



**VILLAGE OF ATTICA
SENECA COUNTY**

SPECIAL AUDIT REPORT

JANUARY 1, 1997 THROUGH DECEMBER 31, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Greg Martin
Mayor

The Honorable Larry Dunson
Clerk-Treasurer

Village of Attica
P.O. Box 564
Attica, Ohio 44807

Pursuant to your request, we have conducted a Special Audit and performed the procedures summarized below and detailed in our "Supplement to the Special Audit Report", for the period January 1, 1997 through December 31, 1999 ("the Period"). These procedures were performed solely to determine the purpose of expenditures during the Period (for non-payroll transactions, see Issue No. 1; payroll transactions are discussed as Issue No. 2), to determine the major sources of revenue for the Village, to search bank statements for miscellaneous debits and credits and determine the purpose of such charges, and to determine if the Village had delinquencies with outside agencies such as taxation departments and/or retirement systems. This engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. We make no representation regarding the sufficiency of the procedures discussed below, for the purpose for which this report has been requested or for any other purpose. The procedures we performed and the results of those procedures are summarized as follows:

1. For non-payroll expenditures, we reviewed available canceled checks, bank statements and the supporting documentation for each available canceled check issued during the Period to determine if the expenditure was for a purpose related to the operations of the Village.

Significant Results: Various weaknesses with internal and monitoring controls existed at the Village which resulted in vouchers paid without supporting documentation such as invoices or purchase orders. Additionally, a Finding for Recovery was issued against Linda Stoldt, former Clerk-Treasurer, in the amount of \$686, representing a personal cellular phone which she paid for from the Village's general checking account.

2. For payroll expenditures, we reviewed whether employees who received payroll checks were employed by the Village and determined whether individual payroll payments were made in accordance with approved pay rates.

Significant Results: Documented authorization of pay rates was not maintained by the Village.

3. We reviewed documents and conducted interviews of Village employees to determine the major sources of revenue for the Village and to determine if these revenues were accurately recorded in the Village's bank accounts.

Significant Results: Using third-party confirmations, revenue sources were traced to the Village's bank statements with no significant discrepancies.

4. We reviewed all bank statements for the Period for debits and credits which were not the result of a Village check or deposit that had previously been reviewed in Issues No. 1, 2, and 3, to determine the purpose of such entries.

Significant Results: No unusual debits or credits were noted.

5. We contacted the Internal Revenue Service, the State Department of Taxation, the Ohio Bureau of Worker's Compensation, the Public Employees Retirement System, and the Ohio Police and Fire Pension Fund to determine if the Village's accounts with these agencies were delinquent during the Period.

Significant Results: No unpaid balances existed as of the date of each entity's response; however, penalties and interest charges were assessed against the Village for late payments. Our detailed results describe the circumstances surrounding each agency's account history.

6. On March 26, 2001, we held an Exit Conference with the following elected officials and administrative staff:

Greg Martin, Mayor
Larry Dunson, Clerk-Treasurer
Kathy Dornan, Councilperson
Michael Eckenrod, Councilperson
Ed Enders, Councilperson
Bryan Shock, Councilperson
Joe Wagner, Councilperson
Gary Weis, Administrator
Dean Henry, Solicitor

The attendees were given five days to respond to this Special Audit, however at the Exit Conference they indicated they did not intend to submit a response and no response was received.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report". Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the accounts or items referred to above. Also we express no opinion on the Village's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of the Village, taken as a whole.

This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

JIM PETRO
Auditor of State of Ohio

January 17, 2001

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SUPPLEMENT TO THE SPECIAL AUDIT REPORT

BACKGROUND INFORMATION

Former Village of Attica Clerk-Treasurer, Linda Stoldt, was removed from her position on November 22, 1999 after refusing to keep minutes, pay bills, or provide auditable records to the office of the Auditor of State.

The Village's financial records for years 1997, 1998, and 1999 were in such poor condition, the Auditor of State was unable to perform financial audits of those years without first reconstructing and organizing the Village's records. In addition, the poor condition of the records dramatically increased the risk that a material fraud may have occurred. The Auditor of State's Special Audit Committee determined reconstruction of the Village's records for the years 1997 through 1999 would be cost prohibitive to the Village. As a cost effective alternative, on February 15, 2000, the Committee voted to initiate a Special Audit to review the Village's disbursements and major sources of revenue and investigate whether material fraud had occurred. In addition, the Auditor of State's Office would work with the new Clerk-Treasurer to develop the Village's fund balances as of January 1, 2000, with the fund balances being officially established by Village Ordinance.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

RELEVANT INDIVIDUALS AND ENTITIES

Linda Stoldt, former Clerk-Treasurer, removed from office November 22, 1999

Larry Dunson, Clerk-Treasurer, effective November 22, 1999

Greg Martin, Mayor, since January 2000

Dee Ann Ruffing, Utility Clerk, since 1988

Jeff Briggs, Chief of Police, since 1993

Gary Weis, Village Administrator, since 1999

Village Council: Kathy Dornan, term expires December 31, 2001
Michael Eckenrod, term expires December 31, 2001
Ed Enders, term expires December 31, 2004
Louis Sanders, term expires December 31, 2001
Bryan Shock, term expires December 31, 2004
Joe Wagner, term expires December 31, 2001

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

SUMMARY OF RESULTS

ISSUE 1 - Review of Non-payroll Expenditures

For non-payroll expenditures, we reviewed available canceled checks, bank statements, and the supporting documentation for each available canceled check issued during the Period, to determine if the expenditure was for a purpose related to the operations of the Village.

PROCEDURES

We obtained canceled checks of the Village and reviewed applicable supporting documentation to determine if expenditures were authorized and were made for a purpose related to the operations of the Village. For significant expenditures where documentation did not exist, we contacted vendors to request copies of invoices to support payments made by the Village.

All expenditures for fixed assets over \$500 and a sample of expenditures under \$500 were traced to the actual asset in the possession of the Village.

Interviews were held with current and former Village officials to discuss the validity of certain expenditures.

RESULTS

1. A. Staff Auditors obtained canceled checks maintained by the Village. For 132 checks which could not be located by the Village, a subpoena was served on Sutton Bank in Attica, requesting all cancelled checks not in the possession of the Village. In response to our subpoena, Sutton Bank provided us with photostatic copies of six checks. The remaining 126 checks were not included in the bank statements as having been processed and were not included in the bank's response to the subpoena, indicating those checks had not cleared through the bank. As a result, we concluded the remaining 126 checks were either voided but not retained by Ms. Stoldt or were never cashed by the receiving party.

B. The results of our review of non-payroll expenditures were as follows:

	1997	1998	1999
Non-payroll checks issued	\$423,345	\$505,416	\$574,078
Unsupported/undocumented expenditures	\$14,063	\$28,639	\$14,886
Expenditures unrelated to operation of a Village¹	\$463	\$469	\$310
Late fees and penalties incurred	\$654	\$706	\$199

C. Seventy-one (71) of the canceled checks or vouchers contained information which had been altered by changing the dates on either or both of the documents or by crossing out the "Void After Sixty Days" imprinted on the Village checks.

¹ This amount includes expenditures for the Clerk-Treasurer's personal cell phone, explained in detail under Result No. 1 G. Individually, none of these expenditures unrelated to the operation of a Village exceeded \$100.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- D. Recurring monthly invoices for such items as electrical and telephone service demonstrated a trend of unpaid prior balances. The electric company invoices showed twenty-two (22) of thirty-one (31) invoices contained unpaid beginning balances. The telephone company invoices contained unpaid beginning balances on each of the thirty-nine (39) invoices we reviewed.
- E. We sent letters to eleven (11) vendors to whom the Village had issued checks but had not maintained supporting documentation for significant expenditures totaling \$15,696. We received nine responses, seven of which included support for expenditures totaling \$14,319. The remaining two responses which did not include support comprised \$400 of the unsupported expenditures in 1999 and \$851 of the unsupported expenditures in 1997. The two vendors who did not respond comprised \$125 of the unsupported expenditures in 1999.
- F. The Village entered into a contract to employ a consultant, David Hicks, to render services as "Technical Supervisor for the Village of Attica, Ohio Public Water and Waste Water System." Contract payments were made to Mr. Hicks throughout the Period; however, the Village was able to provide us with only one contract dated October 1, 1997, effective for a period not to exceed one year.

Each year, the Village Clerk-Treasurer, Linda Stoldt, created a Form 1099 for Mr. Hicks. In 1997 and 1999, the amount paid to Mr. Hicks according to the Village's bank records agreed to the amounts recorded on the Forms 1099. However, in 1998, Mr. Hicks received payments from the Village in excess of the amount recorded on Form 1099, causing his Form 1099 to be understated in the amount of \$210. We recommend the Village contact its legal counsel to determine if this understatement necessitates an adjustment to Mr. Hicks' Form 1099.

- G. Beginning in January 1997 and continuing through June 1998, as well as one occurrence in January 1999, Linda Stoldt used Village checks totaling \$692 to pay for her personal cellular phone. When we interviewed Ms. Stoldt, she explained that when the Police Department upgraded their cellular phones, she entered into an agreement for a personal phone with the same type of plan using the name of the Village to take advantage of a better rate plan. Ms. Stoldt stated the Village Council approved the monthly payment of her cellular telephone bill and she then reimbursed the Village by using her own money to purchase office supplies of the same value as her cellular telephone bill. Ms. Stoldt provided receipts totaling \$6 which supported that she made postage purchases on behalf of the Village. Ms. Stoldt also provided other postage receipts and receipts for various office supplies which she claimed were purchased on behalf of the Village totaling \$573. However, Ms. Stoldt was unable to provide documentation that those items were delivered to and/or used in the operations of the Village. Ms. Stoldt was also unable to explain how she conducted transactions in the exact dollar amount as her cellular telephone bill. Because records did not support that Ms. Stoldt reimbursed the Village for the cost of her personal cellular telephone, we will issue a Finding for Recovery against Ms. Stoldt, in favor of the Village, in the amount of six-hundred eighty-six dollars (\$686).
- H. While performing our review of non-payroll expenditures, we noted the Village has not submitted an annual financial report to the Auditor of State since March 1994, for the fiscal year ended December 31, 1993, and has not maintained appropriation ledgers as required by law.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. During the Period, there were eleven (11) expenditures for fixed assets in excess of \$500. For our sample of fixed assets less than \$500, we selected six additional transactions. All seventeen (17) of these fixed assets purchased during the Period were reviewed and thirteen (13) were located without exception. Of the remaining four items, two items were traded in according to Gary Weis, Village Administrator, who showed us the replacement equipment. The remaining two items were a circular saw and a photocopier. According to Dee Ann Ruffing, Utility Clerk, the circular saw was broken and had been thrown away and the photocopier was destroyed in the Village Hall fire. The Village was not able to provide any other support for the disposition of these four items. The Village does not maintain a documented fixed asset inventory, so we will recommend a process be put into place for this purpose.
3. Our interviews with current and former officials regarding the validity of certain expenditures revealed the following:
 - A. Throughout the Period, the Village's telephone bills included long distance charges and calls made with a Village calling card. During interviews with the Councilpersons, we inquired as to the controls in place to prevent employees from using the Village's account to make personal long distance telephone calls. Phone logs were not used to track long distance calls and the Councilpersons were not aware calling cards were used by Village employees. We will issue a recommendation to institute the use of phone logs and reconcile those logs to the monthly billings received from the phone company.
 - B. The Village used credit for the purchase of gasoline and supplies from local vendors. Gasoline credit cards were maintained by the gas stations. Local vendors, such as the Attica Lumber Company, allowed employees to charge items to the Village by signing a charge slip. No Village employee reconciled these charges to the monthly statements to verify the Village was only charged for valid costs related to the operation of the Village. During our review of expenditures, we noted the Village made payment on four charge slips which were signed by persons who were not employees of the Village. Village Council identified one of the individuals as an Emergency Medical Technician for the Village. Village Council could not confirm the identity of the remaining three; however, Council agreed the purchases appeared related to operations of the Village. We will issue a recommendation regarding the use and monitoring of credit purchases by Village employees.
 - C. Based on the results of our interviews with Councilpersons, expenditures totaling \$4,197 were inappropriately paid to the following vendors:

Vendor	Amount
ServPro	\$332
AT&T	139
All County Concrete	208
Citgo	3,024
Sam's Club	494
Total	<u>\$4,197</u>

During our fieldwork, the Village was able to receive credit in the applicable amount from each of these vendors.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

FINDING FOR RECOVERY

Linda Stoldt, former Clerk-Treasurer, was responsible for processing all expenditures of the Village by writing checks issued in payment for goods or services rendered. During her tenure as Clerk-Treasurer, Ms. Stoldt entered into an agreement for the use of a personal cellular phone with the Village's representative cellular company. For each month from January 1997 through June 1998, and for January 1999, Ms. Stoldt used Village funds totaling \$692 to pay the monthly charges of her personal cellular phone by issuing Village checks to the cellular phone company.

When questioned about these expenditures, Ms. Stoldt informed us she was repaying the Village by purchasing office supplies in like value. Ms. Stoldt provided postage receipts and other receipts for various office supplies which she claimed were purchased on behalf of the Village totaling \$579. With the exception of postage receipts totaling \$6, she was unable to provide documentation that the items purchased were delivered to and/or used in the operations of the Village.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Linda Stoldt and the Ohio Government Risk Management Plan, her bonding company, jointly and severally, and in favor of the Village of Attica, in the amount of \$686.

NONCOMPLIANCE CITATIONS

Maintain an Appropriations Ledger

Ohio Administrative Code Section 117-5-11 states, in part, "Each village shall maintain an appropriation ledger and shall post to each appropriation account an amount equal to the amount appropriated in the annual appropriation resolution. Further, each expenditure or encumbrance charged against an appropriation account shall be posted and subtracted from the appropriated balance producing a declining unencumbered balance." The Village did not maintain an appropriations ledger, which is a vital tool for tracking the expenditure of Village funds. Without a detailed appropriations ledger, there is no method of ensuring Village funds are being utilized for the purposes of which they were intended.

We recommend the Village establish and maintain an appropriations ledger in accordance with this section of the Ohio Administrative Code.²

Filing an Annual Financial Report

Ohio Revised Code Section 117.38 requires all public offices to file a financial report with the Auditor of State for each fiscal year. In addition to other requirements, the certified report is to contain details of all receipts and expenditures of the public entity. The Village of Attica last filed an annual report with the State Auditor on March 29, 1994, for the fiscal year ended December 31, 1993. Annual reports have not been filed for fiscal years 1994 through 1999.

We recommend the Village file annual reports of activity as required by law.

²Effective 1-1-01, the above cited Ohio Administrative Code provision was repealed. However, Ohio Administrative Code Section 117-2-02 was enacted and effective 7-1-00, and states that all public offices shall maintain an accounting system and accounting records sufficient to enable the entity to maintain accountability for assets and to enable them to file financial statements. This section also states that the public office needs to maintain effective budgetary records. In order to accomplish what this rule requires, the entity should maintain a cash journal, receipts ledger and an appropriation ledger.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENTS

Monitoring of Village Financial Activities

The Village had very few internal controls over payroll and non-payroll expenditures. Additionally, the position of Clerk-Treasurer performed the disbursement of all funds expended by the Village by preparing the checks, presenting them to Village Council, and signing the checks. These deficiencies increase the potential for fraud.

We recommend the Village establish controls and record keeping procedures to compensate for the lack of segregation of duties. We also recommend the Village Council periodically review some of the functions, expenditures, and reports of the Clerk-Treasurer. The information obtained as a result of such inquiries will provide management with proper oversight to compensate for the lack of segregation of duties.

Integrity of Village Checks and Vouchers

The dates on Village checks and voucher packets had been altered and the imprint "Void After Sixty Days" had been scratched out on some Village checks. Available documentation did not indicate when the documents were altered (i.e., before or after receiving Council approval), or by whom. Altering documents is an indicator of potential fraud.

We recommend the documents used to approve and process payments be reviewed periodically by someone other than the Clerk-Treasurer to ensure alterations are not being made. Should it be discovered that changes have been made to significant Village documents, the Village Council should contact its legal counsel to determine the proper course of action.

Use of Gasoline Credit Cards

The Village allowed gasoline credit cards to be maintained at local gas stations for employees' use. However, the Village did not reconcile individual gasoline charge slips with the monthly invoice received from the respective gas stations.

If the use of Village-sponsored gasoline credit cards is to continue, we recommend a list of designated users be provided to the vendors. When gasoline is purchased, charge slips should be signed and returned to the Village Clerk-Treasurer for verification purposes once invoices are received from the vendors.

Charge Accounts

The Village allowed employees to make credit purchases at local retailers. However, the Village did not reconcile individual credit purchases to the monthly invoices received from the vendors and our review revealed four non-Village employees made purchases in the name of the Village.

If the practice of allowing employees to make credit purchases is to continue, we recommend the Village provide vendors a list of designated credit customers, and charge slips be returned to Village management for reconciliation purposes.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Telephone and Cellular Phones

The Village did not require employees to maintain phone logs detailing all long distance and personal calls which were made on Village telephones. During the Period, numerous long distance and credit card calls were charged to the Village; however, Village records did not indicate whether these calls related to Village operations or were personal in nature. The Village does not have a formal policy regarding use of Village telephones for personal calls.

We recommend the Village establish a policy which sets guidelines for personal use of Village telephones and requires reimbursement of personal calls. Additionally, monthly phone logs should be maintained at the site of each Village phone for the purpose of tracking long distance calls. These phone logs should contain the date and time of calls, the name and number of the person being called, and a general description of the call's purpose. Each month, the Clerk-Treasurer should collect the phone logs and reconcile them to the monthly telephone invoice. Every effort should be made by Village employees to use a personal credit card for personal long distance telephone calls. However, in extreme emergency situations, personal calls could be acceptable, provided the employee reimburses the Village for the applicable costs.

Fixed Assets

The Village of Attica did not maintain a complete listing of all fixed assets. Additionally, the Village has not established procedures to add or delete fixed assets from the Village inventories.

The lack of a complete fixed asset listing and the absence of internal controls over the addition and deletion of fixed assets could result in a loss from errors and/or misappropriation of the Village's assets without management's detection.

We recommend the Village implement the following procedures:

- ▶ Designate an individual(s) to be responsible for the preparation and recording of the Village's fixed assets;
- ▶ The Village create and periodically update a fixed asset policy;
- ▶ A physical inventory of all fixed assets be performed and updated annually;
- ▶ Based on the physical inventory, a fixed asset listing be assembled to include but not be limited to the following: location, tag number, description, date of acquisition, cost (or estimated historical cost), source of funding, depreciation, and accumulated depreciation;
- ▶ Implement procedures to record fixed asset additions as they are acquired, preferably through the use of fixed asset addition forms. When a fixed asset addition form is completed, the information would then be recorded on the Village's fixed asset listing;
- ▶ Implement procedures to ensure deleted assets are removed from the fixed asset listing, preferably through the use of fixed asset disposal forms. The forms should be completed each time a fixed asset is sold or disposed. When the form is completed, the fixed asset would subsequently be removed from the Village's fixed asset listing;
- ▶ At or near the end of each fiscal year, a summary of fixed assets purchased and disposed should be prepared. The amounts recorded on the fixed asset listing should be reconciled to the physical inventory results (prior period fixed assets, plus current year additions, less current year deletions); and
- ▶ Progress reports should be made on a monthly basis (or more frequently, if necessary) to the Village Council regarding the preparation and completion of the Village's fixed asset listing.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE 2 - Review of Payroll Expenditures

For payroll expenditures, we reviewed whether employees who received payroll checks were employed by the Village and determined whether individual payroll payments were made in accordance with approved pay rates.

PROCEDURES

We documented payroll and timekeeping procedures.

Using the Village's payroll ledgers, we interviewed Dee Ann Ruffing, Utility Clerk³, to determine that employees receiving payroll checks had been employed by the Village. Using canceled payroll checks, we prepared a schedule of payroll checks to determine if checks had been issued to people other than those documented as employees on the Village's ledgers.

For three bi-weekly pay periods, we selected three full-time employees, three part-time/seasonal employees, and three part-time police officers and performed the following tests:

- ▶ We determined if employees' pay rates had been authorized;
- ▶ We reconciled the hours recorded on time sheets to the gross payroll records;
- ▶ We recomputed gross payroll, then subtracted deductions to determine the employees' net pay;
- ▶ We traced net pay amounts to canceled checks;
- ▶ We scanned the remaining individual payroll expenditures throughout the Period for reasonableness;
- ▶ We obtained the Village's copies of employees's Form W-2, and reconciled the amounts documented on those forms to the Village's final payroll ledger for each calendar year.

We scanned payments made to Linda Stoldt, former Clerk-Treasurer, to determine if her salary was paid as authorized.

We performed an analytical analysis of payroll expenditures for each calendar year by using actual prior year expenditures and adding known current-year bonuses and special payments to determine an estimate of current-year expenditures. We then compared the estimated payroll with actual payroll payments.

RESULTS

1. The Village Clerk-Treasurer and the other twenty-three (23) to thirty (30) Village employees⁴ were paid on a bi-weekly basis. The Council and Mayor of the Village were paid quarterly. It was the Clerk-Treasurer's responsibility to calculate payroll and prepare and sign the checks. The Village established a separate bank account for payroll transactions, and the Clerk-Treasurer would transfer funds from the general checking account to the payroll account to meet the payroll obligations. There is no evidence that the former Clerk-Treasurer reconciled the payroll bank account during her tenure.

³Ms. Ruffing was interviewed because she had been employed by the Village for the entire period and was one of only two employees (also the Clerk-Treasurer) headquartered at the Village Hall.

⁴Throughout 1997, the Village had up to 25 employees, not including the Clerk-Treasurer, Mayor, and Council members. In 1998, employment increased to 30 people; in 1999 there were 23 employees throughout the year.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. Our interview with the Utility Clerk revealed that all persons included on the payroll ledgers were either currently employed at the Village, or had been employed previously. Additionally, according to our schedule of payroll checks, there were no payroll checks issued to employees other than those recorded on the payroll ledgers.
3. Our review of twenty-seven individual payroll transactions yielded the following results:
 - There were six instances where annual salaries were not documented as being authorized, therefore we were unable to determine if employees were paid the correct amount. We will issue a management comment with a recommendation to maintain documentation of salary authorizations;
 - Of the employees reviewed who were required to complete time sheets, those time sheets reconciled to the payroll ledgers;
 - Our recalculation of each individual's net pay and tracing the pay to the canceled checks revealed no discrepancies;
 - Remaining payroll payments for the employees we reviewed appeared reasonable; and
 - The annual salary amounts per the payroll ledgers were traced to the employees' Form W-2 with no discrepancies.

In addition to our results disclosed above, we noted the following:

- ▶ Two of the salaried employees reviewed received payments for unused vacation time each of the three years during the Period. Village Ordinance No. 1990-3 contains a clause that, with the approval of the Village Council, employees may receive payment of unused vacation time simultaneously with their regular biweekly payroll; however, the Village was unable to provide documentation that these two employees' unused vacation payments were authorized by the Village Council. During interviews with Council members, two of them stated they may have authorized such a payment on at least one occasion. We will issue a noncompliance citation against the Village for failure to follow its prescribed Ordinance.
- ▶ The review of time sheets revealed hourly employees of the Sewer and Water Department did not record lunch breaks. For example, the employee may have documented working from 8:00 until 4:00 and received payment for eight hours of work. There was no indication whether the employee worked less than eight hours and was compensated for a lunch break, or if the employee simply did not take a lunch break that day.

There was no other documentation available to indicate whether the employees actually took a lunch break, or if the employees were paid for their lunch hours. According to Gary Weis, Administrator, these employees take their lunch breaks whenever their work load permits. For example, employees may take their lunch as they wait for test results. When we interviewed the Village Council members, they indicated they were not aware of this practice. We will make a recommendation that the Village institute a formal policy governing the lunch hours for Sewer and Water Department employees.

- ▶ Police officers were paid a higher rate for outside security contract work than their pay rate at the Village. Larry Dunson, Clerk-Treasurer, and Jeff Briggs, Chief of Police, informed us the pay rates for outside security work were negotiated by the entity requiring such services. They stated that Council approves the security work but does not approve the pay rates. Payment for outside security work is processed and issued by the Village Clerk-Treasurer. We will issue a recommendation for Council to approve outside security contracts, including the rates at which security officers shall be paid.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- ▶ The Village purchased shoes, coats, and work boots for Village employees, then deducted the cost of the purchases from the employees' paychecks. Seven of the payroll transactions selected for review had deductions taken from the employees' earnings to repay the Village for the cost of these items. When we interviewed the Village Councilpersons, two of them acknowledged they were aware of this practice, while the other four stated they were not aware of the practice. The Village does not have a policy for this type of transaction, nor was any documentation maintained by the Village to accurately track the repayment of Village funds. We will issue a recommendation to establish a policy and develop internal controls over the repayment of Village funds when transactions like this occur.
- 4. Ms. Stoldt's salary, as authorized by the Ohio Revised Code and recorded on the Village's payroll ledgers, agreed to the canceled payroll checks and direct deposit information on the Village's bank statements and agreed to her annual Form W-2 for each calendar year in the Period.
- 5. Using the Clerk-Treasurer's payroll files, we analyzed the value of bonus and longevity payments, vacation pay-outs, and off-duty security salaries to project each calendar year's payroll expenditures. The following table demonstrates what we projected as the amount of increases in payroll expenditures each year compared to actual increases in payroll expenditures. The variances ranged from 0.03% to 5.40%.

	1997	1998	1999
Annual Gross Payroll Expenditures	\$108,250	\$128,635	\$147,849
Projected Increase from the prior year	N/A ⁵	13.43 %	14.90 %
Actual Increase from the prior year	N/A	18.83 %	14.93 %
Variance in Projected versus Actual	N/A	5.40 %	0.03 %

NONCOMPLIANCE CITATION

Ordinance No. 1990-3

Village Ordinance No. 1990-3 states, in part, "An employee can under unusual circumstances and with the approval of Village Council work for pay and use vacation time simultaneously." Two of nine employees reviewed received payment of vacation in conjunction with their regularly scheduled bi-weekly payroll, without documented approval of the Village Council. Failure to follow the established policy could result in Council being unaware when employees are compensated for unused vacation time. A pattern of employees not using their vacation leave can be a fraud indicator, and therefore we do not recommend repeatedly paying out unused vacation time in lieu of employees taking the time off work.

We recommend the Village follow its established policy regarding compensation for unused vacation leave and Village Council document its approval of vacation leave pay outs in the minutes records of its meetings.

⁵Because the Village did not maintain complete records of 1996 payroll expenditures, it was not possible to perform this analytical procedure on 1997 payroll expenditures.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENTS

Authorization of Employee Pay Rates

The Village Council did not record established pay rates for its employees in the Village Minute Record or in the form of a payroll or personnel file. Without establishing and maintaining authorized pay rates, uncertainty can arise with regard to the correct, authorized salaries to be paid. Additionally, when the Village Council is unsure as to authorized salaries for its employees, monitoring controls over payroll expenditures cannot function appropriately to ensure employees receive no more or less than the salary they are authorized to receive.

We recommend the Village Council document its approval of all salaries through the official Minute Record, and create individual personnel files in which to maintain copies of official documentation.

Timekeeping

Employees in the Sewer and Water department did not record a lunch hour on their time card. For this reason, there is no way to determine if lunch hours have or have not been taken and whether employees are being paid, regardless of working or not working, during their lunch break.

We recommend the Village institute a policy to govern lunch breaks for the Sewer and Water Department employees. Additionally, the Village should consider contacting its legal counsel to review the applicable sections of the Fair Labor Standards Act regarding meal breaks to ensure compliance with legal regulations.

Payment of Police Officers for Off-duty Work

Rather than receiving their established Village pay rate, police officers were paid a different rate for off-duty security work such as at school events. The Village Council does not provide approval for the rates to be paid the employees providing such services which could lead to the appearance that Village employees are working on projects without the knowledge of Council.

To improve monitoring controls, we recommend the Village Council approve all outside security contracts and receive notification or provide authorization for the rates to be paid Village employees.

Deductions from Employees' Paychecks

When employees could not afford to purchase items such as boots and coats, the Village made such purchases for the employee then deducted the cost of the purchases from the employees subsequent paychecks as a type of installment repayment plan. Only two of the six Village Council members were aware of this practice. In addition, the Village did not establish policies or procedures to track these types of transactions to ensure the Village was appropriately reimbursed for the purchases it made on behalf of employees. This could result in funds going unrecovered from employees, should the Clerk-Treasurer forget or neglect to process the necessary deduction.

We recommend the Village establish a formal policy related to the repayment of Village funds through employees' payroll for the purchase of necessary work-related items. Further, we recommend the policy contain specific guidelines as to the necessary paperwork to be completed by the employee requesting such purchases, as well as the document trail to be maintained by the Clerk-Treasurer. Village Council should receive notification each time an employee is subjected to such a repayment plan and additional notification and documentation to support the repayment of all Village funds.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE 3 - Revenue Sources

We reviewed documents and conducted interviews of Village employees to determine the major sources of revenue for the Village and to determine if these revenues were accurately recorded in the Village's bank accounts.

PROCEDURES

We obtained and reviewed prior audit working papers, previously released audit reports, and the available Village Minute Records for the Period to determine major sources of Village revenue.

We conducted interviews of Larry Dunson, Clerk-Treasurer, Gary Weis, Village Administrator, and Dee Ann Ruffing, Utility Clerk, to determine revenue sources and procedures used for documenting revenues when received.

Using State of Ohio "Distribution Transaction Lists" and Seneca County "Vendor Audit Trail Reports" as third-party revenue confirmations, we traced all documented intergovernmental revenue transactions into the Village's bank account.

RESULTS

1. The Village received the majority of its funding through intergovernmental revenues (i.e., state and county monies) and utility charges for services.
2. A. Intergovernmental revenues were automatically deposited into the Village's bank account via electronic funds transfers. Utility revenues were received at the Village or local banking institution and were posted to the Village's ledgers by the Utility Clerk.
B. The Village did not maintain a cash journal or receipts ledger. We will issue a noncompliance citation for failure to comply with Ohio Administrative Code.
C. During employee interviews, we noted the following internal control weaknesses related to Village swimming pool receipts and bulk water token receipts:

Swimming Pool Receipts - Based on employee interviews and a review of pool records, we noted the Village's swimming pool employees do not deposit revenues on a daily basis. In addition, swimming pool employees use undeposited cash receipts to pay vendors. We will include a recommendation to deposit pool receipts in a timely manner and discontinue the practice of Village pool employees paying vendors from undeposited cash receipts.

Bulk Water Token Receipts - The Village derives revenue through the sale of bulk water tokens by the Village Administrator to two local businesses each week. Village residents then purchase the water tokens from the local businesses. During interviews of Village personnel, we were informed the Village generally collects approximately two-hundred dollars (\$200) each week. The Village does not maintain any formal records to document the sale of these water tokens or to track the number of water tokens outstanding and/or in the Village's possession at any given time. We will recommend the Village establish procedures to account for the issuance of water tokens.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. All intergovernmental revenues, as documented on the Distribution Transaction Lists and the Vendor Audit Trail Reports, as well as fund transfers and bank account interest, were traced into the Village's bank account as follows:

	1997	1998	1999
Confirmed Revenue:			
Intergovernmental Revenue	\$185,316	\$175,168	\$270,367
Water/Sewer Transfer ⁶	250,000	250,000	250,000
Other ⁷	11,501	14,334	179,192
Interest ⁸	4,579	4,267	5,095
Total Confirmed Revenue	\$451,396	\$443,769	\$704,654
Total All Revenue from Bank Statements	\$478,334	\$483,259	\$731,894
Percent of Revenue Confirmed	94%	92%	96%

NONCOMPLIANCE CITATIONS

Maintain a Cash Journal

Ohio Administrative Code Section 117-05-09 states, in part, "Each Village shall record each expenditure of Village money and receipt of village money in a cash journal." The Village of Attica did not maintain a cash journal to record all cash receipts. Failure to maintain a cash journal made it difficult to determine the amount of revenues generated by and on behalf of the Village. The lack of a cash journal also made it difficult to reconcile cash received with the amount of cash recorded, and the total fund balances of the Village with the respective bank accounts.

We recommend the Village establish and maintain a Cash Journal, in accordance with Ohio Administrative Code.⁹

Maintain a Receipts Ledger

Ohio Administrative Code Section 117-5-10 states, in part, "Each Village shall maintain a receipts ledger which shall contain a separate sheet for each account established by the Village." When monies are received, the amounts should be posted to the receipts ledger. The Village of Attica did not maintain a receipts ledger to record revenue.

We recommend the Village establish and maintain a receipts ledger, in accordance with this section of the Ohio Administrative Code.¹⁰

⁶Wire-transfer processed from the Water/Sewer Account to the Village's General Account.

⁷Other miscellaneous credits which were reviewed for validity.

⁸Bank account interest, confirmed by the year-end bank statements.

⁹See Footnote No. 2.

¹⁰See Footnote No. 2.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENTS

Processing Pool Receipts

Employees at the Village pool did not deposit cash on a daily basis and used cash receipts from prior business days to pay vendors in cash on subsequent days. By maintaining daily receipts on-site, pool revenues become more susceptible to theft or misappropriation. Further, using cash from previous days to pay vendors increases the risk of unrecorded and unauthorized expenditures.

The Ohio Revised Code has set forth specific guidance for the deposit of public funds. We recommend the Village management review the Ohio Revised Code and modify current procedures for depositing pool receipts accordingly. Additionally, we recommend the Village establish sales accounts with its vendors and require the Village Clerk to pay all vendors through an approved voucher and Village check.

Bulk Water Token Sales

The Village did not track the sale and inventory of bulk water tokens. For this reason, Village management was not able to provide us with the current inventory of water tokens or the amount of revenue to date from the sale of bulk water tokens. Additionally, there was no monitoring or reconciliation of the tokens sold to revenue received and deposited.

We recommend the Utility Clerk keep custody of the water tokens. When it is time for the Village Administrator to sell the tokens to local businesses, the Utility Clerk should count out a specific amount of tokens for the Administrator, the Administrator should sign-out the volume of tokens received and return any unsold tokens with the amount of cash collected to the Utility Clerk to be reconciled.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE 4 - Miscellaneous Debits and Credits on Bank Statements

We reviewed all bank statements for the Period for debits and credits which were not the result of a Village check or deposit that had previously been reviewed in Issues No. 1, 2, and 3, to determine the purpose of such entries.

PROCEDURES

We reviewed all bank statements during the Period to determine if any unusual debits or credits were recorded. For identified miscellaneous charges and/or credits, we attempted to obtain supporting documentation to determine the purpose of such transactions.

RESULTS

Revenues/Miscellaneous Credits:

There were no significant, unusual credits on the bank statements.

Expenditures/Miscellaneous Debits:

Debits on the bank statements not identified and reviewed as part of Issues No. 1, 2, and 3 included monthly automatic deductions for a water system capital improvements loan and automatic annual deductions for the rental of a safety deposit box. We noted no significant debits which were unsupported.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ISSUE 5 - Payments to Outside Agencies

We contacted the Internal Revenue Service, the State Department of Taxation, the Ohio Bureau of Worker's Compensation, the Public Employees Retirement System, and the Ohio Police and Fire Pension Fund to determine if the Village's accounts with these agencies were delinquent during the Period.

PROCEDURES

Through a review of Village records and various interviews of Village employees, we identified outside agencies to which the Village was expected to make regularly-scheduled payments. For those agencies identified, we sent letters of inquiry to determine if delinquencies existed or if late fees and penalties were assessed against the Village during the Period.

RESULTS

Internal Revenue Service

Information provided by the Internal Revenue Services to our letter of inquiry noted no delinquencies, late fees, or penalties assessed against the Village during the Period.

State of Ohio Department of Taxation

The response from the Ohio Department of Taxation to our letter of inquiry noted the following:

For December 1998, an assessment notice in the amount of \$355.71 for \$223.22 in due taxes, \$20.88 in interest, and a \$111.61 penalty was issued on August 6, 1999 and paid in full on February 17, 2000. For December 1999, a discrepancy notice in the amount of \$925.82 for \$888.64 in due taxes and \$37.18 in interest was sent on July 10, 2000 and paid in full on August 25, 2000."

No other delinquencies, late fees, or penalties were noted in the Ohio Department of Taxation's response.

Ohio Bureau of Worker's Compensation

Information provided by the Ohio Bureau of Worker's Compensation to our letter of inquiry noted no delinquencies, late fees, or penalties assessed against the Village during the Period.

Public Employees Retirement System ("PERS")

The response from PERS to our letter of inquiry noted six reports of employee contributions were late, and penalties in the amount of \$213.43 were assessed against the Village.

No other delinquencies, late fees, or penalties were noted in PERS's response.

Ohio Police and Fire Pension Fund

The response from the Ohio Police and Fire Pension Fund noted that although all employee and employer contributions were received, the Village was late in submitting its 1998 employee and employer contributions and incurred \$271.98 in penalties and \$253.49 in interest.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

NONCOMPLIANCE CITATIONS

Untimely Contributions to PERS and OP&F

Ohio Revised Code Section 145.47 states, in part, “The fiscal officer of each local authority shall transmit promptly to the secretary of the public employees retirement board a report of contributions at such intervals and in such form as the board shall require, showing thereon all deductions for the public employees retirement system made from the earnable salary of each contributor employed, together with warrants or checks covering the total of such deductions.”

Additionally, Ohio Revised Code Section 742.34 states, in part, “Each employer shall pay quarterly, on such dates as the board of trustees of the Ohio police and fire pension fund requires, to the fund an amount known as the firefighter employer’s contributions.”

The Village did not make timely deposits of employee and employer contributions, as required by these sections of the Ohio Revised Code. Failure to adhere to these sections of the Ohio Revised Code caused the Village to incur penalties and interest on employee and employer contributions. To avoid further penalties and interest, we recommend the Village remit PERS and OP&F contributions and required reports in a timely manner.



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VILLAGE OF ATTICA

SENECA 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
APRIL 19, 2001**