



**CITY OF GROVE CITY
FRANKLIN COUNTY**

SPECIAL AUDIT

FOR THE PERIOD JANUARY 1, 2004 THROUGH DECEMBER 31, 2010



Dave Yost • Auditor of State

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	3
Supplement to the Special Audit Report	
Background	5
Objective No. 1 – Examination of Payroll Checking Account	6
Objective No. 2 – Examination of Non-payroll Checking Accounts	10

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Steven Robinette, Chief of Police
City of Grove City
Grove City Division of Police
3360 Park Street
Grove City, Ohio 43123

We conducted a special audit of the City of Grove City (City) by performing the procedures described in the attached Supplement to the Special Audit Report for the period January 1, 2004 through December 31, 2010 (the Period) solely to:

- Identify the source of funds deposited to the City's payroll checking account during the Period. We also examined disbursements and withdrawals from the account to determine whether funds were withdrawn from the account during the Period for purposes related to the operations of the City.
- Determine whether transfers, withdrawals and certain disbursements from the City's non-payroll checking accounts during the Period were made for purposes related to the operations of the City.

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

1. We examined deposits to, and disbursements and withdrawals from, the City's payroll checking account.

Significant Results - As payroll specialist, Jacqueline Kincade was responsible for preparing payroll disbursements to City employees. During the Period, Ms. Kincade received 26 disbursements totaling \$67,799 in excess of her approved compensation. We also noted 54 instances where payroll account deposits did not agree to payroll register reports.

We issued a finding for recovery against Ms. Kincade for public monies illegally expended in the amount of \$67,799. Ms. Kincade became the payroll specialist in June 1987. Lack of sufficient, reliable, and complete City and bank financial records precluded examining transactions prior to January 1, 2004, to identify additional payments to Ms. Kincade in excess of her approved compensation.

We issued three management comments related to separation of duties and internal controls within the finance department, deposits to the payroll account and employee records.

2. We examined transfers, withdrawals and certain disbursements made from the City's non-payroll checking accounts.

Significant Results - We noted ten unsupported electronic withdrawals totaling \$314,021 from the City's corporate checking account; however, through other means we corroborated the withdrawals were for purposes related to the operations of the City. We noted three vendors did not have contracts for services rendered, one of which was subject to contract bidding requirements. We also noted 12 purchase orders that were issued after the services were rendered and additional disbursements on a contract without an approved extension or change order.

We issued two management comments regarding lack of contracts and payment approvals and contract extensions.

3. On July 29, 2011, we held an exit conference with the following individuals representing the City:

Steven Robinette, Chief of Police
Phil Honsey, City Administrator
Michael Wasylik, Deputy City Administrator, Public Safety Director
Michael Turner, Finance Director

The attendees were given an opportunity to respond to this special audit report. A response was received on August 12, 2011. The response was evaluated and changes were made to this report as we deemed necessary.



Dave Yost
Auditor of State

May 12, 2011

Supplement to the Special Audit Report

Background

The City finance director contacted the Auditor of State's Columbus Region after discovering the City was delinquent in payment of federal withholding taxes. The finance director conducted a preliminary review and discovered additional state withholding taxes due and determined that payroll clerk Jacqueline Kincade had issued unauthorized payroll checks to herself over a period of several years.

The City police department executed a search warrant on Ms. Kincade's residence and recovered City documents and personal bank records to corroborate the unauthorized checks were deposited into her personal account. The checks were not recorded in the City's accounting system and were issued in amounts similar to her authorized biweekly compensation.

On January 13, 2011, the City police department requested a special audit of the City's finance department. On January 14, 2011, the Auditor of State initiated a special audit of the City of Grove City.

Supplement to the Special Audit Report

Objective No. 1 – Examination of Payroll Checking Account

Procedures

We examined deposits to the City's payroll account, traced checks written from the City's corporate checking account to the payroll account and examined documentation supporting the nature and source of other deposits to the payroll account.

We examined supporting documentation for disbursements and withdrawals from the payroll account to determine whether disbursements were for the operation of the City.

We examined documentation supporting compensation paid to payroll specialist Jackie Kincade and her family members employed by the City during the Period to determine whether each was compensated in accordance with authorized amounts.

We examined the leave and longevity payouts made to Ms. Kincade and her family members during the Period to determine if the payments were approved, accurately calculated and made according to City policies.

We compared the individuals who received payroll disbursements during the Period to lists of authorized City employees to determine whether any unauthorized individuals received compensation.

Results

During the Period, a total of \$68,799,285 was transferred from the City's corporate bank account to the payroll account for gross wages and the employer's share of FICA taxes. Payroll specialist Jacqueline Kincade was responsible for entering bi-weekly payroll information into the City's payroll database system to determine the amount to transfer for payroll expenses. Ms. Kincade requested checks to transfer the funds from the corporate account and prepared the deposits to the payroll account. All corporate account checks written to the payroll account were traced to deposits without exception.

During the Period, a total of \$768,957 was deposited to the payroll account from sources other than the corporate account. These payments represented refunds and payroll corrections.

During the Period, the City disbursed \$22,986,946 by check and \$48,171,482 by electronic withdrawals to non-employees from the payroll account. These disbursements were for federal, state and local taxes, and other employee withholdings. All disbursements to non-employees from the payroll account were considered to have been for the operations of the City.

As payroll specialist, Ms. Kincade was responsible for preparing and issuing payroll disbursements to City employees and was the primary custodian of the payroll account. Authorized compensation less withholdings for Ms. Kincade totaled \$314,695 for the Period. Ms. Kincade received \$382,494 during the Period, \$67,799 in excess of authorized amounts. Ms. Kincade's husband and daughter were also employed by the City at various times during the Period as a seasonal maintenance employee and summer lifeguard, respectively. Both individuals received the authorized amount of compensation without exception.

Ms. Kincade received \$11,495 in leave conversion and \$6,711 in longevity payments during the Period. All payments were approved, accurately calculated, and made in accordance with City policies. Ms. Kincade's husband and daughter did not receive leave or longevity payouts during the Period.

Supplement to the Special Audit Report

According to the City's payroll registers, 715 individuals received compensation during the Period. The City's human resources department did not maintain a master listing of employees with dates of service, including termination dates. The department relied in part on information contained in the payroll system and could not independently verify all individuals were authorized employees. Of the 715 employees identified as receiving compensation during the period, the City was unable to verify 225. Additionally, 33 individuals remained within the payroll system after they were no longer employed by the City. None of the 33 individuals identified received compensation after they were no longer employed by the City.

Finding for Recovery

As payroll specialist for the City, Jacqueline Kincade was responsible for payroll duties within the finance department. These duties included preparing, issuing and reconciling payroll disbursements to City employees. Ms. Kincade also had access to the City's payroll account and the ability to create and electronically sign manual checks. City Council authorized compensation for Ms. Kincade totaled \$314,695 during the Period. Ms. Kincade received \$382,494 during the Period, for a total of \$67,799 in excess of Council's authorized amounts. This amount was traced to 26 unauthorized checks made payable to Ms. Kincade and deposited in her personal account. There was no documentation to establish the checks were issued to Ms. Kincade for a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued in the amount of \$67,799 against Jacqueline Kincade in favor of the City of Grove City.

Management Comments

Separation of Duties/Internal Controls

We noted an inadequate separation of duties within the City's finance department regarding the processing and reconciliation of payroll. Each pay period, the payroll specialist created and used payroll register earnings reports to identify the total wage and federal tax amounts for the pay period and requested checks to transfer the funds from the City's corporate account to the payroll account. We noted 54 discrepancies totaling \$93,150 where the total wage and tax amounts recorded on the payroll register earnings reports were different than the deposited amount. The majority of the difference was a deposit of \$95,892 to the payroll account from the corporate account in April 2004 that was not supported by the payroll register earnings report. This amount was transferred back to the corporate account in July 2005. Due to the age of the transaction, the City could not provide documentation to explain or support the deposit.

Additionally, the payroll specialist was responsible for depositing the checks into the payroll account and preparing monthly reconciliations of the total checks paid on the account to the bank statements and payroll system. Variances between the statements and check reconciliation reports were noted by the payroll specialist on the report; however, no further examination of the variances was completed. There was no evidence of a review or approval of the monthly reconciliations by the finance director. The payroll account which should reconcile to a zero balance had balances from a low of \$120,754 in January 2004 to maximum of \$932,440 in November 2006.

We also noted other internal control weaknesses within the finance department. The City did not have formalized, written policies and procedures over the payroll and non-payroll disbursement processes. There was no documented review or approval by the finance director of the request, transfer or deposit of funds from the corporate account to the payroll account prepared by the payroll specialist.

Supplement to the Special Audit Report

Multiple individuals had access to the keys and computer instructions for the check signature machine and there was no log identifying users, the reason for check printing and the number of checks printed.

When errors occurred during the distribution of payroll checks that required a new check to be issued, the City voided the initial check and created a manual check for the correct amount or payee. The manual check was electronically produced and signed the same way as other payroll checks; however, manual checks could not be posted to the City's payroll system but only to the accounts payable system. There was no review or approval of the manual checks by the finance director before or after the checks were printed and signed. There was no log or record kept of manual checks disbursed from the payroll account.

The lack of segregation of duties can increase the possibility that errors or irregularities could occur and not be discovered in a timely manner. Not establishing internal controls can lead to payroll and non-payroll disbursements that are incomplete and processed inaccurately.

We recommend the City develop internal control procedures that promote an adequate separation of duties for the payroll process. Job duties should be separated between employees to strengthen controls, specifically separating the duties of identifying the total payroll amount for the pay period, preparing and approving the payroll deposit, and reconciling the payroll system to the payroll bank account. These procedures should also promote effective management oversight to ensure the payroll system is providing complete, accurate, and timely information.

We also recommend the City develop formal, written policies and procedures over the payroll and non-payroll disbursement processes. These policies should include procedures for the following:

- Reviewing and approving the transfer of payroll monies from the corporate account to the payroll account;
- Limiting access to the check signature machine and logging each time the check signature machine is used and by whom;
- Reviewing and approving manual checks processed;
- Reviewing and approving the monthly payroll reconciliation performed.

Deposits into Payroll Account

We identified eight deposits made to the payroll account during the Period totaling \$43,278 from various refunds and overpayments of dues, state retirement withholdings, employee gym memberships and the US Treasury. The refunds should have been deposited into the City's corporate account. The payroll account is funded from the corporate account for the purpose of distributing wages and withholdings. Deposits to the payroll account from other sources increases the risk that the funds will be unaccounted for or used for improper purposes.

We recommend the City implement procedures to ensure that only transfers from the corporate account are deposited into the payroll account and funds from other sources be deposited to the corporate account and properly recorded in the general ledger.

Employee Records

The City's human resources department did not maintain a master list of employees with dates of service, including termination dates. The department relied on information maintained by the finance department and payroll system. We identified 715 individuals in the payroll system who received compensation from the City during the Period. We inquired with the human resources department to verify the individuals were authorized employees. Of the 715 individuals identified, the department was unable to verify 225 due to lack of records. We also identified 33 individuals within the City's payroll system that were no longer employed by the City. None of the individuals received compensation after separation.

Supplement to the Special Audit Report

Failure to maintain a record of authorized employees independent from the finance department's payroll function and remove employees from the payroll system after separation increases the risk of individuals receiving unauthorized compensation.

We recommend the City's human resources department maintain a master list of all current and former employees with dates of service independent of the finance department and periodically reconcile the list with the payroll system. We also recommend the City develop policies and procedures to ensure all separated employees are promptly removed from the payroll system.

Supplement to the Special Audit Report

Objective No. 2 – Examination of Non-payroll Checking Accounts

Procedures

We examined transfers and withdrawals of funds from the City's non-payroll checking accounts to determine whether the funds were transferred into other City accounts or withdrawn for purposes related to the operations of the City.

We examined certain disbursements from the non-payroll accounts to determine whether the disbursements were for the operation of the City.

Results

During the Period, the City maintained the following seven non-payroll bank accounts:

- Corporate Account
- Sweep Account
- Bond Proceeds Account
- Mayor's Court Account
- Mayor's Court Bond Account
- Parks and Recreation Refund Account
- Parks and Recreation Umpire Account

The City's finance department controlled the corporate, sweep and bond proceeds accounts. As payroll specialist in the finance department, Ms. Kincade had access to each of these three accounts. Access to the Mayor's Court and Parks and Recreation accounts were controlled by those departments. The Mayor's Court and Parks and Recreation departments prepared monthly reconciliations of their accounts and forwarded bank statements to the finance department. The City also maintained seven investment accounts tied to either the corporate or sweep accounts.

We traced all transfers between the corporate and sweep accounts and to or from all other City accounts for the Period without exception. We also traced all transfers and withdrawals to and from the bond proceeds account for 2008 through 2010 without exception.¹

We identified ten unsupported electronic withdrawals totaling \$314,021 from the corporate account. Through inquiries with the City's finance director, examination of bank statements and vendor history, we concluded the unsupported withdrawals were for purposes related to the operations of the City.

We scanned the corporate check registers and canceled checks for disbursements to Ms. Kincade, her family members and two universities her children attended. We identified two payments totaling \$52 to Ms. Kincade for mileage reimbursement and a FICA tax refund payment of \$9. We did not identify any disbursements to her family members or the universities.

We examined disbursements to certain vendors for 2010.² The disbursements were supported; however, we noted the following exceptions:

¹ We examined the three most recent years. Having noted no exceptions we discontinued examining the remainder of the Period.

² We noted no unusual activity warranting further examination of the vendors for the remainder of the Period.

Supplement to the Special Audit Report

- For three vendors examined, the City was unable to provide a signed contract for services rendered, one of which was subject to contract bidding requirements.
- The purchase orders for 12 disbursements to two vendors were issued after the services were rendered without approved then and now certificates.
- After the full contract amount had been disbursed to one vendor, the City created a new purchase order for additional disbursements without an approved contract extension or change order.

Management Comments

Lack of Contracts and Payment Approvals

The City paid two vendors during 2010 for professional services without entering contracts with the vendors. We noted services provided by three vendors were rendered prior to approval of purchase orders. All payments to one of the vendors had an approved Then and Now Certificate; 12 payments to the other two vendors did not have approved certificates. Purchase order approvals for these payments ranged from three to 55 calendar days after the last date of service.

Failure to execute contracts or create purchase orders prior to commencing work limits the ability of management to ensure vendors are working within the contract or other guidelines and increases the likelihood that work will be completed that is not pursuant to agreed upon terms.

We recommend the City refrain from allowing vendors to begin work until a contract is signed. The City should also develop policies and procedures for approving services via the purchase order process prior to the services being rendered.

Contract Extensions

For the calendar year 2010, the City contracted with a vendor for street sweeping services totaling \$44,598. On October 31, 2010, the total contract amount had been disbursed to the vendor; however, we noted an additional \$3,504 in payments to the vendor after this date without a contract change order or other approved contract extension.

Failure to require contract change orders or extensions increases the possibility the City could receive and pay for services without prior review or approval.

We recommend the City review current change order and contract extension policies and procedures. The City should ensure contract changes and extensions are properly approved and agreed upon in writing with the vendor in advance of the performance of work.



Dave Yost • Auditor of State

CITY OF GROVE CITY

FRANKLIN 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
OCTOBER 25, 2011