



Mary Taylor, CPA
Auditor of State

VILLAGE OF MIDLAND
CLINTON COUNTY

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Mary Taylor, CPA

Auditor of State

Village of Midland
Clinton County
111 S. Broadway
P.O. Box 96
Midland, Ohio 45148

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 11, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Midland
Clinton County
111 S. Broadway
P.O. Box 96
Midland, Ohio 45148

To the Village Council:

We have audited the accompanying financial statements of the Village of Midland, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we have audited the financial statements of the Village of Midland (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated March 11, 2008 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. We believe our audit provides a reasonable basis for our opinion.

The Village did not provide sufficient documentation supporting the Charges for Services receipts as recorded in the General Fund. Without this evidential matter, we were unable to obtain sufficient information regarding the receipts recorded as Charges for Services for the General Fund, or to satisfy ourselves regarding the validity of the underlying transactions through other auditing procedures. Charges for Services receipts represent 29% of receipts recorded in the General Fund for the year ended December 31, 2005 and 32% of the receipts recorded in the General Fund for the year ended December 31, 2004.

The Village advanced \$30,000 from the Street Construction, Maintenance and Repair (SCMR) Fund to the General Fund in 2005 in violation of Auditor of State Bulletin 1997-003 and Ohio Revised Code Sections 5705.09 (F) and 5705.10. Had this amount not been illegally advanced from the SCMR Fund, the effect would have been to increase the cash balance and decrease disbursements of the SCMR Fund by \$30,000 to \$43,881 and to decrease the cash balance and receipts of the General Fund by \$30,000 to (\$6,975) as of and for the year ended December 31, 2005.

As discussed in Note 10, to the financial statements, the Village is experiencing significant financial difficulties.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position for the years then ended.

Also, in our opinion, except for the effects of adjustments, if any, as might have been determined to be necessary had we been able to examine documentation supporting General Fund Charges for Services receipts, and the effects of adjustments to eliminate the \$30,000 advance from SCMR Fund to General Fund, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Midland, Clinton County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

March 11, 2008

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Local Taxes	\$13,140	\$1,028	\$14,168
Intergovernmental	13,465	17,177	30,642
Charges for Services	13,007	0	13,007
Fines, Licenses and Permits	10	0	10
Earnings on Investments	0	248	248
Restitution	2,650	0	2,650
Miscellaneous	2,684	0	2,684
Total Cash Receipts	44,956	18,453	63,409
Cash Disbursements:			
Current:			
Salaries	11,422	0	11,422
Unclassified (Remaining)	29,578	9,137	38,715
Debt Service:			
Redemption of Principal	1,500	0	1,500
Total Cash Disbursements	42,500	9,137	51,637
Total Receipts Over/(Under) Disbursements	2,456	9,316	11,772
Other Financing Receipts / (Disbursements):			
Advances-In	30,000	0	30,000
Advances-Out	0	(30,000)	(30,000)
Total Other Financing Receipts / (Disbursements)	30,000	(30,000)	0
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	32,456	(20,684)	11,772
Fund Cash Balances, January 1	(9,431)	37,274	27,843
Fund Cash Balances, December 31	\$23,025	\$16,590	\$39,615
Reserve for Encumbrances, December 31	\$1,255	\$337	\$1,592

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

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Local Taxes	\$12,756	\$2,765	\$15,521
Intergovernmental	13,537	22,504	36,041
Charges for Services	14,692	0	14,692
Fines, Licenses and Permits	50	0	50
Earnings on Investment	0	301	301
Restitution	1,773	0	1,773
Miscellaneous	2,581	0	2,581
	<u>45,389</u>	<u>25,570</u>	<u>70,959</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Salaries	10,602	0	10,602
Unclassified (Remaining)	40,255	31,292	71,547
General Government	0	8	8
Debt Service:			
Redemption of Principal	1,500	0	1,500
	<u>52,357</u>	<u>31,300</u>	<u>83,657</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>(6,968)</u>	<u>(5,730)</u>	<u>(12,698)</u>
Fund Cash Balances, January 1	<u>(2,463)</u>	<u>43,004</u>	<u>40,541</u>
Fund Cash Balances, December 31	<u>(\$9,431)</u>	<u>\$37,274</u>	<u>\$27,843</u>
Reserve for Encumbrances, December 31	<u>\$748</u>	<u>\$426</u>	<u>\$1,174</u>

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

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

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 Midland, Clinton County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides street and highway maintenance and trash pickup. The Village contracts with the Clinton County Sheriff's department to provide security of persons and property. The Village contracts with Clinton South Joint Fire District to receive fire protection and ambulance services.

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

B. Accounting Basis

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. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash Deposits

Village funds are deposited in a checking account with a local commercial bank. Interest earned is recognized and recorded when received.

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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

Permissive MVL Fund - This fund receives proceeds from the tax levied by the Village on all motor vehicle license sold to Village residents for street maintenance and repairs.

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

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.

2. Equity in Pooled Cash and Investments

The Village maintains a cash 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:

	<u>2005</u>	<u>2004</u>
Demand deposits	<u>\$39,615</u>	<u>\$27,843</u>

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

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$44,660	\$44,956	\$296
Special Revenue	17,430	18,453	1,023
Total	\$62,090	\$63,409	\$1,319

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$43,755	(\$43,755)
Special Revenue	0	9,474	(9,474)
Total	\$0	\$53,229	(\$53,229)

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$45,481	\$45,389	(\$92)
Special Revenue	16,519	25,570	9,051
Total	\$62,000	\$70,959	\$8,959

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$42,400	\$53,105	(\$10,705)
Special Revenue	59,100	31,726	27,374
Total	\$101,500	\$84,831	\$16,669

Contrary to Ohio law, no annual appropriations were approved by the Village; therefore all budgetary expenditures exceeded appropriation authority in all funds for the year ended December 31, 2005. In addition, budgetary expenditures exceeded appropriation authority in the General Fund by \$10,705 for the year ended December 31, 2004.

Also contrary to Ohio law, the following funds had cash deficit balances:

Year Ended December 31, 2005: State Highway (\$2,512) and Police (\$5)

Year Ended December 31, 2004: General (\$9,431), State Highway (\$3,681) and Police (\$146)

Contrary to Ohio law, estimated receipts exceeded actual receipts in the following funds:

Year Ended December 31, 2005: Street \$421 and State Highway \$115

Year Ended December 31, 2004: General \$92

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

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

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

5. Debt

Debt outstanding at December 31, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	<u>\$1,500</u>	0.00%

The Ohio Water Development Authority (OWDA) loan relates to the construction of additional sewer lines for residents of the Village in 1995. The OWDA approved \$50,000 in loans to the Village for this project. The Village will repay the loans in annual installments of \$1,500, through 2006.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	<u>OWDA Loan</u>
2006	<u>\$1,500</u>

6. Retirement Systems

Some Village officials contribute to Social Security. Contribution rates for 2005 and 2004 were 6.2% for employee and employer. The Village's other employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OPERS members contributed 8.5%, of their gross salaries and the Village contributed an amount equaling 13.55%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

7. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

8. Related Organizations

The Village appoints one member of the two-member Board of Trustees for the Clinton South Joint Fire District. The other member is appointed by Jefferson Township. The Fire District is a separate political organization.

9. Compliance

An advance of \$30,000 was made from the Street Construction, Maintenance and Repair Fund to the General Fund without the documented approval of Village Council in the Village Council minutes. In addition, the advance was illegal since Street Funds are restricted to street-related disbursements.

Village did not post tax and intergovernmental receipts as required by ORC Sections 5705.09 (F), 4501.04, 5735.28 and 5735.23, resulting in many audit adjustments.

The Village failed to accurately maintain the Village's books as required by Ohio Revised Code Section 733.28 and Ohio Administrative Code Section 117-2-02(D).

The Village failed to maintain a full and accurate record of the Village Council's proceedings as required by Ohio Revised Code Sections 121.22, 731.20 and 149.43.

The Village failed to maintain records as required by Ohio Revised Code Section 149.351.

The Village failed to deposit public monies with the Fiscal Officer or designated depository within the required time frame as required by Ohio Revised Code Section 9.38.

10. Subsequent Events/Fiscal Emergency Determination

The Village is experiencing financial difficulties. As of December 31, 2005, the State Highway Fund had a deficit of \$2,512 and the Police Fund had a deficit balance of \$5. These negative cash fund balances were covered primarily by the \$23,024 cash balance in the General Fund, which included the illegal advance of \$30,000 from the Street Construction Maintenance and Repair Fund to the General Fund.

The Auditor of State, Local Government Services Division (LGS) was contacted by the Village regarding their financial difficulties and LGS is currently assisting the Fiscal Officer in posting their financial transactions and reconciling their accounts for 2006 and 2007. Additionally, LGS performed a fiscal analysis under the criteria established in Ohio Revised Code, Chapter 118.

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

10. Subsequent Events/Fiscal Emergency Determination (Continued)

On November 30, 2006, the Local Government Services Division of the Auditor of State's Office issued a report to officials of the Village, which details the criteria and results of the fiscal emergency review. The conclusion of this report was that a fiscal emergency existed under Sections 118.03(A) (5) and 118.03(B). The Village of Midland was declared under fiscal emergency on November 30, 2006.

On November 3, 2007, the Village Council adopted a Financial Recovery Plan. To increase revenues, the Village plans to hold a bake sale, place a new 3 mill current expense levy on the ballot (which failed in November 2007 and again in March 2008, and discontinuance of refuse collection and disposal services. To decrease expenses, the Village will discontinue the former Fiscal Officer's cell phone, discontinue use of the VISA card and a reduction in materials and supplies expenditures.

As of December 31, 2007, the Village's unaudited combined fund balance is \$33,538. The State Highway Fund is the only fund with a negative fund balance, however, these balances do not reflect the audit adjustments detailed in this report or the 2006 audit report. The Village did adopt a balanced budget for 2008.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Midland
Clinton County
111 S. Broadway
P.O. Box 96
Midland, Ohio 45148

To the Village Council:

We have audited the financial statements of the Village of Midland, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated March 11, 2008, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We qualified our report on the Charges for Services line item for a lack of supporting documentation for trash collection receipts as recorded in the General Fund and on the advance from SCMR Fund to General Fund. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider 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 2005-005 through 2005-018.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We consider reportable conditions 2005-005 through 2005-009, 2005-012 through 2005-014, 2005-016 and 2005-018 listed above to be material weaknesses. In a separate letter to the Village's management dated March 11, 2008, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-011 and 2005-013 through 2005-015 and 2005-019. We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated March 11, 2008.

We intend this report solely for the information and use of the management and Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 11, 2008

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Finding for Recovery – Vivian Dearth

The employees of the Village of Midland were paid on a monthly basis. Ms. Vivian Dearth was hired as Village Fiscal Officer by the Village Council in July 2003 at a salary of \$6,600 per year paid in monthly installments of \$550. On January 13, 2004, Council increased her salary to \$600 per month or \$7,200 per year. On January 11, 2005, Council increased her salary to \$700 per month or \$8,400 per year.

We performed a comparison of the gross salary paid to Ms. Dearth to the gross salary authorized by the Village Council for fiscal years 2004 and 2005. Total salary authorized by Council for the period January 1, 2004 through December 31, 2005 was \$15,600 (\$7,200 + \$8,400 = \$15,600); however, Ms. Dearth was paid \$16,300 for that period resulting in a \$700 overpayment. We identified a check dated December 27, 2005 for \$700 issued to Ms. Dearth that resulted in an overpayment of her authorized salary. Former Village Council Member Carl Sexton signed this overpayment.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Ms. Vivian Dearth, former Village Fiscal Officer, and the Cincinnati Insurance Company, her bonding company, jointly and severally, in the amount of \$700.00 and in favor of the Village of Midland's General Fund. Vivian Dearth is primarily liable for the amount she received in overpayment.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

Therefore, because former Village Council Member Carl Sexton signed the overpayment, he is jointly and severally liable in the amount of \$700.00 and in favor of the Village of Midland's General Fund.

Carl Sexton will only be liable to the extent that payment is not received from Vivian Dearth.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-002

Finding for Recovery – Vivian Dearth Petty Cash and Staples Expenditures

The Village Council established a Petty Cash account on March 9, 2004 to be utilized for things such as certified letters, etc. This account was established in the amount of \$50. During fieldwork, we attempted to reconcile the petty cash account to verify documentation was available to support the cash expended.

We identified the following expenditures related to petty cash during the audit period:

Check Number	Date	Description	Amount
2092	4/13/04	Hand-written receipt for \$10 worth of gas, 20 oz soda for \$2.14, & \$9.11 register tape with no detail. \$2.97 at Wendy's (no receipt) No other supporting receipts attached.	\$24.22
2210	10/6/04	Check made out to "petty cash." Memo indicates for trip to Kent State, but no supporting documentation attached and exceeds petty cash amount.	200.00
2211	10/6/04	\$13.32 for soda and water, \$7.36 for candy bars, \$21.35 for purchase of map	42.03
2223	11/1/04	No supporting documentation attached	250.00
2282	2/9/05	No supporting documentation attached	249.57
2304	3/15/05	No supporting documentation attached	250.00
2236	5/7/05	No supporting documentation attached	250.00
2434	10/13/05	No supporting documentation attached	250.00
2467	11/22/05	No supporting documentation attached	250.00
2486	12/31/05	No supporting documentation attached	<u>250.00</u>
			<u>\$2,015.82</u>

We also identified the following expenditures to Staples during the audit period:

Check Number	Date	Description	Amount
2359	6/14/05	\$19.99 for HP premium gloss 4x6, \$2.99/each for 2 32 oz Jelly Tubs	25.97
2374	7/20/05	\$19.99 for HP premium gloss 4x6	19.99
2471	12/6/05	\$14.99/each for 2 HP premium gloss 4x6	<u>29.98</u>
			<u>\$75.94</u>

**FINDING NUMBER 2005-002
(Continued)**

We provided a description of these expenditures to the former Fiscal Officer, Vivian Dearth in July 2007; she was unable to provide a reasonable explanation of Village use or additional supporting documentation to support the petty cash and other expenditures identified. All such warrants were signed by former Village Council member Carl Sexton.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Ms. Vivian Dearth, former Village Fiscal Officer, and the Cincinnati Insurance Company, her bonding company, jointly and severally, in the amount of \$2,091.76 (\$2,015.82 + \$75.94) and in favor of the Village of Midland's General Fund. Vivian Dearth is primarily liable for the amount of these expenditures.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

Therefore, because former Village Council Member Carl Sexton signed the warrants resulting in the illegal expenditures, he is jointly and severally liable in the amount of \$2,091.76 and in favor of the Village of Midland's General Fund.

Carl Sexton will only be liable to the extent that payment is not received from Vivian Dearth.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-003

Finding for Recovery – VISA Credit Card

The Village Council approved to apply for a VISA credit card from First National Bank of Blanchester on February 8, 2005. The bank issued 2 credit cards in the Village of Midland's name on February 24, 2005 and re-issued these cards on February 8, 2007. The credit cards were either in the physical custody of the former Fiscal Officer, Vivian Dearth or in the Village safe. The cards had the signatures of Vivian Dearth and former Village Council member, Dwayne Dearth. We observed all VISA payments and any supporting documentation available during the audit period.

**FINDING NUMBER 2005-003
(Continued)**

We identified the following credit card expenditures during the audit period:

Check Number	Date	Description	Amount
2321	4/16/05	Lodge at Sawmill Creek on 3/21/05. No indication of any training at this site could be located.	\$114.50
2340	5/18/05	\$43.44 at Hobby Lobby (no detailed receipt of items purchased), \$32.09 at Radio Shack (no receipt), \$22.47 at Kmart (no receipt)	98.00
2367	6/23/05	\$7.97 at Dream Products, Inc, \$75.00 at OFAC, \$33.93 at Speedway. No detailed receipts for any purchase.	116.90
2382	7/20/05	\$30.74 at Walmart, \$28.03 at Speedway, \$7.07 at Zuppa in Columbus, \$53.29 at Hobby Lobby (no detailed receipts for any of this items)	60.36
2386	8/9/05	\$36.44 at Speedway (no detailed receipt)	36.44
2417	9/1/05	\$72.63 at Kmart in Milford, \$31.29 at Walmart in Wilmington, \$20.00 at BP in Williamsburg KY, \$77.18 at Walmart in Alexandria KY, \$21.43 at Walmart in Wilmington (no detailed receipts for any item)	222.53
2430	10/1/05	\$125.35 at Internet Nations in Wilmington, \$11.70 at Best Buy in Cincinnati, \$61.35 at Walmart in Wilmington, \$40.31 at Speedway in Wilmington (no detailed receipts for any item)	238.71
2462	11/14/05	\$36.59 to Walmart in Wilmington, \$16.75 at Brown Derby in Streetsboro OH, \$37.22 to Clermont County Equipment in Milford OH, \$33.38 at Speedway, \$36.41 at Speedway (no detailed receipts for any item)	160.35
2478	12/12/05	\$137.28 to JS Custom PCS in Cincinnati, \$192.93 to Walmart in Wilmington, \$23.41 to Speedway in Wilmington, \$117.80 to Mary Kay (no detailed receipts for any item)	<u>471.42</u>
			<u>\$1,519.21</u>

We provided a description of these expenditures to the former Fiscal Officer, Vivian Dearth in July 2007; she was unable to provide a reasonable explanation of Village use or additional supporting documentation to support the credit card expenditures identified. The warrants for all such credit card expenditures were signed by former Village Council member Carl Sexton.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Ms. Vivian Dearth, former Village Fiscal Officer, and the Cincinnati Insurance Company, her bonding company, jointly and severally, in the amount of \$1,519.21 and in favor of the Village of Midland's General Fund. Vivian Dearth is primarily liable for the amount of these expenditures.

**FINDING NUMBER 2005-003
(Continued)**

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att’y Gen. No. 80-074.

Therefore, because former Village Council Member Carl Sexton signed the warrants relating to the illegal expenditures, he is jointly and severally liable in the amount of \$1,519.21 and in favor of the Village of Midland’s General Fund.

Carl Sexton will only be liable to the extent that payment is not received from Vivian Dearth.

Officials’ Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-004

Finding for Recovery – Marathon Gas Card

The Village had a Marathon gas card during the audit period. On September 5, 2002, Village Council approved the Clerk to use the gas card to fill her car one time a month. We reviewed all gas card payments and any supporting documentation available during the audit period. We provided a list of these items to the former Fiscal Officer, Vivian Dearth and the Mayor, Joyce Schaeffer in July 2007. The Mayor did identify that card #172 was used by Vivian Dearth, which was verified by obtaining copies of signed charge slips with her signature and card #171 was used for street operations, signed by Joe Fawley and Dwayne Dearth during the audit period.

**FINDING NUMBER 2005-004
(Continued)**

We identified the following gas card (card #172) expenditures during the audit period:

Check Number	Check Date	Number of Fill-Ups	Amount Associated with Card 172	Amount (First Fill-Up) Allowed/Approved by Village Council	Unapproved Amount
2039	1/13/04	2	\$38.25	\$21.54	\$16.71
2054	2/10/04	2	38.62	20.92	17.70
2070*	3/9/04	3	51.97	22.92	29.05
2089	4/13/04	1	26.89	26.89	0.00
2107	5/11/04	2	46.32	22.35	23.97
2131	6/8/04	1	28.84	28.84	0.00
2145	7/13/04	2	58.44	28.22	30.22
2164	8/10/04	1	18.32	18.32	0.00
2186	9/14/04	3	64.28	16.14	48.14
2199	10/6/04	2	49.95	26.20	23.75
2222**	11/1/04	3	67.29	19.92	47.37
2242	12/1/04	1	29.07	29.07	0.00
2258	1/1/05	2	37.52	23.17	14.35
2284	2/10/05	2	53.68	28.72	24.96
2294	3/1/05	4	77.68	25.47	52.21
2312	4/1/05	3	97.34	35.06	62.28
2332	5/13/05	5	133.83	33.99	99.84
2358	6/14/05	1	33.66	33.66	0.00
2373***	7/20/05	4	121.92	27.07	94.85
2415****	9/1/05	-	114.85	0.00	114.85
2432	10/1/05	2	85.41	33.90	51.51
2460	11/14/05	3	103.41	34.92	68.49
2480	12/12/05	3	<u>101.45</u>	<u>36.65</u>	<u>64.80</u>
			<u>\$1,478.99</u>	<u>\$593.94</u>	<u>\$885.05</u>

NOTE: Allowed the first fill-up each month.

* this amount also includes a Soda and a Juice purchased (\$1.19/each)

** this amount also includes a miscellaneous purchase of \$1.19 (no receipt attached)

*** this amount also includes a Soda and a Juice purchased (\$1.19/each)

**** There is no bill attached to this payment. (and only paid from general fund)

The warrants for all such gas card expenditures were signed by former Village Council member Carl Sexton.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Ms. Vivian Dearth, former Village Fiscal Officer, and the Cincinnati Insurance Company, her bonding company, jointly and severally, in the amount of \$770.20 in favor of the Village of Midland's Street Fund and \$114.85 in favor of the Village of Midland's General Fund. Vivian Dearth is primarily liable for the amount of these expenditures.

**FINDING NUMBER 2005-004
(Continued)**

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

Therefore, because former Village Council Member Carl Sexton signed the warrants relating to the illegal expenditures, he is jointly and severally liable in the amount of \$770.20 and in favor of the Village of Midland's Street Fund and \$114.85 in favor of the Village of Midland's General Fund.

Carl Sexton will only be liable to the extent that payment is not received from Vivian Dearth.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-005

Finding for Adjustment/Noncompliance Citation/Material Weakness

Auditor of State Bulletin 1997-003 states that advances must be approved by a formal resolution of the taxing authority of the subdivision. This resolution must include a specific statement that the transaction is an advance of cash, and an indication of the money (fund) from which it is expected that repayment will be made. **Auditor of State Bulletin 1997-003** also states that in order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established.

In 2005, the Village Council authorized the movement of \$30,000 from the Street Construction Maintenance and Repair fund to the General fund. Although a resolution was located approving this movement of monies, the resolution labeled the transaction as a transfer and its approval was not documented in the written minute record of the Village Council. Upon further inquiry, the Auditor of State Local Governmental Services Division determined that the Village Council intended for this to be an advance. The resolution approving this transaction did not meet the requirements listed above by indicating it was an advance nor did it indicate when repayment would be made. In addition, Street Construction Maintenance and Repair fund monies are restricted for street related disbursements, and therefore the movement of \$30,000 from the Street Construction Maintenance and Repair fund to the General fund was not allowed.

Ohio Rev. Code, Sections 5705.09(F) and 5705.10, restrict the use of Street Construction Maintenance and Repair Fund to street related disbursements. Had this amount been properly returned from the General Fund to the Street Construction Maintenance and Repair Fund, the effect would have been to increase the cash balance of the Street Construction Maintenance and Repair Fund by \$30,000 to \$43,881 and to decrease the cash balance of the General Fund by \$30,000 to (\$6,975) as of and for the year ended December 31, 2005.

In accordance with the foregoing facts, we hereby issue a finding for adjustment against the General Funds and in the amount of \$30,000 in favor of the Village of Midland's Street Construction Maintenance and Repair Fund.

**FINDING NUMBER 2005-005
(Continued)**

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-006

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 5705.09(F), provides that each subdivision shall establish a special fund for each source of revenue derived from a source other than the general property tax which the law requires to be used for a particular purpose. Monies were not always posted to the particular fund specified by their purpose. Ohio Rev. Code Section 5705.10 (H) provides that monies paid into any fund shall be used only for the purpose for which such fund is established.

Ohio Rev. Code, Section 4501.04, provides that auto registration fees distributed by the County Auditor per Ohio Rev. Code Section 4501.03 be paid into the municipal treasury to be used for purposes related to municipal streets. The fund established by the Village for these receipts and expenditures is the Street Construction, Maintenance, and Repair Fund.

Ohio Rev. Code, Section 5735.28, provides that whenever a municipal corporation is on the line of a state highway, that seven and one-half percent of the amount paid to a municipal corporation pursuant to sections 4501.04, 5735.23, and 5735.27 of the Revised Code be credited to the State Highway Fund for purposes related to state highways within the municipal corporation. The fund established by the Village for these receipts and expenditures is the State Highway Fund.

Ohio Rev. Code, Section 5735.23 (C)(2)(a), provides that gasoline excise tax distributed from the State and Local Government Highway Distribution Fund pursuant to Ohio Rev. Code Section 5735.27(A)(1) be used pursuant to that section. Ohio Rev. Code Section 5735.27 provides that gasoline excise tax distributed from the Gasoline Excise Tax Fund be used for municipal street expenditures. The fund established by the Village for these receipts and expenditures is the Street Construction, Maintenance, and Repair Fund.

Article XII, Section 5a, of the Ohio Constitution and the Ohio Attorney General Opinion No. 82-031, and Ohio Rev. Code, Sections 135.21 and 5705.10, states that as a general rule all interest must be credited to the general fund of the subdivision, with the exception of interest earned on money derived from a motor vehicle license or fuel tax must follow the principal. For 2004 and 2005, some interest earned was posted to the Street Construction, Maintenance and Repair Fund, and Permissive MVL Fund, however, allocations did not agree to the corresponding fund balances.

According to above laws, the monthly distributions from the County designated as "MV Reg Fees," "Gasoline Tax to Municipalities" and "Gasoline Cents Per Gallon" must be posted to the Village funds at the rate of ninety two and one half percent (92 ½%) to the Street Construction, Maintenance, and Repair Fund and seven and one half percent (7 ½%) to the above funds. The Village also posted property taxes, homestead and rollback to the wrong funds and at the net amount instead of the gross amount. In addition, interest was posted to the wrong funds, receipts never received were posted to the cashbook and checks written were never posted to the cashbook.

The following table reflects the net effect of the adjustments the Village needs to make to their financial records to properly reflect receipts and expenditures in the proper funds:

**FINDING NUMBER 2005-006
 (Continued)**

	Net Effect of Adjustments on Fund Balance Increase/(Decrease)
General Fund	(\$3,501.50)
Street Construction & Maintenance Fund	7,288.17
State Highway Fund	(148.22)
Permissive MVL Fund	(696.14)
Police Fund	(580.32)

The audit adjustments listed above are reflected in the accompanying financial statements to properly reflect receipts and disbursements of the Village. The Village has posted these adjustments to their financial records. Prior to this, the records maintained by the Fiscal Officer were not an accurate reflection of all moneys received and expended by the Village. Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated.

We recommend the Fiscal Officer accurately maintain the accounting records in accordance with the uniform accounting system prescribe by the Auditor of State .The Village should adopt procedures to properly monitor the Village's financial activity.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-007

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 733.28, states that the village fiscal officer must keep the books of the village, exhibit accurate statements of all moneys received and expended, all property owned by the Village and income derived thereof, and all taxes and assessments.

Ohio Admin. Code, Section 117-2-02(D), states all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

**FINDING NUMBER 2005-007
(Continued)**

- (4) In addition, all local public offices should maintain or provide a report similar to the following accounting records:
- a. Payroll records including:
 - i. W-2's, W-4's and other withholding records and authorizations;
 - ii. Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments;
 - iii. Check register that includes, in numerical sequence, the check number, payee, net amount, and the date;
 - iv. Information regarding non-monetary benefits such as car usage and life insurance
 - v. Information, by employee, regarding leave balances and usage
 - b. Utilities billing records including:
 - i. Master file of service address, account numbers, billing address, type of services provided, and billing rates;
 - ii. Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and non-cash adjustments, each maintained by date and amount;
 - iii. Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above

Although the Village fiscal officer maintained some accounting records, the records contained numerous posting errors resulting audit adjustments and reclassifications to the 2004 and 2005 financial statements.

The fiscal officer did not maintain a receipt or appropriation ledger in 2004 or in 2005 until the Village started on the UAN system in June 2005. As a result, the records maintained by the Fiscal Officer were not an accurate reflection of all moneys received and expended. In addition, we were unable to audit the General Fund's Charges for Services receipts or to perform alternative auditing procedures to ensure accountability over the applicable receipts.

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Councils' ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the Village's financial statements will be misstated.

**FINDING NUMBER 2005-007
(Continued)**

We recommend the Village Fiscal Officer accurately maintain the Village's accounting records in accordance with the uniform accounting system prescribed by the Auditor of State. The Village should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records should be maintained in a secure central location, such as locked file cabinets or in a locked office, with access limited to specific officials and/or personnel. Disposal of records should only be made in accordance with an approved records retention schedule. In addition, all supporting documentation of receipts, expenditures, and bank reconciliations should be maintained. For added accountability, we recommend Council review all bank reconciliations for accuracy and ensure that all reconciling items are justified.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-008

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 5705.10(H), provides that money paid into a fund must be used only for the purposes for which such fund was established. The General, State Highway and Police Funds had negative fund balances for most of fiscal years 2004 and 2005. The fund balances in the State Highway and Police Funds at December 31, 2005 were (\$2,512), and (\$5), respectively. The fund balances in the General, State Highway and Police funds at December 31, 2004 were (\$9,431), (\$3,681), and (\$146), respectively. These deficit balances indicate money from other funds was used to cover the expenditures of these funds, contrary to Ohio law.

Failure to monitor budgetary activity can result in overspending and negative fund balances. The management of the Village should monitor the Village's budgetary receipts and expenditures by having the clerk provide budgetary reports at least quarterly to be reviewed and approved by Council. By regularly monitoring its budgetary position throughout the year, the Village will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which effect the overall cash position of the Village.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-009

Noncompliance Citation/Material Weakness

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.

FINDING NUMBER 2005-009
(Continued)

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 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. 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.

The availability of funds was not certified prior to the time of commitment in 84% of expenditures tested in 2005 and 86% of expenditures tested in 2004, nor did the Village use the aforementioned exceptions. In addition, the Village did not establish by resolution a limit for regular blanket certificates used in 2004. Every effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly encumber could result in overspending funds and negative cash fund balances.

Unless the Village uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Village should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

**FINDING NUMBER 2005-009
 (Continued)**

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-010

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.38(A), requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1. The Village did not approve or file appropriations with the County Auditor for the fiscal year 2005

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. The following funds had expenditures which exceeded appropriations:

2004	Appropriations	Expenditures + Outstanding Encumbrances	Variance
General Fund	\$42,400	\$53,105	(\$10,705)

2005	Appropriations	Expenditures + Outstanding Encumbrances	Variance
General Fund	\$0	\$43,755	(\$43,755)
Street Maintenance, Construction & Repair Fund	0	38,474	(38,474)
Police Fund	0	1,000	(1,000)

Failure of the Village to approve and file appropriations does not allow for the Village officials to monitor its budgetary position. In addition, failure to monitor budgetary activity can result in overspending and negative fund balances. We recommend the Clerk deny any payments until the legislative authority has passed the necessary changes to the appropriation measure. The management of the Village should monitor the Village's budgetary receipts and expenditures by having the clerk provide budgetary reports at least quarterly to be reviewed and approved by Council. By regularly monitoring its budgetary position throughout the year, the Village will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which effect the overall cash position of the Village.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-011

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.36(A)(2), allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. 5705.36(A)(3) requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. In 2004 and 2005, the following funds had estimated receipts exceeding actual receipts:

2004	Estimated Receipts	Actual Receipts	Variance
General Fund	\$45,481	\$45,389	(\$92)

2005	Estimated Receipts	Actual Receipts	Variance
Street Construction Maintenance Repair Fund	\$15,070	\$14,649	(\$421)
State Highway Fund	1,284	1,169	(115)

Failure of the Village to monitor budgetary activity can result in overspending and negative fund balances. We recommend the Village use due care in monitoring their budgetary documents since these documents are an integral part of the budgetary control process. The Village should integrate the budgetary documents into the UAN system. We recommend that the Village monitor budgetary activity on a regular basis and obtain amended certificates as needed.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-012

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensure that all transactions are properly authorized in accordance with management's policies and state law.
- Ensure that accounting records are properly designed and maintained.
- Ensure adequate security of assets and records.
- Plan for adequate segregation of duties.
- Verify the existence and valuation of cash balances and periodically reconcile them to the accounting records.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.

FINDING NUMBER 2005-012
(Continued)

The small size of the Village does not allow for an adequate segregation of duties. The Fiscal Officer processes all the financial record keeping including receipting, posting, and reconciling to the depository. Bookkeeping errors occurred without the detection of management. It is, therefore, important that Council monitor financial activity. In addition, the Clerk performs all the financial recordkeeping on the Uniform Accounting Network System (UAN) including receipting, posting and reconciling to the depository. In the event that the Clerk is absent from her job there is no person assigned to perform her duties. The Village's other personnel must prepare manual receipts which are entered into the system at a later date. The weakness of this system is that it allows for diversion of funds through possible alteration of source documents. Also, bookkeeping errors occurred without detection in a timely manner nor is an accurate account maintained of the Village's funds.

Council did not always perform their appropriate administrative responsibilities such as reviewing monthly financial records, reviewing minutes and reviewing bills, as a result, the following weaknesses were noted:

- No monthly financial reports, as well as no budget and actual activity or bank reconciliations were presented to Council during 2004 or 2005;
- During the conversion to UAN in 2005, the classification for receipts and disbursements posted as part of the conversion did not agree to the underlying cashbook (7/10 = 70% line items);
- Invoices were not always attached to the voucher packet;
 - 2004: 25/171 (15%) of non-payroll expenditures
 - 2005: 27/182 (15%) of non-payroll expenditures
- The minutes did not include all significant actions taken by Council (detailed in Finding 2005-013);
- Bills were not listed in the minutes;
 - 2004: 5/12 months (42%)
 - 2005: 11/11 months (100%)
- Bills were not formally approved in the minutes;
 - 2004: 1/12 months (8%)
 - 2005: 1/12 months (8%)
- Expenditures may have been posted to improper funds due to the lack of documentation to determine proper fund;
 - 2004: 1/171 (0.5%) of non-payroll expenditures
 - 2005: 18/182 (10%) of non-payroll expenditures
- Receipts were not posted to the UAN system until well after the receipt date and/or deposit. For some months, all transactions were entered into the system at the end of the month (2005: 3/6 (50%) months on UAN);
- Expenditures were never posted to the accounting system;
 - 2005: 2 checks totaling \$781.90

**FINDING NUMBER 2005-012
(Continued)**

- Late payment fees were paid on bills.
 - 2004: Internal Revenue Service (IRS)
 - 2005: Ohio Dept. of Job & Family Services (ODJFS), Ohio Public Employees Retirement System (OPERS), Verizon Wireless, Internal Revenue Service (IRS)

The lack of timely financial reports and accurate fund balances significantly reduces Council's ability to monitor Village's financial position. In addition, the lack of control over invoices and goods/services received resulted in late payments to the various vendors. This may create an environment which promotes future fraud or inaccurate financial reporting.

To help strengthen the Village's internal control structure and reduce the likelihood of undetected errors, we recommend Village officials and management implement the following controls:

- Monthly financial reports, including budget and actual activity and monthly bank reconciliations, be prepared and submitted to Council. This submission should occur prior to the regular Council meetings so that Council members have an opportunity to review the information and ask informed questions at the Council meetings. Discussion and approval of the monthly financial reports should be documented in the minutes;
- When invoices are received, a comparison should be made between the goods/services included on the invoice and the goods/services received. The official/department head which received the goods should perform this comparison and indicate his/her review by initializing the invoice. The initials indicate the goods/services were received and the invoice is approved for payment. Invoices should be attached to all voucher packets;
- Once invoices have been approved for payment, the Fiscal Officer should issue the corresponding check and stamp the invoice "Paid." The invoice should be filed with the voucher packet;
- Receipts should be posted to the UAN system upon receipt of the monies and/or deposit to ensure that monies are posted to the proper funds;
- Duplicate receipts should prepared for every receipt and signed by the clerk;
- Vouchers packets should be maintained in numerical sequence and should include detailed invoices to support the expenditure;
- Council should ensure that bills be paid on a timely basis to avoid late charges;
- Minutes of Council meetings should be prepared, approved, and available for public inspection in a timely manner. The minutes should also include all actions taken by Council during those meetings. For each regular meeting, the Fiscal Officer should provide Council members with detailed budget and actual financial statements, cash balances, checks paid, outstanding encumbrances, receipts and bank reconciliations. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer;
- Council members should develop a policy manual for the Village;
- Officials should periodically review the records to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer.

**FINDING NUMBER 2005-012
(Continued)**

To help ensure continuing accountability and to strengthen internal accounting controls, we recommend the Village designate one other employee to handle the Clerk's duties in her absence. UAN training should be provided to the designated personnel. The designated person should have a separate password to access the UAN system. This will help maintain records more efficiently and keep the ledgers up to date. In addition, officials should periodically review the records, i.e. reconciliations, withholding and retirement settlements, cashbooks, etc., to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-013

Noncompliance Citation/Material Weakness

Pursuant to White v. Clinton Cty. Bd. of Commrs' (1996), 76 Ohio St.3d 416, Ohio Rev. Code Sections 121.22, and 149.43 and, when read together impose a duty on the Village to maintain a full and accurate record of their proceedings. Minutes of meetings must be promptly recorded and open for public inspection per State, ex rel. Fairfield Leader v. Ricketts (1990), 56 Ohio St.3d 97.

Ohio Rev. Code, Section 121.22(C), states that all meetings of any public body are to be open to the public at all times. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection.

Ohio Rev. Code, Section 731.20, states ordinances, resolutions, and bylaws shall be authenticated by the signature of the presiding officer and clerk of the legislative authority of the municipal corporation. Ordinances of a general nature or providing for improvements shall be published as provided by sections 731.21 and 731.22 of the Revised Code before going into operation. No ordinance shall take effect until the expiration of ten days after the first publication of such notice. As soon as a bylaw, resolution, or ordinance is passed and signed, it shall be recorded by the clerk in a book furnished by the legislative authority for that purpose.

While reading the minutes, we noted the following items:

- Minutes records could not be located for the meeting held in April 2005.
- The Council President/Mayor did not sign any of the minutes in 2005 and 2004.
- The Fiscal Officer did not sign 4 of 11 minutes in 2004.
- Other financial information, including appropriations (not approved in 2005), transfers and other required reports were not recorded as part of the minutes.
- Minutes were not recorded and maintained in a pre-numbered permanent bound book after March 2005.
- Written minutes did not always reflect the actions as recorded on audio cassettes of meetings. After listening to the audio tapes of meetings and comparing to the written minutes, discrepancies were noted in 3 months during 2004 and in 2 months in 2005.

**FINDING NUMBER 2005-013
(Continued)**

- No notes were kept during Council meetings. If the audio tape ran out, no minutes were prepared. This occurred during one month in 2004.

As the Council speaks only through its record of proceedings (minutes), the following recommendations were made to ensure that the minutes properly reflect parliamentary procedures and the actions of the council.

- Minutes should be prepared on a timely basis and presented at the subsequent council meeting and approved by Council. All resolutions and ordinances should be numbered and made a part of a permanent record of proceedings;
- All council actions should be indexed under proper headings to provide easy access to all Village resolutions;
- Minutes should be signed by the Village officials affirming their accuracy;
- Each topic, resolution, motion, etc. should be sub-headed or identified either in the margin or at the head of each paragraph for easier reading and referencing;
- Review of the annual financial data, including budgets, appropriations, transfers, required reports, and any advertisements for the same, should be documented as a permanent part of the minute records.

The Village did not sufficiently and consistently document decisions concerning bill payments, and approval of budgetary documents. Prompt review of the minutes allows Council the ability to make any necessary changes in a timely fashion. In as much as the Village Council speaks through its minutes, all actions of the Village should be documented in the minute records with as much detail as possible, and with proper and accurate reference to supporting documentation. Without proper authorization, illegal transactions or payments could occur without the knowledge of the Village officials. Also, these records will provide management with the needed future references for informed decision making, and be available for the public inspection of legislative decisions of the Village Council.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-014

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 149.351, provides 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 law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Revised Code.

**FINDING NUMBER 2005-014
(Continued)**

During the audit period, the Village did not provide complete documentation of the following items:

- Minutes for April 2005 (1/24 months = 4%);
- Duplicate receipts could not be located:
 - 2004
 - Miscellaneous/Restitution: 8/16 (50%) of receipts tested
 - Charges for Services: 11/253 (4%) of receipts
 - 2005
 - Miscellaneous/Restitution: 2/13 (15%) of receipts tested
 - Charges for Services: 238/238 (100%) of receipts
- Vouchers and supporting documentation for all Village expenditures;
 - 2004: 23/171 (13%) of expenditures tested including the following:
 - Check # 2130 on 6/8/04 Staples for \$85.13
 - 2005: 46/182 (25%) of expenditures tested including the following:
 - Check # 2259 on 1/1/05 to Staples for \$330.90
 - VISA charge to Lowe's paid on 7/20/05 for \$95.13
 - VISA charge to Lowe's paid on 10/1/05 for \$133.43
 - VISA charges to Lowe's paid on 12/12/05 for \$169.08
- Supporting documentation for receipts;
 - 2004
 - Miscellaneous: 1/3 (33%) of receipts tested
 - Charges for Services: 128/253 (51%) of receipts
 - 2005
 - Miscellaneous: 3/3 (100%) of receipts tested
 - Charges for Services: 16/238 (7%) of receipts
- No trash account cards for each household in 2004; and
- Deposit Slips could not be located.
 - 2004: 5/12 (42%) of months

**FINDING NUMBER 2005-014
(Continued)**

We were unable to audit the General Fund's Charges for Services receipts or to perform alternative auditing procedures to ensure accountability over the applicable receipts. The Village should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records should be maintained in a secure central location, such as locked file cabinets or in a locked office, with access limited to specific officials and/or personnel. Disposal of records should only be made in accordance with an approved records retention schedule. In addition, the lack of a system of approvals and documentation significantly increases the probability of expenditures being made that are not for a proper public purpose. Had officials been properly coding expenditures, expenditures may have been posted to other funds, therefore alleviating the general fund deficit. Alternative auditing methods were used to determine the legitimacy of the expenditures and findings for recovery were issued for those items not supported by proper documentation.

We recommend the Clerk attach vendor invoices and supporting documentation including, but not limited to, original itemized invoices of goods and services received and mileage logs, to the vouchers to support the validity of the expenditure and Village Council should institute procedures for the approval of the payment of bills. Vouchers should be signed by at least two Council members. No check should be signed, unless it is supported by detailed receipt or invoice. By having the voucher signed by two Council members and requiring a detailed receipt before the check is cut, the Village would ensure that the expenditures are properly approved.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-015

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 9.38, provides that public money must be deposited with the Fiscal Officer or with the designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited. During testing we noted 3 of 13 (23%) restitution receipts were not deposited timely (11-20 days late).

Failing to deposit monies within the required time period could cause receipts to be susceptible to loss or theft. We recommend the Village implement procedures to ensure deposits are made within one business day of receipt. As an alternative, the Village may adopt a policy permitting a different time period. Auditor of State Bulletin 99-020 provides further guidance on this issue.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-016

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that charges for services records are properly designed and maintained.
- Ensure adequate security of records.
- Plan for adequate segregation of duties or compensating controls.
- Verify the existence and valuation of charges for services receipts and periodically reconcile them to the accounting records.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.

Very few internal controls were noted to be in operation for the Village's trash collections, record keeping was inaccurate and inconsistent, and there appeared to be little progress on the part of either the Village Council or Management to develop appropriate administrative functions. Lack of controls and poor recordkeeping increases the risk that theft, fraud or errors could occur and not be detected in a timely manner.

The Village did not have adequate control procedures over the operation of the trash collections. The following conditions were noted:

- An accurate detailed accounting system for trash receipts was not maintained. Accounts cards detailing each household account could not be located for all of 2004.
- Duplicate receipts were not issued for all monies received.
 - 2004: 11/253 (4%) of receipts
 - 2005: 238/238 (100%) of receipts
- Duplicate receipts issued by the Village could not always be traced to the corresponding bank deposit.
 - 2004: 128/253 (51%) of receipts
 - 2005: 16/238 (7%) of receipts

**FINDING NUMBER 2005-016
 (Continued)**

- Pay-ins were not issued for all monies received.
 - 2004: 11/253 (4%) of receipts
 - 2005: 132/238 (55%) of receipts
- There were many outstanding trash accounts with the Village (Per the Village spreadsheet at 12/31/06, 43 accounts totaling \$6,363.21 in outstanding fees).
- Village is paying Waste Management for 109 pick-ups. Village is not collecting enough from Village residents to pay the Village trash bill as detailed in the following table:

2004	
Amount to Bill @ 109 pick-ups	\$19,620
Amount collected per financial statements	<u>14,692</u>
Collection Shortage	<u>(\$4,928)</u>
109 pick-ups * \$15/month = \$1,635	
\$1,635 * 12 months/year = \$19,620	

2005	
Amount to Bill @ 109 pick-ups	\$19,620
Amount collected per financial statements	<u>13,007</u>
Collection Shortage	<u>(\$6,613)</u>
109 pick-ups * \$15/month = \$1,635	
\$1,635 * 12 months/year = \$19,620	

A subsidiary ledger should be maintained to account for daily trash receipts. This ledger should include the customer's name, amount paid, date paid, and the receipt number. The ledger should be totaled daily. Daily collections should be counted, agreed with the ledger total and duplicate receipts written, deposited in the Village bank depository, and a pay-in to the Village prepared. Monthly and year to date totals should be made and checked with the postings made in the Village cash journal. Establishing this subsidiary ledger for trash collection receipts would lessen the risk that errors or theft could occur and remain undetected.

The Village should monitor the number of customers monthly to assure the Village is not paying for more trash pickups than are necessary. The Village accounts receivable balances for trash collections are not accurate. The list of outstanding account balances at December 31, 2006 provided for audit showed a total of \$6,363.21 (only one presented for audit, unable to provide one as of 12/31/05). We calculated the outstanding account balance to be approximately \$11,541 solely based on uncollected, outstanding balances from 2004 and 2005. While the Village's outstanding accounts list presented for audit included many customers that had moved and had outstanding balances from prior years, the Village was still paying Waste Management for trash collection for these customers. In the prior audit, it was noted that the Village and its legal counsel have attempted to collect some past due accounts and have established a policy effective January 1, 2004 to cut off service if bills are not paid within 6 months. Regardless of whether this occurred, Waste Management continued to bill the Village for the same number of pick-ups throughout the current audit period.

**FINDING NUMBER 2005-016
(Continued)**

We recommend that the Village review the customer accounts that still have large outstanding balances, and include them on the outstanding account balance list for collection. Once collection efforts fail, BPA and Council should contact Village Solicitor and approve writing off uncollectible accounts. In addition, we recommend the Village arrange to meet with Waste Management to re-evaluate the number of trash pick-ups the Village actually have. Collecting the amounts owed to the Village would aid in decreasing the Village's negative fund balances and potentially improve their financial situation.

Without accurate documentation as to which trash collections have been made from and from whom trash collections are owed, the Village is not meeting any of the controls criteria in regards to the Charges for Services in the General Fund. The outstanding trash account balances have been evident since prior to 2004, therefore the existence and/or occurrence of the amount is unable to be identified by the Village.

The trash collections are intended to create revenue each month for the Village as evidenced by Waste Management billing \$10/pick-up and the Village billing each customer \$15/pick-up. Therefore having no source documentation for collections and not maintaining adequate records of outstanding accounts prohibits the assurance of completeness. With no documentation regarding who monies from been collected from and from whom monies are still owed to the Village, valuation and/or allocation is unable to be determined. The financial statements presentation and disclosure of the Charges for Services line item in the General Fund includes a revenues unable to be identified, which resulted in a qualified audit opinion.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-017

Reportable Condition

A policies and procedures manual governing the activities of the Village outlines the specific authority level and responsibilities of individual employees, thus providing the essential foundation needed for establishing employee accountability. It also serves as a reference tool for employees seeking guidance on the less frequently encountered transactions and situations. A policies and procedures manual also serve to lessen the threat to continuity posed by employee turnover.

The Village does not have a formal policy which establishes guidelines and requirements for reimbursement of travel expenses while on village business. The Village Council should adopt a resolution that clearly establishes a formal policy governing travel expense reimbursements. This policy should, at a minimum, identify the types of travel authorized; guidelines for allowable and unallowable expenses; limitations on amount of reimbursement; types of supporting documentation required for reimbursement requests; reporting; monitoring of use by appropriate levels of management; and other guidelines the legislative body deems appropriate. Adoption of such policy will assist the Village in reducing the risk of fraud and theft inherent with travel expense reimbursements.

The Village also does not have formal policies which establish guidelines and requirements for usage of government credit cards, vehicles and equipment, and cell phones. The Village should adopt a resolution that clearly establishes formal policies governing the usage of these items. The policies should, at a minimum, identify authorized users; guidelines for allowable use/purchases; method of reimbursement (if personal use is allowed); specific unallowable uses; reporting; monitoring of use by appropriate levels of management; and other guidelines deemed appropriate by the legislative body. Adoption of such policies will assist the Village in reducing the risk of fraud and theft inherent with usage of credit cards, government vehicles and equipment, and cell phones.

**FINDING NUMBER 2005-017
(Continued)**

We recommend that the Village adopt a policies and procedures manual which addresses areas such as disbursements, awarding of contracts, hiring, promoting, evaluation and termination of employees, travel reimbursements, nondiscrimination, prohibiting the use of public funds for political purposes, drug free workplace, sick leave, overtime, compensatory time, and conflict of interest/ethics. The manual should be distributed to all Village officials and employees.

We also recommend the minutes clearly document the approval and details of these policies. Employees should sign a copy of the policy prior to its usage in order to ensure they understand what is expected of them and what is allowable. In addition, personal usage of a cell phone constitutes a taxable fringe benefit. We recommend that in addition to a cell phone policy, bills are reviewed for calls of a personal nature and if necessary, included on the employees' W-2's as a taxable fringe benefit.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-018

Material Weakness

All local public offices should maintain or provide a report similar to the following accounting records:

- (a) Payroll records including:
 - (i) W-2's, W-4's and other withholding records and authorizations.
 - (ii) Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments.
 - (iii) Check register that includes, in numerical sequence, the check number, payee, net amount, and the date.
 - (iv) Information regarding nonmonetary benefits such as car usage and life insurance.
 - (v) Information, by employee, regarding leave balances and usage.

Very few internal controls were noted to be in operation for the payroll disbursements process, record keeping was inaccurate and inconsistent, and there appeared to be little progress on the part of either the Village Council or Management to develop appropriate administrative functions. This causes significant concern and may create an environment which promotes future fraud.

The Village did not have adequate control procedures over the operation of the payroll disbursements process. The following conditions were noted:

FINDING NUMBER 2005-018
(Continued)

- Village Council personnel files did not contain all necessary information regarding OPERS withholdings or exemptions.
- Medicare was not withheld at the correct rates.
- State and Federal withholdings were not remitted in proper amounts.
 - 2004: Federal was over-remitted by \$102.41
State was over-remitted by \$10.65
 - 2005: Federal was over-remitted by \$211.74
State was under-remitted by \$183.53
- Village paid various penalties and fees to OPERS and IRS for late reporting and remittance of withholdings.

To assure payroll records are accurate, complete and to avoid unnecessary fines and penalties, Council should assure that individual payroll records are maintained, salaries are specifically set in the minutes records, all required forms are completed and submitted on a timely basis, and that all earnings are properly remitted. Creation of a policy manual which dictates payroll procedures could help alleviate future problem. Any pay raises should agree to the approved Policy Manual, the Ohio Revised Code and be documented in the Village Council minute records. As a result of not reviewing or requiring timesheets, the fiscal officer was paid at amounts in excess of Village Council minutes records. The overpayment of the fiscal officer's pay resulted in findings for recovery. All of these items resulted in and are detailed in Finding 2005-001. We recommend that the fiscal officer and Village Council establish a Policy Manual in accordance with the Ohio Revised Code and follow it when paying employee salaries. We also recommend that the Village contact the IRS to determine the status of their account to ensure filings are up to date.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2005-019

Noncompliance Citation

Ohio Rev. Code, Section 102.03(D), provides no public office or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value of the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

Former Council member, Dwayne Dearth is married to former Fiscal Officer, Vivian Dearth. On January 11, 2005, Councilman Dearth motioned and voted on Fiscal Officer Dearth's pay increase. On March 8, 2005, Councilman Dearth motioned and voted on Fiscal Officer Dearth to receive a Village paid cell phone plan.

We recommend the Village, with the help of its legal counsel, develop a conflict of interest policy, and require its elected officials to sign an annual statement stating he or she has received a copy of the conflict of interest policy, has read and understands the policy, has agreed to comply with the policy, and disclose affiliations which may represent a potential conflict of interest.

This matter will be referred to the Ohio Ethics Commission.

**FINDING NUMBER 2005-019
(Continued)**

Officials' Response:

We did not receive a response from the Officials to this finding.

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 & 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Ohio Rev. Code, Section 117.38, failure to file annual reports within 60 days of fiscal year end	Yes	
2003-002	Ohio Rev. Code, Sections 121.22 and 731.20, failure to maintain full and accurate records of proceedings of public records	No	Included in Finding 2005-013
2003-003	Ohio Rev. Code, Section 733.28, failure to accurately prepare and maintain the financial records	No	Included in Finding 2005-007
2003-004	Ohio Rev. Code, Section 5705.10, negative fund balances	No	Repeat as Finding 2005-008
2003-005	Ohio Rev. Code, Sections 4501.04, 4501.03 and 5735.28, failure to distribute motor vehicle registration fees as required.	No	Included in Finding 2005-006
2003-006	Ohio Rev. Code, Sections 5735.23 and 5735.28, failure to distribute gas tax monies as required.	No	Included in Finding 2005-006
2003-007	Ohio Rev. Code, Section 5705.41 (B), expenditures exceeding appropriations.	No	Included in Finding 2005-010
2003-008	Ohio Rev. Code, Section 5705.41 (D), failure to encumber funds	No	Repeat as Finding 2005-009
2003-009	Material Weakness – failure to maintain accurate accounting system for collection of trash receipts	No	Repeat as Finding 2005-016
2003-010	Reportable Condition – failure to post tax settlement monies accurately	No	Included in Finding 2005-006

Village of Midland
 Clinton County
 Schedule of Prior Audit Findings
 Page 2

2003-011	Reportable Condition – failure to maintain supporting documentation of expenditures	No	Repeat as Finding 2005-014
2003-012	Reportable Condition – payment of late fees and fines to the IRS and for services not utilized.	No	Included in Finding 2005-018
2003-013	Material Weakness – failure to following Ohio law regarding budgetary compliance, record keeping and minutes	No	Included in Findings 2005-007 through 2005-013



Mary Taylor, CPA
Auditor of State

VILLAGE OF MIDLAND

CLINTON 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
APRIL 8, 2008**