



OHIO AUDITOR OF STATE  
**KEITH FABER**





VILLAGE OF DEGRAFF  
LOGAN COUNTY

TABLE OF CONTENTS

<b>TITLE</b>	<b>PAGE</b>
Fraud Examination Report .....	1
Supplement to the Fraud Examination Report	
Objective – Utility Receipts .....	4
Appendix	
Schedule of Finding For Recovery and Management Recommendations .....	9

**THIS PAGE INTENTIONALLY LEFT BLANK**





## FRAUD EXAMINATION REPORT

Village of DeGraff  
Logan County  
P.O. Box 309  
DeGraff, OH 43318

To the Village of DeGraff Council Members, Mayor and Citizens:

### **Summary**

The Auditor of State, Special Investigations Unit (SIU) conducted a criminal investigation and special audit of the Village of DeGraff (the Village) predicated on concerns raised by the Local Government Services Division (LGS) of the Auditor of State.

The investigation identified just over \$206,000 in misappropriated utility receipts which resulted in a finding for recovery and supported criminal charges against former Utility Clerk Jennifer Dearwester.

On February 11, 2020, Ms. Dearwester was indicted by the Logan County grand jury on five counts, including one count of Theft in Office, one count of Aggravated Theft, and three counts of Tampering with Records.

On June 1, 2020, Ms. Dearwester entered a negotiated plea of guilty to one count of theft in office, a felony of the third degree, in violation of R.C. 2921.41(A)(1) and 2921.41 (B)(3) and one count of tampering with records, a felony of the third degree, in violation of R.C. 2913.42(A)(1).

On July 8, 2020, Judge Kevin P. Braig sentenced Ms. Dearwester to 36 months in prison for each count, to be served concurrently. In addition, Judge Braig ordered restitution of \$241,852, which includes both the misappropriated utility receipts and the special audit costs, against Ms. Dearwester in favor of the Village of DeGraff.

### **Background**

The investigation began in May of 2018, after SIU was contacted by LGS's Chief Project Manager to report some concerns they had identified at the Village. LGS was assisting the Village after the retirement of the Village fiscal officer with reconciliation issues discovered, which seemed to stem from utility revenue discrepancies. It was alleged former Utility Clerk Jennifer Dearwester was not properly billing utility customers and was potentially misappropriating utility receipts. Ms. Dearwester resigned from her position at the Village on March 13, 2018.

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

## **Scope and Approach**

We defined our audit period as covering January 1, 2014 through March 31, 2018 (the Period) based on the risk factors identified.

The specific objective we tested to decide whether fraud was committed at the Village, was to determine whether utility receipts collected by the Village were deposited in their bank account. In order to test this objective, we reviewed available documentation provided by the Village, subpoenaed bank records, and interviewed key Village personnel and utility customers. The objective and procedures are described more fully in the attached Supplement to the Fraud Examination Report for the Period.

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

## **Findings**

Based on the Special Audit procedures and investigation, the Auditor of State confirmed the allegation that Ms. Dearwester misappropriated cash from utility deposits over a span of five years.

Jennifer Dearwester was hired by the Village on September 11, 2006 as the assistant to the fiscal officer; however, everyone referred to her as the "utility clerk". Ms. Dearwester had clear opportunity with the lack of separation of duties for utility receipts. She was responsible for all aspects related to utilities: inputting meter readings into the utility system, updating customer accounts, generating and mailing utility bills, collecting customer payments, and subsequently preparing and making the deposit at the bank with no formal review or monitoring by an outside party. As a result, during the Period, Ms. Dearwester failed to deposit \$206,182 in cash.

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

We issued a finding for recovery in the amount of \$206,182 against Ms. Dearwester for misappropriated cash during the Period. In addition, Judge Braig entered an Order of Restitution on July 8, 2020 against Ms. Dearwester in the amount of \$241,852.

In addition to the finding for recovery, we issued management recommendations regarding deficient public records, management oversight, segregation of duties, and utility deposit reconciliation procedures. The full details of the finding for recovery and management recommendations are located in the Appendix.

On July 27, 2020, we held an exit conference with the following individuals representing the Village:

Stephanie Osborne, Mayor  
Ken McAlexander, Village Administrator  
Tom Rowley, Council Member  
Michael Ropp, Council Member  
Kassandra Staley, Fiscal Officer

Mike Dodds, Council Member  
Sandi Short, Council Member  
Ruth Kueteman, Council Member  
Tim Baker, Council Member  
Amy Estep, Utility Clerk

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



**Keith Faber**  
Auditor of State

July 9, 2020

**SUPPLEMENT TO THE FRAUD  
EXAMINATION REPORT**



# SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

**Objective** - Determine whether utility receipts collected by the Village were deposited in the Village's bank account.

## PROCEDURES

We obtained Cash 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.
- Examined available handwritten receipts in the Village duplicate receipt books, as recorded by Ms. Dearwester for the Period.
- Performed an analysis comparing the monthly Cash Receipts Journals, the daily bank deposit slips, and the utility receipts posted in the Village accounting system (UAN) for the Period.

## RESULTS

On September 11, 2006, Ms. Dearwester was hired by the Village as the assistant to the fiscal officer; however, during preliminary fact gathering at the Village, Ms. Dearwester was referred to as the "utility clerk". We performed two formal interviews with Ms. Dearwester (July 9, 2019 and November 20, 2019), during which she also referred to herself as the utility clerk. Ms. Dearwester resigned from her position on March 13, 2018.

The Village uses the Cubic Utility Billing Automated System (Cubic), a Frey software system, for its utility billing and recording utility activity to its customers' accounts. The system was set up with only one active user account and was not password protected during the Period. The only computer with access to Cubic is located in the utility office, which is in the lobby of the Village administration building. Customers can make utility payments at this location, which is open daily, or via a drop box located at the front of the building.

The Village operates on a utility service period of the 15<sup>th</sup> to the 15<sup>th</sup> of the subsequent month. Meters are read with an electronic handheld device on the 15<sup>th</sup> of each month. Ms. Dearwester would then be given the device, which had the capability to upload the information to the utility computer, after the meters were read each month. During Village personnel interviews, including her own, it was determined Ms. Dearwester was manually keying in the meter read data, rather than using the upload feature. Meter read data was not maintained beyond what was entered into Cubic.

Ms. Dearwester was also responsible for generating the utility bills. Approximately 500 bills were mailed around the 20<sup>th</sup> of the month, with a due date on the 15<sup>th</sup> of the following month. A 10% late fee was to be added to accounts if a payment was not received within seven days of the due date. During the Period, the Village accepted payments in the form of cash, personal checks, and money orders. If a customer came into the Village office to make a payment they were able to do so at a window at the utility office desk, occupied daily by Ms. Dearwester. This was confirmed through interviews of Village personnel, utility customers, and Ms. Dearwester herself.



## SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

During Ms. Dearwester’s November 20, 2019 interview, she discussed the process of collecting customer payments. She stated, she would update the customer account the day the payment was received, including in the system the pay type, such as “CASH”, “CHECK”, or “MONEY ORDER”. If the customer paid with a check or money order, the number would also be recorded in the system. The amount paid was circled on the billing stub or handwritten on the stub, if different than the amount owed, along with the date and stamped with “Paid DeGraff BPA”. In addition, the check or money order number or “cash” was handwritten at the bottom of the stub. When a payment was received without the customer’s billing stub, a blank stub was used to record the customer’s name, book number, account number, amount paid, and payment type information. During the interview, Ms. Dearwester confirmed she would handwrite these and agreed there should be no reason for a billing stub to not exist for a payment received.

Cash, checks, and money orders were kept in a money bag in the utility office’s desk drawer during business hours. Ms. Dearwester handwrote separate deposit slips for cash payments, check payments, and money order payments. The money bag contents were deposited daily by Ms. Dearwester at the Village’s bank located a block away from the Village administration building. The yellow duplicate copies, the bank deposit slip, and receipt from the bank were maintained and filed in monthly folders. Once the deposit was made, a copy of the bank deposit slip with the handwritten fund posting breakdowns was given to the fiscal officer, who posted the revenue to the Uniform Account Network (UAN) system. Access to UAN was only available on the fiscal officer’s computer, located in her office at the back of the Village administrative building.

A total of 22,300 transactions, amounting to \$2,005,929, were examined during the Period. We applied the aforementioned procedures to each customer utility receipt posting. Of the 22,300 transactions examined, we identified 1,393 customer utility receipts with misappropriated cash, which equates to over 6% of total utility transactions during the Period. The misappropriated receipts totaled \$206,077; a loss for the Village of over 10% of utility revenue collected during the Period. The only missing billing stubs directly correlated to these 1,393 misappropriated receipts.

We performed an analysis of the monthly Cash Receipt Journals, the daily bank deposit slips and the utility receipts posted in the Village accounting system, Uniform Accounting Network (UAN) for the Period.

The table below represents the yearly utility bank deposits examined in comparison to the utility receipts posted on the Cash Receipt Journals. The variances directly correlate to the aforementioned misappropriated cash from the individual utility receipt testing. We noted no variances between the bank deposits and utility revenue posted in UAN.

	<u>Bank Deposit Slips</u>	<u>Cash Receipt Journal</u>	<u>Variances</u>
<b>2014</b>	\$370,522	\$425,275	\$(54,753)
<b>2015</b>	\$414,290	\$446,087	\$(31,797)
<b>2016</b>	\$454,600	\$507,678	\$(53,078)
<b>2017</b>	\$442,727	\$503,044	\$(60,317)
<b>2018</b>	\$117,200	\$123,332	<u>\$(6,132)</u>
			<b><u>\$(206,077)</u></b>

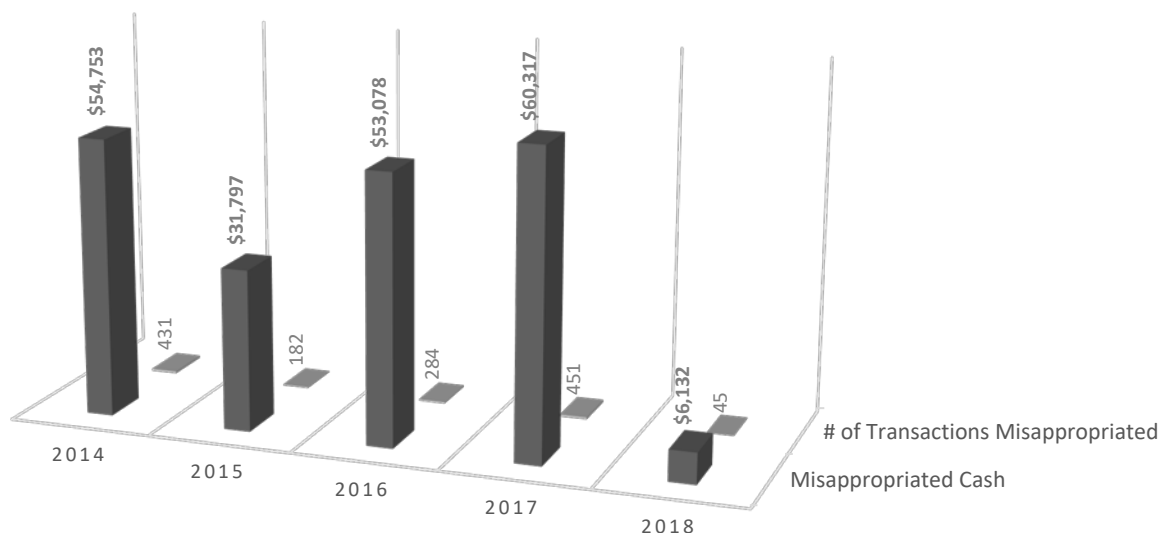
Months with no exceptions:

- May 2014
- August 2015
- September 2015
- October 2015
- November 2015
- January 2016
- April 2017
- March 2018

## SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

We are unaware of any noteworthy events from the four months in a row of August 2015 through November of 2015 when there were no utility receipts misappropriated. In addition, we noted the missing deposits occurred during the last posting of the month for 1,352 out of 1,393 occurrences. There was only one month, May of 2017, when receipts were misappropriated on the first day of the month. Due to the utility bills being due on the 15<sup>th</sup> of the month, the quantity of postings at the end of the month are unexpected. Nevertheless, the posting date in the utility system is not necessarily the date the customer made the payment.

A breakdown of the misappropriated amounts by year is as follows:



While fieldwork was being performed at the Village administrative building, auditors were provided with manually created reports located in boxes containing prior years' utility information. These documents were titled "DeGraff Board of Public Affairs Monthly Report" (further referred to as BPA reports). These BPA reports were produced for 29 of the 51 months in the Period. Per inquires with key Village personnel, the reports were prepared by Ms. Dearwester. Ms. Dearwester also confirmed this during her official interview on November 20, 2019.

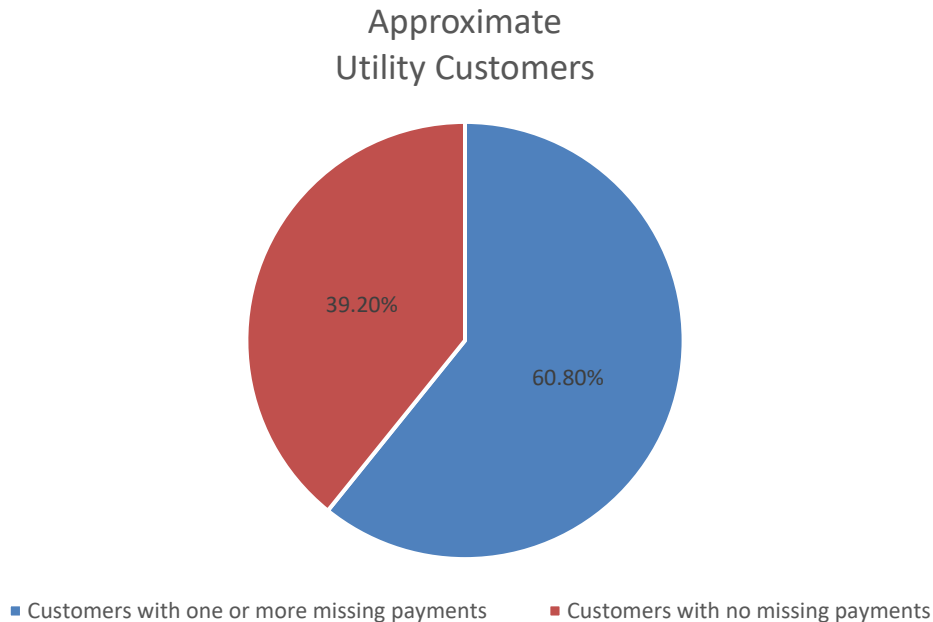
Each BPA report stated the month and year, as well as utility revenue information, including but not limited to, the following in regards to monthly utility bill collections:

- Water
- Water surcharge
- Sewer
- Sewer surcharge

We examined the collections data for all 29 BPA reports and compared them to the monthly utility deposits in the bank for the corresponding months. We identified variances in 13 of the 29 months. In addition, we compared the same data to the monthly totals on the Cash Receipt Journals identifying variances in 28 of the 29 months examined. There is no record of utility system generated reports being provided at monthly BPA meetings.

## SUPPLEMENT TO THE FRAUD EXAMINATION REPORT

The utility receipt testing concluded 304 utility customers had at least one utility receipt misappropriated during the Period. We haphazardly selected a small percentage to interview inquiring about the method of payment they routinely used to pay their utility bill. We performed door to door inquiries as part of the investigation, leaving flyers for those customers not at home. We received immediate responses or follow up phone calls from 42 customers in which all stated they routinely paid their utility bill in cash. In addition, several customers mentioned paying inside at the utility desk directly to the former utility clerk, naming her as “Jen”, “Jenny”, “Jennifer” and/or “Ms. Dearwester”.



While examining utility receipts from monthly utility usage charges, we were provided with two duplicate receipt books from the Period. These books contained receipts from guaranteed deposits, bulk water sales and tap fees, and non-utility related revenue, such as donations for the park and the volunteer fire department. We examined 100% of the duplicate receipts dated from April 10, 2015 to March 27, 2018. Our review included 244 duplicate receipts in which two, totaling \$105, did not have a corresponding bank deposit. The receipt in the amount of \$30 dated June 19, 2015 stated it was for park donations and the receipt in the amount of \$75 dated July 8, 2016 stated it was for a guaranteed deposit and included an address. Both receipts were signed by Jennifer Dearwester. By including these duplicate receipts in our population, we were able to trace 100% of over the counter revenue deposited into the Village bank account to either the utility receipt testing or a duplicate receipt.



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

## APPENDIX

### FINDING FOR RECOVERY

#### Utility Receipts

Former Utility Clerk, Jennifer Dearwester, processed Village utilities and was the initial point of contact for Village customers paying other types of fees, such as guaranteed deposits for utilities and park donations. Ms. Dearwester started with the Village on September 11, 2006 and resigned on March 13, 2018.

Due to a control structure that lacked segregation of duties, Ms. Dearwester's primary responsibilities included, but were not limited to, inputting meter readings into the utility system, updating customer accounts, generating and mailing utility bills, collecting customer payments, and subsequently preparing and making the deposit at the bank.

We examined all utility receipt transactions in the Village's utility system for the Period and compared the receipts to deposits made into the Village's bank account. We identified 1,393 receipts totaling \$206,077 in which the monies collected were not deposited into the Village's bank account.

Additionally, we examined all handwritten receipts in the Village's duplicate receipt books, as recorded by Ms. Dearwester for the Period, and compared the receipts to deposits made to the Village's bank account. We identified two receipts totaling \$105 in which the monies collected were not deposited into the Village's bank account.

On July 8, 2020, Judge Braig ordered total restitution of \$241,852, which includes both the above misappropriated utility receipts and the cost of the special audit.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a finding for recovery for public monies converted or misappropriated is hereby issued against Jennifer Dearwester and her bonding company, Western Surety Company, jointly and severally, in the amount of \$241,852 and in favor of the Village's Water and Sewer Fund in the amount of \$241,822 and General Fund in the amount of \$30.

### MANAGEMENT RECOMMENDATIONS

#### Deficient Public Records

**Ohio Rev. Code § 149.351(A)** states in part that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of. **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, record 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.

Billing stubs are the portion of a utility bill returned with customer payments. The stubs maintained at the Village were filed together by dates corresponding to the posting and deposit date. During utility receipt testing, we documented if a stub was located. We noted stubs with printed information from the utility system, as well as stubs with handwritten information on them; utilized when a customer did not submit their printed stub with their payment. Of the 22,300 utility receipt postings examined, 1,393 did not have a billing stub on file at the Village.

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

## APPENDIX

The lack of maintaining these records directly corresponded to the misappropriated transactions. For all other transactions traced to a bank deposit, a billing stub existed and was filed at the Village by date.

We recommend the Village maintain billing stubs supporting the payments made on customer's utility accounts.

### 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).

Ms. Dearwester was responsible for billing, collecting, receipting and depositing utility receipts.

The lack of segregation of duties can lead to fraud, theft, or errors going undetected. In this report, we issued a finding for recovery against Jennifer Dearwester for \$206,182 in Village receipts misappropriated.

We recommend duties be segregated to ensure no single individual has control over all phases of a transaction. In a small operation such as the Village, it is not always possible to have enough staff to adequately segregate duties. Understanding this, the fiscal officer should take a more active role in monitoring the utility transactions, such as verifying the recorded utility receipts are deposited intact into the Village bank account in a timely manner.

### Reconciliation of Utility Receipts

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

Ms. Dearwester was responsible for utility billing, collections, receipting into the system, preparing the bank deposit, and physically taking the deposit to the bank. At no point in the process was there an independent verification agreeing the total cash, check, and money order amounts on the utility Cash Receipts Journal reports to the total cash, check, and money order amounts on the bank deposit. Additionally, no reconciliations were performed to verify the recorded utility receipts and utility bank deposits agreed to the Village's accounting system, the Uniform Accounting Network (UAN).

Due to the lack of reconciliation, the Village was unaware \$206,077 of receipts recorded in the utility system were not deposited in the Village bank account or recorded in the UAN system.

We recommend 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

## 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 and the Board of Public Affairs (BPA). The BPA has been subsequently disbanded since our audit period and replaced by a Village Administrator. 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's BPA and Council:

- The BPA accepted the former Utility Clerk's reports, which consisted of handwritten amounts of utility collections and disconnections. No system-generated reports printed from the utility system were provided to support the provided data.
- The BPA approved incremental increases to the utility billing rates during the Period; however, the increased billing rates were not entered into the utility system and, therefore, were not billed and collected.
- The BPA did not approve adjustments to the utility customers' accounts.
- The Village Council did not approve any policies or procedures regarding the utility billing and collection process.

We recommend the Village Council and Village Administrator become more actively involved in monitoring the Village's utility department. Detailed system-generated reports, indicating the amount of collections and delinquent accounts, should be provided and reviewed. Additionally, when changes to utility billing rates become effective, a system-generated report should be provided to Council to prove the new rates were properly recorded in the utility system.

Furthermore, the Village Council should approve policies outlining the procedures to be followed by the utility clerk; the fiscal officer's duties to ensure utility collections are properly deposited and recorded; and the allowable reasons and amount threshold the Village Administrator is authorized to approve for adjustments to customers' utility accounts. These employees should also provide written acknowledgement that they understand and agree to follow the Council's approved policies.

**This page intentionally left blank.**



# OHIO AUDITOR OF STATE KEITH FABER



**VILLAGE OF DEGRAFF**

**LOGAN 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 8/18/2020**

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

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)