

Best Practices

Lessons Learned

How Some Ohio Governments Strengthened Practices and Policies in the Aftermath of Fraud

By Steve Faulkner - Public Affairs Staff Writer



IN THIS ISSUE

1 Lessons Learned

How Some Ohio Governments Strengthened Practices and Policies in the Aftermath of Fraud

2 Letter from Auditor of State Mary Taylor, CPA

3 Protecting Public Tax Dollars

Nine Tips for Preventing Bank Account Fraud in Government

4 Spotlight: House of Cards

How a Strong Policy Can Keep the Roof from Falling In

5 Bad Fortune Leads to a Best Practice

6 Online and On Sale

A New Best Practice Provides Revenue Boost to One Ohio County

Many crooks are simply manipulating bank accounts to commit their fraud. From a fiscal clerk who wrote herself additional paychecks, to a port authority director who used a bogus bank logo to forge monthly account statements, the face of fraud can change dramatically from one case to the next.

Some local government offices in Ohio have learned difficult lessons from crimes like these and have adopted new policies and procedures to help ensure they are never victimized again.

The village of Lockland in Hamilton County is a prime example. On August 19, 2008, Ohio Auditor of State Mary Taylor released the final report of a special investigation detailing how two village employees committed completely separate crimes to embezzle more than \$315,000 from local taxpayers.

One of those employees, former village Payroll Clerk Debra Reynolds, wrote herself additional

payroll checks totaling \$128,016 over a two-year period. She pleaded guilty to theft in office, was sentenced to five years probation and ordered to pay restitution. The second employee, former Mayor's Court Clerk Dana Mynatt, stole \$188,481 in fines paid to the court but never deposited.

"You have to trust the people you work with, but you have to double check the work of the people you work with as well," said Krista Blum, finance manager for the village of Lockland.

Since the theft, village Administrator David Krings, who

Continued on page 2



Dear Colleague,

Best Practices, the title of our quarterly communication, comes from a professional term many of us have used for years. This is a term in transition, however, as we see increasing reference to *leading practices*, a new and more forward-looking description for much the same concept.

Either term can be defined as recommended practices or policies that have proven their value in the best possible way: they work! Whether we call them *best* or *leading*, these are practices that others have used with success and can confidently recommend to others. Less important is what these practices are called, only that they are used or adapted to fit your particular situation. We hope you will find this issue of *Best Practices* lives up to its name.

Sincerely,

Mary Taylor, CPA
Ohio Auditor of State

Lessons Learned: How Some Ohio Governments Strengthened Practices and Policies in the Aftermath of Fraud

Continued from page 1

first alerted the Auditor of State's office of his suspicions, ordered a top-to-bottom review of the policies and procedures in place to safeguard public tax dollars.

"We've tightened up our policies in general," Krings said. "There are at least two sets of eyes on all transactions. We weren't doing an adequate job of that in the past."

Krings now personally reviews all village checks. He receives unopened bank statements and randomly picks certain transactions to scrutinize for more information.

"We did a sweeping review of our policy manual and instituted new policies covering everything from cell phones to purchase orders."

T. J. Justice - Coshocton Port Authority

Nearly 175 miles from Lockland, the former executive director of the Coshocton Port Authority was forging bank statements to cover up his theft. On April 10, 2007, Auditor of State Mary Taylor released details of a scheme former director, Edmund Flynn, used to make illegal credit card charges for personal medical payments, college tuition payments, jewelry, flowers and personal travel expenses totaling more than \$64,000.

Flynn was charged with theft in office, sentenced to serve one year in prison and ordered to pay more than \$83,000 in restitution, which included the cost of the Auditor of State's investigation.

When T. J. Justice was hired as the new executive director of the Coshocton Port Authority, he had to clean up Flynn's mess and restore the community's trust in the port authority.

"We did a sweeping review of our policy manual and instituted new policies covering everything from cell phones to purchase orders," Justice said. "We are now operating in a much more transparent mode with proper safeguards in place."

A few of those safeguards include:

- Eliminating the port authority's credit card
- Making bank reconciliations available to board members at monthly meetings
- Requiring port authority board members to sign each check issued

On February 27, 2009, the Government Finance Officers Association's (GFOA) executive board produced and published a recommended model policy to prevent bank account fraud in government. According to the GFOA, "Advances in technology have reduced the effectiveness of traditional fraud prevention techniques and have even enabled

new forms of fraud.” But there are ways to improve oversight.

Krings and Justice are doing exactly what the GFOA recommends. With the overhaul of their individual

policy manuals in place, they have provided taxpayers with additional protection against fraud, but their examples serve as cautionary reminders that fraud can strike most anywhere. ■

Protecting Public Tax Dollars

Nine Tips for Preventing Bank Account Fraud in Government

1. Conduct periodic surprise audits and annual reviews of procedures.
2. Provide for the physical security of all checks:
 - Maintain check images in preference to paper copies.
 - Keep check stock in a locked and secure location with a formal inventory listing maintained.
 - Secure check stock daily. Remove continuous check stock from printers. Lock and secure check specific printers.
 - Physically void returned checks and check copies, and retain in a locked and secure location or destroy on a schedule.
 - Provide for the temporary physical security of electronically deposited checks, including storage in a secure facility, timely destruction via secure shredding and incineration, and dual control of the process. (The depositing government is liable for any fraudulent usage of these checks.)
3. Ensure appropriate security over signature plates, cards and software.
4. Require additional review process for all checks over a specified amount.
5. Require two-party authorizations (initiation and release) on all wires and ACH files.
6. Require daily staff reconciliation of wires and ACH releases.
7. Ensure proper segregation of duties among staff initiating, authorizing, preparing, signing and mailing payments and reconciling bank statements.
8. Review signature cards and authority levels whenever any changes occur and annually at a minimum.
9. Remove individuals from bank transaction authority immediately upon resignation or termination.

[Source: Government Finance Officers Association, <http://www.gfoa.org/downloads/bankaccountfraudcash.pdf>]

Help Mary Taylor Fight Fraud

Every year, Auditor of State Mary Taylor identifies millions of public dollars – *your tax dollars* – which would have been lost to fraud, waste or misuse.

You can help fight this abuse by reporting any suspicions of fraud to the Auditor of State’s toll-free hotline or special fraud-reporting Web site.

Make Your
Tax Dollars Count
Report Government Fraud

866-FRAUD-OH
(866-372-8364) toll-free



SPOTLIGHT:

House of Cards

How a Strong Policy Can Keep the Roof from Falling In



By Jeannie Foley - Public Affairs Staff Writer

In an effort to be more efficient, government agencies are using credit cards more and more to make small purchases. The use of credit cards reduces costs and delays associated with the traditional purchasing process. However, while these cards can decrease administrative costs, they also open the door for the possibility of fraud, waste, or misuse of public money.

One recent example can serve as a warning. In 2007, the Ohio Auditor of State Mary Taylor's office received a call on its fraud hotline (866-FRAUD-OH) regarding possible fraud involving the treasurer of Loveland City Schools, near Cincinnati. During the follow-up investigation and special audit, the Auditor of State documented nearly \$20,000 worth of inappropriate charges on the school district's credit card account. Late last year, the former treasurer pleaded guilty to felony charges of theft in office and is required to pay back more than \$50,000 in restitution and court costs.

The investigation showed a lack of internal controls that made

the theft possible. The monthly statements of district credit cards were never reviewed, allowing the treasurer to make personal charges without oversight. Additionally, the district lacked written policies on appropriate spending limits for district related activities such as travel related expenses for meetings.

According to a Government Accountability Office (GAO) report, weak internal controls, insufficient training of card holders and ineffective monitoring of card use are the primary contributors to an environment where card holders are able to make questionable or fraudulent purchases. Because of these dangers, it is imperative that

local governments be proactive and develop strong internal controls that minimize opportunities for theft.

Bob Wilhelm, chief auditor of the Ohio Auditor of State Mary Taylor's Cleveland region, says that committing to these policies is more than half the battle. It is easy to adopt a policy, but without firm commitment and oversight, the policy on its own will do little to prevent credit card abuse.

“Don't let your policy manual sit on the shelf and collect dust. Take a proactive but manageable approach to updating and reviewing policies.”

Mark Pepera - Westlake City School District

Wilhelm points to the Westlake City School District, near Cleveland, which has been

proactive in its development of sound credit card policies. Mark Pepera, the district's chief financial officer and treasurer, says that the district's credit card policies were implemented in 2004.

"Our policies are reviewed as needed, but at a minimum on a quarterly basis," Pepera said. "This allows the district to ensure policies are continuing to meet the needs of the community."

As governments move toward a less paper-based and more efficient business model, credit cards are likely to become increasingly common in daily activity for local governments and school districts in Ohio.

According to Pepera, the policies were developed using multiple sources, including the Auditor of State's office, the Ohio Association of School Business Officials and the Ohio School Board Association. Westlake City Schools also benchmarked its policies against other districts that have similar demographics and operational procedures.

One of the key controls Westlake has adopted includes a monthly review of statements to monitor for potential fraud. Also, if an

individual is using a credit card, they are required to sign it in and out from the treasurer's office so activity during that period can be monitored.

Pepera explains there are multiple layers of oversight in place to prevent any individual from having

uncontrolled power over the use of credit cards in the district. Purchase orders are used to approve expenses prior to using the credit cards, and these are reviewed by both the treasurer and the district

Continued on page 7

Bad Fortune Leads to a Best Practice

Two years after requesting a special audit of the school district's finances, Superintendent Dr. Kevin Boys and the Loveland City School District Board of Education have worked to develop policies and procedures that will help prevent the future theft of public funds.

The new controls include a reduction of credit cards in the district, requiring two signatures to approve payment of credit card purchases and adhering to government standards of per diem costs for food and lodging.

The district now has an audit committee which meets with the superintendent and treasurer on a monthly basis to monitor the controls that are in place. This allows the district to continually ensure their policies are current and effective.

"Take a look at the controls you have, test the controls, and seek advice on how to strengthen them," Dr. Boys urges. "Expend the effort upfront to prevent fraud. Realize that it can and does happen in schools, government and business."

Creating a work environment that lets individuals feel comfortable

reporting legitimate suspicions of fraud is also an important way to protect your agency. Dr. Boys suggests passing a whistleblower policy and making sure that it is clearly communicated to employees.

Lastly, do not hesitate to call the Ohio Auditor's office if you have good reason to suspect fraud has taken place. Dr. Boys acknowledges that a special audit can be a difficult and time consuming process, bringing unwanted publicity on your organization; however, he maintains that "it is all about the public trust and being stewards of public dollars. Doing the right thing, in the end, is the very foundation of restoring the public trust."

The special investigations unit at the Auditor of State's office can be reached through the fraud hotline at 866-372-8364 or online at www.auditor.state.oh.us. ■

Strategies and Solutions

For Local Governments in a Time of Fiscal Crisis

Presentation materials from Auditor of State Mary Taylor's **Summit on Local Government Sustainability**, held November 19 in Columbus, are now **available online**.

For those unable to attend or participants who wish to review program highlights, visit the Auditor of State's Web site:

www.auditor.state.oh.us/conferences

Best Practices

Now Available Online

If you have the ability, we encourage you to sign up for the online version of *Best Practices* by e-mailing bestpractices@auditor.state.oh.us.

However, we will continue to distribute *Best Practices* by mail if that is your preference.

Also, in our effort to eliminate duplicate and outdated addresses, please take a moment to update your contact information at bestpractices@auditor.state.oh.us.

Questions? Contact the Auditor of State's Public Affairs Division at 614-644-1111

Online and On Sale

A New Best Practice Provides Revenue Boost to One Ohio County

By Steve Faulkner - Public Affairs Staff Writer

Most counties in Ohio ship obsolete items such as old desks, chairs and computers to out-of-the-way warehouses and storage rooms.

There, they are often left to gather dust, lose value and sit neglected for months – sometimes years – at a time. But that's not the case in Montgomery County, where Purchasing and Central Services Director Roy Sigriz is using the internet to sell used county merchandise at a premium.

"The results have just been astonishing," Sigriz said.

In 2001, Sigriz worked with the County Commissioners Association of Ohio to lobby the legislature for a change in state law that would allow him to sell Montgomery County's obsolete and outdated furniture and equipment on the internet. Prior to that, Ohio law required local governments to sell used items by public auction or sealed bids, often only once or twice a year. Sigriz says that approach attracted mostly scrap dealers and flea market operators.

Montgomery County is the first county in Ohio to implement this "best practice." According to Sigriz, the county made \$260,000 in the first 12 months after switching to internet sales in 2002. Since then, the county has made more than \$4 million. In the three years prior to



Sigriz's idea becoming a reality, the county had averaged sales of just \$82,000 a year.

Not only has Sigriz increased county revenues without a tax or fee increase, he has also reduced spending by eliminating handling costs and the need for additional warehouse space.

...internet shoppers from across the United States and Canada have bid on Montgomery County's obsolete items on www.govdeals.com

"In some cases we don't even have to move the items. If there's a copier in an office that becomes surplus, we can snap a digital picture of it, put it

on the internet and the person who buys it can pick it up directly from the office,” Sigriz said. “It’s win-win.”

Sigriz has sold items ranging from standard office equipment to fire trucks, street sweepers and everything in between. He even sold a John Deere front-end loader,

which was reduced to charred metal following a garage fire, for \$20,000.

“With some of the things like that, you just say, ‘Oh my gosh, I can’t believe it sold for that amount,’” said Sigriz.

Sigriz says internet shoppers from across the United States and Canada

have bid on Montgomery County’s obsolete items on www.govdeals.com. His idea has become so successful, the county has partnered with several local police and fire departments, cities, townships and villages – even Sinclair College – to sell their used goods the same way. ■

House of Cards

How a Strong Policy Can Keep the Roof from Falling In

Continued from page 5

superintendent. After a purchase has been made, itemized receipts are necessary and matched to the billing statements. According to Pepera, these are then double-checked, once by the payables clerk and then by the “check-run proofer.” Additionally, the superintendent has access to any of this information if there are questions about expenses.

Pepera suggests other entities revamp their policies on a regular basis. “Don’t let your policy manual sit on the shelf and collect dust,” Pepera said. “Take a proactive but manageable approach to updating and reviewing policies. It is important to keep in mind that many problems and issues can be avoided with solid policies and procedures.”

For those looking to improve their policies on credit card use, a number of helpful resources are available. The Government Finance Officers Association (GFOA) offers a recommended practice, which outlines both benefits and potential problems with using credit cards,

along with ways to protect agencies against fraud. Additionally, Ohio Auditor of State Mary Taylor provides services to help develop policies and procedures through the Local Government Services section of the office. Also, the Association of Government Accountants has published a four-part series regarding best practices for government credit cards (www.agacgfm.org).

As governments move toward a less paper-based and more efficient business model, credit cards are likely to become increasingly common in the daily activities of local governments and school districts in Ohio. Because of this, officials should act now to ensure that appropriate policies are in place and are followed to prevent fraud. For more information on appropriate policies and procedures, contact the Auditor of State’s Local Government Services at aoslgs@auditor.state.oh.us or 800-345-2519 or visit our Web site at www.auditor.state.oh.us. ■

Report Federal Stimulus Dollars

Ohio Auditor of State Mary Taylor is requiring all state and local government agencies to report any federal stimulus dollars they receive, as well as their expenditures of those funds, to her office.

Each organization is solely responsible for the accuracy and completeness of data submitted to the Ohio Stimulus Tracker.





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