



OHIO AUDITOR OF STATE
KEITH FABER



VILLAGE OF NEW MADISON
DARKE COUNTY

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FRAUD EXAMINATION REPORT

Village of New Madison
Darke County
124 South Harrison Street
New Madison, Ohio 45346

To the Village of New Madison Council Members, Mayor and Citizens:

Summary

The Auditor of State, Special Investigations Unit (SIU) conducted a special audit of the Village of New Madison (the Village) predicated on concerns raised by the West Region financial auditors of the Auditor of State.

The special audit identified over \$27,000 of public funds unaccounted for and/or illegally spent which resulted in findings for recovery against former fiscal officer Wanda Lacey.

Background

The special audit and investigation began in November 2015, after SIU received a Noteworthy memo from the West Region financial auditors. During the 2013 and 2014 financial audit, difficulties were encountered when trying to obtain information from Fiscal Officer Wanda Lacey. Accounting records were in disarray, system derived income tax information did not exist, and utility adjustments were unable to be explained. On November 19, 2015, Ms. Lacey was put on administrative leave. Her Village debit card and keys were confiscated by the Village officials. Ms. Lacey's employment contracts ended December 31, 2015 and were not renewed by Village Council.

After the information obtained from interviews and a preliminary examination of utility records, income tax records, and bank records were considered, a special audit was declared by the Auditor of State.

Scope and Approach

We defined our audit period as covering January 1, 2010 through November 30, 2015 (the Period) based on the risk factors identified.

The specific objectives we tested to establish whether fraud was committed at the Village were to determine whether:

- Utility receipts were deposited into the Village bank account intact.
- Income tax receipts were deposited into the Village bank account intact.
- Non-payroll disbursements from the Village to the former fiscal officer, Wanda Lacey, were supported and for a proper public purpose, and whether she was compensated in accordance with authorized amounts.
- The debit card expenditures were supported and made for a purpose related to the operations of the Village.

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, the Auditor of State confirmed the allegation that Ms. Lacey did not properly deposit/collect receipts and illegally spent public monies, all of which aggregated to \$27,312 in Village funds subject to findings for recovery over a span of almost six years.

Wanda Lacey was hired by the Village on January 1, 2010 as the Village Fiscal Officer, BPA Clerk, and Tax Administrator. Ms. Lacey was responsible for all aspects related to the Village finances, including but not limited to, utility revenue, income tax revenue, non-payroll and payroll expenditures, and the administrative debit card.

The special audit determined there was a complete lack of segregation of duties and management oversight of Village finances. Due to the deficient control structure, we noted \$15,697 in undeposited and/or uncollected utility receipts, \$9,282 in overpaid payroll and benefits, \$650 in unallowable debit card purchases, and \$1,683 in unsupported reimbursements.

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 \$27,312 against Wanda Lacey for public monies collected but unaccounted for, public monies due but not collected, and public monies illegally expended during the Period. In addition, we named 13 former and current Council members and Mayors as strictly liable, as detailed in the Appendix.

In addition to the findings for recovery, we issued management recommendations regarding segregation of duties, sales taxes, deficient public records, reconciliation of utility receipts, utility account adjustments, income tax records, inadequate oversight by those charged with governance, and debit card policy. The full details of the findings for recovery and management recommendations are located in the Appendix.

On June 24, 2021, we held an exit conference with the following individuals representing the Village:

Roberta Hocker, Fiscal Officer
Charlie Godsey, Council Member
Karl King, Council Member

Monyca Schlechty, Mayor
Michael Rieman, Village Solicitor

The attendees were informed they had five business days to respond to this fraud examination report. A response was not received by the Village.



Keith Faber
Auditor of State
Columbus, Ohio

May 24, 2021

**SUPPLEMENT TO THE FRAUD
EXAMINATION REPORT**



SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Objective 1 – Determine whether utility receipts were deposited into the Village bank account intact.

PROCEDURES

We obtained the Cycle Receipt Journals from the utility system for the Period and performed the following:

- Determined the utility billing process.
- Agreed each customer utility receipt posting to a copy of the deposited check/money order or to the cash amount deposited for the day the transaction was posted.
 - For cash payments, ensured the amount of cash deposited for the date agreed in total to all customer postings noted as paid in cash.
- Documented if a billing stub existed for each receipt.
- Examined 100% of bank deposits in the Village bank account for the Period.
- Performed an analysis comparing the Cycle Receipt Journals to the utility receipts posted in the Village accounting system, the Uniform Accounting Network (UAN), for the Period.

We obtained the Adjustment Journals from the utility system for the Period and performed the following:

- Determined the utility adjustment process.
- Examined utility adjustments posted to the utility system.
 - We identified and excluded from testing positive adjustments which increased the customer balance and negative adjustments of \$29 or less, which appeared to be the removal of late penalties.
- Determined if the adjustment was made to correct the customer's account as a result of an error in the amount received when the customer's payment was posted.
- We examined the Board of Public Affairs (BPA) meeting minutes to determine whether the adjustments were approved.
- Due to cash payments being susceptible to theft, we excluded any remaining adjustments if the customer was not indicated as paying cash.
 - From the cash paying customers identified above, we obtained the U/B History report for each customer and determined if a receipt was applied during the same billing cycle the adjustment was made.

RESULTS

Utility Receipts

The Village uses Software Solutions, Inc. (SSI) for utility billing and recording utility activity to its customers' accounts. The system was password protected during the Period. The only computer with access to SSI is located in the fiscal officer's office in the Village administration building. Customers made utility payments at this location via a drop box located at the building.

Customers are billed monthly for their use of Village utilities. Utility bills were printed out by Ms. Lacey from SSI and mailed during the last week of each month with a due date on the 15th of the following month. During the Period, the Village accepted payments in the form of cash, personal checks, and money orders. Upon receipt of payments, Ms. Lacey posted the payments to customer accounts, prepared the bank deposit slip, and deposited the receipts into the Village bank account.

A total of 26,744 utility transactions, amounting to \$2,912,438, were examined during the Period. We applied the aforementioned procedures to each customer utility receipt posting. Of the 26,744 transactions examined, we identified 44 customer utility receipts paid in cash totaling \$5,941 with no corresponding bank deposit. In addition, 21 of the total transactions examined did not have a corresponding billing stub.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Furthermore, there were four utility cash deposits made into the Village bank account totaling \$965 which could not be traced to a specific utility receipt; therefore, we will reduce the missing cash receipts by this amount.

We performed an analysis of the monthly Cycle Receipt Journals and the utility receipts posted in the Village's UAN accounting system for the Period. The table below represents the yearly comparisons.

	<u>UAN Utility Receipts</u>	<u>Cycle Receipt Journal</u>	<u>Variations</u>
<u>2010</u>	\$491,587	\$492,596	\$(1,009)
<u>2011</u>	\$472,133	\$493,298	\$(21,165)
<u>2012</u>	\$505,891	\$501,622	\$4,269
<u>2013</u>	\$471,386	\$475,238	\$(3,852)
<u>2014</u>	\$485,926	\$485,082	\$844
<u>2015</u>	\$473,272	\$464,602	\$8,670
			<u>\$(12,243)</u>

Although, the table above reflects a variance, it does not directly correlate to the identified amount of missing utility receipts. Due to the disarray of utility records solely managed by Ms. Lacey, the Village remained unreconciled for multiple years contributing to the remainder of the variance.

Utility Adjustments

A utility adjustment is made to a customer account to correct an error in billing or receipting. Adjustment transactions were only posted during the Period by Ms. Lacey in the utility system. Through inquiry of Village personnel, the understanding was that utility adjustments were to be approved by the BPA.

A total of 201 adjustments, amounting to \$58,777, were examined during the Period. We applied the aforementioned procedures to each adjustment posting. We identified 30 adjustments totaling \$3,768 which were made to correct the customer's account as a result of an error in the amount receipted. These errors were identified when examining the customer's payment in the Village's bank account. We only identified three adjustments totaling \$865 approved by the BPA. We identified 77 adjustments totaling \$42,082 from non-cash payment customers. From the remaining 91 adjustments, we identified nine adjustments totaling \$1,341 where a receipt was posted in the same billing cycle as the adjustment. This indicated the adjustment was more than likely not being disguised as a receipt of payment.

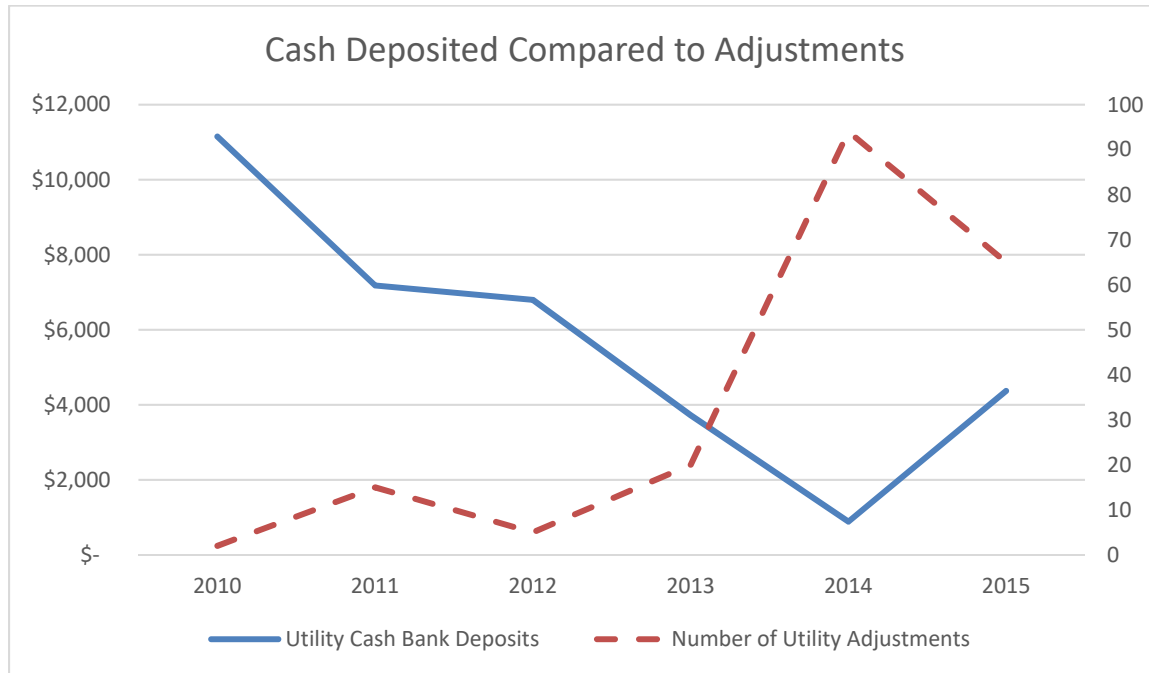
The remaining 82 adjustments totaling \$10,721, associated with 23 customer accounts, were determined to not have been made for a legitimate purpose based on the following:

- Adjustment was not approved by the BPA;
- Adjustment was not made to correct a billing or receipting error; and/or
- A receipt was not posted during the same billing cycle as the adjustment indicating a payment was received for that month.

In addition, the customers were known to pay in cash. We interviewed eight of those customers, who stated they either always or sometimes paid in cash. Of the 82 adjustments, six, totaling \$742, had a corresponding billing stub indicating a payment was made.

We performed an analysis of total cash deposited for utility receipts and the number of adjustments \$30 or greater which reduced the customer's balance. The following table represents the yearly cash deposited for utility receipts in comparison to the number of utility adjustments posted in SSI. We observed that, as utility cash bank deposits decreased, the number of adjustments increased.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT



Objective 2 – Determine whether income tax receipts were deposited into the Village bank account intact.

PROCEDURES

In 2008, the Village purchased software, Creative MicroSystem, Inc. (CMI), to manage income tax data. The system was not being utilized by Ms. Lacey and no system generated reports could be provided by the Village to identify the number of income tax customers or receipts received. Additionally, duplicate receipts were not used by the Village, as payment options only included mail-in or onsite drop box. Therefore, we were unable to determine completeness of the Village income tax receipt records; our examination was limited to 2014 and 2015 tax returns. We examined returns filed in boxes and/or in individual residents' folders for 2014 and 2015 to determine whether amounts indicated as paid on returns were deposited into the Village bank account intact.

RESULTS

We examined 953 income tax deposits totaling \$271,189 in the Village's bank account for 2014 and 2015. Of these, we identified 95 income tax deposits totaling \$11,305 that did not have a corresponding tax return on file at the Village.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Objective 3 – Determine whether non-payroll disbursements from the Village to the former Fiscal Officer, Wanda Lacey, were supported and for a proper public purpose, and whether she was compensated in accordance with authorized amounts.

PROCEDURES

We examined all checks issued to Wanda Lacey by utilizing the Village bank statements' cancelled checks and the UAN Check Register by Vendor report, during the Period. The disbursement descriptions were reviewed in the UAN system and supporting documentation was requested.

For each year of employment with the Village, a separate ordinance was approved by Council for each of the three positions held by Ms. Lacey: Fiscal Officer, BPA Clerk, and Tax Administrator. For the Period, we examined each ordinance and corresponding Council minutes, and each payroll check issued to Ms. Lacey to determine whether she was paid in accordance with authorized rates. In addition, Ms. Lacey received a healthcare insurance stipend in which we also examined related Council minutes and ordinances for proper authorization.

RESULTS

Non-Payroll Disbursements

We identified 16 reimbursement checks issued to Wanda Lacey totaling \$1,974 during the Period. According to the description in the UAN accounting system, the checks were for mileage, supplies, stamps, and other miscellaneous reimbursements. The Village did not require employees to submit support when requesting reimbursements. Of the 16 checks issued to Ms. Lacey, 14 checks totaling \$1,683 did not have supporting documentation and therefore, we were unable to verify whether the reimbursement was allowable. All checks were signed by Ms. Lacey, as fiscal officer, and by another Village official.

Payroll Disbursements

We identified multiple discrepancies when comparing Ms. Lacey's total payroll earnings to the amounts in the Council-approved ordinances.

Salary

The following is a yearly comparison of Ms. Lacey's authorized salary to be paid, in all three positions, compared to her actual salary paid from 2010 to 2015:

Year	Total Authorized Salary Base	Actual W-2 Salary Paid	Total Overpayment/ Underpayment
2010	\$21,500	\$22,947	\$1,447
2011	\$21,500	\$25,283	\$3,783
2012	\$21,715	\$21,715	\$0
2013	\$22,149	\$22,391	\$242
2014	\$25,043	\$24,202	(\$841)
2015	\$25,043	\$25,194	\$151
Total	\$136,950	\$141,732	\$4,782

Ms. Lacey was overpaid for her regular salary by \$4,782, in total, during the Period. In addition, we noted the ordinances approving the 2014 positions and rates were not approved in 2014 and were retroactively approved in 2015. The ordinances provided for the 2015 positions and rates were neither signed nor approved in the Council minutes.

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Healthcare Insurance Stipend

On August 17, 2015, Council approved Ordinance 2015-08, which authorized a \$250 monthly healthcare insurance stipend to be paid to Ms. Lacey starting in July of 2015. Ordinance 2015-08 states, "In addition to those benefits which are detailed in the personnel policies, the BPA Clerk shall also be entitled to a monthly stipend to assist her in the cost of maintaining her health insurance plan. Said stipend shall be payable in an amount of \$250 per month. Any costs for options associated with such health insurance coverage and exceeding \$250 shall be the responsibility of the BPA Clerk. The stipend for said health insurance shall be paid by the BPA. The BPA Clerk shall furnish the Village with proof of insurance, including her monthly premium amount."

Ms. Lacey received her first of 14 healthcare insurance stipends on October 16, 2014 in the amount of \$1,000, 9 months prior to the Ordinance authorizing the stipends. This payment retroactively covered the months of July, August, September, and October 2014. In all, Ms. Lacey received a total of \$3,250 in health insurance stipends before Ordinance 2015-08 was approved by Council. She continued to receive the stipend for an additional \$1,250 before her contract termination date of December 31, 2015, for a total of \$4,500. Supporting documentation for proof of insurance, including the premium amount paid, was not provided to Council as required.

The following is a yearly summary of the health insurance stipend transactions examined for Ms. Lacey:

Year	Unapproved; unsupported	Approved; unsupported	Total
2014	\$1,750	\$0	\$1,750
2015	\$1,500	\$1,250	\$2,750
Total	\$3,250	\$1,250	\$4,500

SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Objective 4 – Determine whether debit card expenditures were supported and made for a purpose related to the operations of the Village.

PROCEDURES

We reviewed the May 3, 2010 Council minutes in which debit cards were approved for use by each of the following departments:

- Utilities
- Street
- Police
- Administrative

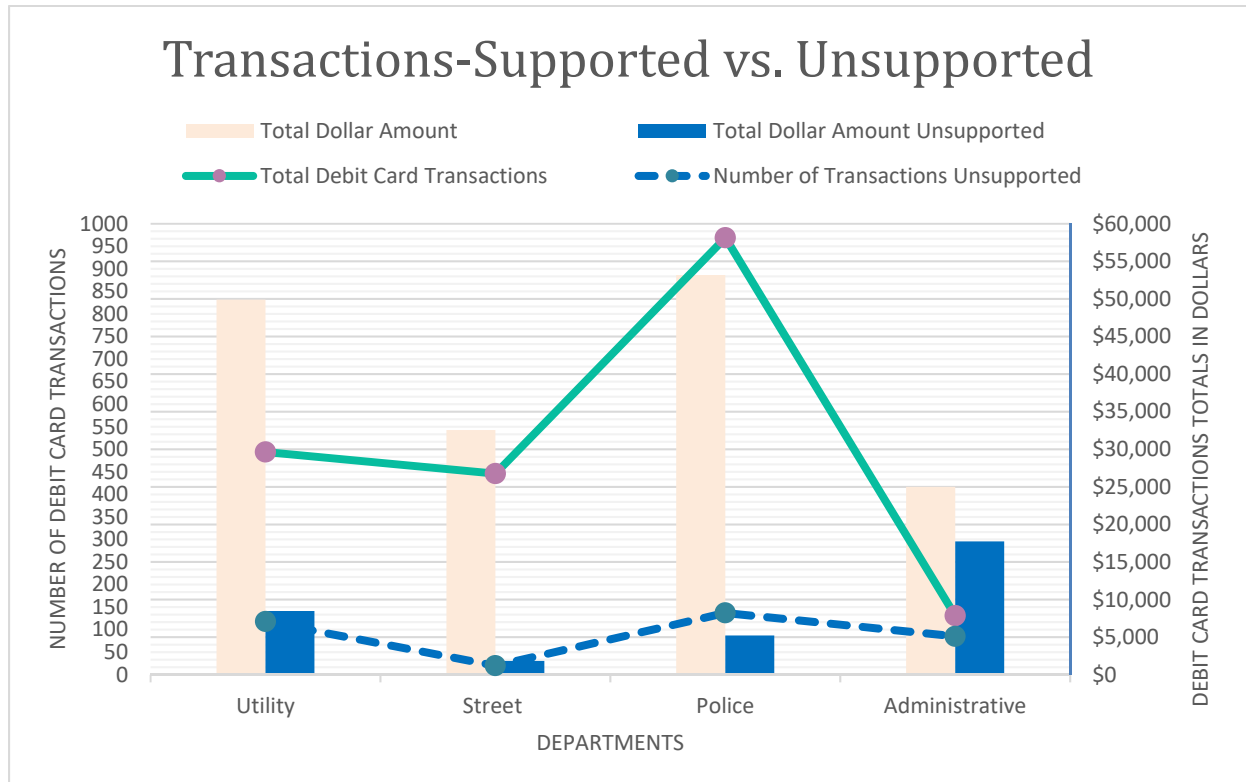
During investigative interviews, it was determined Ms. Lacey was the card holder for the administrative debit card. This card was turned over to the Village by Ms. Lacey when she was placed on administrative leave on November 19, 2015.

We examined 100% of debit card transactions, utilizing the Village bank statements, for the Period. Loose receipts and invoices were located in boxes at the Village Administrative building in no particular order. We identified supporting documentation to the extent possible with the debit card transactions.

RESULTS

We examined a total of 2,040 debit card transactions, totaling \$160,636 for the Period, from four debit cards connected to the Village bank account.

The following is a summary of the transactions examined:



SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

Of the total transactions examined, \$127,377 in expenditures were supported and considered to be for a proper public purpose. The remaining \$33,259 in expenditures did not have supporting documentation; however, \$32,609 of that amount was deemed reasonable per inquiry with personnel at the Village and our knowledge of the vendors. The remaining \$650 (four transactions) of unsupported transactions were charged on the administrative debit card to a vendor named MyPoints and were deemed not for Village purposes.

During examination of the debit card transaction support, it was also noted the Village paid sales tax to vendors on 75 transactions, when the Village should have used its tax-exempt status.

The seal of the Ohio Auditor of State, Special Investigations Unit, is a circular emblem. It features a central shield with a scale of justice and a sword, surrounded by the text "SPECIAL INVESTIGATIONS UNIT" at the top and "OHIO AUDITOR OF STATE" at the bottom. The seal is rendered in a light, semi-transparent green and yellow color.

APPENDIX
**SCHEDULE OF FINDINGS FOR RECOVERY
AND MANAGEMENT RECOMMENDATIONS**

APPENDIX

FINDINGS FOR RECOVERY

Utility Receipts

Former Fiscal Officer, Wanda Lacey, was responsible for all aspects of processing Village utility transactions. The Village Administrative building did not have open hours of operation; all utility payments and returned billing stubs were placed in the drop box located on the side of the building.

Due to a control structure that lacked segregation of duties, Ms. Lacey prepared monthly utility bills, which were calculated and printed from the utility system; recorded utility receipts in the utility system; prepared the deposit slip for monies collected for payments; and took the deposit to the bank. When processing utility receipts, Ms. Lacey documented the payment date, payment amount received, and method of payment on the billing stubs and filed the stubs by month and year. Utility account adjustments were also made by Ms. Lacey in the utility system, without a standard approval process or procedure in place.

We identified the following discrepancies regarding utility transactions for the Period:

- 44 cash receipts totaling \$5,941 for which monies collected were not deposited into the Village's bank account.
- 82 utility adjustments totaling \$10,721 made for an illegitimate purpose.
- Four utility cash deposits made into the Village bank account totaling \$965 which could not be directly associated to a specific utility receipt; therefore, reducing the total discrepancy amount by the \$965.

Payroll

During the Period, Wanda Lacey served as Village Fiscal Officer, BPA Clerk, and Tax Administrator. Positions and salaries were approved by annual ordinances. As fiscal officer, Ms. Lacey was responsible for all Village financial transactions, including but not limited to preparing the Village payroll.

Village Ordinance 15-08 covering July 1, 2015 to December 31, 2015 stated the following regarding healthcare stipends:

"In addition to those benefits which are detailed in the personnel policies, the BPA Clerk shall also be entitled to a monthly stipend to assist her in the cost of maintaining her health insurance plan. Said stipend shall be payable in an amount of \$250 per month. Any costs for options associated with such health insurance coverage and exceeding \$250 shall be the responsibility of the BPA Clerk. The stipend for said health insurance shall be paid by the BPA. The BPA Clerk shall furnish the Village with proof of insurance, including her monthly premium amount."

We noted the following improper payroll disbursements to Ms. Lacey for the Period:

- Overpayment of regular compensation totaling \$4,782.
- Monthly healthcare stipends, totaling \$4,500 for the Period, that were either received prior to approval by Council or that lacked the required supporting documentation.

Non-Payroll Disbursements

Employee reimbursements, including but not limited to, travel and purchased supplies, should include proper approvals and supporting documentation. Original invoices, receipts, and documentation regarding travel should be maintained at the Village.

We examined 16 non-payroll checks issued to Ms. Lacey and determined 14 checks totaling \$1,683 did not have proper supporting documentation on file at the Village. As a result of the lack of supporting documentation, we were unable to determine the purpose of these reimbursements.

APPENDIX

Debit Card Expenditures

Village Council approved the use of debit cards on May 3, 2010, stating the cards would be monitored; however, there were no policies or controls put in place by the Village regarding the use of the debit cards and types of purchases. During the Period, Fiscal Officer Wanda Lacey had possession of the administrative department debit card and made purchases without prior certification or subsequent approval by Council.

We identified four improper debit card charges to MyPoints.com totaling \$650 during the Period.

Finding for Recovery Conclusion

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).

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a finding for recovery for public monies collected but not accounted for, public monies due but not collected, and public monies illegally expended is hereby issued against Wanda Lacey, and her bonding company, The Cincinnati Insurance Company, jointly and severally, in the amounts of \$4,976, \$10,721, and \$11,615, respectively. The finding for recovery will be in favor of the General Fund for \$5,238, the Water Fund for \$3,242, the Sewer Fund for \$3,135, and the Water and Sewer Fund for \$15,697 (allocation of utilities to be determined by Village).

Village Council was responsible for monitoring the use of the debit card and for reviewing supporting documentation for health care premium reimbursements. Additionally, various members of Village Council or the Mayor served as second signatory on checks related to unauthorized health care reimbursements and unsupported and/or improper nonpayroll expenditures. Accordingly, the following individuals will be jointly and severally liable in their respective amounts documented in the table below and in favor of the Village of New Madison's General Fund, Water Fund and Sewer Fund.

Name	Amount
Angela Ballard (Council)	\$1,900
Jason Cockerham (Council)	\$900
Dereck Frech (Council)	\$1,250
Lisa Garland (Council/Mayor)	\$1,804
Saundra Gary (Mayor)	\$500
Nancy Hill (Council)	\$1,250
Patty Jackson (Council)	\$1,444
Michael Johnson (Council)	\$650
Karl King (Council/Mayor)	\$1,491
Sharon Lehman (Council)	\$261
Raymond Sanders (Mayor)	\$264
Gwen Tinkle (Council)	\$650
Nancy Vietor (Council)	\$1,250

APPENDIX

MANAGEMENT RECOMMENDATIONS

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 Village'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 the Period, Fiscal Officer, Wanda Lacey, was responsible for:

- Billing, collecting, receipting and depositing utility receipts.
- Filing and recording income tax returns and depositing income tax receipts.
- Processing and maintaining all supporting documentation for Village expenditures.

Monitoring controls were not developed by management and in place to compensate for the lack of segregation of duties, allowing Ms. Lacey to have unmonitored access to the overall system. The lack of segregation of duties led to public monies that were unaccounted for and illegally spent.

While it is not always possible to segregate duties in a small government, appropriate monitoring controls should be implemented to help reduce the risk of errors or irregularities not being detected in a timely manner. Periodically, the BPA or an audit committee comprised of members of Council or other appropriate individuals should review the utility records, income tax records, and expenditure support.

Procedures performed during the reviews should include:

- Verifying receipts are posted and subsequently deposited timely.
- Utility billing rates and income tax rates are accurate in the system and agree to the most recent ordinance.
- Receipts per the utility system and income tax system agree to the postings in the accounting system.
- Utility adjustments are supported with a written explanation along with evidence of BPA approval.
- Verifying expenditures have supporting documentation and are for proper public purpose.

Sales Tax

Ohio Rev. Code § 5739.02 allows for an excise tax to be levied on each retail sale made in the state. **Ohio Rev. Code § 5739.02(B)(1)** states that the tax does not apply to sales to the state or any of its political subdivisions.

The Village did not have a policy in place reiterating sales tax does not apply to Village purchases. The Village paid sales tax on 75 transactions out of 1,680 supported transactions tested during the Period.

Failure to present tax-exempt certification at the time of purchase resulted in the Village paying sales tax or reimbursing individuals for payment of sales tax the Village was not obligated to pay.

We recommend the Village implement a policy explaining that sales tax shall not be paid on Village purchases. We further recommend the Village use its tax-exempt status certification when purchasing items for the Village.

APPENDIX

Deficient Public Records

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 following public records were not able to be located at the Village:

- We examined 26,744 utility receipts and were unable to locate 21 corresponding billing stubs.
- We examined 953 income tax return deposits in the Village bank account during 2014 and 2015; however, we could not locate supporting documentation for 95 deposits at the Village.
- Supporting documentation did not exist for 14 out of 16 non-payroll employee reimbursements tested.
- We examined 100% of healthcare insurance stipends; supporting documentation did not exist for any of the 14 checks issued.
- Supporting documentation did not exist for 360 debit card expenditures out of 2,040 tested.

The Village did not have proper oversight procedures in place over these records.

Inadequate supporting documentation eliminated a significant control point, obscured the audit trail, and provided for the opportunity for errors and irregularities to occur without detection by management in a timely manner.

We recommend the Village puts proper oversight procedures in place to ensure documentation exists to support all transactions. Furthermore, the Village should maintain all public records for the mandatory time period per their records retention policy.

Reconciliation of Utility Receipts

The Village should have internal controls in place to reasonably assure utility receipt collections are complete, entered into both the subsidiary utility system and accounting system, and agree to the amount deposited, specifically by payment type.

During the Period, Ms. Lacey was responsible for utility billing, collections, receipting into the system, preparing the bank deposit, and physically taking the deposit to the bank. No reconciliations were performed to verify the recorded utility receipts and utility bank deposits agreed to the Village's accounting system, UAN. In addition, no policy or procedures were in place to require these reconciliations be performed and reviewed by an independent individual.

Due to this lack of reconciliation, payments recorded in the utility system did not always correspond to the utility receipts posted in the UAN system during the Period. The Village was unaware of \$12,243 of receipts recorded in the utility system, but not in the UAN system.

We recommend a policy is implemented to require an individual, who is independent of the utility collection process, reconcile the utility system receipts with the amounts deposited per the bank deposit slips and the utility receipts entered into the UAN system. Any identified variances should be promptly investigated. These reconciliations should be documented by the reviewer's signature and date.

APPENDIX

Utility Account Adjustments

Utility account adjustments are used by the Village to make corrections to customer accounts. Due to the inherent riskiness of non-cash adjustments, the Village should have a control structure in place to ensure all adjustments made to customer accounts are proper. The Village did not have a formal policy in place regarding utility account adjustments; however, it was the understanding of Village Council and the BPA that utility adjustments were to be approved by the BPA.

We identified utility adjustments totaling \$58,777 during the Period. Of the 201 utility adjustments tested during the Period, only three were approved by the BPA.

Failure to obtain supervisory approval and maintain documentation supporting utility account adjustments can result in unwarranted and unauthorized transactions being posted to customer accounts, thereby increasing the risk of inaccurate balances and the potential for lost revenue due to theft or errors.

We recommend the Village implement a written policy to ensure all utility account adjustments are approved by management and are properly supported.

Income Tax Records

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency or business activities within the Village as well as certain income on residents earned outside the Village. The Village is responsible for having policies and procedures in place to ensure income tax returns are properly filed by those required each year and that taxes due are collected, recorded, and properly deposited in the Village's bank account.

The Village did not have procedures implemented to verify required income tax returns were filed. During the Period, the Village did not maintain a list, manually or in the income tax system, CMI, of individuals and businesses required to pay income taxes.

Failure to maintain complete and accurate income tax forms and accounting system reports could lead to loss of revenue for the Village as well as the inability to detect errors and omissions promptly.

We recommend the Village develop and implement procedures to ensure all taxes owed to the Village are actively pursued, collected and recorded. We also recommend the Village maintain a list of individual and businesses required to pay income taxes.

Inadequate Oversight by Those Charged with Governance

The governing body and management are vitally important to ensure the Village establishes and maintains effective internal controls. During the Period, the Village was governed by the Village Council. These individuals are responsible for monitoring the practices and activities of the Village employees, to ensure the achievement of operational and financial objectives.

Our audit noted the following conditions, which are indicative of weak and inadequate oversight by the Village Council:

- The Village Council did not approve any policies or procedures regarding the utility billing and collection process.
- Payroll ordinances approved by Council did not include pertinent information such as payroll salary amounts and fringe benefits.
- During 2014, no signed and approved ordinances for Wanda Lacey's employment were in place; these were retroactively approved in 2015.

APPENDIX

- During 2015, Wanda Lacey's three employment ordinances were not signed nor approved in the Council minutes.
- A manual bill list was created and provided to Council sporadically, rather than system derived reports; in addition no Council signatures were noted on these documents.

Due to inadequate oversight, the Village suffered from disarray of records, illegal expenditures, uncollected and unaccounted for receipts, and noncompliance to the Ohio Revised Code.

We recommend the Village Council become more actively involved in monitoring Village activity. Detailed system derived reports, indicating the amount of collections and delinquent accounts, should be provided and reviewed. We recommend the Village ensure all ordinances are completed and signed by the proper authority. In addition, Council should ensure the checks issued agree to the bill list, are supported by an invoice and documentation of this review should be indicated by signing the bill list.

Furthermore, the Village Council should approve policies outlining the procedures to be followed by the fiscal officer. A written acknowledgement should be signed that they understand and agree to follow the Council's approved policies.

Debit Card Policy

At the May 3, 2010 Village Council meeting, debit cards were approved to be activated for the Utilities, Street, Police, and Administrative Departments. The minutes state in part, "(t)hese will be monitored and anything that does not have a receipt for will be charged to the employee".

During the Period, the Village had not established a debit card policy to outline the authorized debit card users, allowable usages, and the supporting documentation required. The debit cards were deactivated in January 2016.

We examined 2,040 debt card transactions during the Period for a total of \$160,636. Of those tested, 360 were unsupported totaling \$33,259.

Failure to obtain and maintain the detailed supporting documentation for disbursements and establish a debit card policy led to unauthorized usages and caused the Village to incur non Village-related expenses. The payment of charges unrelated to Village business resulted in findings for recovery against those who incurred the charges.

We recommend the Village obtain and preserve all supporting documentation for expenditures. We further recommend the Village have a policy in place for all approved methods of payment utilized for Village expenditures.

OHIO AUDITOR OF STATE KEITH FABER



**VILLAGE OF NEW MADISON
SPECIAL AUDIT**

DARKE 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 9/28/2021

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