



**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of West Elkton
Preble County
146 N. Main Street
West Elkton, Ohio 45070

To the Village Council:

We have audited the accompanying financial statements of the Village of West Elkton, Preble County, Ohio (the Village), as of and for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to audit outstanding encumbrances of the Village due to the Village's lack of encumbering funds at the onset of the obligation.

As described in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to obtain the outstanding encumbrances, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2000 and 1999, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements, for the years then ended on the basis of accounting described in Note 1.

The accompanying financial statements have been prepared assuming that the Village will continue as a going concern. As discussed in Note 10 to the financial statements, the Village has been unable to pay obligations when due and has suffered recurring losses in the General Fund and Police Fund which raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2001 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Village of West Elkton
Preble County
Report of Independent Accountants
Page 2

This report is intended solely for the information and use of the audit committee, management, and Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 16, 2001

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$4,217	\$6,964	\$0	\$11,181
Intergovernmental Receipts	24,827	15,801	0	40,629
Fines, Licenses, and Permits	2,030	0	0	2,030
Earnings on Investments	204	135	0	339
Miscellaneous	4,854	0	0	4,854
	<u>36,133</u>	<u>22,901</u>	<u>0</u>	<u>59,034</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	1,499	5,235	0	6,734
Leisure Time Activities	1,845	0	0	1,845
Transportation	0	2,179	0	2,179
General Government	30,169	1,450	0	31,619
Debt Service:				
Principal Payments	7,679	12,873	0	20,552
Interest Payments	2,910	24	0	2,934
Capital Outlay	965	1,559	0	2,524
	<u>45,068</u>	<u>23,320</u>	<u>0</u>	<u>68,388</u>
Total Receipts Over/(Under) Disbursements	<u>(8,935)</u>	<u>(419)</u>	<u>0</u>	<u>(9,354)</u>
Fund Cash Balances, January 1	<u>(5,019)</u>	<u>31,870</u>	<u>1,842</u>	<u>28,693</u>
Fund Cash Balances, December 31	<u>(\$13,954)</u>	<u>\$31,451</u>	<u>\$1,842</u>	<u>\$19,339</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF WEST ELKTON
PREBLE COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2000

Non-Operating Cash Receipts:

Other Non-Operating Receipts 2,990

Total Non-Operating Cash Receipts 2,990

Non-Operating Cash Disbursements:

Other Non-Operating Cash Disbursements 3,820

Total Non-Operating Cash Disbursements 3,820

Net Receipts Over/(Under) Disbursements (830)

Fund Cash Balances, January 1 1,138

Fund Cash Balances, December 31 \$308

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$3,170	\$5,429	\$0	\$8,599
Intergovernmental Receipts	25,485	65,518	0	91,003
Fines, Licenses, and Permits	3,645			3,645
Earnings on Investments	55	167	24	246
Miscellaneous	199	0	0	199
	<u>32,554</u>	<u>71,114</u>	<u>24</u>	<u>103,692</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	3,116	7,636	0	10,752
Leisure Time Activities	1,786	0	0	1,786
Transportation	0	4,337	0	4,337
General Government	24,971	28,421	0	53,392
Debt Service:				
Principal Payments	1,000	7,428		8,428
Interest Payments	1,058	1,632		2,690
Financing and Other Debt-Service Related	50	0		50
Capital Outlay	1,296	1,047	0	2,343
	<u>33,277</u>	<u>50,501</u>	<u>0</u>	<u>83,778</u>
Total Cash Disbursements				
	<u>(723)</u>	<u>20,613</u>	<u>24</u>	<u>19,914</u>
Total Receipts Over/(Under) Disbursements				
	<u>(4,296)</u>	<u>11,258</u>	<u>1,818</u>	<u>8,780</u>
Fund Cash Balances January 1				
	<u>(\$5,019)</u>	<u>\$31,871</u>	<u>\$1,842</u>	<u>\$28,694</u>
Fund Cash Balances, December 31				

The notes to the financial statements are an integral part of this statement.

VILLAGE OF WEST ELKTON
PREBLE COUNTY

MBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 1999

Non-Operating Cash Receipts:	
Other Non-Operating Receipts	<u>4,460</u>
Total Non-Operating Cash Receipts	<u>4,460</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>3,505</u>
Total Non-Operating Cash Disbursements	<u>3,505</u>
Net Receipts Over/(Under) Disbursements	955
Fund Cash Balances, January 1	<u>183</u>
Fund Cash Balances, December 31	<u><u>\$1,138</u></u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of West Elkton, Preble County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services and police services. Fire services are provided by the West Elkton-Gratis Township Joint Fire District.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State

C. Cash

Village funds are pooled in a checking account with a local commercial bank.

D. Fund Accounting

The Village uses fund accounting to segregate cash and deposits that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure to specific purposes. The Village had the following significant special revenue funds:

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

State Highway Fund - This fund receives gasoline tax and motor vehicle tax money for maintaining and repairing state highways within the Village.

Police Protection Fund - This fund receives money from real estate and personal property taxes to provide for the protection of area citizens.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Village had the following significant capital project fund:

State Grant Fund - This fund receives bank loan proceeds, Ohio Water Development Authority loan proceeds and Ohio Public Works monies for the construction of a wastewater treatment plant.

4. Fiduciary Fund (Agency Fund)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary fund:

Mayor's Court Fund - This fund is used to account for the collection and distribution of court fines and forfeitures.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated. The Village did not encumber all commitments required by Ohio law. The audit report was qualified since outstanding encumbrances could not be estimated.

A summary of 2000 and 1999 budgetary activity appears in Note 3.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND DEPOSITS

The Village maintains a cash and deposits pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of demand deposits at December 31 was as follows:

	<u>2000</u>	<u>1999</u>
Demand deposits	<u>\$19,339</u>	<u>\$28,693</u>

Deposits: Deposits were insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2000 and 1999 follows:

2000 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$31,791	\$36,133	\$4,342
Special Revenue	<u>27,151</u>	<u>22,901</u>	<u>(4,250)</u>
Total	<u>\$58,942</u>	<u>\$59,034</u>	<u>\$92</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$31,791	\$45,068	(\$13,277)
Special Revenue	<u>27,151</u>	<u>23,320</u>	<u>3,831</u>
Total	<u>\$58,942</u>	<u>\$68,388</u>	<u>(\$9,446)</u>

**VILLAGE OF WEST ELKTON
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

1999 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 44,003	\$ 32,554	(\$11,449)
Special Revenue	31,065	71,114	40,049
Capital Project	<u>1,514</u>	<u>24</u>	<u>(1,490)</u>
Total	<u>\$76,582</u>	<u>\$103,692</u>	<u>\$27,110</u>

1999 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 43,993	\$ 33,277	\$10,716
Special Revenue	23,090	50,501	(27,411)
Capital Project	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$67,083</u>	<u>\$83,778</u>	<u>(\$16,695)</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. COMPLIANCE

Contrary to various Ohio Revised Code and Ohio Administrative Code sections, the Village:

- Did not use an appropriation ledger or any other method of monitoring appropriations;
- Had negative fund balances in the General Fund of \$13,954 and the Police Fund of \$3,439 for 2000 and in the General Fund of \$5,019 and in the Police Fund of \$2,249 for 1999;

**VILLAGE OF WEST ELKTON
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

5. COMPLIANCE (Continued)

- Did not deposit in a timely manner, including Mayor's Court receipts;
- Mayor's Court did not remit funds to appropriate agencies in timely manner;
- Mayor did not submit monthly financial statements to Council;
- Had expenditures which exceeded appropriations in the General Fund of \$13,277, Parks/Recreation Fund of \$13,450 and the Police Fund of \$365 for 2000 and in the General Fund of \$29,853, State Grant Fund of \$5,679, Fire Fund of \$1,454 and the Police Fund of \$1,186 for 1999;
- Did not use encumbrance accounting (i.e. proper use of purchase orders).

6. DEBT

Debt outstanding at December 31, 2000 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
First National Bank Promissory Note (#9003)	\$22,446	9.50%
First National Bank Promissory Note (#9002)	9,326	9.50%
Ohio Public Works Loan (OPWC) (Project # 816)	0	0.00%
Ohio Public Works Loan (Project # 930/931)	0	0.00%
Ohio Water Development Authority (EV0316)	50,000	0.00%
Ohio Water Development Authority (EV0378)	<u>22,595</u>	0.00%
Total	<u>\$104,367</u>	

The First National Bank of Southwestern Ohio promissory note (#9002) was obtained October 23, 1996 for the purpose of procuring land. The Village used \$84,950 to settle a lawsuit regarding a land purchase. The Village made principal and interest payments on this loan during 1999 and 2000.

The First National Bank of Southwestern Ohio promissory note (#9003) was obtained February 1, 1999 for the purpose of renovating the park in corroboration with a grant from NatureWorks. The Village made principal and interest payments on this loan during 1999 and 2000.

The Village received an OPWC Loan (Project #816) of \$227,160 in 1997. The loan was assumed by Preble County in October 2000.

The Village received a \$72,840 OPWC Loan (Project #930/931) on July 1, 1995. The loan was assumed by Preble County in October 2000.

The OWDA has taken over the administration of loans originally awarded by the EPA. The EPA awarded the Village a \$50,000 loan during 1995 and a \$22,595 loan in 1994 to prepare engineering details for the sewer project. A repayment schedule was provided to the Village for each loan.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

6. DEBT (Continued)

Payment was due immediately once permanent financing of the project was received. The payment schedules were amended July 29, 1997. No payments have been made to date. Preble County is in the process of assuming these loans.

Amortization of the above OWDA debt is not provided due to current debt re-structuring. Village management is negotiating with Preble County and OWDA so that Preble County can also assume the \$50,000 loan and \$22,595 loan outstanding at December 31, 2000. Preble County has established Sewer District #3 for the completion of this sewer project.

7. RETIREMENT SYSTEMS

The Village employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is cost-sharing, multiple-employer plan. This plan provides retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2000 and 1999, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of PERS participants' gross salaries through June 30, 2000. Commencing July 1, 2000, PERS temporarily reduced employer contributions to 8.13%. The Village has paid all contributions required through December 31, 2000.

8. RISK POOL MEMBERSHIP

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Pool provides a program of property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

Casualty excess-of-loss contracts at December 31, 2000 and 1999 generally protect against individual losses over \$150,000 (\$100,000 for policies issued after March 31, 2000).

Property coverage contracts protect against losses, subject to a deductible of \$50,000 per occurrence, limited to an annual aggregate loss of the greater of \$300,000 or 1% of total coverage.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained (deficit) earnings at December 31:

	<u>2000</u>	<u>1999</u>
Assets	\$2,958,827	\$4,151,450
Liabilities	<u>3,863,373</u>	<u>3,461,914</u>
Retained (deficit) earnings	<u>(\$ 904,546)</u>	\$ <u>689,536</u>

**VILLAGE OF WEST ELKTON
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

9. SUBSEQUENT EVENTS

The Village committed during the January 2001 Council meeting to purchase two police cruisers from the Village of Camden and issued a promissory note in the amount of \$7,000 in March 2001. The Village had negative fund balances at December 31, 2000, in the General Fund and Police Fund from which this obligation may be paid.

10. GOING CONCERN

The Village was unable to pay its debts and obligations at December 31, 2000. The Village also incurred operating losses and negative fund balances. A summary follows:

- The amount of the Village's current debt is \$104,367;
- The Village had negative fund balances at December 31, 2000 in the General Fund (\$13,954) and Police Fund (\$3,456);
- The Village had an unpaid obligation to the West Elkton/Gratis Board for fire services provided during 2000 (approximately \$900);
- The Village had operating losses of \$8,935 in the General Fund and \$1,190 in the Police Fund for 2000, and \$723 in the General Fund and \$1,171 in the Police Fund in 1999; and
- During 2000, Preble County assumed prior year outstanding loans issued by the Ohio Public Works Department in the amounts of \$227,160 and \$72,840.

Management has made no plans to address the above mentioned areas of concern.

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of West Elkton
Preble County
146 N. Main Street
West Elkton, Ohio 45070

To the Village Council:

We have audited the financial statements of the Village of West Elkton, Preble County (the Village), as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated November 16, 2001 which was qualified due to lack of presentation of outstanding encumbrances. Our report also expressed substantial doubt about the Village's ability to continue as a going concern. Except as discussed in the first sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-30368-003, 2000-30368-004 to 2000-30368-008. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated November 16, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2000-30368-001 to 2000-30368-005 and 2000-30368-008 to 2000-30368-009. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Village in a separate letter dated November 16, 2001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider all the reportable conditions described above to be material weaknesses.

This report is intended for the information and use of the audit committee, management, and Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 16, 2001

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 21, 2000 AND 1999**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2000-30368-001

Material Weakness

The small size of the Village's staff does not allow for an adequate segregation of duties. The Clerk handles all the financial record keeping including receipting, depositing, check writing, check signing and posting. The weakness of this system is that it may allow for diversion of funds through possible alteration of source documents. Also, bookkeeping errors may occur without detection in a timely manner.

We believe the following conditions indicate a need for increased oversight of management by the Council:

- Council minutes did not identify which bills were to be paid nor which financial statements were reviewed and approved in the minutes.
- Restricted receipts were posted to incorrect funds; and
- Unqualified purchases were made from restricted funds.

The financial statements have been adjusted to reflect the proper payment and postings of the incorrect receipts and disbursements.

We recommend that Village officials periodically review the records, (i.e. reconciliations, etc), to determine accuracy, to verify that proper procedures were followed by the fiscal officer, to ensure accountability and to strengthen internal accounting controls. These periodic reviews should be noted in the minutes, and documents reviewed should be initialed by the reviewer.

FINDING NUMBER 2000-30368-002

Material Weakness

The Village did not prepare accurate cash reconciliations for 2000 or 1999 due to incorrect posting of prior audit adjustments. Also, the Village posted 1998 expenditures to the UAN system in 1999 which overstated the Village financial statements for 1999.

Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well as, ensure that all recorded transactions have been deposited with the financial institution.

We recommend the Village properly reconcile the account on a monthly basis. Any variances should be immediately investigated and justified. We also recommend that a council member review and sign off on the reconciliation thereby indicating approval and ensuring timeliness of reconciliations.

FINDING NUMBER 2000-30368-003

Material noncompliance/Material Weakness

Ohio Revised Code, Section 733.40, provides that at the first legislative meeting of each month the mayor shall submit a full statement of all money received, from whom and for what purpose received, and when paid into the treasury. The Mayor did not submit the aforementioned monthly report.

Ohio Rev. Code, Section 733.40, also requires that all fines, forfeitures, and costs in ordinance cases and all fees collected by the mayor, or which in any manner come into his hands, or which are due such mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses which have been advanced out of the treasury of the municipal corporation, and all money received by such mayor for the use of such municipal corporation, shall be paid by him into such treasury on the first Monday of each month. The Mayor did not always deposit Mayor's Court collections with the Village by the first Monday of each month.

We recommend that the Mayor submit a monthly report to Council in order to enhance accountability of mayor's court activity and to strengthen internal accounting controls. These monthly reports should be noted in the Council minutes. The Mayor should also deposit all monies due the Village in a timely manner.

FINDING NUMBER 2000-30368-004

Material noncompliance/Material Weakness

Ohio Revised Code, Section 5705.41(B), requires that a subdivision may not make an expenditure unless it has been properly appropriated. The Village did not utilize the appropriation ledger provided in the UAN system during 1999 and failed to update the appropriation ledger with supplemental appropriations during 2000.

Expenditures exceeded appropriations for the General Fund in the amount of \$13,277, the Parks/Recreation Fund in the amount of \$13,450 and in the Police Fund in the amount of \$365 for the year ended December 31, 2000. Expenditures exceeded appropriations in the Parks/Recreation Fund in the amount of \$29,853, the State Grant Fund in the amount of \$5,679, the Fire Fund in the amount of \$1,454 and in the Police Fund in the amount of \$1,186 for the year ended December 31, 1999.

Failure to monitor appropriations and expenditures could result in the Village overextending its resources and/or committing the Village to financial obligations that the Village does not have the ability to meet

We recommend the Village maintain proper supporting documentation for all expenditures. The Village should include the purchase order number on their transaction reports for easy reference. All disbursements should be listed in the minute record by warrant number and vendor and approved by Council before payment. The Village should use an appropriation ledger and properly use encumbrance accounting.

FINDING NUMBER 2000-30368-005

Material noncompliance/Material Weakness

Ohio Revised Code, Section 5705.41(D), states that no contracts or orders involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required to meet the same...has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon. If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrance, the taxing authority may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.

If the amount involved is less than \$1,000, the fiscal officer may authorize it to be paid without affirmation of the Village Council upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any other applicable requirement for approval of expenditures by the Village Council.

During 1999 and 2000, the Village did not properly certify funds by utilizing purchase orders and as a result did not encumber expenditures correctly prior to the commitment of such expenditure. Failure to properly encumber expenditures can result in overspending funds and negative cash fund balances.

We recommend the Village use an appropriation ledger and purchase order to properly encumber all funds before making any expenditures.

FINDING NUMBER 2000-30368-006

Material noncompliance

Ohio Revised Code, Section 1905.21, requires that the Village Mayor submit all moneys collected be paid into the municipality and other appropriate agencies by the first Monday of each month. The Mayor did not submit court collections in a timely manner to the appropriate agencies.

We recommend the Mayor distribute monies collected in Mayor's Court to the appropriate agencies in order to avoid possible misappropriation of funds and to be in compliance with the above mentioned code section.

FINDING NUMBER 2000-30368-007

Material noncompliance

Ohio Revised Code, Section 5705.10, requires that money paid into any fund shall be used only for the purpose for which such fund is established.

FINDING NUMBER 2000-30368-007
(Continued)

The General Fund (\$5,019), Law Enforcement Trust Fund (\$17), Fire Fund (\$238), and the Police Fund (\$2,249) had negative fund balances as of December 31, 1999. The General Fund (\$13,954), Law Enforcement Trust Fund (\$17), and the Police Fund (\$3,439) had negative fund balances as of December 31, 2000. These deficit balances indicate that cash from other funds was used to pay the obligations of the negative funds.

We recommend the Village adopt procedures to properly monitor fund balances and their budget to prevent negative fund balances.

FINDING NUMBER 2000-30368-008

Material noncompliance/Material Weakness

Ohio Rev. Code, Section 117.43, authorizes the Auditor of State to prescribe by rule, requirements for accounting and financial reporting for public offices other than state agencies. The Auditor of State has prescribed a uniform accounting system for villages which is set forth in Ohio Administrative Code Chapter 117-2-02 (A).

Ohio Administrative Code, Rule 117-2-02(A), states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Ohio Administrative Code.

The Village did not utilize the UAN system's appropriation ledger in an efficient and accurate manner. The Clerk did not update appropriations with supplemental appropriations in calendar year 2000 and did not record appropriations in calendar year 1999. Also, the Village did not maintain copies of purchase orders to verify certification of the funds.

We recommend that the Village utilize and update the UAN system with all appropriation measures and amended certificates and maintain documentation of purchase orders used to certify funds.

FINDING NUMBER 2000-30368-009

Material Weakness

The OWDA has taken over the administration of loans originally awarded by the EPA. The EPA awarded the Village a \$50,000 loan during 1995 and a \$22,595 loan in 1994 to prepare engineering details for the sewer project. A repayment schedule was provided to the Village for each loan. Payment was due immediately once permanent financing of the project was received. The payment schedules were amended July 29, 1997. No payments have been made to date.

The Village should be timely with their debt payments so as to avoid possible penalties or default. The Village should take care to use proceeds of loans as detailed in the loan agreements.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 21, 2000 AND 1999**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1998-30368-001	ORC 733.28 – inadequate record keeping of receipts and expenditures	No	Significantly corrected – Village utilizes UAN system now and maintained majority of supporting documentation
1998-30368-002	ORC 9.38 – not depositing daily – includes Mayor’s Court receipts	No	Material non-compliance included in 1999 – 2000 audit report
1998-30368-003	ORC 117.43 – lack of receipt journal and appropriation ledger, use of purchase orders, posting errors	No	Significantly corrected – Village utilizes UAN system now and needs to continue to learn full capabilities of accounting system.
1998-30368-004	ORC 5705.28 – lack of tax budget ORC 5705.34 – authorize necessary tax levies ORC 5705.41B – failure to properly appropriate expenditures	Yes Yes No	Tax budgets were waived for 1999 and 2000 Village authorized necessary tax rates for 1999 and 2000 Material non-compliance included in 1999 – 2000 audit report
1998-30368-005	ORC 5705.41D – failure to utilize purchase orders	No	Material non-compliance included in 1999 – 2000 audit report
1998-30368-006	ORC 149.351 – destruction of records	No	Significantly corrected – Village maintained majority of supporting documentation - except for purchase orders – included in 2000 management letter
1998-30368-007	ORC 135.18 – failure to obtain pledged/pooled collateral for deposits	Yes	Village obtained pooled collateral statements from banking institutions and bank balances never exceeded FDIC coverage
1998-30368-008	ORC 5705.10 – negative fund balances	No	Village had negative fund balances for 1999 and 2000 – material non-compliance in 1999 – 2000 audit report
1998-30368-009	Incomplete and inaccurate records of Mayor’s Court	Yes	Village maintained all documentation related to Mayor’s Court

Village of West Elkton
 Preble County
 Schedule of Prior Audit Findings
 Page 2

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1998-30368-010	Lack of Council oversight of financial activity	No	Material Weakness in 1999 – 2000 audit report
1998-30368-011	Inaccurate or incomplete cash reconciliations	No	Significantly corrected – Village had minor reconciliation errors during 1999 and 2000 – included in management letter in 1999-2000 audit report
1998-30368-012	Default of debt payments	No	The Village made some debt payments during 1999 and 2000 – Material weakness in 1999-2000 audit report
1998-30368-013	Lack of payroll records	No	The Village utilized the non-payroll system to produce payroll checks for small amount of employees. Management letter internal control recommendations included in 1999-2000 audit report.
1998-30368-014	Finding for Recovery – Chief of Police salary	Yes	Finding was recovered from the Chief of Police in 2000. Received appropriate amount of salary for 1999 and 2000.



STATE OF OHIO
OFFICE OF THE AUDITOR

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VILLAGE OF WEST ELKTON

PREBLE 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
DECEMBER 18, 2001**