



OHIO AUDITOR OF STATE  
**KEITH FABER**





YORK TOWNSHIP WATER AUTHORITY  
BELMONT COUNTY

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## FRAUD EXAMINATION REPORT

York Township Water Authority  
Belmont County  
P.O. Box 133  
Powhatan Point, Ohio 43942

To the York Township Water Authority Board Members and Citizens:

### **Summary**

The Auditor of State (AOS) conducted a criminal investigation and special audit of York Township Water Authority, Belmont County, Ohio (the Authority) for the period July 1, 2013 through March 31, 2016 (the Period). This report and the attached Supplement to the Fraud Examination Report summarize the background leading to our decision to initiate the special audit, the procedures we conducted to achieve the special audit objective and our significant results. The subject of our investigation, former Authority Fiscal Officer Dawn Lee, also served as the Fiscal Officer for York Township (the Township). Additionally, Mrs. Lee's husband served as the Authority's Meter Reader. Therefore, our investigation spanned both government entities and we have issued separate reports for each entity. The Fraud Examination Report for the Township can be located at [www.ohioauditor.gov](http://www.ohioauditor.gov) and selecting "Search Audits."

Our investigation at the Authority and at the Township identified almost a combined \$100,000 in public property converted or misappropriated for which we issued findings for recovery and also supported criminal charges against Mrs. Lee and her husband, Ryan Lee.

### **Background**

In September 2015, the Authority was placed in an 'unauditable' status by AOS due to the condition of the Authority's financial records and lack of bank reconciliations. As noted above, the Fiscal Officer for the Authority also served as the Fiscal Officer for the Township, which was also placed in an 'unauditable' status.

On October 5, 2015, the AOS Financial Audit Division forwarded a memo to AOS Special Investigations Unit (SIU)<sup>1</sup> outlining the reasoning for declaring the entities 'unauditable' and summarized some concerns brought to their attention by an Authority Board Member. The concerns included allegations that the Fiscal Officer was overpaying herself and made questionable purchases/reimbursements, questions related to cell phones for both entities, and over payments made for Uniform Accounting Network (UAN) services that were not being utilized.

In October 2015, the AOS Special Audit Task Force (SATF) considered the information and opened a preliminary investigation. Based on the preliminary investigation, SATF initiated a special audit of the Authority in November 2015.

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<sup>1</sup> Previously called the Public Integrity Assurance Team (PIAT)

Due to our investigation, the Authority placed Mrs. Lee on administrative leave in August 2016 and then suspended her without pay in October 2017. On February 1, 2018, Mrs. Lee resigned from the Authority. Mrs. Lee's term with the Township expired on March 31, 2016. Mr. Lee remained as the Authority's Meter Reader until he resigned in February 2017.

On November 10, 2016, the AOS and Belmont County Sheriff's Office executed a search warrant on Mrs. Lee's residence and Mrs. Lee's mother's residence where personal items purchased using Authority and Township funds were seized along with financial documents.

On March 19, 2018, Dawn Lee was indicted by the Belmont County grand jury on 27 counts, including one count of engaging in a pattern of corrupt activity, a first degree felony, 15 counts of theft in office, two counts of theft, seven counts of failure to remit income taxes, one count of tampering with records, and one count of failure to file a tax return. Ryan Lee was also indicted by the grand jury on six counts, including one count of engaging in a pattern of corrupt activity, two counts receiving stolen property, one count theft in office, one count complicity to theft in office and one count failure to file a tax return.

On March 13, 2019, Dawn Lee pleaded guilty to two counts of theft in office (third degree felonies), two counts of failure to remit income taxes (fifth degree felonies), and one count of tampering with records (third degree felony). On April 15, 2019, Mrs. Lee made full restitution to the Authority and Township, and then was sentenced to 10 years in prison as well as being ordered to pay a \$10,000 fine.

On July 9, 2019, Ryan Lee pleaded guilty to one count of receiving stolen property (fifth degree felony) and one count of attempted failure to file a tax return (first degree misdemeanor). On August 12, 2019, Mr. Lee was sentenced to six months in jail, 200 hours community service, and ordered to pay a \$2,500 fine.

### **Scope and Approach**

In conducting our special audit of the Authority, we used the information from the complaint and our preliminary findings to define the areas we should investigate and the relevant time period for our review. This helped define our specific objective, or question, which could be audited (i.e., either documents existed or at least should exist which could be tested or there were relevant laws or internal procedures in place) and would answer whether the Authority spent public money appropriately. In order to answer whether the Authority spent public money appropriately, we audited for compliance with applicable Revised Code provisions and for compliance with internal procedures. We defined our audit period as covering July 1, 2013 through March 31, 2016 (the Period) based on the risk factors identified. Having defined our objective and period, we developed specific procedures designed to address our objective.

The specific objective we tested to determine whether fraud was committed at the Authority was to determine whether certain disbursements made by the Authority during the Period were supported and were made for purposes related to the operations of the Authority.

In order to test this objective, we reviewed available documentation, subpoenaed vendor and bank records and interviewed key Authority personnel. Specifically, we reviewed 100% of the payroll and non-payroll disbursements to Dawn and Ryan Lee, as well as, other high risk transactions.

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

This engagement was conducted in accordance with the Quality Standards for Inspection and Evaluation established by the Council of the Inspectors General on Integrity and Efficiency (January 2012).

## **Findings**

After completing our audit work, we determined there were instances where Mrs. Lee converted or misappropriated public funds. Our report includes findings 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 §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 findings for recovery against Dawn Lee totaling \$6,969 and against Ryan Lee totaling \$1,131 for public monies converted or misappropriated. In addition to the findings for recovery, we also issued management recommendations for records retention, federal and state withholding remittance, board oversight of disbursements/internal controls, segregation of duties/policies and procedures, and credit cards. The details of the findings for recovery and management recommendations are included in the Supplement to the Fraud Examination Report.



**Keith Faber**  
Auditor of State

June 23, 2020

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# Supplement to the Fraud Examination Report

**Objective – Determine whether certain disbursements made by the Authority during the Period were supported and were made for purposes related to the operations of the Authority**

## PROCEDURES

We scanned disbursements made by the Authority during the Period and performed the following procedures:

- Examined payments made to Fiscal Officer Dawn Lee, relatives of Mrs. Lee and certain vendors used by the Authority, including Staples and True Value.
- Examined available documentation to determine whether the selected disbursements were supported and were for purposes related to the operations of the Authority.
- Identified payroll disbursements to Mrs. Lee and Mr. Lee and compared actual compensation paid to Mrs. Lee and Mr. Lee to authorized amounts.

## RESULTS

Dawn Lee was hired by the Authority effective July 1, 2013 to serve as Fiscal Officer. The Authority did not have an office space, so Mrs. Lee worked out of her home. As the Authority Fiscal Officer, Mrs. Lee was responsible for preparing disbursement and payroll checks, presenting the checks and supporting documentation to the Authority Board Members for signing at the Board meetings, ensuring Authority credit cards/accounts were paid timely, and recording accounting transactions in the Authority's accounting system.

When Mrs. Lee became Fiscal Officer for the Authority in July 2013, the Authority had already been using a system called SafeChoice to record accounting transactions for several years. After joining the Authority, Mrs. Lee requested to switch to the Auditor of State's Uniform Accounting Network (UAN) since that was the system she was using at the Township. The Board authorized the switch to UAN and the necessary equipment and software was obtained. In October 2013, Mr. Lee began using Governmental Systems for meter readings and in 2015 additional software was purchased from Governmental Systems for Mrs. Lee to record accounting transactions to replace UAN. Although the systems were in place during the Period, we were unable to obtain evidence the accounting transactions were posted to the systems and therefore unable to obtain any check registers. Although Mrs. Lee had made the requests to change the accounting systems for various reasons, it appears she failed to utilize the systems. It does appear however, that Mrs. Lee prepared a handwritten cash ledger during 2013 and 2014. We utilized the handwritten cash ledger and Authority bank statements to identify disbursements for examination.

### **Non-Payroll Disbursements to Dawn Lee**

We identified 16 reimbursement checks to Mrs. Lee from the Authority totaling \$6,663. We reviewed each check and any attached supporting documentation to determine the purpose of the payments to Mrs. Lee. Board Members indicated during our interviews that itemized receipts, invoices, etc. were not always attached to checks prior to signing, even though the Board Members required support to be attached. If Board Members questioned a check, Mrs. Lee would provide an explanation but the Board Members would not receive a copy of the receipt, invoice, etc. at a later date.

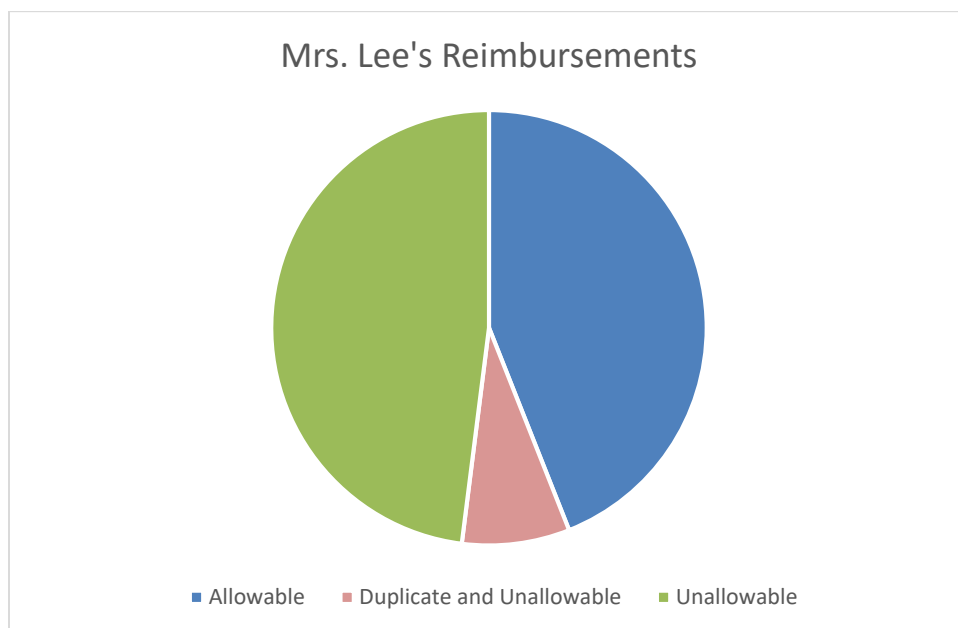
During our testing, we noted Mrs. Lee frequently made purchases using personal funds or stated she paid Authority bills using personal funds and then requested reimbursement, mostly for office supplies and postage. Mrs. Lee would sometimes combine Authority purchases with either personal or Township purchases in the same transaction. In some instances Mrs. Lee circled or highlighted the items she was requesting reimbursement for; in other instances she circled the total of the receipt; in other instances still she submitted the receipts without any markings.

## Supplement to the Fraud Examination Report

We reviewed Mrs. Lee's personal bank account activity in an attempt to verify she used personal funds for each of the purchases. We noted a few purchases could not be traced to Mrs. Lee's personal funds. Upon further inspection, we found the Authority had a credit card with Staples and a credit account with True Value. We also found the Township had either a credit card or credit account with Staples, True Value and 84 Lumber. We found on multiple occasions, Mrs. Lee made a purchase at one of these vendors, used the Authority's or Township's credit card/account at the time of purchase, but submitted the receipt or invoice for reimbursement, and indicated on the receipt she used personal funds. Then, when the vendor statements were received, she prepared a check using Authority or Township funds to pay the statement.

We broke down the 16 reimbursement checks into 25 different transactions. Of the 25 transactions examined totaling \$6,663:

- Only 16 transactions totaling \$3,741 were supported with original documentation. Of these, four transactions were considered not to be for a proper public purpose totaling \$243 and a fifth transaction was considered to be a duplicate payment totaling \$1,177.
- The remaining nine transactions resulted in the following errors:
  - One transaction totaling \$329 was unsupported; however, we located a receipt in Township records that matched this transaction. In August 2013, the Authority authorized a window air conditioning unit to be purchased and donated to the Township for use of the Township's hall for Authority board meetings. Mrs. Lee purchased the unit at 84 Lumber using the Township's credit card and then submitted a reimbursement request to the Authority, indicating she used personal funds for the purchase. She later wrote a check using Township funds to pay the statement from 84 Lumber once the bill was received. We considered the transaction to be a duplicate payment and not be for a proper public purpose. The resulting finding for recovery associated with this item is included and reported within the York Township Fraud Examination Report June 23, 2020.
  - Eight transactions totaling \$2,593 had no support maintained, therefore the proper purpose could not be determined. The check memos for these transactions stated the reimbursements were for postage, office supplies and travel expenses.



# Supplement to the Fraud Examination Report

## **Other Non-Payroll Disbursements**

### Non-Payroll Disbursements to Ryan Lee

During the Period, Mrs. Lee issued two Authority reimbursement checks totaling \$75 to her husband, Ryan Lee. Both checks were supported; however, one check totaling \$66 was not for a proper public purpose.

### Unauthorized Use of Authority Credit Cards

We reviewed Authority records to determine if any personal purchases were made using the Authority's Staples credit cards or True Value accounts. We obtained statements and invoices for each company and reviewed the activity for potential personal purchases, to determine what payment methods were used to pay for the purchases, and if any outside entities paid the invoices.

### Staples

From July 2013 through April 2016<sup>2</sup>, Mrs. Lee used the Authority's Staples credit card and from April 2015 through March 2016, she used the Township's Staples credit card to make purchases for both the Township and the Authority. She combined items purchased for both entities into the same transactions instead of separating the items into different transactions. Mrs. Lee maintained possession of the credit cards at all times.

During the Period, \$5,913 was charged on the Authority's card, \$2,673 was charged on the Township's card, and \$1,322 in late fees and finance charges were assessed on the Authority's card. When the credit card statements were received, Mrs. Lee did not write separate checks from the Township and the Authority to pay for each entity's items. Mrs. Lee also made personal purchases using each of the entity's credit cards.

Because Mrs. Lee carried a balance on the cards and did not pay the accounts in full each month, and because Mrs. Lee did not distinguish purchases and payments between the two entities when writing Township and Authority checks, we were unable to match specific payments to specific purchases. For these same reasons, we were unable to match each late payment fee and finance charge to specific purchases and payments. Therefore, we completed alternative procedures to allocate amounts paid by the Township and Authority for Mrs. Lee's personal purchases and the late payment fees and finance charges.

Based on these alternative procedures, Mrs. Lee's personal use of the Authority's Staples credit card and untimely payment of the Staples account statements resulted in \$1,019 charged to the card for personal items and late fees and finance charges. The Authority paid for these charges. Items purchased included furniture, computer equipment, food and other miscellaneous items. Some of these items purchased were identified during the search warrant executed at Mrs. Lee's residence and Mrs. Lee's mother's residence.

### True Value

During the Period, we did not identify any personal purchases made by Mrs. Lee.

## **Payroll Disbursements**

### Dawn Lee

The Authority has historically paid the Fiscal Officer \$250 per month for duties such as paying the bills, posting accounting transactions and fielding customer calls. Prior to Mrs. Lee's employment with the Authority, a separate individual from the Fiscal Officer was responsible for preparing and mailing the water bills. This individual signed a billing contract and was considered the Billing Clerk. Upon becoming the Fiscal Officer, Mrs. Lee took control of the water billings from the Billing Clerk. Mrs. Lee signed a separate billing contract from her Fiscal Officer salary. According to the billing contracts for 2013 and 2015 (a billing contract for 2014 could not be located), Dawn Lee was authorized to receive \$50 per month for preparing

<sup>2</sup> Although our Period was July 1, 2013 through March 31, 2016, we reviewed the April 2016 Staples credit card statement to ensure any purchases made by Mrs. Lee or Authority payments made in March 2016 that would not have appeared until the April 2016 statement were included in our investigation.

## Supplement to the Fraud Examination Report

and mailing the water bills and \$25 for each board meeting attended. The 2016 billing contract changed the compensation to \$10 per hour, with no cap on the amount of time to be claimed for preparing and mailing the water bills. Attendance at board meetings remained at \$25 per meeting during 2016.

We examined 50 disbursements made from June 30, 2013 to July 15, 2016<sup>3</sup> by the Authority totaling \$12,897 in gross wages.

We identified three disbursements determined to be duplicate payments for hours for training and billing found to have been paid on previous checks totaling \$160. One of these disbursements was dated December 30, 2013 but cleared the bank on December 10, 2013.

We identified 29 disbursements determined to be overpayments totaling \$1,457. These disbursements included hours charged in excess of Mrs. Lee's billing contracts, duplicate board meetings, hours charged for training that the Authority stated Mrs. Lee was not eligible to receive and hours charged for gathering information for the regular audit that would have been included as part of Mrs. Lee's Fiscal Officer duties/salary. Of the 29 disbursements, three were missing documentation supporting the disbursement. One disbursement dated November 30, 2013 was for the fourth quarter 2013 board meetings. However, the December board meeting was not scheduled to be held until December 8, 2013.

We identified one disbursement missing the check stub and supporting documentation totaling \$320 in net pay. Therefore, we were unable to determine if the check was for a proper public purpose or if gross pay was properly calculated.

We noted one additional disbursement totaling \$150 that was not supported. Based on the timing of the disbursement, we concluded this was for the Fiscal Officer's attendance at the monthly board meetings, was for a proper public purpose, was properly computed and did not result in a finding for recovery.

### Ryan Lee

The Authority hired the Fiscal Officer's husband, Ryan Lee, to be the Authority's Meter Reader effective July 1, 2013. According to the Meter Reader contract, Ryan Lee was authorized to receive \$215 per month for reading the meters, reporting the readings to the Fiscal Officer, keeping the meters in good working order and changing 12 meters per year. The contract also stipulated any meter changes over the initial 12 may be paid at a rate of \$10 per hour. According to the Authority Board Members, Ryan Lee could also be paid \$10 per hour for assistance on a water break or for disconnections/reconnections, and if he attended training that required leave from his other employment, Ryan Lee could be compensated at the rate of his lost wages. Mr. Lee was required to prepare a timesheet for these additional hours and submit to Mrs. Lee for payment and filing. Mrs. Lee was responsible for preparing disbursements and presenting the checks and supporting documentation to the Board Members for review and signature.

We examined 40 disbursements made from July 1, 2013 to July 15, 2016<sup>4</sup> by the Authority totaling \$9,492 in gross wages.

We identified 16 disbursements determined to be overpayments totaling \$838 and therefore were not a proper public purpose. These disbursements included hours charged for billings and tech support which were outside the scope of Mr. Lee's position as Meter Reader, as well as meter readings and meter changes that would have been included as part of Mr. Lee's Meter Reader duties/salary. Of the 16 disbursements, one was missing supporting documentation.

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<sup>3</sup> Although our Period was July 1, 2013 through March 31, 2016, we reviewed the June 30, 2013 check to determine why Mrs. Lee was paid prior to her beginning employment date. This check was for training with the prior Fiscal Officer prior to her official start date with the Authority. We also reviewed payroll checks after March 2016 until the Authority Board Members were made aware of the investigation to determine if her theft continued until that notice date.

<sup>4</sup> Although our Period was through March 31, 2016, we reviewed payroll checks after March 2016 until the Authority Board Members were made aware of the investigation to determine if Mrs. Lee continued to overpay Mr. Lee until that notice date.

## Supplement to the Fraud Examination Report

We identified one disbursement missing the check stub and supporting documentation totaling \$227 in net pay. Therefore, we were unable to determine if the check was for a proper public purpose or if gross pay was properly calculated.

We noted two additional disbursements totaling \$430 that were not supported. Based on the timing of these disbursements, we concluded these were for the Meter Reader's monthly salary, were for a proper public purpose, were properly computed and did not result in findings for recovery.

### Other

While testing Mr. and Mrs. Lee's payroll disbursements, we noted amounts were withheld for Federal and State taxes. We reviewed the cash ledgers and bank statements to confirm whether the withholdings were remitted in accordance with 26 U.S. Code §3402(a)(1), Internal Revenue Service Publication 15, and Ohio Rev. Code §5747.07(B)(4). We noted the last remittance for Federal and State taxes for the Authority occurred in April 2013<sup>5</sup>, and was completed by the previous Fiscal Officer covering first quarter 2013. Mrs. Lee did not remit Federal withholdings to the Internal Revenue Service or State withholdings to the Ohio Department of Taxation for the rest of calendar year 2013, any of calendar year 2014, any of calendar year 2015 or the first quarter of 2016.

During the course of the investigation, we also determined that Mr. and Mrs. Lee filed joint returns, yet failed to file their 2014 personal income tax return and filed a false return for 2015. In 2015, Mr. and Mrs. Lee failed to report any income received from the Authority.

### **FINDINGS FOR RECOVERY REPAID UNDER AUDIT**

#### Dawn Lee

Dawn Lee was hired by the Authority to serve as Fiscal Officer beginning July 1, 2013 and was responsible for receiving any requests for reimbursement, preparing disbursement and payroll checks, presenting the checks and supporting documentation to the Authority board members for signing at the Authority board meetings, ensuring Authority credit cards/accounts were paid timely, preparing and mailing the monthly water bills, and recording accounting transactions into the Authority's accounting system. Mrs. Lee also maintained possession of several credit cards issued in the name of the Authority. The Authority does not have an office space, so Mrs. Lee worked out of her home.

During the Period, Mrs. Lee received payments totaling \$2,836 for reimbursements that were not for a proper public purpose. The disbursements were either unsupported, and therefore the purpose could not be determined, included items of a personal nature, were purchases made for a different entity or was a purchase not authorized by the Authority Board. Mrs. Lee also received a duplicate reimbursement totaling \$1,177 for paying the Authority's Staples credit card statement, yet the Authority had already paid the bill.

Mrs. Lee's personal use of the Authority's Staples credit card and untimely payment of Staples account statements resulted in \$1,019 charged to the card for those personal items and late fees and finance charges from July 2013 through April 2016. The Authority paid for these charges. Items purchased included furniture, computer equipment, food and other miscellaneous items. Some of these items purchased were identified and seized during the search warrant executed at Mrs. Lee's residence and Mrs. Lee's mother's residence.

Per Authority past practice as confirmed with the Authority Board Members, the Fiscal Officer was authorized to receive \$250 per month in salary. In addition, per Mrs. Lee's 2013 and 2015 contracts, she was authorized to receive \$50 per month for preparing and mailing the water bills and \$25 for each board meeting attended. Mrs. Lee's 2016 contract, which began April 13, 2016, revised the billing contract to pay \$10 per hour for preparing and mailing the water bills; board meeting pay remained at \$25 per board

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<sup>5</sup> We reviewed Authority records and contacted the Ohio Department of Taxation to determine if the prior Fiscal Officer had remitted tax withholdings. The prior Fiscal Officer did remit withholdings as required, with the last payment occurring in April 2013.

## Supplement to the Fraud Examination Report

meeting attended. From June 30, 2013 through July 15, 2016, Mrs. Lee received \$12,897 in gross wages. However, based on Authority past practice and Mrs. Lee's contracts, she was only authorized to receive \$10,960 in gross wages for a total of \$1,937 in excess payments.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a finding for recovery for public property converted or misappropriated is hereby issued in the amount of \$6,969 against Dawn Lee in favor of York Township Water Authority.

### Ryan Lee

Ryan Lee was hired in July 2013 by the Authority to be the Authority's Meter Reader. Per Mr. Lee's contracts, he was authorized to receive \$215 per month for reading the water meters and reporting the readings to the Fiscal Officer (Mr. Lee's wife, Dawn Lee), keeping the meters in good working order, and replacing 12 meters per year. Any additional meter changes or meters requiring disconnecting/reconnecting would be paid at \$10 per hour. Mr. Lee was required to prepare a timesheet for these additional hours and submit to Mrs. Lee, for payment and filing. Mrs. Lee was responsible for preparing disbursements and presenting the checks and supporting documentation to the Board Members for review and signature.

From July 1, 2013 through July 15, 2016, Mr. Lee received \$9,492 in gross wages. However, based on Mr. Lee's contracts, he was only authorized to receive \$8,428 in gross wages for a total of \$1,065 in excess payments. Mr. Lee also received \$66 as a reimbursement for a purchase determined to not be for a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a finding for recovery for public property converted or misappropriated is hereby issued in the amount of \$1,131 against Ryan Lee in favor of York Township Water Authority.

On April 15, 2019, Mrs. Lee made restitution in full for both her and Mr. Lee, prior to being sentenced in the criminal case against her for the theft from the Township and Authority. Accordingly, we consider these findings for recovery repaid under audit.

## **MANAGEMENT RECOMMENDATIONS**

### Records Retention

**Ohio Rev. Code § 149.351(A)** states in part, "All records are the property of the public office concerned 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 commissions provided for under sections 149.38 to 149.42 of the Revised Code."

During the Period, the Authority did not have a records retention policy or schedule of records destruction. For nine of 25 Fiscal Officer reimbursements, documentation supporting the transaction was not maintained with the corresponding check stub or was not able to be located. The Fiscal Officer did not have an adequate system for filing and maintaining documentation relating to Authority business.

Lack of a documented records retention policy or schedule of destruction of records limits management's ability to ensure documentation is being retained in its original form and maintained as expected. Lack of original supporting documentation for disbursements limits management's ability to review and approve transactions and increases the risk of errors. Failure to adequately control and maintain documents resulted in the inability to review prior transactions for accuracy and allowed Mrs. Lee to attempt to conceal her theft.

We recommend the Authority develop and implement a records retention policy and schedule of records destruction. In addition, we recommend the Authority take measures to ensure all records are adequately maintained and safeguarded.

# Supplement to the Fraud Examination Report

## Federal and State Withholding Remittance

**26 U.S. Code § 3402(a)(1)** states in part, "...every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary."

**Internal Revenue Service Publication 15** states in part, "There are two deposit schedules – monthly and semi-weekly for determining when you deposit...withheld federal income taxes...You're a monthly schedule depositor for a calendar year if the total taxes on Form 941, line 12, for the 4 quarters in your lookback period were \$50,000 or less. Under the monthly deposit schedule, deposit employment taxes on payments made during a month by the 15<sup>th</sup> day of the following month."

**Ohio Rev. Code § 5747.07(B)(4)** states in part, "...an employer shall make the payment of undeposited taxes for each calendar quarter during which they were required to be withheld no later than the last day of the month following the last day of March, June, September, and December each year."

Based upon the Authority's annualized withholdings, the Authority was required to remit federal tax withholdings monthly and remit state tax withholdings quarterly. The Fiscal Officer did not remit withholdings to the Internal Revenue Service or the Ohio Department of Taxation for second, third or fourth quarters in 2013, any of 2014, any of 2015, or the first quarter of 2016. The first quarter 2013 withholdings were remitted by the previous Fiscal Officer. The Authority does not have a policy regarding the timely remittance of taxes withheld from employee paychecks.

Failure to remit payroll withholdings could result in late fees and penalties assessed against the Authority.

We recommend the Authority develop a tax withholding remittance policy and take measures to ensure all payroll withholdings are remitted to the proper agencies in accordance with 26 U.S. Code §3402(a)(1), Internal Revenue Service Publication 15, and Ohio Rev. Code §5747.07(B)(4).

## Board Oversight of Disbursements/Internal Controls

Monitoring controls include management and governing board activities established to ensure proper and efficient use of available resources and the achievement of operational objectives.

We noted the following weaknesses in the Board's oversight of the disbursement cycle:

- The signatures of two Board members were required on checks. However, Board members did not thoroughly review the checks or supporting documentation prior to signing. In some cases, Board members signed the checks without any supporting documentation attached whatsoever. In another case, the check cleared the bank prior to the check date. In another instance still, a check included payment for a board meeting that had not yet occurred.
- The Board did not consistently receive monthly financials detailing receipts and expenses. Financials the Board did receive were not complete and accurate.
- The Board authorized the Fiscal Officer to acquire two different accounting software systems during the Period. However, the Board failed to monitor the use of the systems. Mrs. Lee did not post accounting transactions to either system during the Period.
- Mr. Lee submitted his timesheets directly to Mrs. Lee for payroll processing; no one else at the Authority reviewed and approved Mr. Lee's timesheets. The Authority did not have controls in place to address the oversight of employees who may be related to each other.

As Fiscal Officer, Mrs. Lee was responsible for preparing and presenting at the Board meetings monthly financials detailing the receipts collected and expenses to be paid. Board Members indicated Mrs. Lee seldom provided this information, and on the occasions the information was provided, it was not accurate and was presented in a different format from the previous format received. Mrs. Lee was also responsible for providing checks to be signed by the Board Members and all documentation supporting the disbursement. However, supporting documentation was not always provided to the Board Members, but

## Supplement to the Fraud Examination Report

checks would be signed anyways. As a Board, the members placed a lot of trust in Mrs. Lee and assumed she was doing her job correctly.

Because the Board signed checks for payment without the necessary documentation supporting the disbursement and did not review Mr. Lee's timesheets, Mrs. Lee was able to commit her theft. Because the Board did not hold Mrs. Lee accountable for the lack of complete and accurate financial information at Board meetings, the theft Mrs. Lee was committing was not timely detected. The lack of Board familiarity with the accounting systems aided in the concealment of Mrs. Lee's theft.

We recommend Board members review supporting documentation prior to signing checks. We also recommend Board members receive documentation showing the Authority's monthly financial position and a list of bills to be paid including the check number, payee, date and amount paid. Further, the Board President and Fiscal Officer should sign each page of the listing evidencing review and approval of the Authority's expenses. We also recommend the Authority design and implement internal controls to address situations in which related individuals may both be employed by the Authority and provide oversight. Finally, the Authority should educate itself on the different software systems and determine if any of the systems can be eliminated due to underutilization or for cost savings.

### Segregation of Duties/Policies and Procedures

**Ohio Admin. Code 117-2-01(D)(4) states, in part**, when designing the public office'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 aspects of the accounting functions.

Prior to Mrs. Lee's employment with the Authority, the Fiscal Officer was responsible for the expenditure functions of the Authority, reconciling bank statements and presenting financial information to the Authority Board Members. A Billing Clerk was responsible for the revenue functions. Periodically, the Fiscal Officer and Billing Clerk would review each other's work for accuracy. Once Mrs. Lee was hired as Fiscal Officer, she took control of the Billing Clerk's responsibilities and therefore handled all parts of the accounting functions of the Authority.

The small size of the Authority makes adequate segregation of duties difficult. Therefore, it is important that the Authority Board Members have compensating controls in place to monitor financial activity closely. In addition, the Authority lacked formalized written policies and procedures regarding revenue, payroll and non-payroll processes and positions responsible for each function. Although other positions had formalized contracts generally explaining job duties and associated pay, there were no contracts outlining this information for the Fiscal Officer position.

The lack of segregation of duties and formalized accounting policies and procedures allowed Mrs. Lee the opportunity to commit her theft and attempt to conceal it. Proper management oversight over the accounting system can lead to more timely detection should fraud or theft occur.

We recommend the Authority develop a Fiscal Officer contract that details the job duties and associated pay. In addition, we recommend the Authority develop formalized policies and procedures that promote an adequate segregation of duties for the accounting functions of the Authority, including the handling of water billings, payroll and non-payroll disbursements, posting accounting transactions, reconciling bank statements and presenting financial information to the Authority.

Finally, we recommend the Authority Board Members take an active role in the operations of the Authority including obtaining and reviewing financial information on a regular basis, such as reviewing the check register for missing or skipped check numbers, payments to unusual vendors and/or excessive or unexpected payments to management and employees. The information should include monthly bank reconciliations, monthly revenue and expenditure activity and budget versus actual reports. The Authority Board Members should document the review and approval of the financial information and maintain this



## Supplement to the Fraud Examination Report

documentation. Implementation of these procedures may help strengthen internal control over the entire financial reporting cycle and help create a culture of accountability and assist in protecting the Authority from unnecessary loss and errors.

### Credit Cards

It is management's responsibility to implement internal controls to reasonably ensure credit card transactions are supported, accurately recorded and for Authority purposes. It is management's responsibility to monitor these control procedures to ensure they are operating effectively and as intended.

The Authority did not have a written policy regarding credit card/credit account usage and documentation of purchases. The lack of controls and required Authority review of credit card statements resulted in double payments, unauthorized personal purchases, and the assessment of late fees and finance charges ultimately paid for by the Authority.

We recommend the Authority adopt a credit card/account policy and develop written procedures that could include the following provisions:

- A stipulation specifying who is authorized to use the credit cards/accounts;
- A stipulation that the credit card/account should not be used for personal purchases;
- A stipulation that credit cards should be used for emergencies and not simply as a convenience or a way to circumvent normal purchasing procedures;
- Limits on the amount a cardholder can spend;
- A requirement that cardholders retain copies of all original, signed receipts;
- Establish on-line monitoring for credit card transactions;
- A stipulation that all payments should be made timely and payment information should be maintained in accordance with the Authority's records retention schedule;
- A requirement that cardholders cannot benefit through any type of awards program offered in connection with credit card use (e.g., frequent flier miles);

We further recommend credit card statements be reviewed and approved by the Authority.

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# OHIO AUDITOR OF STATE KEITH FABER



**YORK TOWNSHIP WATER AUTHORITY**

**BELMONT 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  
JULY 28, 2020**