



**VILLAGE OF SPARTA
MORROW COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006-2003



Mary Taylor, CPA
Auditor of State

VILLAGE OF SPARTA
MORROW COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Sparta
Morrow County
P.O. Box 8
Sparta, Ohio 43350

To the Village Council:

We have selectively tested certain accounts, financial records, files, and reports of the Village of Sparta, Morrow County, Ohio, (the Village) as of and for the years ended December 31, 2006, 2005, 2004 and 2003 following Ohio Admin. Code Section 117-4-02.

There are reportable findings and conditions as a result of performing these procedures. Our reportable findings and conditions follow the financial presentation. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, and we express no opinion on them.

As described in Notes 9 and 10, the Village is experiencing certain financial difficulties and on May 19, 2007, was declared to be in Fiscal Emergency by the Auditor of State of Ohio. These difficulties resulted in deficit fund balances in the General (\$22,711) and Capital Projects Funds (\$1,619) at December 31, 2006. Management's plan is described in Note 10.

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

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

Mary Taylor, CPA
Auditor of State

November 5, 2007

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**VILLAGE OF SPARTA
MORROW COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$ 9,479	\$ -	\$ -	\$ 9,479
Intergovernmental	12,810	6,673	-	19,483
Fines, Licenses and Permits	569	-	-	569
Earnings on Investments	-	81	-	81
Miscellaneous	235	-	-	235
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	23,093	6,754	-	29,847
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
Security of Persons and Property	2,481	-	-	2,481
Transportation	-	1,196	-	1,196
General Government	25,981	-	-	25,981
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	28,462	1,196	-	29,658
	<hr/>	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	(5,369)	5,558	-	189
	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing (Disbursements):				
Theft in Office	(783)	-	-	(783)
Other Financing Uses	(68)	-	-	(68)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	(851)	-	-	(851)
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(6,220)	5,558	-	(662)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	(16,491)	25,488	(1,619)	7,378
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$ (22,711)</u>	<u>\$ 31,046</u>	<u>\$ (1,619)</u>	<u>\$ 6,716</u>

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

VILLAGE OF SPARTA
MORROW COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCE - SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Sewer</u>
Operating Cash Receipts:	
Charges for Services	\$ 27,422
Total Operating Cash Receipts	<u>27,422</u>
Operating Cash Disbursements:	
Personal Services	16,430
Employee Fringe Benefits	4,297
Contractual Services	12,307
Supplies and Materials	<u>6,605</u>
Total Operating Cash Disbursements	<u>39,639</u>
Operating (Loss)	<u>(12,217)</u>
Non-Operating Cash Disbursements:	
Theft in Office	<u>75</u>
Total Non-Operating Cash Disbursements	<u>75</u>
Net Receipts Over/(Under) Disbursements	(12,292)
Cash Balance, January 1	<u>23,054</u>
Cash Balance, December 31	<u><u>\$ 10,762</u></u>

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

**VILLAGE OF SPARTA
MORROW 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**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$ 9,129	\$ -	\$ -	\$ 9,129
Intergovernmental	11,494	7,357	-	18,851
Fines, Licenses and Permits	572	-	-	572
Earnings on Investments	-	97	-	97
	<u>21,195</u>	<u>7,454</u>	<u>-</u>	<u>28,649</u>
Total Cash Receipts				
	<u>21,195</u>	<u>7,454</u>	<u>-</u>	<u>28,649</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	2,393	-	-	2,393
Transportation	-	10,372	-	10,372
General Government	16,567	-	-	16,567
	<u>18,960</u>	<u>10,372</u>	<u>-</u>	<u>29,332</u>
Total Cash Disbursements				
	<u>18,960</u>	<u>10,372</u>	<u>-</u>	<u>29,332</u>
Total Receipts Over/(Under) Disbursements	<u>2,235</u>	<u>(2,918)</u>	<u>-</u>	<u>(683)</u>
Other Financing (Disbursements):				
Theft In Office	(13,324)	-	-	(13,324)
	<u>(13,324)</u>	<u>-</u>	<u>-</u>	<u>(13,324)</u>
Total Other Financing Receipts / (Disbursements)				
	<u>(13,324)</u>	<u>-</u>	<u>-</u>	<u>(13,324)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(11,089)	(2,918)	-	(14,007)
Fund Cash Balances, January 1	(5,402)	28,406	(1,619)	21,385
	<u>(5,402)</u>	<u>28,406</u>	<u>(1,619)</u>	<u>21,385</u>
Fund Cash Balances, December 31	<u>\$ (16,491)</u>	<u>\$ 25,488</u>	<u>\$ (1,619)</u>	<u>\$ 7,378</u>

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

VILLAGE OF SPARTA
MORROW COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCE - SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Sewer</u>
Operating Cash Receipts:	
Charges for Services	\$ 34,861
Total Operating Cash Receipts	<u>34,861</u>
Operating Cash Disbursements:	
Personal Services	15,951
Employee Fringe Benefits	4,142
Contractual Services	7,449
Supplies and Materials	<u>8,618</u>
Total Operating Cash Disbursements	<u>36,160</u>
Operating (Loss)	<u>(1,299)</u>
Non-Operating Cash Disbursements:	
Theft In Office	<u>2,091</u>
Total Non-Operating Cash Disbursements	<u>2,091</u>
Net Receipts (Under) Disbursements	(3,390)
Cash Balance, January 1	<u>26,444</u>
Cash Balance, December 31	<u><u>\$ 23,054</u></u>

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

**VILLAGE OF SPARTA
MORROW 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>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$ 11,455	\$ -	\$ -	\$ 11,455
Intergovernmental	13,472	7,936	4,384	25,792
Fines, Licenses and Permits	532	-	-	532
Earnings on Investments	36	-	-	36
Miscellaneous	7	61	-	68
	<u>25,502</u>	<u>7,997</u>	<u>4,384</u>	<u>37,883</u>
Total Cash Receipts				
	<u>25,502</u>	<u>7,997</u>	<u>4,384</u>	<u>37,883</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	2,319	-	-	2,319
Community Environment	-	-	2,500	2,500
Basic Utility Service	-	-	3,517	3,517
Transportation	-	893	-	893
General Government	17,159	-	-	17,159
	<u>19,478</u>	<u>893</u>	<u>6,017</u>	<u>26,388</u>
Total Cash Disbursements				
	<u>19,478</u>	<u>893</u>	<u>6,017</u>	<u>26,388</u>
Total Receipts Over/(Under) Disbursements	<u>6,024</u>	<u>7,104</u>	<u>(1,633)</u>	<u>11,495</u>
Other Financing (Disbursements):				
Theft In Office	(19,943)	-	-	(19,943)
Other Financing Uses	(1,869)	-	-	(1,869)
	<u>(21,812)</u>	<u>-</u>	<u>-</u>	<u>(21,812)</u>
Total Other Financing Receipts / (Disbursements)				
	<u>(21,812)</u>	<u>-</u>	<u>-</u>	<u>(21,812)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(15,788)</u>	<u>7,104</u>	<u>(1,633)</u>	<u>(10,317)</u>
Fund Cash Balances, January 1	<u>10,386</u>	<u>21,302</u>	<u>14</u>	<u>31,702</u>
Fund Cash Balances, December 31	<u><u>\$ (5,402)</u></u>	<u><u>\$ 28,406</u></u>	<u><u>\$ (1,619)</u></u>	<u><u>\$ 21,385</u></u>

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

VILLAGE OF SPARTA
MORROW COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCE - SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Sewer</u>
Operating Cash Receipts:	
Charges for Services	\$ 48,127
Total Operating Cash Receipts	<u>48,127</u>
Operating Cash Disbursements:	
Personal Services	14,844
Employee Fringe Benefits	4,590
Contractual Services	11,249
Supplies and Materials	<u>18,506</u>
Total Operating Cash Disbursements	<u>49,189</u>
Operating Income/(Loss)	<u>(1,062)</u>
Non-Operating Cash Disbursements:	
Theft in Office	<u>1,504</u>
Total Non-Operating Cash Disbursements	<u>1,504</u>
Net Receipts (Under) Disbursements	(2,566)
Cash Balance, January 1	<u>29,010</u>
Cash Balance, December 31	<u><u>\$ 26,444</u></u>

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

**VILLAGE OF SPARTA
MORROW COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$ 6,723	\$ -	\$ -	\$ 6,723
Intergovernmental	13,397	6,992	80,500	100,889
Fines, Licenses and Permits	466	-	-	466
Earnings on Investments	130	39	-	169
Miscellaneous	122	-	-	122
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	20,838	7,031	80,500	108,369
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
Security of Persons and Property	1,746	-	-	1,746
Basic Utility Service	-	-	199,118	199,118
Transportation	-	640	-	640
General Government	23,443	-	-	23,443
Capital Outlay	-	-	60,500	60,500
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	25,189	640	259,618	285,447
	<hr/>	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	(4,351)	6,391	(179,118)	(177,078)
	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing Receipts / (Disbursements):				
Proceeds of Loan	-	-	174,094	174,094
Theft In Office	(1,865)	-	-	(1,865)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	(1,865)	-	174,094	172,229
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(6,216)	6,391	(5,024)	(4,849)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	16,602	14,911	5,038	36,551
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$ 10,386</u>	<u>\$ 21,302</u>	<u>\$ 14</u>	<u>\$ 31,702</u>

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

**VILLAGE OF SPARTA
MORROW COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCE - SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Sewer
Operating Cash Receipts:	
Charges for Services	\$ 43,918
Miscellaneous	50
Total Operating Cash Receipts	43,968
Operating Cash Disbursements:	
Personal Services	15,733
Employee Fringe Benefits	3,544
Contractual Services	12,779
Supplies and Materials	13,793
Total Operating Cash Disbursements	45,849
Operating Income/(Loss)	(1,881)
Non-Operating Cash Disbursements:	
Theft In Office	1,714
Total Non-Operating Cash Disbursements	1,714
Net Receipts (Under) Disbursements	(3,595)
Cash Balance, January 1	32,605
Cash Balance, December 31	\$ 29,010

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

**VILLAGE OF SPARTA
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, 2004, 2003**

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 Sparta, Morrow County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government 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

The Village maintains a checking account.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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 Fund:

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

VILLAGE OF SPARTA
MORROW COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, 2004, 2003
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Capital Project Fund

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

Other Capital Project Fund – This fund receives loan proceeds and grants for the purpose of constructing a wastewater treatment facility.

4. Enterprise Fund

This fund accounts for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

Sewer Operating Fund - This fund receives charges for services from residents to cover the cost of providing the utility.

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. During 2006, 2005, 2004, and 2003, Council did not approve permanent appropriation resolutions.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting as required by the Ohio Rev. Code.

**VILLAGE OF SPARTA
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, 2004, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

	2006	2005	2004	2003
Demand deposits	\$17,478	\$30,432	\$47,829	\$60,712

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

3. BUDGETARY ACTIVITY

The Village did not maintain accounting records of budgetary activity and did not comply with budgetary laws which were deemed significant as described below:

- Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify any expenditure prior to the financial obligation.
- Contrary to Ohio Rev. Code Section 5705.28, the Village did not adopt an annual tax budget for the years 2003 through 2006.
- Contrary to Ohio Rev. Code Section 5705.34, the Village did not pass a resolution authorizing the necessary tax levies and to certify the levies to the County Auditor for the years 2006, 2005, and 2004.
- Contrary to Ohio Rev. Code Section 5705.36(A)(1), the Village did not certify to the County Fiscal Officer the total amount from all sources which is available for expenditure from each fund in the tax budget along with any balances that existed at the end of the preceding year for the years 2006, 2005 and 2004 and 2003.
- Contrary to Ohio Rev. Code Section 5705.38, the Village did not adopt a permanent appropriation measure for the years 2003 through 2006. As a result, expenditures of \$334,875, \$98,893, \$80,907, and \$70,223, and for the years 2003 through 2006, respectively, were never appropriated.
- Contrary to Ohio Rev. Code Section 5705.34, the Village did not certify its balances with the County Auditor for the years ended December 31, 2006, 2005, 2004 and 2003.
- Contrary to Ohio Rev. Code Section 5705.10, the Village had negative fund balances at December 31, 2006, 2005, and 2004.

**VILLAGE OF SPARTA
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, 2004, 2003
(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.

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

In 2003, the Village finalized the construction of a sewer plant and entered into loan agreements with the Ohio Water Development Authority Loan (OWDA) to finance construction. In 2004, the Village was in default on the OWDA loan and as of December 31, 2006 has not made any payments on this debt. The balance outstanding at December 31, including interest and late fees and penalties due to the default, is as follows:

	2003	2004	2005	2006
Principal	\$1,172,467	\$1,176,851	\$1,176,851	\$1,176,851
Installment Interest		17,536	34,600	51,185
Late Fees		3,430	8,632	12,303
Penalty Fees		9,039	22,719	32,247
Total	<u>\$1,172,467</u>	<u>\$1,206,856</u>	<u>\$1,242,802</u>	<u>\$1,272,586</u>

6. RETIREMENT SYSTEM

The Village employee belongs 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 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. Although the Village was delinquent on required contributions during the audit period, the Village has paid all known contribution requirements through December 31, 2006.

**VILLAGE OF SPARTA
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, 2004, 2003
(Continued)**

7. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Plan is a separate legal entity per Section 2744 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

The Pool cedes certain premiums to reinsurers or excess reinsurers. The Pool is contingently liable should any reinsurer be unable to meet its reinsurance obligations.

Members may withdraw at the end of any coverage period upon 60 days' prior notice to the Pool. A withdrawing member not providing the required notification remains responsible for its unpaid claims, and also remains liable for additional assessments (if any) for years during which they were members.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained deficit at December 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Assets	\$2,331,284	\$ 2,241,661
Liabilities	<u>(3,130,475)</u>	<u>(3,457,720)</u>
Accumulated deficit	<u>(\$799,191)</u>	<u>(\$1,216,059)</u>

8. LITIGATION

On September 17, 2004, the Village filed suit against Highland Local School District (the District), the Ohio Environmental Protection Agency, and the Ohio Water Development Authority (OWDA) and the Morrow County Health District involving the construction and operation of its sewer plant, including a construction loan from OWDA.

The case has been through mediation to try to settle outside of court. The Morrow County Common Pleas Court awarded a judgment to the OWDA and against the Village of Sparta. In addition, the Court has dismissed all of the other parties. The Village remains in default on the OWDA loan obtained to construct the sewer plant. See Note 5.

Julianna Prince, the Village Clerk/Treasurer for the period of January 1, 2003 – February 28, 2006 was indicted on charges of forgery and theft of office during her term in office. On December 1, 2006, Ms. Prince pleaded guilty to approximately \$41,200 of theft in office and forgery and was convicted in the Morrow County Common Pleas Court. The theft in office is reported as a separate line item on the financial statements. No restitution had been made as of December 31, 2006.

**VILLAGE OF SPARTA
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005, 2004, 2003
(Continued)**

9. SUBSEQUENT EVENTS

On May 19, 2007, the Village was declared to be in Fiscal Emergency by the Auditor of State of Ohio.

Also, as of this report date, the Village has received \$30,000 in restitution from Julianna Prince from the theft in office conviction noted above.

10. MANAGEMENT PLAN

The Village is experiencing financial difficulties resulting in deficit fund balances at December 31, 2006.

As a result of being placed in Fiscal Emergency (see note 9), the Village, as outlined in Ohio Revised Code Section 118, is required to put a Financial Recovery Plan together. The Local Government Services Division of the Auditor of State's Office will assist the Village in completing and monitoring the plan. The Plan is required to be submitted to the Financial Planning and Supervision Commission. The Commission is appointed to oversee the financial activity of the Village until the emergency is terminated. The plan was presented to the Commission on January 18, 2008 and adopted by the Commission on January 28, 2008.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Village of Sparta
Morrow County
P.O. Box 8
Sparta, Ohio 43350

To the Village Council:

We have selectively tested certain accounts, financial records, files, and reports of the Village of Sparta, Morrow County, Ohio, (the Village) as of and for the years ended December 31, 2006, 2005, 2004 and 2003, following Ohio Admin. Code Section 117-4-02. We noted the Village is experiencing financial difficulties and was placed in Fiscal Emergency on May 19, 2007. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinion on these matters.

Internal Control over Financial Reporting

During our procedures related to the internal control over financial reporting we noted matters 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. In addition, these matters could result in the occurrence of misstatements that are caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are described in the Schedule of Findings as items 2006-001 through 2006-009.

Compliance and Other Matters

We tested compliance with certain provisions of laws, regulations, contract, and grant agreements, applicable to the Village. Noncompliance with these requirements could impact the Village's ability to determine financial statement amounts. The results of our tests disclosed instances of noncompliance or other matters that are reported in the accompanying Schedule of Findings as items 2006-010 through 2006-030.

We intended 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 black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

November 5, 2007

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING NUMBER 2006-001

Council Minutes

The Village Council meets once a month to discuss business related to the Village. Minutes are to be maintained for all actions taken in these meetings and the minutes are considered public record.

The following deficiencies were noted during the minutes review:

- The Clerk-Treasurer did not maintain a complete written record of meetings that were held during the year. There were instances of meetings with just an agenda; some meetings did not have written minutes associated with them.
- Village Council did not approve the prior meeting's minutes during each subsequent Council meeting.
- Some minutes did not have a date or reflected the incorrect date of the meeting.
- Financial Reports, including fund balance reports or budgetary reports, were not presented by the Clerk-Treasurer to Council for approval and review.
- Detailed Expenditure listings were not presented by the Clerk-Treasurer to Council for approval at each meeting.
- Executive session portions of the meetings were not documented in accordance with the Ohio Revised Code. (See also Finding Number 2006-021)
- The minutes did not reflect that Village Council approved them for accuracy and completeness.
- Pay rates for employees were not clearly documented in the minutes.
- Resolutions and Ordinances were not always read three times for approval as required by Ohio Rev. Code.

Accurate and complete minute information is essential to assure that Village Council's actions and intent are fully documented in a public record.

We recommend, Village Council, along with guidance of its legal Counsel, develop a policy for the Clerk-Treasurer to follow while recording and documenting the minutes. The Auditor of State, *Village Officers Handbook*, should be consulted to assure required information is included in the minute record. This handbook is available on the Auditor of State of Ohio website at www.auditor.state.oh.us. Additionally, detailed financial reports should be submitted for Council's review and approval. Questionable transactions should be immediately scrutinized and follow-up on by Village Council.

FINDING NUMBER 2006-002

Village Policies

A policy manual is essential to assure that key areas of operations are fully documented (in written form) and understood by employees, management and elected officials.

The Village is operating without key policies in place. The following was noted.

- The Village does not have a travel policy.

Many instances were noted where reimbursements for mileage and other miscellaneous expenses were reimbursed without a detailed receipt or an adequate description of the reimbursement.

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-002 (Continued)

Village Policies (Continued)

Village Council should adopt a travel policy which includes mileage reimbursement rates and the types of travel expenditures which will be reimbursed as well as the type of documentation to be used to verify the mileage reimbursement.

- The Village does not have a credit card policy.

Village Council should adopt a credit card policy which addresses: who is responsible for custody of the credit cards; who is permitted to use the credit cards; types of purchases which may be made; and receipt documentation requirements. Village Council should receive and review all credit card transactions monthly against the policy.

- The Village does not have a cell phone policy.

If the Village is going to reimburse officials or employees for Village related phone calls made on personal phones or phones purchased by the Village, the Village Council should adopt a cell phone policy. At a minimum, the policy should address the authorized users, guidelines for allowable use, method of reimbursement (if the phone is used for personal use) or documentation by the user indicating no personal phone calls were made, specific unallowable uses, monitoring of use by appropriate levels of management, and other guidelines deemed appropriate by the Village Council. Refer to the AOS Best Practices Spring 2004 edition for other guidelines for cell phone policies.

- The Village does not have a fraud and abuse policy.

Village Council should adopt a fraud and abuse policy to increase awareness of fraud risks and prevention. The policy should define fraud, abuse, inappropriate conduct, the reporting procedure, investigation procedure, confidentiality, and administration of the policy and the responsibility of employees and officials under the policy.

- The Village does not have a written policy to ensure cash is collected and remitted properly.

Village Council should adopt a policy to ensure there are procedures for issuing receipts, safe guarding the cash until it is deposited with the bank or Clerk-Treasurer, and the supporting documentation that is required to be given to the Clerk-Treasurer to support the receipt.

- The Village does not have a petty cash policy; however, a petty cash account is utilized by the Clerk-Treasurer and the Sewer Plant Operator.

Village Council should establish a formal petty cash policy which specifies the amount of the account, the process for replenishing the account, individuals authorized to use the account and what types of expenditures that may be made from the account.

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-002 (Continued)

Village Policies (Continued)

Lastly, given the Village's general lack of policies or guidelines, we recommend that Council develop and adopt a Village wide policy manual that would address accounting operations, human resource issues, related Ohio Revised Code requirements, the above noted issues, and those issues unique to Village operations. A resource for developing a policy manual would be the Auditor of State, *Village Officer's Handbook*, the Ohio Revised Code and other villages and municipalities that have adopted policy and operational manuals.

FINDING NUMBER 2006-003

Fiscal Responsibility/Council Monitoring of Financial Reports

During the audit period, financial records were not adequately maintained and Council did not hold the Clerk-Treasurer accountable for the presentation of accurate financial information. Additionally, proper monitoring was not performed to determine that the required records were even being maintained. These records would include monthly bank reconciliations, budget reports, receipt and expenditure ledgers and payroll reports.

The Village was declared unauditible in October 2005 and the Village Official's were asked to provide records for audit. Also, it should be noted that in March 2006, the Clerk-Treasurer resigned and was appointed as a Council Member by the Mayor. The once Clerk-Treasurer and Council Member resigned in April 2006.

The lack of adequate accounting records and monitoring resulted in the Village's General Fund operating in a deficit during the period. Additionally, there has been approximately \$800 of reconciling items that have been carried forward from 2003 through 2006 that are unidentified by Village Officials. The condition of the records and lack of financial information impeded the ability of officials to act on complete and accurate information in conducting Village affairs and has resulted in the current fiscal status of the Village.

It is Council's responsibility to monitor monthly reports and check to determine that related documents agree. It is important that Council monitor financial activity closely, and at each regular monthly meeting, at a minimum, Council should require that the bank reconciliation and the detailed budget and actual receipt and disbursement reports be provided for review. Monthly bank reconciliations should be reviewed to ensure bank balances agree with the monthly fund balances. Any reconciling items should be reviewed to verify there are no unexplained items, and/or that the explanations are factual. The detailed budget versus actual reports should be reviewed to determine that receipts are in line with estimates and that expenditures are within appropriations and if necessary, appropriate budget modifications be updated.

Furthermore, Ohio Rev. Code Section 118.02 and 118.03 establish the guidelines regarding fiscal watch and fiscal emergency situations. The records were in such disarray that the Village chose to contract with the Auditor of State's Local Government Services (LGS) to reconstruct the records. LGS will provide, or has provided the following services to the Village.

- Reconstructing the financial records for 2003 through 2006. As a result of the financial reconstruction, the Village was placed in fiscal emergency by the Auditor of State on May 19, 2007.

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-003(Continued)

Fiscal Responsibility/Council Monitoring of Financial Reports (Continued)

- Assisting the Village in assuring the following reports are completed by the Clerk-Treasurer; monthly cash reconciliations, bank statements, budget to actual statements, and year-to-date receipt, expenditure, and fund balance reports. Any issues of accountability, irregularities, errors, abuse and general disarray of records should be questioned, investigated and follow-up on by Village Council in a timely manner.
- Analyzing the Village's anticipated receipts to determine if they are adequate to support the anticipated expenditures for each year the Village is under fiscal emergency.
- Assisting the Village in reviewing the Village's tax budget, appropriations, and the amended certificate of estimated resources to ensure consistency with the Financial Recovery Plan.
- Reviewing the Financial Recovery Plan to ensure compliance with Section 1118.06 of the Ohio Revised Code, including the approximate dates for the commencement and completion of key elements of the plan;
- Monitoring the Village monthly to ensure compliance with the budget and the Financial Recovery plan.
- Providing guidance in the preparation of a 5-year forecast for the Village and State officials,
- Attending Commission meetings with Village and State officials in the connection with the fiscal emergency of the Village and assisting in the completion of any and all requirements of the fiscal emergency law as requested by the Commission. The Commission is comprised of individuals appointed to oversee fiscal operations, including the Financial Recovery Plan and until the Village is removed from Fiscal Emergency;
- Providing training and assistance in the maintenance of the accounting ledgers and supporting documents and the recording of receipt, disbursement, and encumbrance transactions; and
- Monitoring the Village's progress in correcting any deficiencies in accounting and reporting.

In order to assure adequate segregation of duties and monitoring of accounting activity, it is essential that an accounting system that is primarily operated by a single individual (clerk-treasurer), be monitored by Village Council.

Council should carefully review the following information and make appropriate inquiries to assure the continued integrity of accounting information in order to make informed decisions to manage the Village, such as the following:

- Are current receipts sufficient to cover expenditures?
- Are expenditures in line with prior year costs?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted?
- Are anticipated receipts being timely received?
- When cash is available, is the Village maximizing its return on invested cash balances?

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-003(Continued)

Fiscal Responsibility/Council Monitoring of Financial Reports (Continued)

- Are the Village records, reports and cash reconciliations maintained and presented in a timely manner that provides accurate and meaningful information to Council?
- Are errors and irregularities examined timely and are those responsible for providing accounting information being held accountable for providing accurate and complete financial information.

FINDING NUMBER 2006-004

Late Payments, Finance Charges, and Penalties

There were instances in which the Village was assessed finance charges and penalties for making late payments to various vendors.

Village management is responsible for ensuring that payments are made to all vendors in a timely manner. Finance charges and penalties indicate an inefficient accounting operation and/or lack of management oversight.

Village Council should implement policies to assure that all payments to Village vendors are issued in a timely manner and that all penalties assessed the Village be brought to the attention of Council.

FINDING NUMBER 2006-005

Computer Backup

Sound computer back-up, and disaster recovery practices require a recent copy of any system and data files be retained off-site to ensure their availability in the event of the Village Hall being destroyed or complete data loss. The practice of not regularly backing up computer data and/or storing backup data on-site increases the risk that data will not be available if the system should crash, data is destroyed or the Village Hall should be destroyed resulting in the inability of the Village to continue operations.

The Village Clerk-Treasurer does not back up the Village financial information on a regular basis. Furthermore, all information is maintained on the computer system at the Village Hall. Without proper back-up and disaster recovery procedures, the Village risks the loss of all financial data.

Village Council and the Clerk-Treasurer should develop a policy that requires back-up procedures be performed on a regular basis. These backups should be rotated off-site to a location where the Village can ensure adequate environmental and access controls.

FINDING NUMBER 2006-006

Payroll Expenditures

In order to effectively account and track payroll related transactions, a payroll ledger should be maintained that documents all payroll transactions and is reconciled to the cashbook on a biweekly basis. The Village should also maintain personnel files with job descriptions and contracts or salary notices that support the ledger.

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-006 (Continued)

Payroll Expenditures (Continued)

Numerous weaknesses over payroll transactions were noted. The weaknesses included, but were not limited to, lack of supporting time sheets, miscalculated withholdings, and lack of detailed payroll ledgers. These weaknesses have lead to the inability to adequately monitor payroll transactions.

Our testing of payroll disbursement transactions revealed the following:

- Payments did not have timesheets or other documentation of hours worked for the pay period.
- Taxes or retirement withholdings were not always withheld from paychecks which resulted in fines and late fees. As of August 2007, the appropriate taxes and retirement withholdings have been paid to the appropriate vendors.
- Pay rates were not properly documented in the minutes.
- There are no job descriptions for full or part time employees.
- Documentation was not provided to substantiate that W-2's were properly filed for those individuals where compensation exceeded \$600.
- The Village did not maintain employee files such as hiring authorization, position and authorized salary rate, fund which salary will be charged, deduction authorizations, retirement participation, federal withholding W-4, and state and federal tax withholding authorization.

Village Council should implement policies and procedures to ensure its payroll transactions are properly processed, documented and submitted for Council review each meeting. Appropriate taxes and retirement withholdings should be deducted and paid to the appropriate entity on a timely basis. At year end, W-2's should be completed for all officials and employees who receive over \$600 in compensation.

FINDING NUMBER 2006-007

Expenditures

An effective accounting system requires periodic monitoring review by someone independent of the receipt/expenditure process and is one that requires review of supporting documentation to substantiate all accounting transactions.

Our testing revealed numerous weaknesses with the processing of non-payroll related expenditures. These weaknesses included, but were not limited to, lack of an expenditure journal, unsupported payments, and unapproved payments. The lack of monitoring of individual expenditures and lack of supporting documentation has resulted in errors, irregularities, and fraud. In addition, these weaknesses have significantly reduced management's ability to effectively monitor the finances and make appropriate operating decisions.

During our testing we noted the following:

- Many expenditures had no invoices attached to support payments.
- Payments were made without prior Council approval such as electronic transfer payments.
- Miscellaneous reimbursements were made to Village Council, and employees without proper detailed documentation such as receipts and/or other documentation.

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-007(Continued)

Expenditures (Continued)

Below is a representation of the types of theft noted and confirmed, prior to our review, from 2003 to 2006:

- Salary overpayments
- Unsupported reimbursements
- Numerous unsupported payments made to Sam's Club, Staples and Verizon Wireless including unsupported wire transfers
- Checks made payable to the Clerk-Treasurer with no supporting documentation

The above transactions resulted in the Clerk-Treasurer pleading guilty to approximately \$41,200 in theft.

We recommend the following steps be taken to correct the above internal control weaknesses:

- Village Council and the Clerk-Treasurer should require sufficient supporting documentation for all expenditures. An original invoice should be required to be presented before a payment is approved and paid. Further, individuals receiving the goods/services should initial the invoice(s) to indicate all of the merchandise/goods billed were received. If an invoice is received which does not include such approval, some type of assurance of receipt should be received by the Clerk-Treasurer prior to processing the payment. This practice would help ensure the vendors are paid only for goods or services the Village actually received.
- All expenditures should have prior approval from Council before being paid. The Clerk-Treasurer should provide Council a listing of bills at each Council meeting that need paid. This should be presented as part of the financial report and should also include a bank statement and reconciliation. A finance committee should be appointed by Village council to review and approve all expenditures and review monthly bank statements. Electronic bank transfers should be scrutinized by Village Council.
- Miscellaneous reimbursements should not be made without proper original documentation. Documentation should include original detailed receipts, and/or timesheets.

FINDING NUMBER 2006-008

Audit Committee

The Village should establish an audit committee to serve as a liaison between management and its auditors. The primary functions of such a committee are to monitor and review the Village's accounting and financial reporting practices, and to follow up on citations and recommendations made by its auditors.

The audit committee should be actively involved in:

- Meeting with the Village's independent auditors before and after each audit;
- Monitoring the progress of the financial audit;
- Evaluating the results of the financial audit; and
- Ensuring that the internal control issues identified in the audit are promptly and effectively remedied.

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-008 (Continued)

Audit Committee (Continued)

In addition, the audit committee should meet regularly (perhaps quarterly) to monitor the Village's financial condition and controls over the safeguarding of assets.

The audit committee can include members of the Village Council. However, it can also include representation that is independent from officials or management. The Committee could include professionals knowledgeable in the Village's financial operations, such as attorneys or bankers.

FINDING NUMBER 2006-009

Authorized Signatures

The Village Council has approved the Council President, Mayor and Clerk-Treasurer as the authorized check signers for the Village checking account. Any two of these individuals may sign checks.

During the audit period, there were numerous changes in authorized check signers, however, the authorized signatories at the Village's banking institution was not timely updated.

This could result in unauthorized individuals gaining access to the bank account. It is recommended Council and the Village Clerk-Treasurer ensure timely update of authorized signatories with the bank when changes in officials take place.

FINDING NUMBER 2006-010

Debt Covenant

Per Sections 4.1 and 4.3 of the Cooperative Agreement between the Village and the Ohio Water Development Authority (OWDA), which was finalized in March of 2003, the Village agreed to set sewer rates such that they were adequate to at least pay OWDA the semi-annual debt installments.

After a substantial rate increase by the Village in 2003 – Highland Local School District withdrew from the Village's sewer operations. As a result, the Village asserted it did not collect enough revenue to pay off the required semi-annual payments to OWDA.

Currently the Village is in default on the OWDA loan and is being assessed late fees and penalties.

There have been discussions between the Village Council representative and the OWDA representatives to work out a mutually agreeable payment plan.

We recommend Village Council continue to review the sewer rates for all customers, work with OWDA and structure their sewer rate schedules so their debt obligations can be met. An extremely important part of assuring sufficient funds are available is to assure the accounting functions of the sewer operations are being monitored appropriately as described in finding number 2006-011.

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-011

Utility Collections

Ohio Admin.Code Section 117-2-02 (D)(4b) states in part, all local public offices should maintain or provide 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.

The Clerk-Treasurer did not maintain an updated record of any of the above required documents during the audit period.

The accuracy and completeness of the receipts for sewer services provided could not be determined because adequate supporting documentation, as required and noted above, was not maintained.

The records that did exist were in such disarray, that detailed testing was determined to be ineffective. As a result, the ability to draw conclusions of possible irregularities or fraud was significantly diminished due to the condition of the records.

During the audit period there was a steady decrease in utility collections. For 2006, 2005, and 2004 the Village had a steady increase in accounts receivable, which would normally indicate that customers were not paying their bills. However, due to the lack of and poor condition of the records, we were unable to determine if customers were actually billed or paid for services in a timely manner. We also could not determine if bills were sent out, or that fees collected and posted to a given account actually took place.

At December 31, 2006, accounts receivable totals as reported on the Village's accounting system for Council members, the Mayor and Clerk-Treasurer totaled \$20,296. We could not substantiate the totals, nor could the Village. We did ask for Village Council Members assistance to help substantiate the accuracy of the totals. One Council member did respond and indicated that they thought the amounts were in error.

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-011 (Continued)

Utility Collections (Continued)

In addition to reviewing the above Administrative Code Section, Council should develop policies which require the following:

- 1) The creation of, and timely maintenance of, a master file which includes the service address, account numbers, billing address, type of service, and billing rates as noted above.
- 2) The creation of an accounts receivable ledger, including for each customer: the account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current billing amount, delinquent or late fees due, payments receipts and non-cash adjustments, each maintained by date and amount.
- 3) A three part duplicate receipt be issued for each collection; the first copy should be given to the user (if the original cannot be given to the user, it should remain in the duplicate receipt book), the second part to the Clerk-Treasurer so that the individual collection may be entered into an appropriate cash journal; and the third part should remain intact in the duplicate receipt book.

The Village Council should review the reports at their monthly meetings and follow up on any delinquencies in a timely manner.

FINDING NUMBER 2006-012

Annual Reports

Ohio Rev. Code Section 117.38 requires cash-basis entities file annual reports with the Auditor of State within 60 days of the fiscal year end. These forms must be filed on forms prescribed by the Auditor of State. Any public office which does not file the report by the required date shall pay a penalty of \$25 for each day the report remains un-filed, not to exceed \$750. Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer. The Auditor of State may provide waivers of these dates and penalties in certain circumstances.

The Village did not file or publish the notice of availability of the required reports for fiscal years 2003 through 2006. As an important part of restoring public accountability, the Village should file their annual report with the Auditor of State within 60 days of fiscal year end. The Village should also publish notice in a local newspaper stating the financial report is available for public inspection at the Village's office.

**VILLAGE OF SPARTA
MORROW COUNTY**
SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-013

Deposits of Public Money

Ohio Rev. Code Section 9.38 states monies should be deposited with the Village Clerk-Treasurer or designated depository within 24 hours of collection.

This section also stipulates that if the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting officials who receive money to hold it past the next business day, but the deposit must be made no later than 3 business day after receiving it. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

It was noted the Clerk-Treasurer held water receipts and did not deposit this money in the Village's bank account on a timely basis.

If timely deposits are not made this could result in receipts being lost, misappropriated, stolen and not be detected in a timely manner by management.,

It is recommended that deposits be made with the financial institution on a timely basis. Each deposit should be reconciled to supporting documentation.

FINDING NUMBER 2006-014

Adopting a Tax Budget

Ohio Rev. Code 5705.28 (A)(2) requires the Village Council, except as provided in division (B)(1) or (2) of this section or in section 5705.281, as the Village's taxing authority, to adopt a tax budget for the next succeeding year on or before July 15 of each year.

Village Council did not adopt an annual tax budget for 2003 through 2006. To avoid jeopardizing their share of local government monies, the Village should adopt a tax budget on or before July 15 of each year. The Village should consult its legal counsel and review the Auditor of State, Ohio Compliance Supplement and develop a budgetary schedule and timeline to assure that all yearly budgetary filings and compliance requirements are met.

FINDING NUMBER 2006-015

Certification of Funds

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

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-015 (Continued)

Certification of Funds (Continued)

For fiscal years 2003 through 2006 the Village failed to certify the total amount available from each fund to the county fiscal officer. By not certifying year-end balances to the county auditor, the Village has no basis upon which to make the following years appropriations, which could, and has, resulted in negative fund balances. The Village should file its certificate of available revenue with the county fiscal officer on or about the first day of each fiscal year, and should amend it throughout the year as deemed necessary. The Village should consult its legal counsel and review the Auditor of State's, Ohio Compliance Supplement, and develop a budgetary schedule and timeline to assure that all yearly budgetary filings and compliance requirements are met.

FINDING NUMBER 2006-016

Permanent Appropriations

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

Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

The Village did not adopt a permanent appropriation measure for fiscal years 2003 through 2006. As a result, all expenditures reported in the 2003 through financial report, exceeded a duly authorized appropriation measure. The Village Council should adopt a permanent appropriation measure by April 1st each year. The Village should consult its legal counsel and review the Auditor of State's, Ohio Compliance Supplement, and develop a budgetary schedule and timeline to assure that all yearly budgetary filings and compliance requirements are met.

FINDING NUMBER 2006-017

Filing Form 1099's and W-2's

26 CFR Section 1.6041-1 requires governments to report on Form 1099 "salaries, wages, commissions, fees, and other forms of compensation for services rendered aggregating \$600 or more."

26 C.F.R. Section 1.6041-2 provides that wages, as defined in section 3401 are to be reported on Form W-2. This section also provides that all other payments of compensation, including fringe benefits described in the preceding paragraph, are to be reported on Form W-2, if the aggregate compensation, that is, wages and other compensation, exceed \$600. However, regulations would require the employer to report "all other payments of compensation" on Form 1099, retaining the requirement that aggregate compensation, including wages and other compensation, would have to exceed \$600.

The Clerk-Treasurer failed to prepare and file any Form 1099s for services rendered by contractors which exceeded the \$600 limit during 2006, 2005, 2004 and 2003.

Also, the Village did not issue W-2's for the Village sewer plant operator or any of the other elected officials.

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-017 (Continued)

Finding Form 1099's and W-2's (Continued)

The Village should establish policies and procedures to assure payments in excess of \$600 to independent contractors be reported on the 1099 form and all payments to the employees are reported on the W-2 Form at the end of the year and be filed with the (IRS) Internal Revenue Service. The Village is currently up to date on IRS withholdings for both employee and Village shares.

FINDING NUMBER 2006-018

Education Requirements

Ohio Rev. Code Section 733.27(B) requires the Clerk-Treasurer to complete annual continuing education provided by the Auditor of State. Clerk-Treasurers are required to attend annual continuing education provided by the Auditor of State in order to enhance their background and working knowledge of investments, cash management and ethics.

During the audit period the Clerk-Treasurer did not attend and/or complete the required annual continuing education programs provided by the Auditor of State. The Village Council should monitor the Clerk-Treasurer to ensure the Clerk-Treasurer completes the annual continuing education programs as required by state law.

FINDING NUMBER 2006-019

Maintaining Records

Ohio Rev. Code Section 733.28 requires, in part, that the Village Clerk-Treasurer maintain the books of the Village and exhibit accurate statements of all monies received and expended.

Ohio Admin. Code Section 117-2-02(A) requires all local public offices to maintain an accounting system and accounting records sufficient to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare a financial statement required by rule 117-2-03 of the Administrative Code. Per **Ohio Admin. Code Section 117-2-02(D)**, accounting records that can help achieve these objectives include:

1. Cash Journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and 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.
3. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.

The Village Clerk-Treasurer did not maintained the above required accounting records throughout fiscal years 2003 through 2006. As a result, the Village was determined to be unauditible.

Using the aforementioned accounting records will provide the Village with information required to monitor compliance with the budget, and will assist the Village in preparing annual reports in the format required by the Auditor of State.

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2006-020

Negative Fund Balances

Ohio Rev. Code Section 5705.10 requires money paid into any fund shall be used only for the purposes for which such fund is established. A negative fund balance indicates money from one fund was used to cover the expenses of another fund.

At December 31, 2006, the Village had negative cash balances in the following funds:

<u>General Fund</u>	\$ (22,711)
<u>Capital Projects</u>	\$ (1,619)

At December 31, 2005, the Village had negative cash balances in the following funds:

<u>General Fund</u>	\$ (16,491)
<u>Capital Projects</u>	\$ (1,619)

At December 31, 2004, the Village had negative cash balances in the following funds:

<u>General Fund</u>	\$ (5,402)
<u>Capital Projects</u>	\$ (1,619)

Fund activity should be monitored by the Clerk-Treasurer and Village Council to prevent future expenditures in excess of available resources.

FINDING 2006-021

Executive Sessions

Ohio Rev. Code Section 121.22(G) states the members of a public body may hold an executive session only after a majority of a quorum of the public body determines, by a roll call vote, to hold such a session and only at a regular or special meeting for the sole purpose of the consideration of any of the following matters:

- (1) The appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or officials, or the investigation of charges or complaints against a public employee, official, licensee, or regulated individual, unless the public employee, official licensee, or regulated individual requests a public hearing;
- (2) The purchase of property for public purposes, or for the sale of property at competitive bidding, if premature disclosure of information would give an unfair competitive or bargaining advantage to a person whose personal private interest is adverse to the general public interest.
- (3) Conducting conferences with an attorney for the public body, concerning disputes involving the public body that are the subject of pending or imminent court action.
- (4) Preparing for, conducting, or reviewing negotiations or bargaining sessions with public employees concerning their compensation or other terms and conditions of their employment.

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2006-021 (Continued)

Executive Sessions (Continued)

- (5) Matters required to be kept confidential by federal laws or rules or state statutes.
- (6) Specialized details of security arrangements and emergency response protocols where disclosure of the matters discussed could reasonably be expected to jeopardize the security of the public body or public office.

The Village's Council went into executive session several times throughout the audit period. Reasons for entering into executive session were not specified in the minutes of open session. Without documentation for moving into executive session, the Village fails to document the intent of such sessions and may move into such sessions for ineligible purposes.

We recommend the Village Council clearly document the purpose of the session in the minutes.

FINDING 2006-022

Certification of Funds

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the Clerk-Treasurer is attached thereto. The Clerk-Treasurer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification should be null and void.

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 Clerk-Treasurer can certify that both at the time that the contract or order was made ("then"), and at the time that the Clerk-Treasurer 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's Clerk-Treasurer can authorize the drawing of a warrant for the payment of the amount due. The Township Trustees have 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 Clerk-Treasurer 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 Clerk-Treasurer.

2. Blanket Certificate – Clerk-Treasurer's 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.

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2006-022 (Continued)

Certification of Funds (Continued)

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 Clerk-Treasurer 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 Village utilized the UAN accounting software for 2003 which requires prior certification before expenditures are processed. During 2004 through 2006 expenditures were not prior certified by the Clerk-Treasurer. Failure to properly certify the availability of funds, prior to commitment, can result in, and did result in, overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but 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 Clerk-Treasurer certify that the 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 Village's Clerk-Treasurer certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Clerk-Treasurer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Clerk-Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING 2006 - 023

Certifying a Levy

Ohio Rev. Code Section 5705.34 requires in part that the Village is to pass a resolution authorizing the necessary tax levies and certify the levies to the County Auditor before October 1 of the preceding fiscal year.

The Village did not pass resolutions authorizing the necessary tax levies and certifying the levies to the County Auditor for 2006, 2005, and 2004. The County Auditor does not have authority to collect levy monies until the rates and amounts have been certified by the Village. As a result of the late filings, the Village's collection of tax levy revenues for the 2006, 2005 and 2004 fiscal years could have been jeopardized. The Village should ensure the necessary tax levies are formally approved and certified to the County Auditor timely. This will help ensure that monies generated from the Village's tax levies can be collected and available for the Village.

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2006-024

Bonding requirements

Ohio Rev. Code Section 3.06 permits municipalities to obtain blanket bonds covering its employees and indemnifying itself against certain actions. In addition, Ohio Rev. Code Section 705.27 states that the treasurer, auditor, and such other officers or employees of the municipal corporation as the legislative authority directs, shall give a bond to the municipal corporation for the faithful performance of their duties, in such sum as the legislative authority fixes by ordinance or resolution. Premiums on official bonds may be paid by the municipal corporation.

The Village Clerk-Treasurer did not have an official bond for the period 2003 through 2006. The Clerk-Treasurer should obtain a bond which covers the term of office. Also, Village Council should also require surety bonds for all officers/employees whom are involved in receipting funds or signing checks. This will aid in ensuring the Village's assets are adequately safeguarded in the event of misappropriation or theft of Village monies.

FINDING 2006-025

Resolutions and Ordinances

Ohio Rev. Code Section 731.17(A) provides requirements pertaining to the passage of ordinances and resolutions. Ohio Rev. Code Section 731.17(A)(2) requires each ordinance or resolution be read on three different days, provided the legislative authority may dispense with this rule by a vote of at least three-fourths of its members.

Village Council passed numerous ordinances and resolutions, without dispensing of the rule, and not reading the documents on three different days.

Council should conduct the three readings of an ordinance or resolution on three different meeting dates to meet the requirements unless they have dispensed with this requirement in accordance with the Code. This will aid in assuring that the issues are properly discussed and debated.

FINDING 2006-026

Finding for Recovery – Elected Officials' Compensation

Ohio Rev. Code Section 731.12 states that no member of the legislative authority shall hold any other public office, be interested in any contract with the Village, or hold employment with said Village, except that such member may be a notary public, a member of the state militia, or a volunteer fireman of said Village, provided that such member shall not receive any compensation for his services as a volunteer fireman of the Village in addition to his regular compensation as a member of the legislative authority.

Ohio Rev. Code Section 2921.42(A)(4) prohibits a public official from knowingly having an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision with which the public official is connected.

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2006-026 (Continued)

Finding for Recovery – Elected Officials’ Compensation (Continued)

During the period of 2003 through 2006, Beverly Snyder acted in the capacity as a Village Council member and then as Village Mayor. During this time she was paid for weeding four Village flower beds, and for accounting data entry to help the newly appointed Clerk-Treasurer try to reconstruct the Village records after the former Clerk-Treasurer was indicted on fraud. She also received a rate increase from Council from \$8/hour to \$10/hour for weeding the Village flower beds at a time when the Village was in default of a loan due to the fiscal condition of the Village, and the Village had discontinued the contract of the Uniform Accounting System (UAN) and asserted it was due to the cost associated with maintaining the UAN accounting software which was approximated \$30 a month.

Ms. Snyder received a total of \$1,361.26 for these duties, \$331.76 of which was earned while she was a member of Village Council. We also question the rational for such expenditures given the fiscal status of the Village during this time.

Also, during 2005, Elizabeth Eppich, a Council Member, was paid \$125 for mowing grass for the Village on the Burson property in the amount of \$125.

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 the expenditure. *Seward v. National Surety Corp.* (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.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against: Beverly Snyder and Julianna Prince, former Clerk-Treasurer, jointly and severally, in the amount of \$331.76; and against Elizabeth Eppich and Julianna Prince, jointly and severally, in the amount of \$125; in the total amount of \$456.76 and in favor of the Village of Sparta’s General Fund. Julianna Prince shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Beverly Snyder and Elizabeth Eppich.

This matter will be referred to the Ohio Ethics Commission.

FINDING 2006-027

Finding for Recovery

On May 8, 2006 Candice Baker, Clerk-Treasurer, wrote a check to replenish the Village’s petty cash account for the amount of \$300. Invoices supporting the \$300 reimbursement totaled \$171.57. The remaining reimbursement of \$128.43 was not supported by any invoices.

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2006-027 (Continued)

Finding for Recovery (Continued)

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 the expenditure. *Seward v. National Surety Corp.* (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.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Village Clerk-Treasurer Candice Baker, in the total amount of \$128.43 and in favor of the Village of Sparta’s General Fund.

FINDING 2006-028

Finding for Recovery

During fiscal year 2003, Mayor, Michael Short was reimbursed for expenditures that lacked supporting documentation or approval by Council for reimbursement. See the summary below:

Village Position: Mayor

Michael Short	Check #	Check Date	Fund	Amount	Reason for Finding
Reimbursed for:					
Mileage & 3 hours work	5671	7/13/2003	General	\$ 50.40	No mileage log for support and no approval by Council to be reimbursed for work
Missed Work	5534	4/14//03	General	101.20	No Council approval or authority to reimburse for missed work
Out of Pocket Expenses	5457	2/9/2003	Enterprise	234.98	No supporting invoices
Total Finding for Recovery:				\$ 386.58	

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 the expenditure. *Seward v. National Surety Corp.* (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.

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2006-028 (Continued)

Finding for Recovery (Continued)

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Michael Short and Julianna Prince, former Village Clerk-Treasurer, jointly and severally in the total amount of \$386.58 and in favor of the Village of Sparta's General Fund in the amount of \$151.60 and the Village's Sewer Fund in the amount of \$234.98. Julianna Prince shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Michael Short.

FINDING 2006-029

Finding for Recovery

During the audit period, Mayor/Council Member Beverly Snyder was reimbursed for expenditures that lacked supporting documentation or approval by Council for reimbursement. See the summary below:

Beverly Snyder

Date	Warrant Number	Finding Amount	Description	Reason for Finding
5/12/2003	5570	\$20.40	60 miles	No log or support for reimbursement
7/12/2003	5875	48.24	4 hours of missed work	No Village ordinance allowing reimbursement for missed work
6/14/2004	5859	10.20	Mileage	No log or support for reason of travel
7/12/2004	5874	56.00	Mileage	No log or support for reimbursement
9/13/2004	5884	70.32	4 hours of missed work; & mileage	No Village ordinance allowing reimbursement for missed work; No log maintained for reason of travel
11/8/2004	5929	11.56	34 miles	No log or support for reimbursement
2003		100.00		During 2003 there were only 14 documented meetings, however, payment for 16 meetings was received @ \$50 per meeting.
2005		100.00		On 12/15/05 Village Council approved to pay the Mayor \$100 per meeting - however the ordinance was not retroactive to September 2005 when \$100 payments started being made..
Total:		<u>\$416.72</u>		

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2006-029 (Continued)

Finding for Recovery (Continued)

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 the expenditure. *Seward v. National Surety Corp.* (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.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Mayor/Council Member Beverly Snyder and Julianna Prince, former Village Clerk-Treasurer, jointly and severally in the total amount of \$416.72 and in favor of the General Fund. Julianna Prince shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Beverly Snyder.

FINDING 2006-030

Finding for Recovery

Ohio Attorney General Opinion No. 82-006 addresses the expenditure of funds for public purposes. This opinion, citing the Ohio Supreme Court case of *State ex rel. McClure v. Hagerman* (1951), 155 Ohio St. 320, provides that the primary object of an expenditure of public funds should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion No. 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

During the audit period we noted the following expenditures that were not supported by an invoice or do not appear to be for a proper public purpose.

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2006-030 (Continued)

Finding for Recovery (Continued)

Date	Fund	Check #	Amount	Vendor	Warrant Description	Reason for Finding
3/9/2003	General	5469	\$ 80.00	Becky Tiller	Child care for Julie Prince	Not a proper public purpose
5/12/2003	General	5565	\$ 29.84	Julie Prince	Mileage	No supporting invoices or travel log
10/1/2003	General	5740	\$ 345.22	Staples	Office Supplies	Items purchased: Windows XP Home Edition, crayons, dish detergent, window cleaner, bottled water. Not a public Purpose
2/25/2004	General	EFT	\$ 255.80	Verizon	Cell Phone Payment	Per inquiry with Village Officials- the Village does not have a cellular phone.
6/11/2003	Sewer	EFT	\$ 49.95	Staples	Digital Voice Recorder	Per inquiry with Village officials - the Village does not have a Digital Voice Recorder
6/28/2004	General	5866	\$ 215.56	Julie Prince	Mileage	No supporting invoices or travel log
7/12/2004	Sewer	5877	\$ 128.41	Staples	Office Supplies	Items purchased: crayola washboard markers, crayola crayons, colored pencils. Not a proper public purpose
10/31/2004	General	EFT	\$ 140.28	Verizon	Cell Phone Payment	Per inquiry with Village Officials- the Village does not have a cellular phone
11/8/2004	General	5940	\$ 845.38	Julie Prince	none	No supporting documentation for this expenditure
11/8/2004	General	EFT	\$ 59.98	Staples	Office Supplies	Invoice description: Digital imaging access and Digital photography - Per inquiry with Village Officials - the Village does not own any digital photography equipment
11/8/2004	Sewer	EFT	\$ 160.01	Staples	Office Supplies	Invoice Description; Olympus Stylus 300 and a "coupon" item for \$89.98. Per inquiry with the Village Officials- the Village does not own digital photography equipment.
2/13/2006	General	6195	\$ 79.97	Staples	none	Turbo Tax - software was on the Village computer along with Clerk's personal tax return. Not a proper public purpose.
		TOTAL	\$ 2,390.40			

VILLAGE OF SPARTA
MORROW COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2006-030 (Continued)

Finding for Recovery (Continued)

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 the expenditure. *Seward v. National Surety Corp.* (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.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Julianna Prince, who personally benefited from these funds, in the amount of \$2,390.40, and in favor of the General Fund in the amount of \$2,052.03 and the Sewer Fund in the amount of \$338.37. These expenditures are over and above the \$41,200 that Ms. Prince had previously been indicted for.

Officials' Response:

The Village Council has responded to issues discussed in this report. A copy of their response may be obtained from the Village Clerk-Treasurer, Jac Cooperider, at the Village of Sparta, P.O. Box 8, Sparta, Ohio 43350.

**VILLAGE OF SPARTA
MORROW COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006, 2005, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	Ohio Rev. Code Section 5705.41(d), Prior Certification	No	Repeated in Finding Number 2006-022
2002-002	Appropriate financial reports were not provided to Village Council to allow for effective monitoring over financial operations	No	Repeated in Finding Number 2006-003



Mary Taylor, CPA
Auditor of State

VILLAGE OF SPARTA

MORROW 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
MAY 6, 2008