

STATE OF OHIO
OFFICE OF THE INSPECTOR GENERAL

RANDALL J. MEYER, INSPECTOR GENERAL

REPORT OF
INVESTIGATION



AGENCY: OHIO ADJUTANT GENERAL'S DEPARTMENT
FILE ID NO.: 2015-CA00023
DATE OF REPORT: OCTOBER 11, 2016

The Office of the Ohio Inspector General ... The State Watchdog

“Safeguarding integrity in state government”

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Randall J. Meyer
Ohio Inspector General



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REPORT OF INVESTIGATION

FILE ID NUMBER: 2015-CA00023

AGENCY: Ohio Adjutant General's Department

BASIS FOR INVESTIGATION: Self-Initiated

ALLEGATIONS: Failure to Exercise Adequate Oversight of Agency/Departmental Functions/Activities; and
Failure to Establish Adequate Internal Controls for Agency/Departmental Functions/Activities.

INITIATED: April 27, 2015

DATE OF REPORT: October 11, 2016

INITIAL ALLEGATION AND COMPLAINT SUMMARY

In April 2015, the Ohio Adjutant General's Department (OAGD) notified the Office of the Ohio Inspector General and the Ohio State Highway Patrol of an alleged theft of armory board funds. The Ohio State Highway Patrol then notified the Office of the Ohio Inspector General that an investigation had been opened to investigate this allegation.

On April 27, 2015, the Office of the Ohio Inspector General initiated an investigation to determine whether the Ohio Adjutant General's Department had adequate policies and procedures in place to ensure funds collected or received by the local armories, Army National Guard units, and Air National Guard units were deposited and spent in accordance with OAGD policies and procedures, and were safeguarded from fraud and theft.

BACKGROUND

The Ohio adjutant general is the military chief of staff to the governor and administrative head of the organized militia. The governor serves as the commander-in-chief and appoints the adjutant general and assistant adjutant generals. The Adjutant General's Department responsibilities include: providing trained and equipped reserve forces (National Guard) for joint military operations with the active military force (U.S. Army and Air Force); participating in the planning and coordination of state officials for civil defense and disaster preparedness; rallying to assist state and local responders during periods of disaster, disturbance, or other emergency situations; and mobilizing as a member of the Emergency Management Assistance Compact (EMAC), a national interstate mutual aid agreement that enables states to share resources during times of disaster. The Ohio Adjutant General's Department headquarters is located at the MG Robert S. Beightler Armory located in Columbus, Ohio.

The Ohio Adjutant General's Department distributes and oversees funds to the units and armory boards established in accordance with Ohio Revised Code (ORC) chapters 5911 and 5923, and the funds are categorized into appropriated and non-appropriated funds. Appropriated funds are those appropriated by the General Assembly each fiscal year and distributed to each unit or organization of the Ohio Army and Air National Guard in accordance with Ohio Revised Code §5923.20. Non-appropriated funds include all other funds such as vending machine collections,

court martial fines, gifts, armory rentals, donations, etc., for the benefit of the unit or organization.¹

These funds received by the armory boards of the Ohio Army or Air National Guard units are typically deposited in an authorized bank account. Appropriated and non-appropriated funds may coexist and be commingled in the same bank account. Non-appropriated funds that are commingled with appropriated funds are to be treated in the same manner as appropriated funds. Armory board funds receiving funds from non-appropriated sources are to be maintained in an authorized bank account and used for the benefit of all units located at the facility.

Relevant Statutes and Regulations

Ohio Revised Code §5911.09 states, for each armory erected or provided, the adjutant general shall appoint a board of control, to consist of one or more officers of the organizations or units quartered therein. Such board or officer in control may rent the armory for temporary purposes, subject to regulations prescribed by the adjutant general, and monies derived from such rentals are to be paid into the treasury of the armory board of control.

Ohio Revised Code §5911.12 requires the board of control to prepare an annual report detailing all receipts and disbursements and to file the report with the OAGD.

The Ohio Adjutant General's Department issued regulations effective March 28, 2008, titled *Administration of Facility Rental & Maintenance and State Funds within the Units and Armory Board of the Ohio National Guard* (AGOR 37-2/177-4). These regulations established the policies and procedures for the administration of such funds. Appendices attached to the regulations included the required templates to use when documenting funds received and expended, audits, rental agreements, and the required annual financial reports. ([Exhibit 1](#))

¹ Definitions were included in AGOR 37-2/177-4 Chapter 1 regulations, effective March 28, 2008.

INVESTIGATIVE SUMMARY

In March 2008, the Ohio Adjutant General's Department (OAGD) implemented regulation AGOR 37-2/177-4 ([Exhibit 1](#)) governing state unit and armory board funds. These regulations addressed the establishment and closure of a unit or armory board fund; required audit examinations; records retention; voucher preparation and bank accounts; expenditures; state property; armory rentals; armory operation and maintenance; and the use of National Guard facilities for community relations. The regulations require the unit/organization commander or armory board president to:

- Complete a receipt or expenditure voucher for each transaction, including voided checks and voided rental agreements, with a brief explanation of the transaction;
- Complete a rental agreement and obtain approval from the unit commander or armory board president for each event or activity held at the armory;
- Approve all expenditures, and upon receipt of a proper invoice, promptly execute payment;
- Attach supporting documentation to the voucher, including but not limited to, invoices, cash register receipts, deposit slips, or if relevant, rental agreements;
- Report the purchase of non-expendable property² to the director of Installation Management and Resources;
- Certify the reconciliation of monthly bank account statements and assure proper accounting of purchased property;
- Secure funds and fund records or accounts at all times; and
- Complete and sign the Financial Report at the close of each audit period and forward the report with a Monthly Ledger of Balances to the next staff member higher in the chain of command;

Section 6-2(d) of the regulations states that, "... improper or unauthorized purchases will be the personal responsibility of the Commander/armory board president of the unit or armory involved." The regulations also provide a list of categories of authorized expenditures using unit

² Non-expendable property is defined by AGOR 37-2 (Army) and 177-4 (Air) as "... a supply, material, or equipment item which does not lose its identity or is not consumed in normal use."

and armory board funds, purchase limitations, and prohibiting the splitting of purchases to remain below the identified expenditure threshold.

Appendix A of these regulations identified 31 Ohio Army National Guard and 13 Air National Guard Armories authorized to maintain the unit and armory board funds.

In order to determine whether the Ohio Adjutant General's Department had adequate policies and procedures in place to ensure funds collected or received by Army National Guard units, Air National Guard units, and the local armory boards, the Office of the Ohio Inspector General developed a survey to be completed by each of the units and armory boards maintaining appropriated and non-appropriated funds. The survey contained a list of questions about how these funds are safeguarded; who had the ability to deposit, issue checks, make transfers, and reconcile the bank accounts holding these funds; the financial records maintained to support the accounts activities; and descriptions of management oversight of these funds. At the end of the survey, the units and armory boards were asked to provide bank statements, documentation supporting deposits received and expenditures made, audit reports, bank account reconciliations, and existing written policies and procedures governing the accounts for further review.

The Office of the Ohio Inspector General met with representatives from the Ohio Adjutant General's Department on August 6, 2015, and again on September 14, 2015, to discuss the distribution of the survey and the collection of the survey results. On September 15, 2015, the survey form and instructions were sent to the OAGD for distribution to the Ohio Army and Air National Guard units and armories.

On December 18, 2015, the OAGD provided to the Office of the Ohio Inspector General the survey responses received from a majority of the armory boards and units. The Office of the Ohio Inspector General determined the records received from the OAGD provided a sample of the internal control systems implemented by the majority of the armory boards and units. As such, no additional follow-up was made to obtain the remaining requested records.

The survey responses identified 32 unit and armory board bank accounts and 21 non-appropriated accounts as of June 30, 2015. Investigators noted that some of the units with these accounts were not authorized to have an account under the regulations shown in Appendix A of AGOR 37-2/177-4. In addition, the records submitted by the OAGD contained supporting documents for several of the units and armory boards for further review. Documents included but were not limited to, copies of bank statements, activity ledgers, receipt and payment vouchers, invoices, vendor receipts, rental agreements, checks deposited, annual financial reports, and annual audit reports.

Investigators evaluated each armory board's and unit's response to determine whether internal control weaknesses existed, which could result in improper use or theft of unit and armory board funds and noted the following significant internal control weaknesses:

Both Armory Board and Non-Appropriated Unit Funds

- The same person collected funds, deposited funds received, issued checks, and reconciled the bank account each month. The non-segregation of duties over the receipting, disbursing, and reconciling processes increases the risk of misuse or theft of funds and results in the loss of accountability over receipts and expenses.
- Receipts were not issued to individuals or businesses for the armory rentals, dues, vending commissions, or other activities. Issuance of pre-numbered receipts to each individual or business giving funds to the armory board or unit allows an independent person to verify all funds received were deposited into the armory board's or unit's bank account.
- Reimbursements to individuals were not supported by receipts identifying the items purchased and the associated purchase amount. As such, an independent reviewer would be unable to identify if the items purchased were allowable under the account guidelines or determine whether the individual actually spent the amount he or she was reimbursed.
- The individual completing the payee and amount of the check appeared to be different than that of the authorized maker. By signing the checks prior to completion of the payee and

amount, there is an increased risk that funds could be spent for illegal, inappropriate, unauthorized, or unintended uses.

- Monthly reconciliations between the activity ledger and bank activity were not completed. No evidence was found showing a person other than the reconciler reviewed the reconciliation for completeness and accuracy. A lack of an independent review of the completed reconciliation reduces the likelihood of early detection of theft or misuse of armory board or unit funds.
- Several armory boards and units have the ability to make payments electronically and use a debit card to make purchases. Failure to review these charges on a monthly basis reduces the likelihood that unauthorized payments or debit card purchases using armory board or unit funds will be detected in a timely manner.

Armory Board Funds

- Timely deposits were not being made. For example, an April 30, 2015, deposit into an armory board bank account included checks dated November 11, 2014, December 18, 2014, March 5, 2015, and April 23, 2015. Failing to deposit funds in a timely manner increases the likelihood of funds being misappropriated or stolen.
- Signed rental agreements and vending machine commissions were not traced and verified to unit or armory board bank accounts. As such, the OAGD was unable to verify all of the funds received by the unit or armory board were deposited.
- An armory board bank account custodian used seven mobile banking transfers to transfer a total of \$2,050 from an armory board fund to his personal account between September 18, 2014, and January 26, 2015. This activity was not detected until the account was transferred to another custodian in April 2015. Each unit or armory board which allows mobile transfers should have had policies and procedures addressing when and how the transfers were to be made, the documentation to be maintained to support the transfer, and who could approve the use of mobile banking transfers.

- No one certified that items purchased for the armory were actually installed at the armory, including new flooring, smoke detectors, and bookshelves.
- Expenditure vouchers did not indicate, prior to making the purchase, that the purchaser had contacted the designated individuals to determine whether office, janitorial, or maintenance supplies were available.
- Payment vouchers were not completed at the time of the purchase and in certain instances, did not have a receipt or invoice supporting the amount paid attached to the expenditure voucher to support the purchase amount. In addition, the vouchers did not certify whether the items purchased were stored at the armory and whether the equipment was tagged as armory or unit property and added to an inventory list.
- Audits identified unauthorized purchases several months after the expenditure occurred. For example, a June 4, 2015, audit memorandum stated the audit identified potential unauthorized expenditures in excess of \$11,000 over the period July 1, 2012, through March 31, 2015. As of January 2016, the OAGD stated in an email that the Army staff had conducted a formal investigation and the command group had ordered certain individuals to refund the account. The resolution of this issue was not completed within the prescribed timeframe documented on the audit form.
- When required by AGOR 37-2/177-4, the survey responses stated that an annual audit was completed for each unit or armory board account for compliance with the OAGD regulations. Audits provided for review were typically within a few months of fiscal year-end. However, no evidence was provided supporting that discrepancies identified had been resolved within the prescribed period of six months.

Non-Appropriated Unit Funds

- For many of the non-appropriated unit funds, no policies, guidelines, or procedures existed. Such guidance should exist to ensure funds collected for the identified purposes are deposited into the appropriate account and are spent for authorized purposes.

- Receipts were often not maintained to support the deposit of non-appropriated unit funds into the unit's bank account or the expenditure of non-appropriated unit funds. By not maintaining this supporting documentation, the unit commanders or other authorized representatives are unable to determine whether all funds received were deposited and subsequently expended in accordance with the fund's purpose.
- Documentation supporting expenditures shown on the activity ledger were not provided with the survey response. As such, investigators were unable to determine whether the documentation maintained was sufficient to support an authorized expenditure of non-appropriated unit funds.
- Reconciliations and annual audits were not performed to determine whether all dues or military ball attendance fees collected were deposited into the unit's bank account to ensure all of the funds received by the unit or armory board were deposited.

During the investigation, investigators also identified various types of accounts which are subject to federal regulations. However, survey responses did not indicate, in some instances, that the unit was aware of such guidance.

CONCLUSION

In April 2015, the Ohio Adjutant General's Department (OAGD) notified the Office of the Ohio Inspector General and the Ohio State Highway Patrol of an alleged theft of armory board funds. The Ohio State Highway Patrol then notified the Office of the Ohio Inspector General that an investigation had been opened to investigate this allegation. The Office of the Ohio Inspector General, in conjunction with the OAGD, surveyed the armory boards and the Army and Air National Guard units to obtain an understanding of the internal control system in place to ensure funds received were deposited and expended in accordance with the accounts' guidelines and OAGD regulations. Investigators identified several significant internal control weaknesses during this review and have issued recommendations to the OAGD to reduce the likelihood of theft, fraud, and misappropriation of armory board and unit funds.

On July 7, 2016, the Office of the Ohio Inspector General met with representatives from the Ohio Adjutant General's Department to discuss the results of the investigation and recommendations included in this report. The OAGD representatives explained they had been in the process of revising AGOR 37-2/177-4 and believed they had incorporated many of the recommendations discussed during this meeting. In response to the OAGD representatives' request, the Office of the Ohio Inspector General agreed to review the revised policy and to provide feedback on areas where internal control weaknesses may still exist. Investigators noted that some of the recommendations included in this report had been incorporated by OAGD in its revised policy. On July 12, 2016, the Office of the Ohio Inspector General provided the requested feedback.

RECOMMENDATION(S)

The Office of the Ohio Inspector General makes the following recommendations and asks that the Ohio Adjutant General's Department respond within 60 days with a plan detailing how the recommendations will be implemented.

1. Consider an annual review of Policy AGOR-37-2/177-4 and similar regulations governing armory board and unit funds to resolve any discrepancies found in the annual audit.
2. Consider requiring the armory board and unit personnel responsible for appropriated funds to review applicable policies, procedures, and regulations annually, and complete policy acknowledgement forms stating they have read and understood AGOR 37-2/177-4.
3. Consider the benefits of conducting an annual training to review the requirements of AGOR 37-2/177-4, prior-year audit discrepancies, and other investigative results to eliminate any confusion on the regulations. It is recommended topics for this training include, but are not limited to: the correct way to complete the monthly activity ledger, receipt and payment vouchers, and financial reports; the timing of when these documents are to be completed; the monthly reconciliation, financial reporting, and audit processes; and the consequences for failing to comply with these guidelines or when unauthorized expenditures occur.

4. Consider amending AGOR 37-2/177-4 to ensure blank check stock, deposit slips, debit cards, bank statements, and cash boxes are kept in a safe and secure location and are only accessible by authorized personnel. It is recommended that this regulation should also prohibit the pre-signing of blank checks and use of debit cards by unauthorized users to ensure purchases made using the check or debit card are permissible per the account guidelines.
5. Consider amending AGOR 37-2/177-4 to identify who is authorized, and when it is permissible to use mobile deposits, mobile banking apps for smartphones, electronic bill pay, debit cards, or open credit lines with vendors.
6. Consider revising the Monthly Ledger for Accumulated Balances form referenced in Appendix D of the AGOR 37-2/177-4 to include columns for the receipt number, receipt date, source of funds, check payee, and category of expenditure. This would allow an independent reviewer to determine when reviewing the ledger in conjunction with a monthly account reconciliation whether revenues were deposited into the appropriate account in a timely manner and whether unauthorized expenditures may have occurred.
7. Consider amending AGOR 37-2/177-4 or implementing policies and procedures to require the use of a manual receipt book, and requiring a receipt be issued and given to each individual remitting funds to the armory board or unit. The manual receipts should be dated, reflect the source of the funds, the amount, and reference supporting documentation such as a rental agreement, vending commission check stub, etc. It is also recommended that a copy of the receipt should be given to the individual renting the facility or giving funds to the unit or armory board.
8. Consider requiring each armory board establish rental rates for its location and to maintain a log or calendar identifying each time the armory was rented. As part of a monthly reconciliation or annual audit, the calendar or log should be compared to the rental agreements, activity ledger, and bank statement to ensure rental payments received were recorded in the ledger and subsequently deposited.

9. Consider amending the existing payment voucher form in Appendix C of AGOR 37-2/177-4 to include a certification that the goods or services purchased were received; confirmation the items were installed at the armory; the inventory tag number or the location within the armory of the item purchased; and when required by regulation, the date and person contacted to verify whether the purchase could be made using armory board funds. It is also recommended that each payment voucher should have the original receipt or invoice attached to support the expenditure.
10. Consider requiring equipment and other portable assets purchased using armory board or unit funds be tagged as armory board or unit property and added to an inventory list to be audited annually to ensure items purchased are accounted for or have been disposed of in accordance with the applicable regulations.
11. Consider amending AGOR 37-2/177-4 to revise the process for reimbursing an individual for a purchase, by requiring a detailed original receipt be provided specifying the items purchased, verification the purchase is an authorized use of unit or armory board funds, and determination of whether pre-authorization was obtained, when required.
12. Consider requiring the monthly reconciliation of the account ledger activity in Appendix D of the AGOR 37-2/177-4 to the bank statement activity, including a comparison of manual receipts to the account ledger and bank statements to verify all funds received were deposited. In addition, the reconciler should verify that each payment voucher has a receipt or invoice attached that matches the amount of the check shown on the bank statement. Once completed, it is recommended that the monthly reconciliation and supporting documents be reviewed by an independent reviewer to verify funds collected were deposited and determine if there were unauthorized purchases made.
13. Consider requiring annual audits to be conducted by a person independent of the account custodian, commander, and individual reviewing the monthly reconciliations to ensure the account activity is in compliance with AGOR 37/2/177-4, federal regulations, and other guidance.

14. Consider amending the Audit/Examination Checklist of Deficiencies form located in Appendix E of AGOR 37-2/177-4 to include a reconciliation of rental agreements, vending commissions, receipt vouchers, and manual receipts to subsequent deposits to ensure all funds received were deposited in their entirety and in a timely manner.
15. Consider implementing a spreadsheet or other tracking mechanism to ensure that the individual who is responsible for the authorized accounts submits the required fiscal year-end financial reports and completes the required annual audits within the prescribed timeframe. This mechanism should also track the audit deficiencies identified, how the deficiencies were resolved, and whether the deficiencies were resolved within the prescribed timeframe.
16. Consider developing procedures to be followed when closing or combining bank accounts. These procedures should include, at a minimum, the requirement for an audit to be conducted and audit discrepancies resolved prior to the closing or transfer of account funds; the disposition of the remaining funds, blank check stock, bank statements, online banking passwords, and debit cards; and how long records should be retained once the account is closed.
17. Consider whether the unit or armory board should maintain a bank account, use a cashbox to hold its funds, or combine the bank account with another unit or armory board. This decision should consider how often funds are received and expended; the cost of bank account charges being incurred; the records to be maintained if a cashbox is used; and the ability to secure and limit access to the cashbox.
18. For unit funds without established federal regulations, consider developing and implementing guidelines, policies, and procedures which address the purpose of the fund; records to be maintained to support the receipt and disbursement of such funds; authorized types of expenditures; the frequency reconciliations and audits are to be conducted; and who, as an independent reviewer, should review these reconciliations and audits for compliance with these guidelines.

19. For unit funds with established federal guidelines, consider an annual review and training on those guidelines and requiring the responsible parties to complete an acknowledgement stating that they read and understood the guidelines.

REFERRAL(S)

This report of investigation will be provided to the Ohio Auditor of State for consideration.



STATE OF OHIO
OFFICE OF THE INSPECTOR GENERAL

RANDALL J. MEYER, INSPECTOR GENERAL

NAME OF REPORT: Ohio Adjutant General's Department

FILE ID #: 2015-CA00023

KEEPER OF RECORDS CERTIFICATION

This is a true and correct copy of the report which is required to be prepared by the Office of the Ohio Inspector General pursuant to Section 121.42 of the Ohio Revised Code.

Jill Jones
KEEPER OF RECORDS

CERTIFIED
October 11, 2016

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