



OHIO AUDITOR OF STATE
KEITH FABER



YORK TOWNSHIP
BELMONT COUNTY

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FRAUD EXAMINATION REPORT

York Township
Belmont County
53420 York Drive
Powhatan Point, Ohio 43942

To the York Township Trustees and Township Citizens:

Summary

The Auditor of State (AOS) conducted a criminal investigation and special audit of York Township, Belmont County, Ohio (the Township) for the period January 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 Township Fiscal Officer Dawn Lee, also served as the Fiscal Officer for the York Township Water Authority (the Authority). Therefore, our investigation spanned both government entities and we have issued separate reports for each entity. The Fraud Examination Report for the Authority can be located at www.ohioauditor.gov and selecting "Search Audits."

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

On October 5, 2015, the AOS Financial Audit Division forwarded a memo to the AOS Special Investigations Unit (SIU)¹ 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 Township in November 2015.

¹ Previously called the Public Integrity Assurance Team (PIAT)

Mrs. Lee's term with the Township expired on March 31, 2016. Due to our investigation, the Authority placed Mrs. Lee on paid administrative leave in August 2016 and then suspended her without pay in October 2017. On February 1, 2018, Mrs. Lee resigned from the Authority. Although Mr. Lee was authorized by Township Trustees to occasionally provide assistance and volunteer his time, he was never a Township employee.

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 Township and Authority 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 Township and Authority, 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 Township, 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 Township spent public money appropriately. In order to answer whether the Township 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 January 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 Township was to determine whether certain disbursements made by the Township during the Period were supported and were made for purposes related to the operations of the Township

In order to test this objective, we reviewed available documentation, subpoenaed vendor and bank records and interviewed key Township personnel. Specifically, we reviewed 100% of the non-payroll disbursements to Dawn Lee and her relatives, 100% of the payroll disbursements to Dawn 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 \$72,568 and against Ryan Lee totaling \$17,895 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 remittances, 1099's, township oversight of disbursements, segregation of duties, 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

Supplement to the Fraud Examination Report

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

PROCEDURES

We scanned disbursements made by the Township 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 Township, including Staples, Lowe's, True Value, 84 Lumber, Tractor Supply Company (TSC) and Rural King.
- Examined available documentation to determine whether the selected disbursements were supported and were for purposes related to the operations of the Township.
- Identified payroll disbursements to Mrs. Lee and compared actual compensation paid to Mrs. Lee to authorized amounts.

RESULTS

During the Period, Dawn Lee served as Fiscal Officer for the Township. The Township did not have an office space, so Mrs. Lee worked out of her home. As Township Fiscal Officer, Mrs. Lee was responsible for preparing disbursement and payroll checks, presenting the checks and supporting documentation to the Township Trustees for signing at the Township Trustee meetings, ensuring Township credit cards/accounts were paid timely and recording accounting transactions in the Township's accounting system.

When Mrs. Lee became Fiscal Officer for the Township in April 2012, the Township had already been using the Auditor of State's Uniform Accounting Network (UAN) to record accounting transactions for several years. During 2014, Mrs. Lee stopped using UAN for recording transactions and at the January 19, 2015 meeting, Trustees voted to purchase Governmental Systems to replace UAN for recording the Township's accounting transactions. We obtained check registers from each system and Township bank statements to identify disbursements for examination.

Non-Payroll Disbursements to Dawn Lee

We identified 59 reimbursement checks to Mrs. Lee from the Township totaling \$37,448. We reviewed each check and any attached supporting documentation to determine the purpose of the payments to Mrs. Lee. None of the 59 checks were completely or accurately supported. Township Trustees indicated during interviews that they only recently started requiring receipts, invoices and other supporting documentation to be attached to checks prior to signing. In the past, checks were signed by the Trustees without supporting documentation attached.

We located in the Township records a stack of miscellaneous receipts from 2014 that had not been attached to checks for support. We attempted to match the receipts to reimbursement checks by dates and description of purchases to identify support for the payments to Mrs. Lee.

During our review of these receipts and Township records, we noted Mrs. Lee frequently made purchases at stores using personal funds or stated she paid Township bills using personal funds and then requested reimbursement. Mrs. Lee sometimes combined Township purchases with personal purchases and/or Authority 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 copies and not original receipts; and on a few occasions, Mrs. Lee altered the original receipt to conceal payment information.

Supplement to the Fraud Examination Report

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

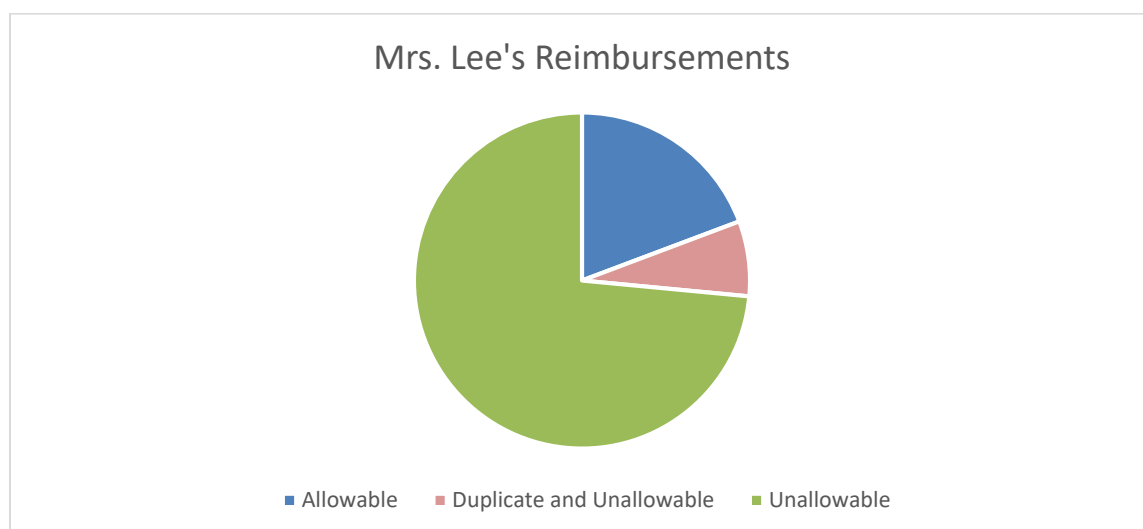
We broke down the 59 reimbursement checks into 166 different transactions. Of the 166 transactions examined, 41 transactions were supported by documentation attached to the checks; 125 transactions were considered unsupported. By matching the stack of miscellaneous receipts mentioned earlier to these transactions, we were able to identify support for an additional 63 of the 166. The remaining 62 transactions were unsupported.

We determined 122 transactions were not for purposes related to the Township totaling \$27,658. These transactions were either unsupported, and therefore the purpose could not be determined, or included items of a personal nature, such as food, furniture, and miscellaneous items.

We also found certain reimbursement checks included transactions that were paid twice by the Township and/or the Authority. In these instances, the Township paid the credit card/account bill, but Mrs. Lee also wrote herself a reimbursement check. We identified 12 duplicate transactions for the Township and one duplicate transaction for the Authority paid to Mrs. Lee totaling \$4,709.

The one Authority duplicate payment noted above involved the purchase of a window air conditioning unit. In August 2013, the Authority authorized Mrs. Lee to purchase an air conditioning unit and donate it to the Township for allowing the Authority to use the Township Hall for board meetings. Mrs. Lee purchased the unit from 84 Lumber using the Township's 84 Lumber credit card. She then submitted the invoice to the Authority and indicated personal funds were used to purchase the unit (see below) and she subsequently received reimbursement. She later wrote a check using Township funds to pay the statement from 84 Lumber once the credit card bill was received.

We also noted 12 receipts provided as support for reimbursements were either altered or were a photocopy of the original receipt. An additional five receipts had the bottom of the receipt tore off, but the payment information remained, providing further evidence of Mrs. Lee's attempts at concealing her theft.



Supplement to the Fraud Examination Report

Other Non-Payroll Disbursements

Non-Payroll Disbursements to Ryan Lee

During the Period, Mrs. Lee issued 30 Township checks totaling \$17,895 to her husband, Ryan Lee, for labor, snow removal, grass cutting and miscellaneous reimbursements. According to Township Trustees, Ryan Lee was not an employee of the Township during the Period. Mr. Lee was on a list of individuals to contact to assist the Township's maintenance employee with snow removal as needed; however, the Township required prior approval by a Trustee before Mr. Lee could provide assistance. The Trustees stated they did not authorize Mr. Lee to assist with snow removal during the Period, Mr. Lee was never authorized to mow grass at the Township cemeteries, and Mr. Lee was not authorized to assist the Township maintenance employee with other work. Because Mr. Lee was not a Township employee, he was not authorized to make purchases on behalf of the Township and seek reimbursement.

Disbursements to Mr. Lee for labor, snow removal and grass cutting were not supported by documentation or were supported only by a check stub and hand written notes prepared by Mrs. Lee. The notes generally described Mr. Lee providing part-time help to Township maintenance employee Brian Luke. Mr. Luke prepared detailed payroll sheets describing the work he performed each day. Mr. Luke's payroll sheets did not mention assistance provided by Mr. Lee, and we did not locate similar payroll sheets prepared by Mr. Lee.

Of the \$17,895 in Township checks issued to Mr. Lee, \$10,351 was classified as "contractor" pay by Mrs. Lee (\$1,000 in 2013, \$5,161 in 2014 and \$4,190 in 2015) and therefore did not have federal and state taxes withheld. However, Mrs. Lee did not issue a 1099 to Mr. Lee for any of the years as required by the Internal Revenue Service.

Non-Payroll Disbursements to Irma Shreffler

Mrs. Lee's mother, Irma Shreffler, was not an employee of the Township during the Period. Ms. Shreffler received \$2,662 in seven disbursements prepared by Mrs. Lee for miscellaneous labor and reimbursements. Mrs. Lee's notes attached to the check stubs generally described Ms. Shreffler providing part-time help to the Township maintenance employee Brian Luke. As noted above, Mr. Luke prepared detailed payroll sheets describing the work he performed each day. Mr. Luke's payroll sheets did not mention assistance provided by Ms. Shreffler, and we did not locate similar payroll sheets prepared by Ms. Shreffler. Because Ms. Shreffler was not a Township employee, she was not authorized to make purchases on behalf of the Township and seek reimbursement.

Checks prepared by Mrs. Lee made payable to Ms. Shreffler were deposited into a joint account held in both their names. Mrs. Lee endorsed the backs of the checks from the Township, signing Ms. Shreffler's name and her own name, and had the bank statements mailed to her home. Ms. Shreffler did not receive copies of the bank statements. In addition, Ms. Shreffler was able to provide a sealed envelope from the bank that included the original debit card issued to her from the bank, showing she never opened the envelope or used the debit card to access the joint account.

Of the \$2,662 in Township checks issued to Ms. Shreffler, \$975 in 2014 was classified as "contractor" pay by Mrs. Lee and therefore did not have federal and state taxes withheld. However, Mrs. Lee did not issue a 1099 to Ms. Shreffler for 2014 as required by the Internal Revenue Service.

Unauthorized Use of Township Credit Cards

While testing the Fiscal Officer's non-payroll disbursements, we noted receipts from Staples, Lowe's, True Value and TSC attached to reimbursement checks. These are vendors known to do business with governmental entities. Therefore, we reviewed Township records and noted the Township has credit cards and/or accounts with Staples, Lowe's, True Value, 84 Lumber, TSC and Rural King. We obtained statements and invoices for each company and reviewed the activity for potential personal purchases and to determine what payment methods were used to pay for the purchases.

Supplement to the Fraud Examination Report

Staples

From July 2013 through April 2016², 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, combining 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 Staples review period, \$2,673 was charged to the Township's card, \$5,913 was charged to the Authority's card, and in addition \$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, we determined the Township paid \$3,590 for Mrs. Lee's personal purchases, late fees and finance charges. Personal purchases included furniture, computer equipment, food and other miscellaneous items. The computer equipment included a gaming computer gifted to Mrs. Lee's nephew.

Lowe's

From December 2012 through April 2016³, \$17,682 was charged to the Township's Lowe's credit card and ultimately paid for by the Township. \$10,325 of this activity was charged on a Saturday or Sunday. Mrs. Lee and the Township's maintenance employee were both authorized buyers; however, Mrs. Lee maintained possession of the cards at all times.

We identified \$13,904 in purchases determined to be of a personal nature and not for a proper public purpose. Items purchased included furniture and hardware (used to remodel Mrs. Lee's residence and Mrs. Lee's mother's residence), household appliances (including a stove delivered to Mrs. Lee's mother's residence), food and other miscellaneous items. Mrs. Lee did not pay the account in full each month and her personal use of the card resulted in late fees and finance charges totaling \$115 that were paid by the Township.

True Value

From December 2012 through May 2016⁴, \$4,080 was charged to the Township's account and paid by the Township. All Township Officials had the ability to make purchases on the account. Invoices obtained from True Value included the signature of the individual making each purchase.

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

³ Although our Period was January 1, 2013 through March 31, 2016, we became aware of purchases made by Mrs. Lee prior to January 1, 2013. We included those purchases in our investigation to determine if this activity included any additional theft committed by Mrs. Lee. In addition, we reviewed the April 2016 Lowe's credit card statement for evidence of purchases made in March 2016 or Township payments made that would not have posted until April 2016.

⁴ Although our Period was January 1, 2013 through March 31, 2016, we became aware of purchases made by Mrs. Lee prior to January 1, 2013. We included those purchases in our investigation to determine if this activity included any additional theft committed by Mrs. Lee. In addition, we reviewed True Value account statements through May 2016 for evidence of purchases made in March 2016 or Township payments made that would not have posted until after March 2016.

Supplement to the Fraud Examination Report

We identified \$682 in purchases determined to be of a personal nature and not for a proper public purpose. Included in this amount is \$38 in purchases made by Mrs. Lee's husband, Ryan Lee, who was not a Township employee and was not authorized to make purchases on the Township's account. Personal items purchased included supplies, decorations and other miscellaneous items. Mrs. Lee did not pay the account in full each month and her personal use of the account resulted in late fees and finance charges totaling \$41 that were paid by the Township.

84 Lumber

In October 2012, Mrs. Lee opened a credit card with 84 Lumber in the Township's name. From February 2013 through March 2014, \$1,849 was charged to the account and paid by the Township. According to records obtained from 84 Lumber, Mrs. Lee and the Township's maintenance employee were both authorized buyers. The Township's maintenance employee stated Mrs. Lee maintained possession of the cards at all times.

We identified \$379 in purchases determined to be of a personal nature and not for a proper public purpose. Items purchased included wood paneling and aluminum siding used at Mrs. Lee's residence and Mrs. Lee's mother's residence. Mrs. Lee did not pay the account timely and her personal use of the card resulted in late fees and finance charges totaling \$54 that were paid by the Township. Eventually the account was turned over to 84 Lumber's collection department and Mrs. Lee wrote Township checks to pay off the card.

Tractor Supply Company (TSC)

From February 2013 through April 2016⁵, \$3,732 was charged to the Township's credit card with TSC and ultimately paid for by the Township. Mrs. Lee and the Township's employee were both authorized buyers; however, Mrs. Lee maintained possession of the cards at all times.

We identified \$1,551 in purchases determined to be of a personal nature and not for a proper public purpose. Items purchased included clothing, food, pet products and other miscellaneous items. Although the account frequently carried a balance, TSC did not charge late fees or finance charges to the account.

Rural King

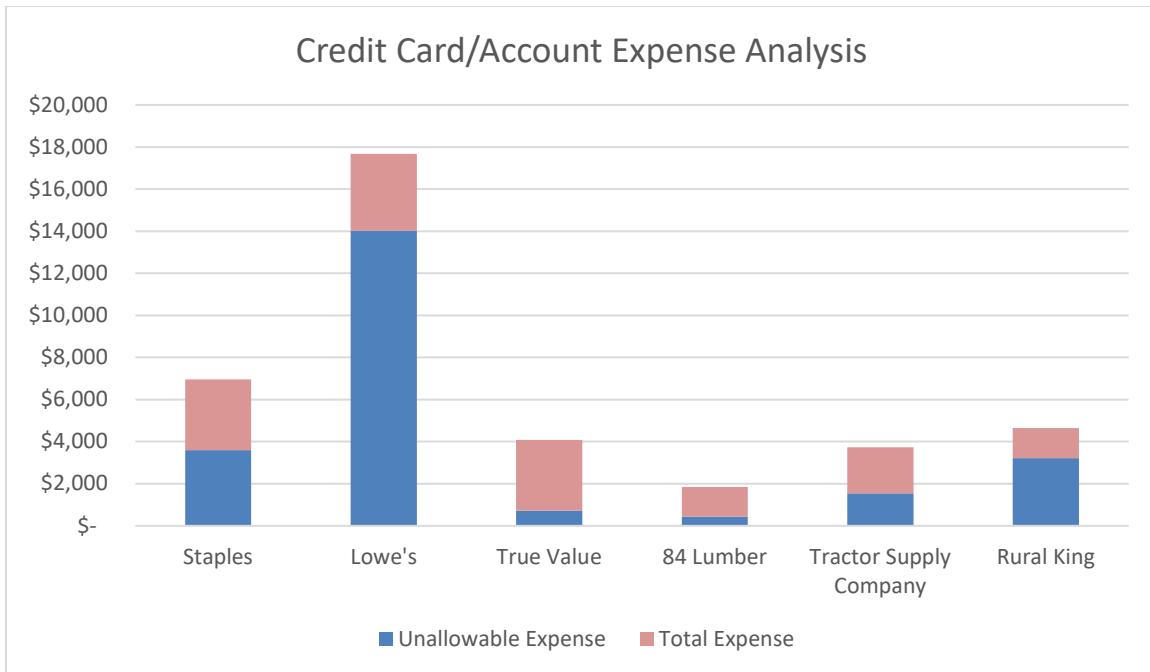
In April 2013, Mrs. Lee opened a credit card with John Deere Financial, the financial institution that handles credit cards for Rural King. From April 2013 through October 2015, \$4,640 was charged to the account. Mrs. Lee and the Township's maintenance employee were both authorized buyers; however, Mrs. Lee maintained possession of the cards at all times.

We identified \$3,221 in purchases determined to be for a personal nature and not for a proper public purpose. Items purchased included a riding lawn mower (seized during the search warrant executed at Mrs. Lee's mother's residence), clothing, food, pet products and other miscellaneous items. Although the account was not paid timely, John Deere Financial did not charge late fees or finance charges to the account. Mrs. Lee made one payment from personal funds totaling \$1,700; the remaining \$1,521 in personal purchases charged to the card was paid by the Township.

Mrs. Lee's personal use of the various Township credit cards and accounts resulted in \$21,627 charged to the cards for personal items that were ultimately paid for by the Township. Some of these personal items purchased were identified during the search warrant executed at Mrs. Lee's residence and Mrs. Lee's mother's residence. In addition, Mrs. Lee issued Township checks totaling \$210 to pay for late fees and finance charges related to the Township credit cards carrying balances and statements that were paid late.

⁵ Although our Period was through March 31, 2016, we reviewed the April 2016 TSC credit card statement to ensure any purchases made by Mrs. Lee or Township 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



Township Check issued to Renaissance Hotel

In June 2015, Mrs. Lee wrote a Township check to the Columbus Renaissance Hotel to pay for her lodging while attending three days of UAN training in Columbus. We reviewed meeting minutes and accounting records and found the Township voted to purchase a new accounting system in January 2015 and issued two checks to Governmental Systems in July 2015.

In addition, we reviewed training records and noted Mrs. Lee informed UAN in May 2015 that the Township would be leaving UAN. We also noted per the UAN training records that Mrs. Lee was not scheduled to attend training on June 24, 2015; Mrs. Lee was scheduled to attend UAN training on June 25-26, 2015 and registered as attending for the Authority. UAN records indicated Mrs. Lee called UAN support and stated she was in a car accident and would not be attending training on Thursday, June 25, 2015. The hotel is located across the street from the Auditor of State's Office where the UAN training was held, which does not require car travel. A search of police and insurance reports did not indicate Mrs. Lee was in a car accident on this date. Mrs. Lee did attend UAN training Friday, June 26, 2015, but the training ended early in the afternoon and would not have required an evening stay.

Since the Township had voted to replace UAN with Governmental Systems, and since Mrs. Lee only attended one day of UAN training, which was on behalf of the Authority and not the Township, the disbursement to the Hotel of \$772 was considered not to be for a proper public purpose.

Payroll Disbursements to Dawn Lee

We examined payroll checks issued to Mrs. Lee during the Period and applicable supporting documentation to determine the purpose of the payments.

Ohio Rev. Code § 507.09 governs fiscal officer salaries based on the annual budget of the township and states that compensation shall be paid in equal monthly payments. Fiscal officers are not entitled to payroll payments outside of this monthly salary. Based on York Township's annual budget, the following table lists the compensation to be paid to the Fiscal Officer each month:

Supplement to the Fraud Examination Report

<u>Year</u>	<u>Budget</u>	<u>Annual Salary</u>	<u>Monthly Salary</u>
2013	\$ 419,927.34	\$ 12,733.00	\$ 1,061.08
2014	\$ 419,927.34 *	\$ 12,733.00	\$ 1,061.08
2015	\$ 419,927.34 *	\$ 12,733.00	\$ 1,061.08
2016	\$ 419,927.34 *	\$ 13,370.00 **	\$ 1,061.08

* - The Fiscal Officer did not prepare a budget for 2014, 2015 or 2016. Therefore, we based the Fiscal Officer salary on the 2013 Township budget.

** - Only township officials elected or appointed after September 29, 2015 are entitled to the increase for 2016. Therefore, the current Fiscal Officer's salary for January 1, 2016 through March 31, 2016 would remain at \$1,061.08 per month.

Mrs. Lee was authorized to receive \$1,061 each month per Ohio Rev. Code §507.09 for a total of \$41,382 during the Period (39 months). However, Mrs. Lee received \$56,237 in payroll disbursements, for a total of \$14,855 in excess of the amount authorized.

We determined all checks written to Mrs. Lee during 2013 and 2016 for payroll were in accordance with Ohio Rev. Code § 507.09. We identified several checks written by Mrs. Lee for additional pay in 2014 and 2015. We selected all 36 payroll disbursements from 2014 and 2015 totaling \$40,321 for further examination. The following issues were found:

- We identified five disbursements from 2014/2015 totaling \$6,366 determined to be duplicate/over payments and therefore, were not for a proper public purpose. Of these five duplicate/over payments, one included two months' salary and three were missing documentation supporting the disbursement. A sixth disbursement paid in December 2015 totaling \$1,061 indicated the check was for November and December 2015 salary. The check memo included a note that since one month had already been paid, this check would include only one month's salary. We were unable to determine which of the overpayments noted above were considered to be previously paid by the Fiscal Officer. Therefore, we reduced the total duplicate/over payments by this amount, resulting in total duplicate/over payments of \$5,305.
- We identified seven disbursements totaling \$8,489 paid to Mrs. Lee for work outside of her Fiscal Officer duties, including renovating the Township Hall, prepping the Township Hall for oil/gas meetings, or for working on the Township's float for the Village of Powhatan Point's Christmas parade. Of the seven disbursements, four were missing documentation supporting the disbursement. According to Township Trustees, Mrs. Lee was not authorized or approved to be paid for these activities, and even told the Trustees that she was donating her time spent renovating the Township Hall. Therefore, we determined these disbursements were not for a proper public purpose.

Included in the seven disbursements noted above was check number 5215 with memo "Reimbursement" which stated that it was for "tires for truck and postage." However, only one receipt was attached totaling \$16. We also noted the check equaled exactly two times the Fiscal Officer's monthly net salary. Therefore, we determined this to be a payroll check and not a reimbursement.

- We identified one disbursement totaling \$1,061 (check number 5257) missing the check stub and supporting documentation. Therefore, we were unable to determine if the check was for a proper public purpose.

While testing Mrs. Lee's payroll disbursements, we noted amounts were withheld for Federal and State taxes. We reviewed the check registers and bank statements to determine whether withholdings were remitted in accordance with 26 U.S. Code §3402(a)(1), Internal Revenue Service Publication 15, and Ohio

Supplement to the Fraud Examination Report

Rev. Code §5747.07(B)(4). Mrs. Lee did not remit Federal withholdings to the Internal Revenue Service for calendar year 2013 until March 28, 2014; calendar year 2014 withholdings were not remitted until June 5, 2015 (including a \$75 levy fee); and calendar year 2015 were not remitted until March 22, 2016. Withholdings for the first three months of 2016 had not been remitted by the end of March 2016. In addition, Mrs. Lee did not remit any State withholdings to the Ohio Department of Taxation during the Period.

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 false returns for 2013 and 2015. In 2013 and 2015, Mrs. Lee failed to report the “contractor” pay Mr. Lee received from the Township. Also in 2015, Mrs. Lee failed to report any income received from the Authority for herself or for Mr. Lee.

FINDING FOR RECOVERY REPAID UNDER AUDIT

Dawn Lee

Dawn Lee served as Fiscal Officer for the Township and was responsible for receiving any requests for reimbursement, preparing disbursement and payroll checks, presenting the checks and supporting documentation to the Township Trustees for signing at the Township Trustee meetings, ensuring Township credit cards/accounts were paid timely, and recording accounting transactions into the Township’s accounting system. Mrs. Lee also maintained possession of several credit cards issued in the name of the Township. The Township does not have an office space, so Mrs. Lee worked out of her home.

During the Period, Mrs. Lee received payments totaling \$27,658 for reimbursements that were not for a proper public purpose. The disbursements were either unsupported, and therefore the purpose could not be determined, or included items of a personal nature, such as food, furniture, and miscellaneous items. Mrs. Lee also received duplicate reimbursements totaling \$4,709 for items paid for using the Township’s credit cards in which the Township paid the account statement.

Mrs. Lee issued seven Township checks totaling \$2,662 to her mother, Irma Shreffler, for miscellaneous labor and reimbursements. The checks were deposited into an account Mrs. Lee jointly held with Ms. Shreffler and Ms. Shreffler did not access the account. Ms. Shreffler was not a Township employee and therefore was not authorized to make purchases on behalf of the Township and seek reimbursement. The only documentation supporting the labor payments were Mrs. Lee’s handwritten notes indicating Ms. Shreffler provided part-time help to the Township’s maintenance employee. The Township maintenance employee prepared detailed timesheets each pay period, and none of the timesheets indicated assistance provided by Ms. Shreffler, nor were timesheets located for Ms. Shreffler. In addition, Township Trustees did not authorize Ms. Shreffler to provide assistance at the Township and the Township maintenance employee stated Ms. Shreffler did not provide assistance to him.

From December 2012 through April 2016, Mrs. Lee charged \$21,627 for personal related purchases on the Township’s and Authority’s various credit cards that were paid for using Township funds. Items purchased included furniture and hardware, computer equipment, household appliances, a riding lawn mower, decorations, clothing, food, pet products and other miscellaneous items. Some of these personal items purchased were identified and seized during the search warrant executed at Mrs. Lee’s residence and Mrs. Lee’s mother’s residence. In addition, Mrs. Lee issued Township checks totaling \$210 to pay for late fees and finance charges related to the Township credit cards carrying balances and statements that were paid late.

Mrs. Lee issued a Township check to the Columbus Renaissance Hotel to pay for lodging while attending three days of training on the Auditor of State’s Uniform Accounting Network (UAN) in June 2015. Township Trustees had already voted in January 2015 to replace UAN with another accounting system and Mrs. Lee had stopped using UAN in 2014. In addition, Mrs. Lee registered as attending on behalf of the Authority, not the Township, and attended only one of the three days. Therefore, the disbursement to the Hotel of \$772 was determined not to be for a proper public purpose.

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Ohio Rev. Code § 507.09 governs fiscal officer salaries based on the annual budget of the township and states that compensation shall be paid in equal monthly payments. During the Period, Mrs. Lee was authorized to receive \$1,061 per month based on the Township's budget and should have received a total of \$41,382 for the Period. However, Mrs. Lee received \$56,237 in payroll disbursements during the Period; an excess of \$14,855 per the amount authorized. We identified five duplicate payments totaling \$5,305 and one disbursement totaling \$1,061 missing supporting documentation. In addition, we identified seven disbursements totaling \$8,489 for work outside of Mrs. Lee's Fiscal Officer duties. This other work included renovating the Township Hall, prepping the Township Hall for oil/gas meetings and for work on the Township's float for a Christmas parade, as well as, a disbursement classified as a "reimbursement" but equaled two times Mrs. Lee's monthly net salary and was therefore determined to be a payroll disbursement. Township Trustees stated Mrs. Lee informed them that she was donating her time spent renovating the Township Hall and was not authorized to receive compensation for this work.

Finally, due to Mrs. Lee's untimely remittance of federal withholdings for 2014, the Internal Revenue Service assessed a \$75 levy fee, which was paid by the Township.

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 against Dawn Lee in the amount of \$72,568 and in favor of York Township.

Ryan Lee

Ryan Lee was not an employee of York Township. Although Township Trustees had approved Mr. Lee to be on a list to call for snow removal assistance, Trustees did not call Mr. Lee for assistance during the Period. Trustees indicated Mr. Lee did volunteer his time to help replace a Township Hall door; however, he was not authorized to be paid for this.

During the Period, Mrs. Lee issued 30 Township checks totaling \$17,895 to her husband, Ryan Lee, for labor, snow removal, grass cutting and miscellaneous reimbursements. Mr. Lee was not a Township employee and therefore was not authorized to make purchases on behalf of the Township and seek reimbursement. Mr. Lee was on a list to provide assistance for snow removal, but required Trustee approval prior to being called to assist; Trustees stated they did not give approval for the payments during the Period. Trustees also stated Mr. Lee was not authorized to mow grass at the Township's cemeteries or provide other assistance to the Township's maintenance employee. The only documentation supporting these payments were handwritten notes prepared by Mrs. Lee. The Township maintenance employee prepared detailed timesheets each pay period, and none of the timesheets indicated assistance provided by Mr. Lee, nor were timesheets located for Mr. Lee.

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 against Ryan Lee in the amount of \$17,895 and in favor of York Township.

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."

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During the Period, the Township did not have a records retention policy or schedule of records destruction. Documentation supporting disbursements to the Fiscal Officer, the Fiscal Officer's relatives and other vendors was not always maintained with the corresponding check stub, was not able to be located, or was not maintained in its original form.

- 62 reimbursement transactions paid to the Fiscal Officer were missing supporting documentation.
- For 12 reimbursement transactions to the Fiscal Officer, documentation supporting the transaction was altered. Receipts for an additional five transactions had the bottom of the receipt tore off, but payment information remained.
- All non-payroll disbursements paid to the Fiscal Officer's husband and mother for miscellaneous labor, snow removal, and grass cutting were missing supporting documentation or were supported only by a check stub and handwritten notes by Mrs. Lee.
- 10 payroll disbursements were missing supporting documentation.

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 Township develop and implement a records retention policy and schedule of records destruction. In addition, we recommend the Township take measures to ensure all records are adequately maintained and safeguarded in their original form.

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 15th 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 Township's annualized withholdings, the Township was required to remit federal tax withholdings monthly and remit state tax withholdings quarterly. The Fiscal Officer did not timely remit federal withholdings to the Internal Revenue Service for calendar years 2013, 2014, 2015, or the first three months of 2016. The Township was assessed a \$75 levy fee in June 2015 related to the untimeliness of the calendar year 2014 withholding remittance. Additionally, the Fiscal Officer did not remit any state withholdings to the Ohio Department of Taxation during the Period. The Township does not have a policy regarding the timely remittance of taxes withheld from employee paychecks.

Failure to timely remit payroll withholdings resulted in late fees and penalties assessed against the Township after the conclusion of and as a result of our investigation.

We recommend the Township 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).

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1099's

26 CFR § 1.6041-1 states, in part, that employers file 1099 forms for all independent contractors that received \$600 or more for the year.

The Township paid "contractor" pay to Ryan Lee and Irma Shreffler in excess of \$600 in a calendar year during the period; however, no 1099's were issued nor were any taxes withheld.

Failure to issue a 1099 to independent contractors leads to risks regarding improper filing of income taxes.

We recommend the Township file 1099 forms for all independent contractors that receive over \$600 in a calendar year and have a procedure in place to ensure these contractors are properly identified.

Trustee Oversight of Disbursements

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 Trustee's oversight of the disbursement cycle:

- Signatures of at least two Trustees were required on checks. However, Trustees did not require supporting documentation to be attached to checks prior to signing, including purchase orders, invoices or original receipts. Not requiring documentation to be attached to checks and be maintained made it difficult to determine whether transactions were related to the operations of the Township and were authorized by the Trustees. The Fiscal Officer wrote reimbursement checks to herself for items determined to be of a personal nature and for items that were already paid for by the Township and/or Authority. In addition, the Fiscal Officer wrote checks to herself for amounts in excess of the salary authorized.
- Policies did not exist outlining what Township employees are eligible to seek reimbursement for or spending limits for the Township's involvement in community activities (i.e., Christmas parade float).
- Trustees did not consistently receive monthly financials detailing receipts and expenses. Financials the Trustees did receive were not complete and accurate.
- Trustees authorized the Fiscal Officer to acquire a new accounting software system during the Period. However, Trustees failed to monitor the Fiscal Officer's use of the systems.

As Fiscal Officer, Mrs. Lee was responsible for preparing and presenting at the Township Trustee meetings monthly financials detailing the receipts collected and expenses to be paid. Trustees indicated Mrs. Lee seldom provided this information, and on the occasions the information was provided, it was not accurate and was in a different format from the previous format received. Mrs. Lee was also responsible for providing checks to be signed by the Trustees. Trustees stated they would inquire about checks missing supporting documentation, but ultimately signed the checks without it attached. Trustees placed a lot of trust in Mrs. Lee and assumed she was doing her job correctly.

Because the Trustees signed checks for payment without the necessary documentation supporting the disbursement, Mrs. Lee was able to obtain reimbursement for personal items, items already paid for by the Township and/or Authority, amounts spent in excess of Trustees expectations for the Township's involvement in community activities, and amounts in excess of her authorized salary. Because the Trustees did not hold Mrs. Lee accountable for the lack of complete and accurate financial information at Township Trustee meetings, the theft Mrs. Lee was committing was not timely detected. The lack of Trustee familiarity with the accounting system aided in the concealment of Mrs. Lee's theft.

We recommend the Trustees require and review supporting documentation prior to signing checks, including purchase orders, invoices, and/or original receipts. We also recommend Trustees receive documentation showing the Township's monthly financial position and a list of bills to be paid including the check number, payee, date and amount paid. Further, the Township President and Fiscal Officer should sign each page of the listing evidencing review and approval of the Township's expenses. We also recommend the Township develop a policy detailing the Township's involvement in community activities

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and spending limits associated with those activities, as well as a policy outlining what employees are able to seek reimbursement for. Finally, the Township should educate itself on the accounting software systems.

Segregation of Duties

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 person handles all aspects of the accounting functions.

The small size of the Township did not allow for an adequate segregation of duties as the Fiscal Officer performed all accounting functions. Therefore, it is important that the Township Trustees have compensating controls in place to monitor financial activity closely.

Lack of segregation of duties allowed the Fiscal Officer the opportunity to commit and conceal her theft. Proper management oversight over the accounting system can lead to more timely detection should fraud or theft occur.

We recommend the Trustees take an active role in the operations of the Township 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 Trustees should document the review and approval of the financial information and maintain this 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 Township 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 Township purposes. It is management's responsibility to monitor these control procedures to ensure they are operating effectively and as intended.

Resolution 08-21-06 allows Township employees use of Township credit cards for legitimate purposes only. The resolution further documents specific allowable expenses, and states each department will maintain control of its own cards, personal use of the cards is prohibited, itemized receipts are required for all purchases and that the card will be paid monthly – late charges and/or finance charges are prohibited.

Although the Township had a written policy regarding credit card usage, documentation requirements and restrictions, it appears the Township did not monitor the credit card activity for compliance with the policy. Mrs. Lee maintained possession of all the credit cards, allowed her husband use of one of the credit accounts, made personal purchases on the cards, did not maintain all receipts in original form, and did not pay the credit card statements monthly, incurring late fees and finance charges.

The lack of Township monitoring of Township credit cards and lack of review of credit card statements resulted in double payments, personal purchases, purchases made by non-Township personnel, and the assessment of late fees and finance charges ultimately paid for by the Township, all of which are against Township policy.

We recommend the Township review the credit card policy with Township employees. We also recommend the Township Trustees review credit card statements for compliance with the policy. Finally, we recommend the Township consider the following provisions for inclusion within the policy:

- Limits on the amount a cardholder can spend;
- Establish on-line monitoring for credit card transactions;
- A requirement that cardholders cannot benefit through any type of awards program offered in connection with credit card use (e.g., frequent flier miles).

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OHIO AUDITOR OF STATE KEITH FABER



YORK TOWNSHIP

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**