



**Auditor of State
Betty Montgomery**

VILLAGE OF LAKEMORE
SUMMIT COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lakemore
Summit County
P.O. Box 455
1400 Main Street
Lakemore, Ohio 44250-0455

To the Village Council:

We were engaged to audit the accompanying financial statements of the Village of Lakemore, Summit County, Ohio, (the Village) as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Village's management.

Because of the inadequacies in the Village's accounting records, we were unable to form an opinion regarding the amounts recorded as revenues, expenditures, and fund balance in the accompanying Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types and the Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary Funds for the years ended December 31, 2002 and 2001.

Because of the significance of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

This report is intended solely for the information and use of management and the 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.

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Betty Montgomery
Auditor of State

March 18, 2005

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**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$81,602	\$7,560			\$89,162
Municipal Income Tax	393,305			\$134,236	527,541
Fees Licenses & Permits	57,886	866			58,752
Intergovernmental Receipts	302,054	70,982			373,036
Charges for Services		85,282			85,282
Fines & Forfeitures	12,785	2,981			15,766
Earnings on Investments	27,946	5,648			33,594
Miscellaneous	217,003	1,270			218,273
Total Cash Receipts	<u>1,092,581</u>	<u>174,589</u>		<u>134,236</u>	<u>1,401,406</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	598,202	96,897			695,099
Public Health Services	4,796				4,796
Leisure Time Activities	32,880				32,880
Community Environment	21,517				21,517
Transportation	117,507	60,298			177,805
General Government	326,687			14,625	341,312
Debt Service:					
Principal Payments			\$40,393		40,393
Interest Payments			24,837		24,837
Capital Outlay				352,829	352,829
Total Cash Disbursements	<u>1,101,589</u>	<u>157,195</u>	<u>65,230</u>	<u>367,454</u>	<u>1,691,468</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(9,008)</u>	<u>17,394</u>	<u>(65,230)</u>	<u>(233,218)</u>	<u>(290,062)</u>
Other Financing Receipts/(Disbursements):					
Transfers-In		24,852	97,845		122,697
Transfers-Out	(122,697)				(122,697)
Total Other Financing Receipts/(Disbursements)	<u>(122,697)</u>	<u>24,852</u>	<u>97,845</u>		
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(131,705)</u>	<u>42,246</u>	<u>32,615</u>	<u>(233,218)</u>	<u>(290,062)</u>
Fund Cash Balances, January 1	<u>703,262</u>	<u>365,324</u>	<u>5,870</u>	<u>455,028</u>	<u>1,529,484</u>
Adjusted Fund Cash Balances, December 31,	<u><u>\$571,557</u></u>	<u><u>\$407,570</u></u>	<u><u>\$38,485</u></u>	<u><u>\$221,810</u></u>	<u><u>\$1,239,422</u></u>

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

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$114,325	\$10,538			\$124,863
Municipal Income Tax	490,138			\$210,059	700,197
Fees Licenses & Permits	28,543	215			28,758
Intergovernmental Receipts	291,549	191,779			483,328
Charges for Services	14,478	68,946			83,424
Fines & Forfeitures	13,340	175			13,515
Earnings on Investments	74,607	6,876			81,483
Miscellaneous	27,833	1,490			29,323
Total Cash Receipts	<u>1,054,813</u>	<u>280,019</u>		<u>210,059</u>	<u>1,544,891</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	459,902	138,749			598,651
Public Health Services	13,748				13,748
Leisure Time Activities	26,492				26,492
Community Environment	17,276	44,217			61,493
Transportation	105,443	49,348			154,791
General Government	284,335				284,335
Debt Service:					
Principal Payments			\$16,938		16,938
Interest Payments			15,677		15,677
Capital Outlay	14,303			459,832	474,135
Total Cash Disbursements	<u>921,499</u>	<u>232,314</u>	<u>32,615</u>	<u>459,832</u>	<u>1,646,260</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>133,314</u>	<u>47,705</u>	<u>(32,615)</u>	<u>(249,773)</u>	<u>(101,369)</u>
Other Financing Receipts/(Disbursements):					
Sale of Bonds or Notes				500,000	500,000
Transfers-In		14,998	32,615		47,613
Transfers-Out	(47,613)				(47,613)
Total Other Financing Receipts/(Disbursements)	<u>(47,613)</u>	<u>14,998</u>	<u>32,615</u>	<u>500,000</u>	<u>500,000</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	85,701	62,703		250,227	398,631
Fund Cash Balances, January 1	617,561	302,621	5,870	204,801	1,130,853
Fund Cash Balances, December 31	<u>\$703,262</u>	<u>\$365,324</u>	<u>\$5,870</u>	<u>\$455,028</u>	<u>\$1,529,484</u>

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

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	Enterprise Fund Types	
	2002	2001
Operating Cash Receipts:		
Charges for Services	\$642,190	\$662,885
Operating Cash Disbursements:		
Personal Services	105,954	103,198
Fringe Benefits	24,975	39,785
Contractual Services	484,805	409,624
Supplies and Materials	62,891	57,429
Utilities	4,917	
Total Operating Cash Disbursements	683,542	610,036
Operating Income/(Loss)	(41,352)	52,849
Non-Operating Cash Receipts:		
Customer Deposits	8,350	2,850
Non-Operating Cash Disbursements:		
Customer Deposit Refunds	650	15,538
Net Cash Receipts Over/(Under) Cash Disbursements	(33,652)	40,161
Fund Cash Balances, January 1	672,433	632,272
Fund Cash Balances, December 31	\$638,781	\$672,433

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

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**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Lakemore, Summit County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water and sewer and trash collection utilities, park operations, police and emergency medical services. The Village appropriates general fund money to support a volunteer fire department.

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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

The Village's accounting basis does not record investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

The Village invests in an overnight repurchase agreement through a local bank. The investments in the repurchase account are valued at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments 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 Fund

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village has 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.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Ambulance Fund - This fund receives grants and charges for services revenue to provide emergency medical service to Village residents.

Community Development Block Grant – This fund receives grant monies through Summit County for various projects that primarily benefit lower income areas of the Village.

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village has the following significant Debt Service Fund:

Police Facility Note – This fund receives local government monies, from the General Fund, to repay the note debt.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village has the following significant Capital Project Fund:

Capital Improvement Fund - This fund receives a portion of the Village income tax and proceeds of debt issuance to construct various facilities and infrastructure in the Village.

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village has the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sanitary Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Trash Fund - This fund receives charges for services from residents to cover the cost of providing trash collection.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

5. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant expendable trust funds:

Police Disability and Pension Fund - This fund is used to account for payments to the police disability and pension fund.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

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

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2002	2001
Demand deposits	\$13,203	(\$78,083)
Repurchase agreement	1,865,000	2,280,000
Total deposits and investments	\$1,878,203	\$2,201,917

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

Investments: The Village's financial institution transfers securities to the Village's agent to collateralize repurchase agreements. The securities are not in the Village's name.

3. BUDGETARY ACTIVITY/NONCOMPLIANCE

The Village did not maintain accounting records of budgetary activity, nor did they comply with other laws which the Village deems material. As a result, the following noncompliance citations have been issued:

Contrary to Ohio Rev. Code Section 149.351, the Village was unable to provide records during the audit because they had been lost or destroyed.

Contrary to C.F.R. Section 1.6041-1, the Village failed to file required internal revenue service forms for 2002 and 2001.

Contrary to U.S.C. Section 3402 and Ohio Rev. Code Section 5747.06, the Village failed to include all wages paid on employees Form W-2.

Contrary to Ohio Rev. Code Sections 742.01, 742.02, 742.31 to 742.34, the Village failed to remit the required employer reports to the Ohio Police and Fire Pension Fund in 2001 and 2002.

Contrary to Ohio Rev Code Sections 4141.20 to 4141.23, the Village failed to file reports for unemployment with the Ohio Department of Job and Family Services during 2001 and 2002.

Contrary to A-102 Common Rule (24 CFR 85.23, Subpart C), the Village commingled Federal Grant monies with state and local monies resulting in the Villages inability to identify expenditures made with federal monies.

Contrary to Ohio Rev. Code 5705.41(D), the Village did not certify all of its expenditures prior to the financial obligation.

Contrary to Ohio Rev. Code 5705.28, the Village did not adopt an annual tax budget for the years 2002 and 2001 by the required due date.

Contrary to Ohio Rev. Code 5705.34, the Village did not pass a resolution authorizing the necessary tax levies and to certify the levies to the County Fiscal Officer for the years 2002 and 2001.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY/NONCOMPLIANCE (Continued)

Contrary to Ohio Rev. Code 5705.36, the Village did not certify to the County Fiscal Officer the total amount from all sources which is available for expenditure from each fund in the tax budget along with any balances that existed at the end of the preceding year by the required due date for the years 2002 and 2001.

Contrary to Ohio Rev. Code Section 5705.36, the Village did not obtain an increased amended certificate upon determination that an additional amount of revenue will be collected in any fund. As a result, by not maintaining budgetary accounting records, the Village could not determine whether appropriations were within estimated resources in all funds.

Contrary to Ohio Rev. Code 5705.38, the Village did not adopt a permanent appropriation measure for the years 2002 and 2001. As a result, expenditures of \$2,253,279 and \$2,306,052 for the years 2002 and 2001, respectively, were never appropriated.

Contrary to Ohio Rev. Code 5705.39, by not maintaining budgetary accounting records, the Village could not determine if total appropriations from each fund exceeded total estimated fund resources from each fund for the years 2002 and 2001.

Contrary to Ohio Rev. Code 5705.04, the Village did not properly distribute taxes to the appropriate funds as outlined on the County Fiscal Officer's tax settlement sheet.

Contrary to Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16, the Village, during the year 2002, did not approve by resolution a transfer from the General Fund to the Police Facility Note and the Police Disability Pension Fund in the amounts of \$97,845 and \$24,852, respectively.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 2% on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. Residents of the Village are granted 100% credit for taxes paid to other municipalities. Income taxes are collected by the Regional Income Tax Agency (RITA).

Employers within the Village withhold income tax on employee compensation and remit the tax to RITA either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
General Obligation Notes	\$442,670	5.5%

The General Obligation Note relates to a bank loan obtained to construct a police facility. The original amount of this loan was \$500,000. The loan will be repaid in semiannual installments of \$32,615 including interest, over 10 years. The General Obligation Note is collateralized by the Village's taxing authority.

Amortization of the above debt, including interest, follows:

Year ending December 31:	General Obligation Notes
2003	\$65,230
2004	\$65,230
2005	\$65,230
2006	\$65,230
2007	\$65,230
2008 – 2011	163,075
Total	\$489,225

7. RETIREMENT SYSTEMS

The Village's full-time law enforcement officers and full-time firefighters belong to the Ohio Police and Fire Pension Funds (OP&F). Part-time law enforcement officers, part-time firefighters, and other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2002 and 2001, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant and fire participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2002.

8. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

8. RISK MANAGEMENT (Continued)

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5% of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

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

	2002
Assets	\$5,584,592
Liabilities	<u>(2,441,793)</u>
Members' Equity	<u>\$3,142,799</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

9. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding by the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes any refunds, if any, would be immaterial.

10. SUBSEQUENT EVENTS

The Village has authorized the mayor to negotiate a Tax Anticipation Loan from a local bank for \$400,000 to cover an anticipated deficit in the General Fund. As of March 18, the Village has not yet finalized the note issuance.

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**Auditor of State
Betty Montgomery**

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

Village of Lakemore
Summit County
P.O. Box 455
1400 Main Street
Lakemore, Ohio 44250-0455

To the Village Council:

We were engaged to audit the financial statements of the Village of Lakemore, Summit County, Ohio, (the Village) as of and for the year ended December 31, 2002 and 2001, and have issued our report thereon dated March 18, 2005, wherein we noted that we were unable to issue an opinion on the financial statements due to the condition of the financial records.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-001 through 2002-014. We also noted immaterial instances of noncompliance that we have reported to the Village's management in a separate letter dated March 18, 2005.

Internal Control Over Financial Reporting

In attempting to plan and perform our audit, we considered the Village's internal control over financial reporting 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2002-15 through 2002-024.

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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 items 2002-017 through 2002-024 to be material weaknesses. 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 Village's management in a separate letter dated March 18, 2005.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 18, 2005

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2002-001

Noncompliance

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During 2002 and 2001 100% of the expenditures tested were not certified by the Village Clerk-Treasurer prior to incurring the obligation. It was also found that none of the three exceptions above were utilized for the items found to be in noncompliance. The Village should certify the availability of funds for expenditure and also implement the use of "Then and Now Certificates" as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

FINDING NUMBER 2002-002

Ohio Rev. Code Section 5705.28(A)(2) requires the Village Council, as the Village's taxing authority, to adopt a tax budget for the next succeeding year on or before July 15 of each year.

Village Council did not adopt an annual tax budget for 2003, and adopted the tax budget for 2002 on August 20, 2001, 36 days after the required due date. To avoid jeopardizing their share of local government monies, the Village should adopt a tax budget on or before July 15 of each year.

FINDING NUMBER 2002-003

Ohio Rev. Code Section 5705.34 requires the Village to pass an ordinance or resolution authorizing the necessary tax levies and to certify the levies to the auditor or County Fiscal Officer before October 1 in each year or at such later date as is approved by the tax commission.

The Village Council did not pass an ordinance or resolution authorizing the necessary tax levy and did not certify the levy to the county fiscal officer by October 1, for 2002, until November 19, 2001 for the year 2002. A resolution was not passed by Village Council authorizing the necessary tax levy and did not certify the levy to the County Fiscal Officer for the year 2001. The county fiscal officer does not have the authority to collect levy monies until the rates and amounts have been certified by the Village. As a result of the late filings, the Village's collection of tax levy revenues for 2002 and 2001 could have been jeopardized. The Village should ensure the necessary tax levies are formally approved and certified to the county fiscal officer in a timely manner, which will help ensure that monies generated from the Village's tax levies can be collected and available for the Village.

FINDING NUMBER 2002-004

Ohio Rev. Code Section 5705.36(A)(1) provides, in part, that on or about the first day of each fiscal year, the fiscal officers of each subdivision and other taxing units should certify to the auditor or county fiscal officer the total amount from all sources available for expenditures from each fund in the tax budget along with any encumbered balances that existed at the end of the preceding year. In addition, this section allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenues to be collected will be greater or less than the amount in the official certificate of estimated resources.

For 2002 and 2001, the Village failed to certify the total amount available from each fund to the county fiscal officer. By not certifying year-end balances to the county fiscal officer, and subsequently obtaining an amended Certificate of Estimated Resources, the Village could base appropriations on outdated estimates of available resources which could result in negative fund balances. The Village should file its certificate of available revenue with the county fiscal officer on or about the first day of each fiscal year.

FINDING NUMBER 2002-005

Ohio Rev. Code Section 5705.38 requires that on or about the first day of each fiscal year, an appropriation measure must be passed. The village may pass a temporary appropriation measure to meet their ordinary expenses until April 1, at which time a permanent appropriation measure must be passed.

The Village did not adopt a permanent appropriation measure for the years 2002 and 2001. As a result, expenditures made during these years may not be legally expended. The Village should adopt a permanent appropriation measure by the first day of each fiscal year.

FINDING NUMBER 2002-006

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed the total of the estimated revenues available for expenditures from the fund. This section also requires the Village to obtain a county fiscal officer's certificate stating that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

During 2002 and 2001, the Village did not obtain a certificate from the county fiscal officer stating that total appropriations from each fund did not exceed total estimated resources.

The clerk-treasurer should maintain appropriate budgetary accounting records and provide the Village Council with monthly detailed budgetary reports. Village Council should monitor appropriations versus estimated resources to help avoid overspending.

FINDING NUMBER 2002-007

Ohio Rev. Code Section 5705.04 requires the taxing authority of each subdivision to divide the taxes levied into the following separate levies:

- (A) The general levy for debt charges within the ten mill limitation;
- (B) The general levy for current expenses within the ten mill limitation;
- (C) Special levies authorized by sections 5705.01 to 5705.47, inclusive, of the Revised Code, within the ten-mill limitation;
- (D) The general levy for debt charges authorized by law or by vote of the people in excess of the ten mill limitation;
- (E) Other special or general levies authorized by law or by vote of the people in excess of the ten mill limitation.

The Village clerk-treasurer failed to properly distribute taxes to the appropriate funds as outlined on the county fiscal officer's tax settlement sheet. As a result, during 2002, restricted monies in the amount of \$74,272 were recorded in the General Fund and used for general operations. This amount has been adjusted and is reflected in the financial statements.

FINDING NUMBER 2002-008

Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. Generally, before an inter-fund transfer can be made from the General Fund, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board.

2002	<u>Transfers Out of Fund</u>	<u>Transfers Into Fund</u>	<u>Amount</u>
	General Fund	Police Facility Note	\$97,845
	General Fund	Police Disability Pension Fund	24,852

The transfers documented above were not approved by resolution of the Village Council. The Village Clerk-Treasurer should obtain approval from Village Council prior to transferring money from any fund. These transfers were retroactively approved on April 18, 2005

FINDING NUMBER 2002-009

Ohio Rev. Code Section 149.351(A) requires that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by Ohio Rev. Code Sections 149.38 through 149.42.

The Village was unable to locate the following documents:

- The personnel file of the former clerk-treasurer
- The Tax Budget and the Annual Appropriation Measures for 2002 and 2001
- Certain invoices for related expenditures
- The Village's agreement with Springfield Local School District for the use of the Village's Swimming Pool
- Certain voided and canceled checks
- Payroll time sheets for the police department for 2002 and 2001
- W-2 forms for 2002 and 2001.

The Village should ensure all records are adequately safeguarded. In addition, Village Council should establish a records removal policy. This will help ensure that Village records are not lost or destroyed.

FINDING NUMBER 2002-010

26 CFR Section 1.6041-1 requires governments to report on Form 1099 "salaries, wages, commissions, fees, and other forms of compensation for services rendered aggregating \$600 or more." Also, **26 CFR Section 1.6041-2** provides that wages, as defined in section 3401 are to be reported on Form W-2. The IRS publication Instructions for Forms W-2 (Cat. No. 25979S) specifies that "The entries on Form W-2 must be based on wages paid during the calendar year." Internal Revenue Code also provides penalties under code section 6721 for failure to file correct information on Form W-2.

The Village Clerk-Treasurer failed to file required Internal Revenue Service forms (i.e. 941, W-3, W-2, and 1099) for 2002 and 2001. The Village also failed to file the associated State of Ohio Department of Taxation forms. The Village incurred penalties which were subsequently abated by the Internal Revenue Service on April 5, 2004.

FINDING NUMBER 2002-011

26 USCS Section 3402 and **Ohio Rev. Code Section 5747.06** require the employing government to withhold federal, state and local income and employment-related taxes (such as Medicare). They also require the government to report those tax matters to the appropriate authorities and to the recipients.

The Village failed to include the first pay of January 2002, January 2001, and employee bonuses as compensation on the W-2 Forms for 2002 and 2001. As a result, federal, state and local income and employment-related taxes were not properly withheld for these years. The Village should amend its W-2 forms for 2002 and 2001 so that they include the first payment made to employees and any bonuses which were paid. Any additional tax withholdings should be submitted to the Internal Revenue Service and amended tax returns should be filed.

FINDING NUMBER 2002-012

Ohio Rev. Code Sections 742.01, 742.02, 742.31, to 742.34 - Police and Fire Disability and Pension Fund, prescribes definitions, purpose of the fund, rates of employee contribution, and reporting of employee deductions, respectively.

The Village failed to remit required employer reports to the Ohio Police and Fire Pension Fund (OPFPF) in the years 2002 and 2001. These reports were filed with OPFPF during 2004, and all obligations were paid accordingly. The Village should remit the required employer reports and payments to the OPFPF board of trustees in a timely manner.

FINDING NUMBER 2002-013

Ohio Rev. Code Sections 4141.20 to 4141.23 – specifies employer reporting and payment requirements to Ohio Job and Family Services for state unemployment tax and prescribes penalties for failure to comply.

The Village failed to file required reports for unemployment with the Ohio Department of Job and Family Services (ODJFS) during 2002 and 2001. These reports were filed with the Ohio Department of Job and Family Services during 2004 and all obligations were paid accordingly. The Village should remit the required reports and payments for state unemployment tax to ODJFS in a timely manner.

FINDING NUMBER 2002-014

Ohio Rev. Code Section 5705.09(F) requires each governmental subdivision to establish a separate fund for each class of revenues derived from a grant which are required by law to be used for a particular purpose, such as grants with differing requirements.

Sections 24 and 28 of the Code of Federal Regulations outline requirements to be followed by entities receiving federal grant monies awarded by the U.S. Department of Development and the U.S. Department of Justice, respectively. These regulations cover requirements related to allowable activities, allowable costs, cash management, matching requirements, program income, reporting, and the availability of these federal funds.

During 2001, and in previous periods, the Village received various federal grants from the U.S. Department of Development and the U.S. Department of Justice, including the Community Development Block Grant (CDBG), COPS FAST, Byrne Crime Prevention, and Safe and Sober. The total received in 2001 under the COPS FAST and CDBG was \$12,961 and \$105,528, respectively. The Village had 2002 ending fund balances of \$38,968 for the COPS FAST grant, \$61,311 for the CDBG grant, \$70 for the Byrne Crime Prevention grant, and \$83 for the Safe and Sober grant. The Village Clerk-Treasurer commingled three separate CDBG grants into one fund and failed to track these grants on an individual basis. Consequently, the Village is unable to determine what types of monies are included in these ending fund balances. Additionally, we are unable to determine if the Village complied with the requirements outlined in Sections 24 and 28 of the Code of Federal Regulations.

The Village should record and track federal grant monies separately from each state and local fund. The preferred method is to create a specific fund for each grant and to track all receipts and expenditures for the specific grant monies in the appropriate fund. This will allow the Village to monitor their compliance with federal requirements and track the receipts and expenditures for each grant. The Village should also contact the grantor agency and determine what monies, if any, should be returned to the federal government.

FINDING NUMBER 2002-015

Reportable Condition

Backup Procedures

Sound computer backup practices require that a recent copy of the system and data files be retained off-site to ensure their availability in the event of complete data loss.

The practice of storing backup data on-site increases the risk that the data will not be available if the system should crash or is destroyed, resulting in the inability of the Village to continue operations.

During our review it was noted that backup information for the finance and utility system data were stored on site in the Village Hall. In addition, the Village does not back up its financial information on a daily basis. We recommend that backup practices be modified to require that backups are rotated off-site to a location where the Village can ensure adequate environmental and access controls and that backup procedures are performed on a daily basis.

FINDING NUMBER 2002-016

Reportable Condition

Security Administration

The increasing dependence of the Village on data processing for daily operations makes it important that precautions are taken against unauthorized modification, disclosure, disruption or use of data and programs. Policies, as high level statements of intent, provide management direction and guidance. Security standards are specific requirements that enable compliance or noncompliance to be evaluated and measured. Procedures (or practices) are detailed security measures or processes tailored to a specific department, system or operating environment. Policies and standards are implemented through practices or procedures.

The Village has not established formal security administration procedures, which increases the risk of unauthorized modification, disclosure, disruption or use of data and programs. Also, the Village has no firewall protection to prevent hackers or other unauthorized persons from gaining access to the computer systems.

One form can be utilized to assign the user identifier and password, note actual access levels needed, document approval by the Supervisor and record subsequent deletion of the user identifier. A security statement can be incorporated into the form used to request a user identifier. The statement should define the user's responsibility for confidentiality of their password and the data access privileges. The user's signature on the request form would acknowledge their awareness of security responsibilities. In addition, the Village should obtain adequate firewall software to protect all its computers with internet access from unauthorized intrusions and potential corruption of data and systems.

Once developed, the security policies, standards and procedures should be communicated to employees and appropriate training provided on a continuing basis. Written security administration procedures should include the following items:

- User profile setup and maintenance;
- Authorization and approval criteria;
- Security policy;
- Access request forms;
- Access revoke criteria;
- Security reporting and review criteria.

FINDING NUMBER 2002-017

Material Weakness

Financial Records

For the years ended December 2002 and 2001, the Village's accounting records were maintained in a manner such that interim financial activity and annual financial statements could not be prepared. The Village hired a consultant to reconstruct the accounting records by preparing monthly bank reconciliations for the 24 month period, and aggregating the financial activity by month and year in order to prepare a summary of the financial activity and prepare annual financial statements. In addition, the Village Council failed to monitor Village fiscal operations which allowed the financial records to remain incomplete and inaccurate, which ultimately results in Council's inability to make sound financial decisions.

The posting of financial activity should be performed accurately and in a timely fashion, and bank reconciliations should be performed monthly, including reconciliations between bank balances and book balances. The Village Council should review the monthly financial reports and monitor the financial activity in order to make sound financial decisions and to help ensure the financial health of the Village.

To help ensure that accurate financial information is provided, the Council should develop, implement and monitor the following control procedures for assurance as to the timeliness and reliability of financial information.

- Council should review and approve monthly financial statement information in a timely manner.
- Council should review information such as long outstanding items or unusual or significant accounting entries.
- Council should review account reconciliations on a monthly basis, including any reconciling items on bank account reconciliations to help ensure the reconciliation is accurate and is performed in a timely manner.
- Council should review and formally approve financial reports documenting the Village's financial activity. This review and approval should be documented in the minute record.
- Council should develop and implement monitoring procedures to help ensure that all transactions are properly recorded and recorded in the proper period.
- Council should develop and implement monitoring procedures to help ensure that all financial activity for the period is reflected in the financial statements.
- Council should develop and implement procedures regarding payment of financial obligations to avoid overpayment of bills and help eliminate late payments, fines, and penalties.
- Council should establish and adhere to policies and procedures governing accounting and reporting pursuant to the Ohio Admin. Code Section 117-2-02. These policies and procedures include such things as processing journal entries in a timely fashion, proper cut-off, supervisory approvals, etc.
- Council should be actively involved in monitoring Village finances and operations.

These procedures may help improve the timeliness and accuracy of financial information provided to the Village Council, and may help detect and prevent errors from occurring in the financial operations.

FINDING NUMBER 2002-018

Material Weakness

Monitoring Control Procedures

Internal control procedures are developed and implemented to assist management in reducing potential financial statement misstatements by detecting or preventing errors and irregularities in the accounting system in a timely manner. During our review we noted the following:

- An integral part of a system of internal control is the reconciliation between bank balances and the general ledger. The Village failed to perform monthly bank reconciliation during fiscal years 2002 and 2001. Bank reconciliations are required in order for accounting errors to be discovered in a timely manner and to prevent the misappropriation or loss of Village assets. The Clerk-Treasurer should perform monthly bank to book reconciliations on all bank and investment accounts in a timely manner. In addition, this reconciliation should be reviewed by the Village Council, along with the supporting documentation for the various reconciling items so that they can monitor that these reconciliations are being performed correctly and on a monthly basis. By performing monthly bank reconciliations, the Clerk-Treasurer will be able to better detect errors in the financial records, and the Village Council will be better prepared to monitor the financial activities of the Village.
- There is no segregation of duties between the Clerk-Treasurer's department and the utility department. Currently the Utility Clerk collects all the money received by the various departments, deposits these monies, and opens all the mail. Collections from all departments should be deposited with the Clerk-Treasurer. The Clerk-Treasurer should issue a receipt for all monies received by her, whether received by her directly (i.e., County Fiscal Officer receipts), or received from another department. The Clerk-Treasurer should make all bank deposits. All departments submitting collections to the Clerk-Treasurer should also submit all the supporting documentation such as duplicate departmental receipts issued to the customer, copies of permits, dock forms, summary Utility Cash Receipt Journal, etc. with the deposit ticket in order to permit the Clerk-Treasurer to reconcile the bank deposits to the departmental records and to determine the source and purpose for appropriate accounting treatment. The Department should reconcile their receipt records with the Clerk-Treasurer on a monthly basis to help ensure the monies are being deposited correctly. In addition, the Clerk-Treasurer should perform spot checks at the various remote collection points to verify the day's collections and provide additional oversight on these locations.
- Mail is not stamped with a date stamp to indicate the date it was received by the Village. The mail is currently collected by and opened by the Utility Clerk and distributed to the various departments. To control collection and ensure proper distribution of the mail, all Village mail should be collected from the post office box by the Clerk-Treasurer. The Clerk-Treasurer should be the sole person with a key to the post office box, and should be collecting all mail directed to the Village. Once collected, the Clerk-Treasurer should distribute the mail unopened, to the appropriate officials. All correspondence should be date stamped to document the date received.

FINDING NUMBER 2002-018 (Continued)

- The Village Clerk-Treasurer's office is not properly secured as several Village employees have keys which compromise the security of sensitive public and personnel records. Access to the Clerk-Treasurer's office and departmental offices should be restricted only to authorized persons in each department in order to secure Village records. A log should be kept of those persons who have keys to various areas and keys should be marked "DO NOT DUPLICATE" to avoid unauthorized copies of keys. In addition, all locks should be changed immediately when there is a change in department personnel, especially those in sensitive positions. As an added control, all file cabinets should be locked when not in use to prevent unauthorized access to Village records and restricted files. Again, only those with the proper authorization should have access to these filing cabinets.
- The Village's filing system was in disarray because documents were not filed consistently or logically. For example, some cancelled checks were filed with the bank statements, some filed with receipt documentation, and others filed with the invoices. Checks, including voided checks should be filed in numeric order in a canceled check file to account for any unbroken sequence of check numbers. The village should create a monthly activity folder that would include the bank reconciliation, original bank statements, an outstanding check list, deposit in transit information, and any other documentation supporting the reconciliation.
- Several voided checks were not properly defaced to prevent unauthorized use. All Voided checks should be defaced by cutting out the signature area and marking the check "VOID" on the check to prevent possible unauthorized use.
- Employee personnel files are not currently maintained in a central location. All personnel files should be maintained by the Village Clerk and kept in the Village Clerk-Treasurer's office. All personnel files should be immediately transferred to the Clerk-Treasurer where they should be kept in a locked file. Access to personnel files should only be with the written permission of the employee except to those persons authorized by law to view the personnel files. There should be a written log, including dates, times and signature of persons reviewing the files (including the employee), maintained in each personnel file to document access to the file. Employee personnel files should have a separate secured folder to contain non-public information, such as medical information. Social Security numbers should not be on any document available for public inspection, and should be redacted on any copies provided to the public.
- No purchase requisition forms were used to document Village Council's approval of purchases over \$100. The Village should institute the use of a purchase requisition form to document their approval of purchases requested by the various departments. The form should be signed by the department head requesting the purchase to document that it is an authorized purchase, the Mayor to document that they approve the purchase, and the Clerk-Treasurer to document that the proposed purchase is within appropriations. The Clerk-Treasurer can then proceed to create a purchase order and certify the funds prior to placing the order or making the purchase. A copy of the Purchase Requisition Form should be kept by the department; a copy should be attached with a copy of the approved purchase order, original invoice, and check copy in a voucher packet to clearly document the proper procedures and approvals were met. The Clerk-Treasurer should also keep a numeric file of purchase requisitions and purchase orders to account for numeric sequence of the forms.
- The Village made payments to vendors based on vendor statements instead of vendor invoices, which could result in duplicate payments. The Village should reconcile any invoices received to the monthly vendor statement and pay any invoices received. The statement should be clearly marked or stamped as a statement and not an invoice. These procedures will help avoid double payments and the potential loss to the Village.

FINDING NUMBER 2002-018 (Continued)

- Village employees received monies in advance for travel expenses and were not required to turn in travel expense receipts denoting the amount to be reimbursed. The Village does not have a travel reimbursement form to document mileage, meals and lodging reimbursement. The Village should implement a standard form to document employee mileage, meals, lodging and other travel expenses which are reimbursable to the employee. The form should encompass starting point, destination, mileage, lodging costs, individual meals by the day, taxes, parking, etc. The Village should require detailed receipts for meals, lodging, taxes, gas, parking, etc. be attached to the travel reimbursement form in support of the requested reimbursement. The form should be signed by the employee and approved by the departmental supervisor prior to payment. All travel expenses should be reimbursed to the employee only upon submission of the travel reimbursement form and detailed receipt documentation supporting the amounts to be reimbursed. Any advances for travel expenses should be accounted for through a submission of a travel reimbursement along with related receipts. Any money not spent should be returned to the Village. A comprehensive travel and reimbursement policy should be implemented to establish rules and maximum reimbursements for meals, travel and lodging. This policy should be made part of the personnel policy manual and distributed to all employees.
- The Village does not have a cash register or computerized receipt mechanism in place to ensure that a duplicate receipt record is produced for monies received for utility payments, customer deposits, zoning receipts, building and electrical permit receipts and park receipts. The Village should consider the efficiencies and improved documentation to be gained from the implementation of a cash register or computerized receipting function in both the utility and finance department.
- Certain resolutions and ordinances were not made available to us during the audit due to their loss or destruction. All original, signed resolutions and ordinances are public records and should be maintained in numerical order to facilitate research and public access.
- The Park department does not have a form to identify the type of money received such as docking passes, and does not use a receipt book to record the amount of monies received. The Parks Department should implement pre-numbered forms in triplicate to record the various fees collected. A pre-numbered triplicate receipt should be issued for each collection documenting the payer, date, purpose, and amount collected and signed by the person issuing the receipt. The original copy of the receipt and the permit form should be given to the person remitting payment. Copies of any receipts issued, permits, and money collected should be attached to a pay-in which indicates the types and amounts of monies received. This pay-in along with the supporting documentation should be remitted to the Clerk-Treasurer on a daily basis, who is then responsible for posting these revenues to the general ledger and making the bank deposit. At the end of the month, the parks department should reconcile the park revenue with the Clerk-Treasurer to ensure that all monies were properly posted to the General Ledger. This is true for each department that receives monies, in that each should prepare a detailed pay-in outlining the types of money received. The Clerk-Treasurer should give a receipt for all money received by the department head.
- Checks for BMV Immobilization fees and other Police monies and for the Fire Department were made payable to the Police and Fire Departments, respectively, instead of to the Village of Lakemore. The Village should inform all sources of revenues that checks must be made payable to the "Village of Lakemore," and sent in the care of the "Clerk-Treasurer" to the Village P.O. Box to help ensure all receipts are receipted and properly processed.

FINDING NUMBER 2002-019

Material Weakness

Receipts

During our review we noted the following errors and weaknesses that have evolved in the receipting function over several years. These weaknesses resulted in the Villages inability to track revenues, and if not addressed could lead to the misappropriation of Village assets.

- Village Council failed to monitor Village revenues through budget to actual comparisons, revenue reports, and bank reconciliations. This failure eliminates any accountability for the Clerk-Treasurer and other department heads, and results in the loss of the Village Council's monitoring control. Village council must be actively involved in the accounting process, and should monitor the revenues of the Village to ensure that all revenues are being properly deposited into a Village account and recorded correctly in the general ledger.
- Currently, if a customer check is returned as "NSF," the Utility Clerk will remove it from the mail and hold the check, sometimes for more than a month until the customer can be contacted. NSF check fees are inconsistently charged, in that in some cases, no fee is charged and in other cases the fees are not consistent between checks. The Clerk-Treasurer was never notified when an NSF check was returned by the bank, and failed to notice the difference in the deposit on the bank statement since bank reconciliations were not performed. In addition these amounts were never reversed from customers accounts. Hence, when the check was re-deposited, the Utility Clerk included it on the deposit ticket and it was recorded a second time by the Clerk-Treasurer, resulting in an overstatement of receipts. All NSF checks should be returned directly to the Clerk-Treasurer. The Clerk-Treasurer should then inform the appropriate department of the NSF check, and the customer's account should be immediately charged for the amount of the NSF check. An individual whose check is returned as NSF should have a standard fee charged to their account. This standard fee should be set by the Village Council. The Clerk-Treasurer should enter an adjustment to the general ledger to reverse the original receipt recorded in the amount of the NSF check. If it is for a utility payment, the Utility Clerk should also record a similar adjustment in the utility system accounts. The re-deposited check should be deposited and recorded in the usual manner.
- The coding of account numbers in the general ledger does not classify financial transactions in a logical manner. For example "property tax" and "municipal income tax" are both classified as "A" classifications; and "licenses, permits, and fees", and "fines and forfeitures" are both designated as "F" classifications. Because of the way the current accounts are classified, we noted numerous misclassifications of revenues in the general ledger, which were then transferred to the financial statements. The receipt codes for the various accounts in the Receipt Register should be reviewed and changed to follow a logical format based upon the type of revenue and source. (i.e., all "Taxes" should be an "A" code for the line item identifier, Municipal Income Tax should be a "B" code, Intergovernmental Revenue should be a "C" code, etc.). Separate accounts should be established in each fund for each type of revenue in order to produce financial statements that may be use by Village officials to make informed decisions and to assist in the preparation of a proper budget. The Receipts Register accounts should be thoroughly reviewed and reclassified in appropriate categories for financial reporting. The Village should consult the Village Officers' Handbook produced by the Auditor of State to properly code all receipts.

FINDING NUMBER 2002-019 (Continued)

- Municipal income tax revenues were reported as Intergovernmental Receipts in the General Fund and as a separate line item in the Capital Improvement Fund. Municipal income tax revenues should be classified as a separate line item in the Receipt Register, and should be classified as municipal income taxes on the financial report for each fund that receives income tax monies. Because of the importance of income taxes to the Village, it is imperative that these revenues be disclosed separately in the receipt ledger and in the financial report so that the Village council may make informed decisions concerning the financial issues that surround the Village. It is Councils responsibility to ensure that they are receiving the financial information required to make informed decisions.
- During our review, we found a warrant dated July 10, 2001, in the amount of \$442.02 from the State of Ohio, for state permissive motor vehicle tax distribution that was never cashed. In addition, we found two state distributions that were made in November and December of 2001 in the amounts of \$345.00 and \$303.75 that were not recorded until January 31, 2002. The Village should contact the Auditor of State's office to determine if the uncashed check can be reissued. The Village should deposit all monies on a daily basis to avoid the loss of Village assets and to improve cash flows.
- Non-receipt items such as the carbon copy of checks, checks which were paid in error and returned by the vendor, and voided checks were filed with the monthly receipt files. The receipt files should only contain documentation pertaining to receipts. Voided checks should be filed with the canceled checks; carbon copies of checks should be filed with the related vouchers in the expenditure files.
- Several different types of receipts were combined into one entry and labeled "Misc. State & County Receipts" resulting in the inability to determine the types of revenues which made up these entries. Each individual type of revenue received should be evidenced by a pre-numbered pay-in issued by the Clerk-Treasurer so that source documents can be properly matched to the ledger entries. Receipts should not be commingled on the pay-in, but should be identified separately so that a reconciliation of receipts can be performed.
- Receipts were posted as the date a check was written rather than the date the check was received. This makes it difficult for the Village to monitor daily receipts, makes it difficult to reconcile daily receipts to deposits, and could lead to the loss or misappropriation of Village assets. When revenues are collected, they should be recorded as of the date received and deposited within 24 hours of receipt. The date when the check was written has no bearing as to when the check should be recorded in the Village revenue ledger. Each pay-in should be stamped with the date received, the account to be charged, and be initialed by the person posting the receipt to the revenue ledger. This will allow the Village to match the ledger entry to the underlying documentation in the monthly receipt files in an efficient manner and is conducive to the reconciliation process.
- During our review we noted that the Village does not have a proprietary fund type for refuse services provided by the Village to its residents. We found that all refuse fees and associated expenditures were posted to the General Fund instead of a fund specific to refuse activities, as required by the Village Officers' Handbook. When refuse revenues and expenditures were adjusted to properly reflect the accounting for these transactions in a refuse fund, it was discovered that expenditures associated with refuse collections exceeded revenues, resulting in a negative fund balance. The Village should establish a separate fund under the Enterprise category to record refuse fees and expenditures in accordance with the Village Officers' Handbook. This will allow the Village to monitor proprietary activity and make informed financial decisions as to whether or not rates should be increased or cost saving procedures should be implemented.

FINDING NUMBER 2002-019 (Continued)

- Contrary to the Village Officers' Handbook, water utility deposits were commingled with water customer fees in the Water Fund. Per the Village Officers' Handbook, a separate fund is to be used to segregate utility deposits from customer fees. Utility deposits and refunds should be recorded in a separate Agency Fund to properly account for customer deposits and any refunds of these deposits.
- An integral part of a system of internal control is the reconciliation of daily bank deposits to the daily revenue ledger. The Village failed to keep a daily revenue ledger or create daily pay-ins resulting in their inability to reconcile bank deposits to revenue collected. In addition the Village failed to issue receipts to those individuals or departments for money received, resulting in a lack of accountability for monies collected. All receipts received should be entered into either a revenue ledger or a receipt book. A receipt should be issued to each individual making a payment to the Village, or to a department when money is being remitted to the Clerk-Treasurer. In addition, when a department remits money to the Clerk-Treasurer, a pay-in should be prepared identifying the types of moneys collected, the amounts and the account codes to be credited. At the end of every month, the department heads should reconcile their records to the daily deposits to ensure that all money collected was properly deposited. This will help to ensure that individuals are accountable for money collected and will also ensure that all money collected was properly deposited into the Village account.
- Accounting literature defines a fund as a "...fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources...which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations." In addition, Special Revenue Funds are established to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. During fiscal year 2002, the Village received a "Third Grade Safety Grant" which was required to be accounted for in a fund specific to this grant. The Village however recorded these grant funds as "Miscellaneous Revenue" in the Law Enforcement Fund. Per Auditor of State Bulletins 86-12 and 88-18, the Law Enforcement Fund is to be restricted to specific types of revenues related to seized contraband. The Village should establish a fund for each grant so that grant funds may be accounted for separately from other federal, state, and local monies. In addition, the Village should only record those transactions associated with seized contraband in the Law Enforcement Fund in accordance with Auditor of State Bulletins 86-12 and 88-18.
- The Village does not have written receipt procedures in place, resulting in inconsistencies between departments in the handling of receipts and deposits. In addition, the current methodology of processing receipt transactions results in no accountability by any individual for payments made to the Village. This lack of consistency and accountability, and the lack of the monitoring of these activities by Village Council, results in an control environment where Village assets could easily be misappropriated or lost. The Village Council should establish and adopt procedures over the receipt of revenue that will promote a control environment that will detect or prevent errors in the normal course of business and in a timely manner. In addition, Village Council should take an active role in monitoring these activities to ensure that the official procedures are being followed and that all checks and balances are in place and operating.

FINDING NUMBER 2002-019 (Continued)

- On several occasions the Utility Clerk included checks on a deposit ticket, but these checks were not included in the deposit, thus overstating the actual deposit. These checks were then deposited at a later time as evidenced by the bank statement, but no deposit ticket could be located for these transactions. We were unable to determine if these amounts were recorded twice in the general ledger; however because the Village failed to properly reconcile the bank to the books, these errors were never discovered. Had a bank to book reconciliation been performed, these errors would have been found on a timely basis instead of three to four years after it occurred. As mentioned before, the Clerk-Treasurer should be making all bank deposits; all checks listed on a deposit ticket should be included in the deposit; the carbon copy of the bank deposit ticket should be matched to deposit receipt printed by the bank; and monthly bank reconciliations should be performed.

FINDING NUMBER 2002-020

Material Weakness

Expenditures

During our review, we noted numerous weaknesses in the internal control system over the expenditure of Village funds. The most significant of these items are as follows:

- The Village made payments to vendors based on billing statements and invoices, resulting in double payments to vendors for the same item or service. We found that several vendors returned the check on which the second payment was made, and found that the treatment of these checks was inconsistent at best, in that some of these checks were placed with receipt documentation, others were included in the voucher files, but in no instances were these checks found to be voided, listed as outstanding, or adjusted from the expenditure ledger; and in some instance these checks were recorded as revenue. This resulted in the overstatement of expenditures, and weakens the internal control structure to the point where Village monies could be misallocated or lost. The Village Clerk-Treasurer should reconcile invoices to the billing statements, and ensure that payments are made only on invoices, and that no payments are made on the billing statements themselves. In addition, should a check be drawn on a Village account and at a later date it is determined that the check will not be cashed, the Clerk-Treasurer should void the check by defacing or removing the signature block and reversing the expense from the expenditure ledger.
- The Mayor did not properly review the documentation supporting Village expenditures. This is evidenced by the fact that payments were made on billing statements and the incorrect coding to which these checks were charged. It is imperative that all Village expenditures be reviewed by someone other than the clerk to ensure that they are properly authorized and for a public purpose. This review will also help ensure that payments are for the correct amounts, to the correct vendor, and are being properly charged.
- We found several blank checks that were pre-signed by the mayor. As these checks were signed without a payee, they could have been used to make purchases contrary to a public purpose or Village business. Under no circumstances should a blank check be signed by a signatory. By only signing checks that are matched to an approved requisition, purchase order, and invoice, the Village will help to ensure that only authorized purchases are made with Village assets.

FINDING NUMBER 2002-020 (Continued)

- Several check had payees that did not match the payee in the check register. For example, we noted that a check may be made payable to “Akron Public Utilities,” but it is recorded in the check register as paid to the “City of Akron.” In addition the description of the payment in the Check Register was often described only as “payment”, so the purpose of the payment could not be determined through review of the Check Register. All expenditures recorded in the check register should have a short description of the purpose for the payment, and the payee should agree to that on the check.
- Numerous instances were noted where the check sequence was interrupted, and the Village was unable to produce documentation as to what happened to the missing checks. We could find no indication that these checks had cleared the bank, could not locate the missing checks at the Village or make any determination that they were properly voided. We located several voided checks in receipt files, but these checks had not been voided in the check register or appropriation ledger, thus overstating expenses. When a check is voided, it should be shown as void in the check register and the payment removed from the appropriation ledger. In addition, all voided checks should be filed with the canceled checks in numerical sequence. The Village should use checks in numerical order, and should be able to account for each check in sequence. This will allow the Village to control expenditures and will help prevent the unauthorized use of Village assets.
- We found that payment entries in the cash journal were not always in date order or check sequence number. The Village should record all transactions by date and in numerical sequence. There should be no instances where a check is used out of sequence.
- We noted a series of 55 checks in 2002, in which the printed number on the canceled check did not match the check number recorded in the check register. In addition, the Clerk-Treasurer removed the check from the carbon copies, ran the checks through the printer, then ran the carbon copies through the printer for the same transactions. Errors were made during the printing of the carbon copies, and the carbon copies differed from the original check. The Clerk-Treasurer, crossed off the printed check number and wrote in the check number that matched the original transaction. Carbon copy checks should be run through the printer intact.
- The complete fund and account code to which an expenditure was charged was not always included on the voucher, or differed from the account code charged per the expenditure ledger. The account code being charged should always be included on the voucher and should match that code recorded in the expenditures ledger.
- The Village received an estimate for a construction project from a potential vendor, which was typed on a piece of typing paper and included no signature or date. The Clerk-Treasurer treated this estimate as an invoice, and paid the vendor \$68,848 based on this estimate. Prior to payment, all expenditures should be reviewed by either the Mayor or a Village Councilman. All payments should be approved by Village Council and payments only be made on invoices. No payment should ever be made based on an estimate. In accordance with common accounting practice, the Village should ensure that either the Mayor our Council review expenditures prior to payment to help ensure they are authorized and for a proper public purpose.

FINDING NUMBER 2002-020 (Continued)

- Refunds issued to individuals, for purposes such dock keys or utility security deposits, were made without any evidence that they were authorized. In addition, there was no record kept of security deposits collected and to whom the deposit was due. The Village should track all security deposits collected for specific purposes, and place these in an agency fund specifically for each purpose. When an individual requests a refund of their security deposit, the request should be made in writing, and approved by the Village Administrator prior to the refund being paid.
- Numerous expense reimbursements were made to employees of the Village without any type of authorization. The Village currently has no policy in place that outlines the maximum amount or types of expenses to be reimbursed to employees. In addition, there is no standard procedure to be followed by an employee when making a reimbursement request. The Village should create a policy outlining the types of expenditures to be reimbursed, such as hotel expenses, meal expenses, parking, etc; the maximum amount to be reimbursed; those individuals who have the authority to approve the reimbursements; and the types of receipts to be submitted in order to be reimbursed. The Village should create an employee reimbursement form which outlines those expenses to be reimbursed, the signature of the employee making the request, and the signature of the department head, Mayor, or Village Councilman, who is to authorize the reimbursement. The Village should request detailed receipts for each type of expenditure to ensure that the reimbursement is made for a proper public purpose.
- During our review, we noted that cancelled checks are filed with the bank statements as they clear the bank, making it hard to locate a cancelled check should a question arise. All canceled checks, including checks that have been voided, should be filed in numeric sequence. This will help the Village in monitoring expenditures and help safeguard the check stock.
- We noted several non-payroll checks that cleared the bank more than 60 days after the check date, indicating that these checks may have been held for a period of time prior to mailing. The Village should not hold printed checks for any period of time after writing the check. This could lead to a double payment and the loss of Village assets.
- The Village did not follow the expenditure account coding as outlined in the Village Handbook. This resulted in expenditures being charged to accounts unrelated to the expenditure, and caused inconsistencies in the way charges were made. This results in the inability of the Village to compare actual expenditures to the Village budget in order to determine whether or not expenditures are within the certified appropriations. The Village should follow the coding system as outlined in the Village handbook to help ensure consistency in the manner items are charged.

FINDING NUMBER 2002-020 (Continued)

- During 2002 and 2001, numerous errors were made in the appropriation ledger because of incorrect account coding. Some of the more significant items are as follows:
 - Legal Defender Services were classified as transportation expense.
 - Trash collection revenues and expenditures were recorded in the General Fund.
 - Juvenile Youth Program Fund expenditures were included as part of the General Fund instead of being accounted for in a Special Revenue Fund type specific to that program
 - Expenditures for “Salaries” & “Benefits” for the juvenile youth officer were coded as “Other”
 - An expenditure account entitled “Dummy Appropriations” was found in the Law Enforcement Fund. AOS and the Clerk-Treasurer cannot determine the purpose of this account
 - Architectural and engineering services for the new police building were charged to General Fund rather than capital projects. These expenditures are considered part of the total cost of the police building asset.
 - General Fund contained an account titled “Contingency Fund”. Our review of this account indicates that it contains several entries that appear to be better classified in various other categories, including the employer’s share of retirement system payments, mowing, cable fees, Internal Revenue Service payments, correcting entries, etc.
 - The Village Administrator’s salary was sometimes charged to the Mayor’s Salary account.
 - The Nuisance Abatement Fund is coded as an Expendable Trust Fund type. However there is no trust agreement nor does it meet the requirements for a trust type fund.
 - Numerous unrelated items were recorded in the General Fund – Police Supplies & Materials, Fire Supplies, and other departmental supplies and materials accounts that should be posted to separate accounts to provide more specific information to allow management to better monitor and control expenditures. Among the types of police or fire expenditures that should be in separate accounts were telephone and cell phone charges, utilities, fuel costs, vehicle repairs and maintenance, vehicle equipment, uniform allowances, and training.
 - There is only one account in the Capital Improvement Fund for all Capital Outlay. Separate accounts for different categories of capital outlay such as police vehicles, computers, street equipment, street paving, etc. would provide better information for management decisions.

FINDING NUMBER 2002-021

Material Weakness

Utility Operation

Our review of the Utility Department procedures noted the following weaknesses:

- The Village does not have a separate Agency Fund to account for utility customer deposits. Utility Customer Deposits required for new customers are commingled with utility charges in the utility system's monthly cash journal resulting in an overstatement of water utility revenue; or are omitted entirely from the utility cash receipts journal. No record is currently being kept that tracks those customers who have made a deposit with the Village or the amount paid. The Village is unable to determine the total amount being held as security deposits and to whom those deposits belong. This complete lack of accountability results in Village Councils inability to make informed financial decisions concerning the utility operations, and effectively eliminates their ability to monitor Village assets. The Utility Clerk should enter all receipts in the revenue ledger; all revenue types should be tracked separately; all customer deposits should be recorded separately from water fee; all customers making security deposits should be documented; totals of all security deposits received should be tracked as to customer and amount; and all security deposits should be placed in an agency fund.
- Customer utility deposits are refundable after two years, if the customer account is current. Because the Village has no record of who has made a security deposit and the amount, deposits due the customer are unable to be tracked. In addition, there is no supervisory approval when refunds are issued. In order for a customer to receive a return of deposit, they make a verbal request to the utility clerk who then notifies the Clerk-Treasurer. The Clerk-Treasurer then cuts a check to the customer for the amount of the deposit and charges an expense to the water fund, thus overstating utility expenses. As mentioned earlier, the Village should begin tracking utility deposits in their accounting system, and automatically refund customers when their deposit is eligible to be refunded. Disposition of customer deposits should be documented on an official form and approved by a supervisor. If a customer due a refund cannot be located, the Village should follow the statutory disbursement procedures for Unclaimed Monies.
- Currently, the various departments collect fees for zoning, building permits, electrical permits, and park fees. These departments do not keep a daily receipt book tracking their daily receipts. In addition, no pay-in is prepared by the department when the money is given to the Utility Clerk, nor is a receipt prepared by the Utility Clerk for the money received. After the money is received, the Utility Clerk makes the deposit to the bank. Once the deposit is made, the deposit ticket and a handwritten breakdown of the deposit is given to the Clerk-Treasurer so that the appropriate account may be credited. There is no accountability which eliminates the ability of Village council to monitor Village assets. All departments should remit their daily receipts to the Village Clerk-Treasurer and not the Utility Clerk. Each department should maintain a daily receipt book, in which all daily receipts are recorded, and a receipt should be given to each individual who makes a payment to the Village. A pay-in should be prepared by the department, outlining the types of revenues collected and total daily amount to be remitted to the Clerk-Treasurer. The department should remit the pay-in, all daily receipts, and supporting documentation to the Clerk-Treasurer on a daily basis, and obtain a receipt from the Clerk-Treasurer for the amount deposited. At the end of every month, each department should reconcile their monthly receipt total to the total amount credited to their accounts by the Clerk-Treasurer and any difference resolved. This will result in accountability being assigned to each department and the Village Clerk and may help to ensure that Village assets are not misappropriated or lost.

FINDING NUMBER 2002-021 (Continued)

- Shut-off notices to delinquent utility customers are sent via regular mail, and thus do not provide proof of receipt in the case of customer disputes. Shut-off notices to customers should be sent via certified mail with a return receipt to document that the customer received the notice, refused the notice, or cannot be located.
- There is no indication or evidence that delinquent utility accounts are being periodically reviewed by the Village Administrator. This could result in an account becoming uncollectible should a significant amount of time elapse when a homeowner moves out of the area. All delinquent utility accounts should be reviewed and resolved by the Village Administrator on a quarterly basis and evidenced in some manner. All unpaid delinquent accounts should be certified to the County Fiscal Officer's office and affixed to the homeowners' property taxes.
- Water tap-in fees and sewer tap-in fees were classified incorrectly in the general ledger as "Licenses, Permits & Fees," instead of being properly classified as charges for services. Water line installation revenues were sometimes posted as water usage fees in the Water Fund; or to the miscellaneous income account in the General Fund. In addition, it was noted that receipt and expenditure categories reserved for governmental funds were used in the enterprise funds. Water tap-in and sewer tap-in fees should be recoded in the general ledger accounting system as "Charges for Services" in accordance with the coding system outlined in Village Officer's Handbook. A separate account should be established for water line installations in the Water Fund, and classified as "Charges for Services." Only those revenue and expense categories reserved for enterprise funds as outlined in the Village Officer's Handbook, should be used to account for the financial activity in the Village's enterprise funds.
- The current utility accounting system is unable to produce prior year reports or records except a customer history report. For example, a cash receipt report for June of 2001 cannot be produced, nor may the information be viewed. Prior year information may not be exported into another program or obtained in any other manner. This is a significant weakness in the system and eliminates an audit trail, again effectively eliminating any type of accountability. In essence, after a current year is closed, there is no way to produce a report or view data from that year, and any records not printed are lost. The Village should review their options concerning the utility computer system, and either consult with the vendor to determine the cost to modify the current program so that records from prior years can be accessed electronically, or consider replacing the current system. This will allow outside parties and Village officials, including the Utility Clerk and Village Administrator, to address and resolve questions and disagreements should they arise.
- A monthly Utility Receipts Journal is not always produced at month-end, nor is the Utility Receipt Journal reconciled by the Utility Clerk to the bank deposits, or to the general ledger accounts by the Clerk-Treasurer. Formal reconciliations should be performed on a monthly basis to reconcile the Utility Cash Receipts Journal to the bank deposit and general ledger accounts. On a quarterly basis, the Utility Clerk should reconcile the billing report to the Utility Cash Receipts Journal and the delinquent accounts. The reconciliations performed by the Utility Clerk should be reviewed by the Village Administrator, with his review documented by his initials. (In addition, the Village Council or Mayor should review the reconciliations performed by the Village Clerk-Treasurer.)

FINDING NUMBER 2002-021 (Continued)

- Segregation of duties is an integral part of a system of internal controls. This includes separating the duties of billing, collection, depositing, recording, making payments, and reconciliation. Currently, the Utility Clerk prepares customer billings, mails customer billings, receives customer payments, records customer payments, adjusts customer accounts, approves the return of security deposits, and makes the bank deposits. There is no indication that these activities are monitored or reviewed by the Village Administrator, Mayor, or Village Clerk. The Utility Clerk's dominance of these activities results in a significant weakness in the system of internal control, which is compounded by the lack of any monitoring or review by an individual independent of these activities. This situation is aggravated even more by the fact that the Utility Clerk is currently given all monies collected by the various Village Departments, and is responsible for making the deposits and recording the allocation of the receipts. The Utility Clerk should only be responsible for the billing and the collection of utility revenues. The Village Council should adopt a procedure policy which outlines the responsibilities of the Utility Clerk, Village Administrator, and Village Clerk-Treasurer. The Village Administrator should monitor and review the quarterly billing report, the quarterly collections, and reconcile the total amount billed and the amount collected on a quarterly basis, and review those accounts deemed delinquent. The Village Clerk should be responsible for making the daily deposits, and should reconcile the total monthly deposits with the total monthly collection per the utility receipt ledger as recorded by the Utility Clerk to ensure that all utility deposits were correctly posted. The Utility Clerk should remit to the Village Clerk all utility collections on a daily basis with a pay-in and supporting documentation. The Village Clerk-Treasurer should issue a receipt to the utility department for the monies received. Any complaints or inquiries from utility customers related to billing or the collection utility payments should be directed to and investigated by the Village Administrator. By implementing these procedures, the Village will greatly reduce the risk that Village assets are misappropriated or lost.
- In operating a utility department, it is expected that a utility department will make adjustments to the utility billings for various reasons. The reason for these adjustments is documented and the request for the adjustment goes through an approval process. During our review it was noted that an excessive number of adjustments were made to client accounts each month, most of which were documented through handwritten notes and did not go through a formal review process as they were only authorized by the Utility Clerk. In addition, the majority of these adjustments were handwritten in the receipt ledger, and were never entered into the utility system. The Village should establish a formal policy that outlines the process to be followed in order to adjust a customer's utility account. This policy should require: documentation for all adjustments; the Village Administrator's authorization; review by the Mayor of all adjustments on a quarterly basis; and the entering of adjustments into the utility system. After the adjustments have been authorized, they should be entered into the system, and a revised revenue report produced and reconciled to the monthly deposits. All documentation supporting these adjustments, including the Village Administrator's authorization, should be filed in the monthly receipt folder along with the monthly revenue ledger and cash report. In addition, after adjustments are entered, an edit report should be produced on a quarterly basis and reviewed by the Mayor. Under no circumstances should adjustments be authorized by the Utility Clerk or handwritten adjustments made to the ledger.
- A common control procedure in a utility system is to include on the current billing statement the prior amount billed, the amount paid, and adjustments made to the account. It was noted during our review that this information was not included on the billing statements, resulting in the customer's inability to check his account and ensure its accuracy. The Village should contact the Utility computer software vendor to inquire as to whether the system has this ability, or what action should be taken in order to modify the software so that this information is included on the current billing statements. This will greatly enhance internal controls over the Utilities cycle and serve to help prevent irregularities.

FINDING NUMBER 2002-022

Material Weakness

Payroll

During our review, we found significant weaknesses in the system of internal controls for the payroll transaction cycle. The more significant ones are as follows:

- Currently the Village has several different pay periods for each type of employee and pay, resulting in inconsistencies as to when employees are paid. For example, employee overtime is paid once a month as a separate payroll, and not as part of the employee's normal pay. Some employees are paid every two weeks, while others are paid only after council meetings, which could result in 4 or more paydays a month for various employees; and in addition these pay days may not always fall on the same day of the week. In some cases employees are actually paid in advance of time actually worked. Council members are paid the third week of the month after the last council meeting for the month. Fire department employees are paid regular earnings after each council meeting, but on-call pay is paid once per month after the first monthly council meeting. In addition, it is common practice to pay individuals in advance for vacation time up to several weeks before vacation is taken. There is absolutely no consistency in the way the Village handles their payroll transactions, resulting in their inability to easily monitor individual payrolls. A standard pay date should be established for all employees. This may be every other week, twice a month, or once per month. All payrolls should be processed only during the established pay period, including vacation time. If a person is to be paid monthly, their earnings will be paid on the next standard pay date after the end of the month. Overtime should be calculated and paid as part of their regular pay check on standard pay date. Under no circumstances should employees be paid in advance for vacation or time worked.
- In performing our review, we noted that employee federal tax withholding sometimes varied between pay periods while gross pay remained constant, giving the impression that withholdings may have been manipulated to increase the employee's net pay. In addition, the amount withheld from employee paychecks for local income tax, Medicare, and retirement deductions, were not always calculated correctly. Employee withholdings must be based upon W-4 forms filed by employees for federal and state withholding. If an event occurs that requires adjustment to the amount being withheld, the employee must file a new W-4, documenting the new information. Changes to employee withholdings should be documented on a W-4, and only the Village Clerk-Treasurer should have access to make these changes. The Village Clerk-Treasurer is the only employee who should have access to the payroll system.
- The dates for pay period printed on paycheck vouchers and in the payroll journal did not always agree to the supporting timesheets. In a few instances we were not able to verify that an employee was actually paid for hours documented on their timesheet. This indicates that no review is being performed by the department head, Village Administrator, Mayor, or Clerk-Treasurer after the information is entered into the payroll system. All hours worked and documented on an employee's time sheet should be entered for a specific pay period. After this information is entered, the Clerk-Treasurer should print a preliminary payroll report, and require the department heads to review and authorize those hours to be paid.
- During the course of the year Village Council approved rate increases for Village employees; however these rate increases were not always implemented by the Village Clerk-Treasurer. All pay rate increases should be implemented the pay period following the effective date of the ordinance. A copy of the appropriate ordinance should be placed in the employee's personnel file to document pay rates.

FINDING NUMBER 2002-023

Reportable Condition

Employee and Officials Bonds

The Village carried bonds for the Mayor, Clerk-Treasurer, Village Administrator, and Council President. However the Village failed to obtain a bond for the utility clerk, who handles significant amounts of money. The Village also failed to obtain a blanket employee dishonesty bond to cover other employees who handle lesser amounts of monies, such as the park department employees who collect fees.

We recommend the Village bond the utility clerk in an amount commensurate with the amount of collections she receives during the year. The Village should also obtain a blanket employee dishonesty bond to cover all other employees who may handle money in the course of their employment. The Village should take into consideration the amount of monies handled by the various individual when establishing a bond coverage for each position.

FINDING NUMBER 2002-024

Reportable Condition

Service Organization – Emergency Medical Billing and Processing Assurances

The Village contracts with North Coast Physicians to process and bill for their emergency medical services provided through the fire department's ambulance. However, North Coast Physicians does not provide assurances to the Village that it is properly billing and processing the collection of fees for these emergency medical services in accordance with Village policies.

In order to reasonably ensure the completeness and accuracy of emergency medical billing, processed by North Coast Physicians, Statement of Auditing Standards No. 70 (SAS70) Tier II report which prescribes testing and reporting standards for audits of claims processing controls in place at the service organization should be provided. Thus, the Village should obtain a "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" from North Coast Physicians. Such a report, if unqualified, would provide evidence to the Village's management that fees for their ambulance services are being processed in conformance with Village policies. Failure to obtain such a report puts the burden on management to provide evidence that services are being properly billed and that all fees due the Village are being collected and remitted to the Village.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30977-001	Revised Code 5705.41 (D) – certification of the fiscal officer	No	Not corrected. Repeated as finding 2002-001.
2000-30977-002	Revised Code 5705.38 – pass an appropriation measure by April 1	No	Not corrected. Repeated as finding 2002-005.
2000-30977-003	Revised Code 5705.41(B) – no expenditure unless appropriated	No	Not corrected. Not reissued since no budget.
2000-30977-004	Revised Code 5705.36 – Certify total amount for all sources to the County Fiscal Officer by the first of the year	No	Not corrected. Repeated as finding 2002-004.
2000-30977-005	Revised Code 117.38 – file financial report	No	Not corrected. Repeated as a management letter comment.
2000-30977-006	Revised Code 135.14 – no investments without a written investment policy	No	Investment policy was approved by Council, but was not signed & acknowledged by the financial institutions - Repeated in management letter.
2000-30977-007	Material Weakness – Financial Records in disarray. Numerous procedures listed	No	Not corrected. Repeated as finding 2002-017.



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VILLAGE OF LAKEMORE

SUMMIT 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
JUNE 16, 2005**