



Mary Taylor, CPA
Auditor of State

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Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Richard Anderson, Trustee
Randy Sullivan, Trustee
Ron Jones, Trustee
Washington Township
31683 St. Rt. 31
West Mansfield, OH 43358

We conducted a special audit of Washington Township, Union County (the Township), by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period January 1, 2006 through July 31, 2009 (the Period), solely to:

- Determine whether payments to Valerie Cox, former fiscal officer, were supported and for valid Township expenditures.
- Determine whether unusual payments identified were supported and for valid Township expenditures.

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

1. We determined whether payments to Valerie Cox, former fiscal officer, were supported and for valid Township expenditures.

Significant Results – We issued a finding for recovery against Ms. Cox totaling \$19,117. The finding included \$16,417 of reimbursements issued to her that were not for valid expenditures or were not supported by proper documentation. Additionally, Ms. Cox issued checks in the name of an unsuspecting individual which she personally cashed totaling \$2,700. We also issued four management comments regarding integrity of minutes, monitoring controls, use of pre-signed documents, and creation of a policy manual.

2. We determined whether unusual payments identified were supported and for valid Township expenditures.

Significant Results – We identified one unusual payment and further investigation led us to conclude it was supported and a valid Township expenditure. We issued one management comment related to controls over voided checks.

3. On December 9, 2009, we held an exit conference with the following individuals representing the Township:

Richard Anderson, Trustee
Randy Sullivan, Trustee
Ron Jones, Trustee
Julia Smith, Fiscal Officer

The attendees were informed that they had five business days to respond to this special audit report. No response was received.



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December 29, 2009

Supplement to the Special Audit Report

Background

In early July 2009, the independent public accounting firm conducting Washington Township's financial audit for the two years ended December 31, 2007 and 2008, contacted the Auditor of State's (AOS) Columbus regional office regarding alleged fraudulent activity involving the fiscal officer, Valerie Cox. Additionally, in a letter dated July 6, 2009, Union County Prosecuting Attorney David Phillips requested the AOS's assistance to investigate these allegations.

The allegations consisted of Ms. Cox providing fictitious invoices to support checks written to her which she cashed for her personal use. The allegations also included Ms. Cox issuing checks to an unsuspecting individual and forging that person's signature on the checks in order to cash them for her personal use.

On July 3, 2009, the Union County Sheriff's Office executed a search warrant at Ms. Cox's residence and seized the Township's records and computer. Ms. Cox was interviewed during the search and admitted to converting Township funds to her own personal use since 2007. Ms. Cox resigned as fiscal officer on July 7, 2009.

This information was considered by the AOS's Special Audit Task Force and on July 16, 2009, the AOS initiated a special audit of the Township.

Supplement to the Special Audit Report

Issue No. 1 – Payments to Valerie Cox

PROCEDURES

We obtained the vendor history reports from the Uniform Accounting Network (UAN) System and identified all payments made to Valerie Cox. We examined available documentation to determine whether these expenditures were supported and were for purposes related to the operations of the Township.

For payments which were not related to Township operations or did not have proper supporting documentation, we scanned the receipt and disbursement ledgers to determine whether there were any reductions of expenditures or miscellaneous receipts to indicate that the Township was reimbursed for those payments.

RESULTS

Of 31 payments issued to Ms. Cox, eight checks had support and were for valid Township business, 14 checks did not have support and nine were not for valid Township business.

The Township used invoices for employees to receive reimbursement for expenses, which the trustees signed documenting their approval. However, the trustees occasionally pre-signed blank invoices for employees' future use.

Ten supporting documents were submitted for the nine checks issued to Ms. Cox, which were not for valid Township business. Three of the supporting documents were pre-signed and handwritten invoices for reimbursement of various items such as travel, attendance at meetings, training, and use of her personal residence and utilities for Township business. The trustees stated Ms. Cox was not entitled to reimbursement for any of the expenses she claimed through the use of the pre-signed Township invoices.

The remaining seven documents submitted by Ms. Cox were packing slips and invoices issued by Quill Corporation. Township trustees indicated they had not used this vendor during the Period, nor were the identified items used for Township business. In a phone call to Quill, a representative indicated she was unable to find an account for Washington Township at the Township's address. Ms. Cox admitted to Union County Sheriff's Office investigators that she obtained the packing slips from the North Union Local School District where she was employed as a secretary during the Period. She further indicated she altered the amounts and products on the packing slips and submitted them as fraudulent support for checks she issued to herself.

In addition to the 31 checks issued in her name, Ms. Cox issued two checks in the name of an unsuspecting individual and used pre-signed invoices as supporting documentation in both instances. In an interview with Union County Sheriff's Office investigators, the individual to whom the checks were issued indicated he was unaware of the payments and he did not endorse the checks. Union County Sheriff's investigators also interviewed Ms. Cox and reported to us that Ms. Cox advised that she wrote the checks to this individual to conceal the payments from the trustees. Ms. Cox admitted to forging the payee's signature on the check, and signing her name below to cash the checks at her bank.

There were no reimbursements from Ms. Cox noted in the Township's financial records.

FINDING FOR RECOVERY

During the Period, Valerie Cox, former fiscal officer, issued 31 checks to herself totaling \$19,346. Our review noted eight checks with support and for valid Township business; however, 23 checks totaling \$16,417 were either unsupported or not valid Township expenditures. Ms. Cox also issued two checks made payable to an unsuspecting individual during 2008 in the amount of \$2,700. The documentation provided to support the expenditures was not approved by the trustees. The person to whom the questioned checks were issued was interviewed and stated to Union County Sheriff's Office investigators he never received the checks. Ms. Cox stated to Union County Sheriff's Office investigators she signed the payee's name on the back of the checks, endorsed them with her signature, and then cashed them for her own personal use.

Supplement to the Special Audit Report

In accordance with the foregoing facts and pursuant to Ohio Rev. Code 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Valerie Cox, former fiscal officer, in the amount of \$19,117, and her bonding companies, The Ohio Township Association Risk Management Authority in the amount of \$9,654, and Travelers Casualty and Surety Company of America in the amount of \$9,463, and in favor of Washington Township.

MANAGEMENT COMMENTS

Minutes

Although Township Trustees approve the prior meeting minutes at each subsequent meeting, they do not review the official minutes maintained by the fiscal officer for accuracy.

Minutes maintained by the former fiscal officer for the Township Trustee meeting on June 30, 2008 indicated that the trustees approved a payment to an unsuspecting individual in the amount of \$1,500 and a payment to Ms. Cox for \$2,500. When questioned, the trustees indicated they did not approve these payments nor were they discussed. One of the trustees provided his copy of the June 30, 2008 minutes in the trustee's packet, which they received from Ms. Cox before every meeting. The copy provided to the trustees did not contain the approval for payments to the individual in question or to Ms. Cox.

Altering the minutes after approval by trustees allowed the fiscal officer to falsify trustees' approval of expenditures.

To help confirm trustee's actions regarding Township business, trustees should consider taping meetings and periodically reviewing minutes maintained by the fiscal officer to ascertain accuracy.

Monitoring Controls

The fiscal officer is responsible for all of the accounting functions, including but not limited to, the creation of various accounting reports, the preparation of voucher packets, disbursement of checks and bank reconciliations. In a small operation, such as the Township, it is not always possible to segregate duties.

Because Township duties cannot be effectively segregated due to staffing issues, the trustees should take a more active role in monitoring transactions, such as reviewing the work of the fiscal officer. The lack of monitoring controls during the Period resulted in the former fiscal officer misappropriating Township funds for her own personal use without it being detected in a timely manner.

We recommend the trustees review, sign and approve all purchase orders prior to any purchases being made, compare checks written to the corresponding voucher packets, and review bank statements and cancelled checks.

Supplement to the Special Audit Report

Use of Pre-signed Checks and Invoices

The Township trustees historically pre-signed blank checks at each Board of Trustees meeting to allow the former fiscal officer to pay bills that came due between the meeting dates. The Township trustees also pre-signed invoices, which were used instead of a formal reimbursement form for individuals to receive reimbursement for expenses. There was no evidence Township trustees reviewed these pre-signed documents after their use to confirm they were used for Township business.

Pre-signing checks and invoices led to the former fiscal officer receiving payment of reimbursements for which she was not entitled.

We recommend trustees sign checks only after reviewing the corresponding voucher packets, and they should not be signed prior to being completed. If a bill comes due between meetings, the fiscal officer should contact the trustees and make arrangements to obtain the necessary signatures. We also recommend trustees institute a reimbursement form which details, at a minimum, the reason for reimbursement, description and cost. We further recommend trustees avoid signing any document prior to it being completed. These procedures would improve controls over disbursements.

Policies

A policy manual is essential to assure that key areas of operations are fully documented in written form and understood by employees, management and elected officials.

The Township is operating without key policies in place. The following was noted:

- The Township does not have a disbursement/reimbursement policy.
- The Township does not have a record retention policy

Failure to have written policies to require, review and maintain supporting documentation for expenditures allowed the former fiscal officer to misappropriate Township funds for her own personal use without it being detected in a timely manner.

Additionally, failure to maintain documentation in accordance with a record retention policy could lead to uncertainty should questions arise about historical transactions.

Given the Township's general lack of policies or guidelines, we recommend that Trustees develop and adopt a Township wide policy manual that would address accounting operations, human resource issues, related Ohio Revised Code requirements, the above noted issues, and those issues unique to Township operations. Resources for developing a policy manual would be the Auditor of State, the Ohio Revised Code and other townships that have adopted policy and operational manuals.

Supplement to the Special Audit Report

Issue No. 2 - Other Disbursements

PROCEDURES

We scanned all Township checks, front and back, and Township bank statements during the Period to identify any additional payments to the fiscal officer which were not previously identified through the vendor histories. We also identified any other unusual items or irregularities that warranted further investigation.

We examined available supporting documentation to determine whether payments identified were supported, approved, and for Township related business.

RESULTS

We identified one unusual payment and further investigation led us to conclude it was supported and a valid Township expenditure. In 2006, one of 13 checks entered on the UAN System as voided was actually cashed as noted on the bank statement.

MANAGEMENT COMMENTS

Voided Checks

The Township periodically voids checks for various reasons. Voided checks are not always retained by the Township. There was one instance noted where a check was voided in the UAN system but was cashed and processed by the bank. The former fiscal officer listed the amount of the check as a reconciling item to adjust the bank balance to agree with the Township financial records.

Failing to retain all voided checks and documentation of the reason for the void could lead to the occurrence of errors or the misappropriations of Township funds that could go undetected in the normal course of business.

The Township should retain all voided checks and document the reason for the void. The trustees should also periodically monitor the occurrence of voided checks in order to ensure that they were actual voided checks and were voided for valid reasons. Also, the Township should prepare a memo entry to correct the beginning 2009 fund balance to account for the check that was voided in UAN, but had cleared the bank. This will remove the reconciling item from the monthly bank reconciliations.



Mary Taylor, CPA
Auditor of State

WASHINGTON TOWNSHIP

UNION 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
FEBRUARY 16, 2010**