payments to other accounts where payments had been misappropriated.

We issued a finding for recovery against Ms. Polen and her bonding company, Western Surety Company, for public monies collected but unaccounted for in the amount of \$22,302.

We issued four management comments related to internal controls in the treasurer's office.

2. We examined available documentation supporting certain remittances¹ of real estate taxes, penalties and interest recorded during the Period.

Significant Results – We noted seven unexplained remittances of charges totaling \$9,126 that were not approved by the Board of Revision. Payments had been received on these seven accounts and were manipulated in the tax system by subsequent postings and reversals entered through the computer terminal assigned to Ms. Polen. The charges were then remitted off the accounts in the tax system.

We issued a finding for recovery against Ms. Polen and her bonding company, Western Surety Company, for public monies collected but unaccounted for in the amount of \$9,126.

We issued two management comments related to controls over remittances and retention of postmarked envelopes.

3. On August 29, 2008, as the result of a trial by jury conducted in the Hardin County Court of Common Pleas, Ms. Polen was found guilty of one count of theft in office, seven counts of tampering with records and one count of forgery. Ms. Polen was sentenced on September 23, 2008, to six years in prison and ordered to pay restitution to Hardin County for the amount of the theft and related audit costs. On October 9, 2008, Ms. Polen's prison sentence was reduced to four years.

On September 16, 2008, we held an exit conference with the following individuals from the County:

Commissioner Jerry Cross
Commissioner Russell Ludwig
Commissioner Gerald Potter
Treasurer Ruth Ann Cook
Auditor Michael Bacon

The attendees were informed that they had five business days to respond to this Special Audit Report. A response was received from Treasurer Cook on September 18, 2008. The response was evaluated and modifications were made to the report as we deemed appropriate.



Mary Taylor, CPA
Auditor of State

November 30, 2007

¹ Throughout this report, a charge, penalty, or interest that has been removed from a taxpayer's account is referred to as a "remittance" or "remitter". Remitters were entered to the County's tax system by both the treasurer's and auditor's offices. These references should not be confused with the act of making a payment, which is also generally known as "remitting". Within this report, the act of making a payment is referred to as "submitting" or "submit".

Supplement to the Special Audit Report

Background

The Hardin County Treasurer is responsible for the receipt, investment and disbursement of money from the county treasury. The treasurer's office collects payments of real estate taxes, personal property taxes and manufactured home taxes. The office also collects pre-payments of real estate taxes and pay-ins from other county departments.

The treasurer serves a four year term and may appoint one or more deputies. During the Period, the treasurer's office had three employees who collected receipts and processed payment information: the elected treasurer, Ruth Ann Cook; and deputy treasurers, Deanna Polen and Rebecca Harpel.

In July 2006, the Hardin County Auditor's Office performed an end-of-collection balancing and discovered shortages that were traced to certain taxpayer accounts. While reviewing the shortages, the County's computer administrator determined that remitters had been entered to the accounts by the treasurer's office through the computer terminal assigned to Ms. Polen.

On August 2, 2006, Treasurer Cook confronted Ms. Polen about the entries made on her computer terminal. Ms. Polen was unable to provide an explanation and left the office early without permission. While continuing to review the prior period activity, Treasurer Cook determined that Ms. Polen's cash drawer had been short by \$775 back in February 2006; an amount corresponding to a payment submitted on one of the accounts questioned by the computer administrator. Ms. Polen had previously documented an overage of \$379 on her daily worksheet on the day that payment was received. Upon further questioning of Ms. Polen, she admitted to taking the excess cash she previously reported of \$379. Treasurer Cook demanded that Ms. Polen reimburse the office for that day's actual shortage of \$775. Ms. Polen returned the cash she had previously taken in the amount of \$379, and wrote a personal check for \$396 for the remainder.

On October 2, 2006, Treasurer Cook discovered that Ms. Polen was short again in her cash drawer. Treasurer Cook asked Ms. Polen to determine where the shortage occurred; however, Ms. Polen was unable to provide an explanation. On October 12, 2006, Ms. Polen wrote a personal check for \$110 to reimburse the office for a drawer shortage that occurred on July 17, 2006.

On October 18, 2006, the computer administrator discovered several accounts where postings had been entered and reversed by Ms. Polen on August 30, 2006. The computer administrator notified Treasurer Cook who discussed the matter with Hardin County Auditor Michael Bacon and Hardin County Prosecutor Bradford Bailey. Ms. Polen became aware that her computer entries were being examined and again left work without permission. That same day, Treasurer Cook placed Ms. Polen on administrative leave.

The Hardin County Sheriff's Office initiated a criminal investigation and on November 13, 2006, charges were filed against Ms. Polen for theft in office (fifth-degree felony) and tampering with evidence (third-degree felony). The Auditor of State's Special Audit Task Force considered the matter and on December 5, 2006, initiated a special audit of the treasurer's office. On December 21, 2006, Prosecutor Bailey dropped the charges against Ms. Polen to allow more time to investigate and complete the special audit.

In April 2007, the Auditor of State's assistant chief legal counsel was named special prosecutor on the case by Prosecutor Bailey. In May 2008, Ms. Polen was indicted on nine charges including one count of theft in office (third-degree felony), seven counts of tampering with records (all third-degree felonies) and one count of forgery (fifth-degree felony). Ms. Polen entered a plea of not guilty to the charges at her arraignment and a trial was held in the Hardin County Court of Common Pleas in August 2008. On August 29, 2008, Ms. Polen was found guilty by a jury of all nine counts. Ms. Polen was sentenced on September 23, 2008 to six years in prison and ordered to pay restitution to Hardin County for the amount of the theft and related audit costs. On October 9, 2008, Ms. Polen's prison sentence was reduced to four years.

Supplement to the Special Audit Report

Issue No. 1 – Tax Collections and Deposits

Procedures

We obtained an understanding of the real estate, personal property and manufactured home tax billing and payment collection processes, including procedures for posting payments, pre-payments, penalties and interest to the County's computer system.

We examined documentation supporting payments received and posted to accounts during the Period to determine their accuracy and to identify unsupported postings.

We examined deposit documentation to determine if payments were actually received from the selected accounts where discrepancies in postings were identified.

We compared the amounts that should have been deposited to the amounts actually deposited and noted any variances.

Results

Tax payments were received by the treasurer's office either through the mail, from walk-in customers or by electronic fund transfers from banks. When tax payments were received, the deputy treasurers stamped the corresponding stubs as paid with the date of payment and later used the information on the stubs as support for posting the payments to the computerized tax system. Receipts were not issued for payments; however, walk-in customers could have their bills stamped as paid to serve as a receipt.

Each deputy treasurer was responsible for counting and reporting the money in their cash drawer. After the drawers were closed for the day, each deputy posted their totals to a separate column on a daily worksheet. The deputies generated calculator tapes for all stubs, pay-ins and checks in their drawers and the tapes were maintained as support for the daily activity.

Deputy Treasurer Deanna Polen was primarily responsible for posting real estate payments and pre-payments to the tax system. Deputy Treasurer Rebecca Harpel was primarily responsible for posting personal property and manufactured home tax payments. Treasurer Cook also posted payments to the tax system and served as back-up to the two deputy treasurers.

After payments were posted each day to the tax system, system-generated receipt edit reports were printed by the deputy treasurers for each of the four types of payments collected and posted. Each deputy treasurer compared the receipt edit reports to the total receipts listed on the daily worksheets to verify that all receipts had been posted. The payment stubs were maintained as support for the postings.

Finding for Recovery

There were 12 cash payments of real estate taxes totaling \$6,720 that were not included in the treasurer's deposits or credited to the taxpayers' accounts on the date received. For each of the twelve payments, the taxpayers provided date stamped receipts or other evidence to support their payments. Six payments were later posted to the tax system through the terminal assigned to Ms. Polen using proceeds received on other accounts, two payments were remitted through Ms. Polen's computer terminal, two payments were later posted at a shared computer, and two were never posted at all.

There were 41 real estate tax payments made by checks totaling \$11,336 that were substituted in deposits for cash payments received. For 38 of the 41 checks, the amounts were traced to entries on calculator tapes created for checks processed through the cash drawer used by Ms. Polen. On August 29, 2006, Ms. Polen repaid the treasurer's office \$775 related to one of the checks.

Supplement to the Special Audit Report

The treasurer was contacted by two taxpayers who had received notices of delinquent personal property taxes and one who had received a notice of delinquent manufactured home taxes. The taxpayers had paid by check and their payments were not posted to their accounts. The checks were substituted in deposits for cash payments received through the cash drawer assigned to Ms. Polen. The total amount of the three checks was \$983.

There were five instances when real estate tax payments totaling \$4,038 were deposited and posted to the tax system, but the postings were later reversed in the system without explanation and the proceeds were used to post payments to other accounts, for which the original payments had not been deposited. The entries were posted through the terminal assigned to Ms. Polen.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery is hereby issued for public monies collected but unaccounted for against Deanna Polen and her bonding company, Western Surety Company, for \$22,302, jointly and severally, and in favor of the Hardin County Treasurer's Office.

Management Comments

Cash Drawer Counts

The deputies in the treasurer's office were responsible for counting and reconciling their own cash drawers. Each day, the deputy responsible for the drawer counted the money in their drawer and compared it to the stubs, pay-in receipts, and receipt edit reports. Each deputy recorded on a daily worksheet the amount collected and the amount that was ready for deposit. Each drawer had starting cash of \$625, which was not verified by another person.

With each deputy responsible for reconciling and counting their own drawer, misstatements are more likely to occur and not be detected. Payment stubs supporting transactions can be removed and cash and checks can be misappropriated. Also, by not verifying starting and ending cash counts, cash could be misappropriated from the drawers and go undetected.

We recommend that the treasurer's office institute formal, written procedures governing the documentation of funds collected by the deputy treasurers and the starting and ending cash amounts held in drawers. At the beginning of the day, each deputy should count the beginning cash amount and document the count, which should be verified by the treasurer. At the end of the day, each deputy should generate a calculator tape documenting all revenues collected, and then a different deputy should count the cash drawer once again for a closing balance. The reviewing deputy should verify that total checks and cash on hand agree to the checks and cash entered on the daily worksheet. Again, this count should be verified by the treasurer.

The treasurer's office has implemented changes to certain procedures, including having employees count each other's cash drawers to verify receipts and the starting cash amount. We recommend that the deputies document their verification by initialing the amounts on the daily worksheet.

Reconciliation of Daily Postings and Year-to-Date Postings

The treasurer's office reconciled the total postings per the daily receipt edit report to the stubs collected for the day. This reconciliation helped to determine if the stubs had been posted properly. There was no reconciliation between the current day's postings and the year-to-date total in the computer system. Entries that were not supported by a stub were posted to the system after the receipt edit report was generated. This allowed posting of undeposited payments to the system to avoid delinquency notices, and then reversal of payments to reconcile the total amounts deposited.

Without a daily reconciliation of the year-to-date total postings, there could be unsupported entries posted to the computer system.

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We recommend that the treasurer examine the previous day's receipt edit report to obtain the year-to-date postings for that day and add the total postings that are reported on the current day's receipt edit report. This amount should be compared to the current day's receipt edit report year-to-date total. This will help the treasurer ensure that no additional entries have been posted to the computer system.

Segregation of Duties

Each deputy was responsible for reconciling her own cash drawer and comparing her receipts to the stubs, pay-ins, and receipt edit report each day. This inadequate segregation of duties weakens internal controls over cash collections.

Segregation of duties is a key element of any effective internal control system. One employee involved in all functions of the receipt process increases the likelihood that errors or irregularities may occur and not be detected in a timely manner by management.

We recommend the treasurer assess the responsibilities of each deputy and assign duties in a manner that will limit any one individual from consistently being involved in all accounting functions. An employee responsible for collecting receipts should not also be responsible for reconciling her own cash drawer and preparing the daily worksheet. If the duties are randomly rotated among employees, a record should be maintained documenting the duties assigned to each employee for each particular day.

Overages and Shortages

On at least one occasion, Deputy Treasurer Deanna Polen's drawer contained an overage which Ms. Polen took home for her personal use. There were no controls to ensure that overages were deposited into a bank account.

We recommend the treasurer create a log to record the date, the employee, and the amount of the overage or shortage. The overages and shortages incurred by each deputy should be reviewed by the treasurer and used as supporting documentation for employee performance evaluation. Employees should not reimburse shortages in their cash drawers, as this could lead to significant employee turnover or misappropriation of overages. The Treasurer should create a policy which firmly states that overages are not the property of employees and that misappropriation of overages will not be tolerated.

Supplement to the Special Audit Report

Issue No. 2 – Remittance of Real Estate Taxes

Procedures

We obtained an understanding of how remittances were approved and posted by the offices of the treasurer and auditor.

We examined documentation supporting certain remittances posted to accounts during the Period to identify unsupported postings and determine their validity.

We examined deposit documentation to determine if payments were actually received for selected accounts where unsupported remittances were identified.

Results

The Hardin County Board of Revision is comprised of the county auditor, county treasurer and the president of the board of county commissioners. The Board is the authoritative body charged with hearing complaints relating to the valuation of property and assessment of real property taxes. The Board reviews and approves the remittance of tax charges based on changes in property valuations or challenges to valuation amounts. The Board also reviews and approves requests by taxpayers for the remittance of late payment penalties.

During the Period, approved remittances were entered into the County's tax system by the auditor's and treasurer's offices. The auditor's office generated a Report of Additions and Remitters after each tax settlement to document these changes posted to the system.

The treasurer's office also had the ability to remit certain late payment penalties without Board approval for payments postmarked prior to but received after the due date. Since the tax system automatically assessed penalties to unpaid accounts after the due date, the penalties were removed from the accounts when the payments received showed that they had been timely mailed. These remittances were entered through the receipt posting application and did not appear on the Report of Additions and Remitters.

Finding for Recovery

We examined the Reports of Additions and Remitters and noted seven unexplained remittances of charges that did not have Board approval. Payments totaling \$9,126 had been received on the seven accounts; four of the payments were deposited and posted then were later reversed to disguise other paid accounts which had not been deposited, one payment was substituted in a deposit, and two cash payments were not deposited. All seven payments were manipulated in the tax system by postings and reversals entered through the computer terminal assigned to Deanna Polen. The charges were then remitted off the accounts in the tax system.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery is hereby issued for public monies collected but unaccounted for against Deanna Polen and her bonding company, Western Surety Company, jointly and severally, for \$9,126 and in favor of the Hardin County Treasurer's Office.

Supplement to the Special Audit Report

Management Comments

Review and Approval of Remittances

Deputy treasurers were able to input remittances directly into the tax system without the knowledge of the treasurer or auditor's office. A remitter reduced the amount due in a taxpayer's account but did not affect the collection-to-date amount in the tax system. The ability to make changes to a tax account without a record of the change increases the risk that an erroneous or unauthorized change may be entered and go undetected.

The treasurer's office did not prepare remittance forms or maintain documentation to support each remitter. A periodic report of remitters posted through the treasurer's office was not generated for review and approval by the treasurer. There was no evidence to indicate that the remitters documented on the Report of Additions and Remitters generated by the auditor's office after each tax settlement were reviewed and approved by the treasurer.

The lack of documentation, approval, and supervisory review of remittances increases the risk that a remitter will be posted, either in error or intentionally, for an unauthorized purpose and such posting would not be detected in the normal course of business.

We recommend that the treasurer's office request the property tax software vendor implement changes in the system to eliminate or identify remitters posted through the file maintenance application. We recommend that the treasurer's office maintain documentation to support remittances posted to the system. We recommend that the treasurer develop a method, such as the use of an individual remittance form with supporting documentation attached, to review and approve remittances prior to posting to the tax system. Additionally, the treasurer's review and approval of the Report of Additions and Remitters should be documented.

Retention of Postmarked Envelopes

Tax payments sent through the U.S. Postal Service must be postmarked prior to the due date to not be assessed a late payment penalty. In order to support the removal of late payment penalties for payments received after the due date, the treasurer's office retained the postmarked envelopes in which the payments were received. The envelopes were retained until the tax settlement and then were discarded.

Failure to retain the envelopes received after the due date could result in questions as to the legitimacy of the remittance of certain late payment penalties. The envelopes also serve as supporting documentation when questions arise with taxpayers disputing late penalties.

We recommend that the treasurer consider treating envelopes received after the due date as public records and adopt a record retention policy for retaining the postmarked envelopes due to their value as supporting evidence in the assessment of late payment penalties. If the postmarked envelopes are not considered a public record, at the minimum, we recommend the treasurer consider retaining them until after the applicable tax payments have been audited.



Mary Taylor, CPA
Auditor of State

HARDIN COUNTY TREASURER'S OFFICE

HARDIN 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
OCTOBER 16, 2008**