



OHIO AUDITOR OF STATE
KEITH FABER



**VILLAGE OF SPENCERVILLE
ALLEN COUNTY
DECEMBER 31, 2018 AND 2017**

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OHIO AUDITOR OF STATE KEITH FABER



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Report on the Financial Statements, Internal Control, and Compliance

Village of Spencerville
Allen County
116 S. Broadway Street
Spencerville, Ohio 45887

To the Members of Council:

We have selectively tested certain accounts, financial records, reports and other documentation of the Village of Spencerville, Allen County, (the Village), as of and for the years ended December 31, 2018 and 2017. These procedures were designed to satisfy the audit requirements of Section 117.11, Ohio Rev. Code, and Section 117-4-02, Ohio Admin. Code. Our engagement was not designed as a basis to opine on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinions on these matters.

Internal Control Over Financial Reporting

Certain of the aforementioned tests relate to internal control over financial reporting. The results of those tests may allow us to identify internal control deficiencies. An internal control deficiency exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements, whether caused by error or fraud.

Our internal control tests were not designed to identify all internal control deficiencies that might exist. Therefore, unidentified weaknesses may exist. However, we consider findings 2018-001 through 2018-003, and 2018-022 through 2018-034 reported in the Schedule of Findings to be internal control deficiencies management and those charged with governance should address.

Compliance and Other Matters

We also tested compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to the Village, noncompliance with which could directly and materially affect the determination of financial statement amounts. The results of our tests disclosed instances of noncompliance we believe could directly and materially affect the determination of financial statement amounts that we reported in the Schedule of Findings as items 2018-001, 2018-002, 2018-004 through 2018-021, and 2018-030.

Village's Response to Findings

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

December 14, 2020

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Village of Spencerville, Ohio
Allen County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2018

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$55,736	\$12,550	\$0	\$68,286
Municipal Income Tax	446,834	223,738	0	670,572
Intergovernmental	59,707	130,755	18,500	208,962
Charges for Services	150	0	0	150
Fines, Licenses and Permits	14,105	25	0	14,130
Earnings on Investments	151	98	0	249
Miscellaneous	13,238	171	0	13,409
<i>Total Cash Receipts</i>	<u>589,921</u>	<u>367,337</u>	<u>18,500</u>	<u>975,758</u>
Cash Disbursements				
Current:				
Security of Persons and Property	231,389	216,594	0	447,983
Leisure Time Activities	13,916	0	0	13,916
Transportation	0	161,380	0	161,380
General Government	170,981	6,286	0	177,267
Capital Outlay	0	4,431	238,646	243,077
Debt Service:				
Principal Retirement	0	1,492	0	1,492
<i>Total Cash Disbursements</i>	<u>416,286</u>	<u>390,183</u>	<u>238,646</u>	<u>1,045,115</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>173,635</u>	<u>(22,846)</u>	<u>(220,146)</u>	<u>(69,357)</u>
Other Financing Receipts (Disbursements)				
Transfers In	0	0	178,171	178,171
Transfers Out	(178,171)	0	0	(178,171)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(178,171)</u>	<u>0</u>	<u>178,171</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	(4,536)	(22,846)	(41,975)	(69,357)
<i>Fund Cash Balances, January 1</i>	<u>257,160</u>	<u>400,113</u>	<u>313,499</u>	<u>970,772</u>
Fund Cash Balances, December 31				
Restricted	0	377,267	271,524	648,791
Assigned	23,566	0	0	23,566
Unassigned (Deficit)	229,058	0	0	229,058
<i>Fund Cash Balances, December 31</i>	<u>\$252,624</u>	<u>\$377,267</u>	<u>\$271,524</u>	<u>\$901,415</u>

See accompanying notes to the basic financial statements

Village of Spencerville, Ohio
Allen County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2018

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Charges for Services	\$1,145,924	\$0	\$1,145,924
Fines, Licenses and Permits	0	2,559	2,559
Miscellaneous	11,284	0	11,284
<i>Total Operating Cash Receipts</i>	<u>1,157,208</u>	<u>2,559</u>	<u>1,159,767</u>
Operating Cash Disbursements			
Personal Services	218,200	0	218,200
Employee Fringe Benefits	85,672	0	85,672
Contractual Services	340,430	0	340,430
Supplies and Materials	141,848	0	141,848
Other	7,982	2,559	10,541
<i>Total Operating Cash Disbursements</i>	<u>794,132</u>	<u>2,559</u>	<u>796,691</u>
<i>Operating Income (Loss)</i>	<u>363,076</u>	<u>0</u>	<u>363,076</u>
Non-Operating Receipts (Disbursements)			
Intergovernmental	9,535	0	9,535
Loans Issued	9,670	0	9,670
Capital Outlay	(35,593)	0	(35,593)
Principal Retirement	(147,775)	0	(147,775)
Interest and Other Fiscal Charges	(11,481)	0	(11,481)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(175,644)</u>	<u>0</u>	<u>(175,644)</u>
<i>Net Change in Fund Cash Balances</i>	187,432	0	187,432
<i>Fund Cash Balances, January 1</i>	<u>962,541</u>	<u>0</u>	<u>962,541</u>
<i>Fund Cash Balances, December 31</i>	<u>\$1,149,973</u>	<u>\$0</u>	<u>\$1,149,973</u>

See accompanying notes to the basic financial statements

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 1 – Reporting Entity

The Village of Spencerville (the Village), Allen County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides various services including a mayor's court, police protection, recreation, street maintenance and repair, water and sewer utilities, and general administrative services. The Village contracts with the Spencerville Invincible Fire Department for fire and emergency medical services.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village street. This fund receives 92.5% of the above tax money.

Income Tax Fund - This fund receives local income tax which is collected by the Income Tax Administrator. The rate for 2018 was 1.5%. Net collections are then disbursed to other funds per ordinances.

Police Enforcement Fund - This fund receives local income tax restricted for police operations.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village has one capital project fund that receives a share of the local income tax.

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

Water Operating Fund - This fund receives cash receipts from water sales to Village residents. Water system operating cash disbursements are made from this fund.

Sewer Operating Fund - This fund receives cash receipts from sewer operations within the Village. Sewer system operating cash disbursements are made from this fund.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to report fiduciary activity that is not required to be reported in a trust fund. The Village's agency fund accounts for the financial activity of the Village's Mayor's Court.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

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. Appropriations lapse at year end.

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

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2018

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.

A summary of 2018 budgetary activity appears in Note 4.

Deposits and Investments

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

Capital Assets

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

Accumulated Leave

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 3 – Compliance

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund; Street Construction, Maintenance, and Repair fund, Permissive Motor Vehicle License Tax, Police Enforcement special revenue funds; and the Water Operating, Swimming Pool and Garbage enterprise funds in the amount of \$387,995, \$67,815, \$6,076, \$82,865, \$39,870, \$28,297, and \$1,901, respectively.

In addition appropriations exceeded estimated resources in 2018 in the General Fund, Income Tax special revenue fund, Capital Projects capital projects fund, and Water Operating enterprise fund, in the amount \$148,961, \$692,498, \$304,730, and \$260,914, respectively.

Also contrary to Ohio law, at December 31, 2018, the Swimming Pool fund had a cash deficit balance of \$24,330.

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2018, follows:

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$410,123	\$589,921	\$179,798
Special Revenue	0	367,337	367,337
Capital Projects	0	196,671	196,671
Enterprise	0	1,176,413	1,176,413
Fiduciary	0	2,559	2,559
Total	\$410,123	\$2,332,901	\$1,922,778

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2018

2018 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$495,408	\$594,457	(\$99,049)
Special Revenue	989,299	390,183	599,116
Capital Projects	338,100	238,646	99,454
Enterprise	1,202,052	988,981	213,071
Fiduciary	0	2,559	(2,559)
Total	\$3,024,859	\$2,214,826	\$810,033

Note 5 – Deposits and Investments

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

	2018
Demand deposits	\$1,851,328
Other time deposits (savings and NOW accounts)	200,060
Total deposits and investments	\$2,051,388

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation, or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Note 6 – Taxes

Property Taxes

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 non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction 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.

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

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Income Taxes

The Village levies a municipal income tax of 1.5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

Note 7 – Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2018, the OPRM the property retention remained unchanged, however, the Plan assumed 100% of the first \$250,000 casualty treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 members as of December 31, 2018.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2018.

Assets	\$15,065,412
Liabilities	<u>(10,734,623)</u>
Members' Equity	<u>\$ 4,330,789</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some of the Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement health care and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries, and the Village contributed an amount equaling 14 percent of participants' gross salaries.

Ohio Police and Fire Retirement System

The Village's full-time Police Officers belong to the Ohio Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement health care and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 12.25 percent of their wages. The Village contributed to OP&F an amount equal to 19.5 percent of full-time police members' wages.

Social Security

Several of the Village's employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries.

Note 9 – Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2018. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2018. OP&F contributes 0.5 percent to fund these benefits.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 10 – Debt

Debt outstanding at December 31, 2018, was as follows:

	Principal	Interest Rate
General Obligation Bonds		
Water	\$130,000	4.95%
Ohio Public Works Commission Loans		
Downtown Streetscape	17,165	0.00%
Sanitary Sewer Phase III	9,278	0.00%
Water Tower	14,870	0.00%
Water Distribution System	27,500	0.00%
Ohio Water Development Authority Loan		
Water Tower Replacement	192,004	2.00%
WTP Construction	1,492,757	0.00%
Asset Management Plan	135	
Total	\$1,883,709	

General Obligation Bonds - Water - In 2006, the Village issued General Obligation Water System Improvement Bonds, Series 2006 in the amount of \$505,000 for 15 years. The bonds are payable in annual payments on May 1 through 2021 at a rate of 3.95% - 4.95%. The bonds are secured by water rates.

OPWC Downtown Streetscape Loan - In 2010, the Village obtained a \$29,850 loan for 20 years for the Downtown Streetscape beautification project. Debt service payments will be made in semiannual installments of \$746 on January 31 and July 1 with final payment January 2030 at a rate of 0%. Payments are made from the Street Construction and Maintenance special revenue fund.

OPWC Sanitary Sewer Phase III Loan - In 2000, the Village obtained a loan in the amount of \$123,702 for 20 years for the rehabilitation of sanitary sewers. The loan is payable in semiannual payments of \$3,093 on January 31 and July 1 through January 2020 at a rate of 0%. The loan is secured by sewer rates.

OPWC Water Tower Loan - Planning: In 2007, the Village obtained a loan in the amount of \$34,990 for 20 years for planning of the water tower replacement project. The loan is payable in semiannual payments of \$874 on January 31 and July 1 through January 2027 at a rate of 0%. The loan is secured by water rates.

OPWC Water Distribution System Loan - In 2004, the Village obtained a loan in the amount of \$100,000 for 20 years for water system distribution improvements. The loan is payable in semiannual payments of \$2,500 on January 31 and July 1 through 2024 at a rate of 0%. The loan is secured by water and sewer rates.

OWDA Water Tower Replacement Loan - In 2007, the Village obtained a loan in the amount of \$405,108 for 20 years for the replacement of a water tower. The loan is payable in semiannual payments of \$12,338 on January 1 and July 1 through 2027 at a rate of 2%. The loan is secured by water rates.

OWDA Water Distribution Study Loan - In 2012, the Village obtained a \$25,337 loan for 5 years for a water distribution study. This loan was retired in 2018.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2018

OWDA WTP Construction Loan - In 2012, the Village obtained a \$1,791,308 loan for 30 years for the construction of a new water treatment plant. Semiannual payments of \$29,855 are due on January 1 and July 1 with final payment July 1, 2043 at a rate of 0%. The loan is secured by water and sewer rates.

OWDA Asset Management Plan - In 2018, the Village obtained a loan for developing an asset management plan for the water system. The project was not complete as of December 31, 2018; therefore, no amortization schedule is available. The loan is secured by water and sewer rates.

Amortization

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

Year Ending December 31:	General Obligation		
	Bonds	OPWC Loans	OWDA Loans
2019	\$46,372	\$14,427	\$84,386
2020	49,433	11,336	84,386
2021	47,227	8,242	84,386
2022	0	8,242	84,386
2023	0	8,241	84,386
2024-2028	0	16,086	384,913
2029-2033	0	2,239	298,552
2034-2038	0	0	298,552
2039-2043	0	0	298,553
Total	<u>\$143,032</u>	<u>\$68,813</u>	<u>\$1,702,500</u>

Note 11 – Subsequent Event

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Village. The Village's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Village's operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

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Village of Spencerville, Ohio
Allen County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2017

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$71,001	\$12,091	\$0	\$83,092
Municipal Income Tax	413,157	210,197	0	623,354
Intergovernmental	64,571	146,659	0	211,230
Fines, Licenses and Permits	9,058	25	0	9,083
Earnings on Investments	99	81	0	180
Miscellaneous	4,313	0	0	4,313
<i>Total Cash Receipts</i>	<u>562,199</u>	<u>369,053</u>	<u>0</u>	<u>931,252</u>
Cash Disbursements				
Current:				
Security of Persons and Property	167,889	173,707	0	341,596
Public Health Services	0	2,955	0	2,955
Leisure Time Activities	9,828	0	0	9,828
Transportation	0	159,241	0	159,241
General Government	151,462	6,888	0	158,350
Capital Outlay	1,560	6,375	149,788	157,723
Debt Service:				
Principal Retirement	0	1,492	0	1,492
<i>Total Cash Disbursements</i>	<u>330,739</u>	<u>350,658</u>	<u>149,788</u>	<u>831,185</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>231,460</u>	<u>18,395</u>	<u>(149,788)</u>	<u>100,067</u>
Other Financing Receipts (Disbursements)				
Transfers In	0	0	166,137	166,137
Transfers Out	(166,137)	0	0	(166,137)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(166,137)</u>	<u>0</u>	<u>166,137</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	65,323	18,395	16,349	100,067
<i>Fund Cash Balances, January 1</i>	<u>191,837</u>	<u>381,718</u>	<u>297,150</u>	<u>870,705</u>
Fund Cash Balances, December 31				
Restricted	0	400,113	313,499	713,612
Assigned	35,389	0	0	35,389
Unassigned (Deficit)	221,771	0	0	221,771
<i>Fund Cash Balances, December 31</i>	<u>\$257,160</u>	<u>\$400,113</u>	<u>\$313,499</u>	<u>\$970,772</u>

See accompanying notes to the basic financial statements

Village of Spencerville, Ohio
Allen County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2017

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Charges for Services	\$1,101,580	\$0	\$1,101,580
Fines, Licenses and Permits	0	5,274	5,274
Miscellaneous	14,189	0	14,189
<i>Total Operating Cash Receipts</i>	<u>1,115,769</u>	<u>5,274</u>	<u>1,121,043</u>
Operating Cash Disbursements			
Personal Services	205,533	0	205,533
Employee Fringe Benefits	85,694	0	85,694
Contractual Services	343,085	0	343,085
Supplies and Materials	150,821	0	150,821
Other	11,828	5,274	17,102
<i>Total Operating Cash Disbursements</i>	<u>796,961</u>	<u>5,274</u>	<u>802,235</u>
<i>Operating Income (Loss)</i>	<u>318,808</u>	<u>0</u>	<u>318,808</u>
Non-Operating Receipts (Disbursements)			
Intergovernmental	6,000	0	6,000
Capital Outlay	(49,991)	0	(49,991)
Principal Retirement	(95,435)	0	(95,435)
Interest and Other Fiscal Charges	(11,469)	0	(11,469)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(150,895)</u>	<u>0</u>	<u>(150,895)</u>
<i>Net Change in Fund Cash Balances</i>	167,913	0	167,913
<i>Fund Cash Balances, January 1</i>	<u>794,628</u>	<u>0</u>	<u>794,628</u>
<i>Fund Cash Balances, December 31</i>	<u>\$962,541</u>	<u>\$0</u>	<u>\$962,541</u>

See accompanying notes to the basic financial statements

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 – Reporting Entity

The Village of Spencerville (the Village), Allen County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides various services including a mayor's court, police protection, recreation, street maintenance and repair, water and sewer utilities, and general administrative services. The Village contracts with the Spencerville Invincible Fire Department for fire and emergency medical services.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village street. This fund receives 92.5% of the above tax money.

Income Tax Fund - This fund receives local income tax which is collected by the Income Tax Administrator. The rate for 2017 was 1.5%. Net collections are then disbursed to other funds per ordinances.

Police Enforcement Fund - This fund receives local income tax restricted for police operations.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village has one capital project fund that receives a share of the local income tax.

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

Water Operating Fund - This fund receives cash receipts from water sales to Village residents. Water system operating cash disbursements are made from this fund.

Sewer Operating Fund - This fund receives cash receipts from sewer operations within the Village. Sewer system operating cash disbursements are made from this fund.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to report fiduciary activity that is not required to be reported in a trust fund. The Village's agency fund accounts for the financial activity of the Village's Mayor's Court.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

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. Appropriations lapse at year end.

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

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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.

A summary of 2017 budgetary activity appears in Note 4.

Deposits and Investments

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

Capital Assets

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

Accumulated Leave

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 3 – Compliance

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund, Street Construction, Maintenance, and Repair and Police Enforcement special revenue funds; and the Swimming Pool and Garbage enterprise funds in the amount of \$37,967, \$1,668, \$26,959, \$13,365 and \$14,140, respectively. Also contrary to Ohio law, at December 31, 2017, the Swimming Pool fund had a cash deficit balance of \$12,441.

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2017, follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$448,815	\$562,199	\$113,384
Special Revenue	1,136,302	369,053	(767,249)
Capital Projects	1,381,395	166,137	(1,215,258)
Enterprise	364,250	1,121,769	757,519
Fiduciary	0	5,274	5,274
Total	\$3,330,762	\$2,224,432	(\$1,106,330)

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2017

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$488,093	\$496,876	(\$8,783)
Special Revenue	911,932	350,658	561,274
Capital Projects	306,400	149,788	156,612
Enterprise	1,193,002	953,856	239,146
Fiduciary	0	5,274	(5,274)
Total	\$2,899,427	\$1,956,452	\$942,975

Note 5 – Deposits and Investments

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

	2017
Demand deposits	\$1,733,273
Other time deposits (savings and NOW accounts)	200,040
Total deposits and investments	\$1,933,313

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation, or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Note 6 – Taxes

Property Taxes

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 non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction 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.

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

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Income Taxes

The Village levies a municipal income tax of 1.5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

Note 7 – Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 764 members as of December 31, 2017.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2017.

Assets	\$14,853,620
Liabilities	<u>(9,561,108)</u>
Members' Equity	<u>\$5,292,512</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some of the Village’s employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement health care and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries, and the Village contributed an amount equaling 14 percent of participants’ gross salaries.

Ohio Police and Fire Retirement System

The Village’s full-time Police Officers belong to the Ohio Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement health care and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 12.25 percent of their wages. The Village contributed to OP&F an amount equal to 19.5 percent of full-time police members’ wages.

Social Security

Several of the Village’s employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants’ gross salaries.

Note 9 – Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1 percent during calendar year 2017. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2017. OP&F contributes 0.5 percent to fund these benefits.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 10 – Debt

Debt outstanding at December 31, 2017, was as follows:

	Principal	Interest Rate
General Obligation Bonds		
Water	\$170,000	4.95%
Ohio Public Works Commission Loans		
Downtown Streetscape	18,657	0.00%
Sanitary Sewer Phase III	15,463	0.00%
Water Tower	16,620	0.00%
Water Distribution System	32,500	0.00%
Ohio Water Development Authority Loan		
Water Tower Replacement	212,532	2.00%
Water Distribution Study	5,067	0.00%
WTP Construction	1,552,467	0.00%
Total	\$2,023,306	

General Obligation Bonds - Water - In 2006, the Village issued General Obligation Water System Improvement Bonds, Series 2006 in the amount of \$505,000 for 15 years. The bonds are payable in annual payments on May 1 through 2021 at a rate of 3.95% - 4.95%. The bonds are secured by water rates.

OPWC Downtown Streetscape Loan - In 2010, the Village obtained a \$29,850 loan for 20 years for the Downtown Streetscape beautification project. Debt service payments will be made in semiannual installments of \$746 on January 31 and July 1 with final payment January 2030 at a rate of 0%. Payments are made from the Street Construction and Maintenance special revenue fund.

OPWC Sanitary Sewer Phase III Loan - In 2000, the Village obtained a loan in the amount of \$123,702 for 20 years for the rehabilitation of sanitary sewers. The loan is payable in semiannual payments of \$3,093 on January 31 and July 1 through January 2020 at a rate of 0%. The loan is secured by sewer rates.

OPWC Water Tower Loan - Planning: In 2007, the Village obtained a loan in the amount of \$34,990 for 20 years for planning of the water tower replacement project. The loan is payable in semiannual payments of \$874 on January 31 and July 1 through January 2027 at a rate of 0%. The loan is secured by water rates.

OPWC Water Distribution System Loan - In 2004, the Village obtained a loan in the amount of \$100,000 for 20 years for water system distribution improvements. The loan is payable in semiannual payments of \$2,500 on January 31 and July 1 through 2024 at a rate of 0%. The loan is secured by water and sewer rates.

OWDA Water Tower Replacement Loan - In 2007, the Village obtained a loan in the amount of \$405,108 for 20 years for the replacement of a water tower. The loan is payable in semiannual payments of \$12,338 on January 1 and July 1 through 2027 at a rate of 2%. The loan is secured by water rates.

Village of Spencerville, Ohio
Allen County
Notes to the Financial Statements
For the Year Ended December 31, 2017

OWDA Water Distribution Study Loan - In 2012, the Village obtained a \$25,337 loan for 5 years for a water distribution study. Semiannual payments of \$2,534 are due on January 1 and July 1 with final payment July 2018 at a rate of 0%. The loan is secured by water rates.

OWDA WTP Construction Loan - In 2012, the Village obtained a \$1,791,308 loan for 30 years for the construction of a new water treatment plant. Semiannual payments of \$29,855 are due on January 1 and July 1 with final payment July 1, 2043 at a rate of 0%. The loan is secured by water and sewer rates.

Amortization

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

Year Ending December 31:	General Obligation		
	Bonds	OPWC Loans	OWDA Loans
2018	\$48,293	\$14,427	\$89,453
2019	46,372	14,427	84,386
2020	49,433	11,336	84,386
2021	47,227	8,242	84,386
2022	0	8,242	84,386
2023-2027	0	22,835	409,589
2028-2032	0	3,731	298,552
2033-2037	0	0	298,552
2038-2042	0	0	298,552
2043	0	0	59,711
Total	<u>\$191,325</u>	<u>\$83,240</u>	<u>\$1,791,953</u>

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**VILLAGE OF SPENCERVILLE
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2018 AND 2017**

FINDING NUMBER 2018-001

Internal Control Deficiency / Noncompliance Citation / Finding for Recovery - Late Fees and Sales Tax

Ohio Rev. Code § 145.47(B) states, in part, “the head of each state department, institution, board, and commission, and the fiscal officer of each local authority subject to this chapter, shall transmit to the system for each contributor subsequent to the date of coverage an amount equal to the applicable per cent of each contributor’s earnable salary at such intervals and in such form as the system shall require.”

Ohio Rev. Code § 742.32(A) states, that the fiscal officer of each employer “shall transmit monthly to the secretary of the board of trustees of the Ohio police and fire pension fund a report of employee deductions in such form as the board requires. The report shall show all deductions for the fund made pursuant to section 742.31 of the Revised Code and shall be accompanied by payments covering the total of such deductions. The report shall also include the name of each member for whom deductions were made and the portion of the payment attributed to that member. Separate payments shall be so transmitted for that portion of such deductions made from the salaries of members of the police department and for that portion of such deductions made from the salaries of members of the fire department. The report and payment are due the last day of the month following the last business day of the reporting period.” **Ohio Rev. Code § 742.32(B)** states that a penalty determined under section 742.352 of the Revised Code shall be assessed if any of the following occur:

(1) The report is received by the board after the due date or is not in the form required by the board. (2) Payments to cover the total amount due from the salaries of all employees of the employer are received by the board after the due date.

The penalty shall be added to and collected on the next succeeding regular employer billing. If the penalty is not paid within sixty days after it is added to the regular employer billing, interest at a rate determined by the board may be charged on the total amount due and the amount of the penalty from the date the amount is due to the date of payment.

Ohio Rev, Code § 5739.02(B)(1) states that sales tax does not apply to the sales to the state or any of its political subdivisions, or to any other state or its political subdivisions if the laws of that state exempt from taxation sales made to this state and its political subdivisions.

Ohio Rev. Code § 5747.06(A) states, in part, that “except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee’s compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in the employee’s adjusted gross income during the calendar year. The employer shall deduct and withhold the tax on the date that the employer directly, indirectly, or constructively pays the compensation to, or credits the compensation to the benefit of, the employee.”

**FINDING NUMBER 2018-001
(Continued)**

Ohio Rev. Code § 5747.07(B) states, in part, that “except as provided in divisions (C) and (D) of this section and in division (A) of section 5747.072 of the Revised Code, every employer required to deduct and withhold any amount under section 5747.06 of the Revised Code shall file a return and shall pay the amount required by law.” **Ohio Rev. Code § 5747.07(B)(4)**, states, in part, that “except as required by divisions (B)(1), (2), and (3) of this section, an employer shall make the payment of un-deposited taxes for each calendar quarter during which they were required to be withheld no later than the last day of the month following the last day of March, June, September, and December each year. The employer shall file the return prescribed by the tax commissioner with the payment.” **Ohio Rev. Code § 5747.07(B)(3)** states, in part, that “if an employer’s actual or required payments were more than two thousand dollars during the twelve-month period ending on the thirtieth day of June of the preceding calendar year, the employer shall make the payment of un-deposited taxes for each month during which they were required to be withheld no later than fifteen days following the last day of that month. The employer shall file the return prescribed by the tax commissioner with the payment.

26 U.S.C. § 3403 states, in part, that the employer “shall be liable for the payment of the tax required to be deducted and withheld under Title 26 of the Internal Revenue code Chapter 24.”

Furthermore, a well-designed system of internal controls should contain procedures to ensure invoices are paid in a timely manner and the amount paid is appropriate for Village purposes.

Due to the lack of procedures in place to timely pay liabilities and for monitoring expenditures made, the Village paid penalties and interest totaling \$3,434 during 2018 and \$1,955 during 2017 for the late remittance of pension and payroll withholdings and contribution liabilities, the late payment of utility bills, the late payment of debt obligations, and late payment of various vendors invoices for goods and services. In addition, the Village paid sales tax on purchases totaling \$211 in 2018 and \$68 in 2017.

Penalties, late fees and interest for failing to properly pay federal income taxes, retirement withholdings, timely pay invoices, and the payment of sales taxes are not considered a proper public purpose. Failure to properly remit withholdings and pay expenditures timely could result in additional late fees and improper expenditure of funds. The Village should implement proper procedures and controls to ensure the timely remittance of all tax and retirement withholding payments, and the timely payment of debt, utilities, and other obligations incurred by the Village and ensure sales taxes are not paid on purchases.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit 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 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 Expenditure of Public Funds/Proper “Public Purpose” states, in part, the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Lori Och, Clerk-Treasurer, and her bonding company, Ohio Risk Management Plan Inc., in the amount of \$5,668, and in favor of the Village of Spencerville’s General, Street Construction and Maintenance, Permissive Motor Vehicle License Tax, Police Enforcement, Water, Sewer and Swimming Pool Funds, in the amounts of \$4,901, \$94, \$8, \$250, \$206, \$47, and \$162 respectively.

The Village should make timely payments to ensure penalties and interest for late payments are not incurred and take advantage of the Village's tax exempt status whenever possible.

**FINDING NUMBER 2018-001
(Continued)**

Official's Response:

Resolution 20-26 was passed on November 16, 2020 which authorizes the Fiscal Officer to pay bills in a timely manner so that late fees are not incurred on the accounts and to use the tax-exempt status whenever possible. The pension penalties were late because of internet problems not transmitting the report over to the website correctly. The Fiscal Officer has since used the manual method to send the reports to the agency so no late fees will occur.

FINDING NUMBER 2018-002

Internal Control Deficiency / Noncompliance Citation / Finding for Recovery – Overpayment of Payroll Wages

Ohio Rev. Code § 731.13 states, in part, the legislative authority of a Village “shall fix the compensation of all officers, clerks, and employees of the Village except as otherwise provided by law. The legislative authority shall, in the case of elective officers, fix their compensation for the ensuing term of office at a meeting held not later than five days prior to the last day fixed by law for filing as a candidate for such office.” The compensation so fixed shall not be increased or diminished during the term for which any officer is elected or appointed. This section does not prohibit the payment of any increased costs of continuing to provide the identical benefits provided to an officer at the commencement of his term of office.

Due to the lack of procedures in place to properly calculate wages and not having monitoring procedures in place for expenditures made, the Village incorrectly paid several employees during the audit period.

The Council approved Ordinance 16-22 stating that Lori Och, Clerk/Treasurer, will be compensated at a rate of \$11,400 per year for Clerk/Treasurer position and \$11,500 per year for Income Tax Administrator position for a total of \$22,900 annually. Ms. Och was paid \$23,171 in 2017 and \$23,171 in 2018, resulting in an overpayment of \$542.

The Council approved Ordinance 16-04 for the period February 16, 2016 to May 5, 2017 stating that Sean Chapman, Village Administrator, will be compensated at \$59,037 annually; Ordinance 17-10 for the period May 6, 2017 to May 18, 2018 stating that Sean Chapman, Village Administrator, will be compensated at \$60,808 annually; and Ordinance 18-11 for the period beginning May 19, 2018 stating that Sean Chapman, Village Administrator, will be compensated at \$62,024 annually. Mr. Chapman was paid \$60,807 in 2017 and \$62,024 in 2018. Mr. Chapman's calculated pay per the above ordinances should have been \$60,127 in 2017 and \$61,509 in 2018, resulting in an overpayment of \$1,195.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against the Clerk/Treasurer, Lori Och, and her bonding company, Ohio Risk Plan Management, in the amount of \$542, and in favor of the Village of Spencerville's General Fund in the amount of \$80 and the Village's Income Tax Fund in the amount of \$462.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Village Administrator, Sean Chapman, in the amount of \$1,195, and in favor of the Village of Spencerville's Water Fund.

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 an illegal expenditure is discovered, is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op Att'y Gen. No. 80-074; Ohio Rev. Code Â§ 9.39; *State ex rel. Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

**FINDING NUMBER 2018-002
(Continued)**

Clerk/Treasurer Lori Och, signed the warrants resulting in the \$1,195 of improper payments to Sean Chapman, Village Administrator. Accordingly, Clerk/Treasurer, Lori Och, will be jointly and severally liable in favor of the Water Fund in the amount of \$1,195 to the extent that recovery of restitution is not obtained from the Village Administrator Sean Chapman. Clerk-Treasurer, Lori Och's bonding company is Ohio Risk Plan Management.

The Village should implement procedures and/or controls to help ensure that employee wages are properly calculated and paid per approved ordinances.

Official's Response:

Village Council, at its regularly scheduled meeting, held on December 7, 2020, accepted and approved payroll deduction schedules for repayment of overpaid wages from Lori Och, Fiscal Officer and Sean Chapman, Village Administrator. All wages overpaid in 2017 & 2018 will be paid back in calendar year 2021.

FINDING NUMBER 2018-003

Internal Control Deficiency / Finding for Recovery Repaid under Audit - Overpayment of Wright Refuse Services

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit 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 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 Expenditure of Public Funds/Proper "Public Purpose" states, in part, the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. Furthermore, a well-designed system of internal controls should contain procedures to ensure invoices are paid in a timely manner and the amount paid is the most advantageous to the Village.

The Village issued a duplicate payment to Wright Refuse Inc. in the amount of \$10,857 for April 2018 services rendered.

Failure to properly expend funds could lead to the Village paying for goods and services not received by the Village. The Village should implement procedures in order to monitor the payment of invoices to ensure that payments are properly made.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a finding for recovery for public monies illegally expended is hereby issued against Wright Refuse Inc., in the amount of \$10,857, and in favor of the Village of Spencerville's Refuse Fund.

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 an illegal expenditure is discovered, is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op Att'y Gen. No. 80-074; Ohio Rev. Code Â§ 9.39; *State ex rel. Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

**FINDING NUMBER 2018-003
(Continued)**

Also, in accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a finding for recovery is hereby issued for public monies illegally expended against Lori Och, Clerk-Treasurer, jointly and severally liable, in the amount of \$10,857, and in favor of the Village of Spencerville's Refuse Fund to the extent that recovery of restitution is not obtained from Wright Refuse, Inc. Clerk-Treasurer, Lori Och's bonding company is Ohio Risk Plan Management, Inc.

On November 19, 2020, Wright Consolidation issued a check for \$10,857 to the Village of Spencerville, which was deposited into a Village bank account on November 23, 2020. This finding is considered repaid under audit.

Official's Response:

Wright Consolidated paid restitution to the Village of Spencerville on 11-23-2020.

FINDING NUMBER 2018-004

Noncompliance Citation - Required Annual Training

Ohio Rev. Code § 135.22(B) states that to enhance the background and working knowledge of treasurers in investments, cash management, and ethics, the treasurer of state shall provide annual continuing education programs for treasurers. A treasurer annually shall complete the continuing education programs described, unless the treasurer annually provides a notice of exemption.

Ohio Rev. Code § 733.27(B) states that "the village clerk shall attend training programs for new village clerks and annual training programs of continuing education for village clerks that are provided by the auditor of state pursuant to section 117.44 of the Revised Code."

The Clerk-Treasurer did not attend the annual continuing education programs provided by the Treasurer of State or Auditor of State or complete the annual exemption to either office in fiscal year 2017.

In order to maintain and/or enhance the working knowledge and prevent future occurrences of noncompliance, the Clerk-Treasurer shall attend the annual training or complete an annual exemption and submit to the Treasurer of State or Auditor of State's office.

Officials' Response:

The Fiscal Officer will attend the required training for the hours required from the State of Ohio in the required time period.

FINDING NUMBER 2018-005

Noncompliance Citation - Fraud Reporting System

Ohio Rev. Code § 117.103(B)(1) states "a public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment. Furthermore, **Ohio Rev. Code § 117.103(B)(2)** requires "each public office to make all employees aware of the fraud-reporting system on the effective date of this requirement", which was May 4, 2012.

There was no evidence that existing or newly hired employees and officials were made aware of this requirement or signed confirmations indicating they were made aware of the system.

FINDING NUMBER 2018-005
(Continued)

The failure to inform employees of the Ohio fraud-reporting system inhibits their ability to report fraud.

The Village should implement a control(s) and/or procedure(s) to help ensure that both existing and new employees and officials are informed of the fraud reporting system and maintain evidence of the notification in the employee personnel files. A form such as found on the Auditor of State website at <https://ohioauditor.gov/fraud/FraudReportingSystemModelForm.pdf> can be used or the Village can develop its own form.

Officials' Response:

The Fiscal Officer will provide information about the Ohio Fraud Reporting System and each employee will confirm receipt of the information.

FINDING NUMBER 2018-006

Noncompliance Citation - Issuance of 1099's

26 CFR § 1.6041-1(a)(1)(i)(A), states, in part, that "except as otherwise provided in §§ 1.6041-3 and 1.6041-4, every person engaged in a trade or business shall make an information return for each calendar year with respect to payments it makes during the calendar year in the course of its trade or business to another person of fixed or determinable income described in paragraph (a)(1)(i) (A) or (B) of this section. For purposes of the regulations under this section, the person described in this paragraph (a)(1)(i) is a payor." Payments are to be reported for salaries, wages, commissions, fees, and other forms of compensation for services rendered aggregating \$600 or more.

The Village paid seven independent contractors more than \$600 each during 2018 and 2017, but did not issue 1099's as required by the above section of code. Failure to issue 1099's as required could result in not properly reporting income that should be taxed. This matter will be referred to the Internal Revenue Service.

The Village should implement procedures to monitor independent contractors that are compensated more than \$600 per calendar year and issue 1099's to provide for proper tax reporting.

Officials' Response:

The Fiscal Officer will implement procedures to make sure that all 1099's are issued.

FINDING NUMBER 2018-007

Noncompliance Citation – Issuance of 1099Gs

26 CFR § 1.6050E-1(a) states, in part, "Section 6050E applies to any refund officer who, with respect to an individual, makes payments of refunds of local income taxes or allows credits or offsets with respect to such taxes aggregating \$10 or more for such individual in any calendar year." **26 CFR § 1.6050E-1(f)** states, in part, that "the information required to be reported on Forms 1096 and 1099 includes the aggregate amount of refunds, credits, and offsets made or allowed during the calendar year with respect to the taxable year of the individual covered by the return; the name, address and taxpayer identification number of the individual with respect to whom such payment, credit, or offset was made or allowed; the taxable year covered by the return; and such other information as may be required by the forms. In addition, the nature of the tax is required to be indicated on the Form 1099 in any case where the refund, credit or offset is made or allowed with respect to a payment attributable to an income tax that applies exclusively to income from a trade or business and is not a tax of general application."

**FINDING NUMBER 2018-007
(Continued)**

The Village paid income tax refunds of more than \$10 to taxpayers during 2018 and 2017, but did not issue a 1099G as required by the above section of code. The Village issued nine refunds in 2018 and 15 in 2017. Failure to issue 1099G's results in the Internal Revenue Service not being provided accurate information on non-employment compensation, which could result in the incorrect calculation of taxes due from an individual. This matter will be referred to the Internal Revenue Service.

The Village should implement procedures to monitor income tax refunds of more than \$10 and issue 1099G's to provide for proper tax reporting.

Officials' Response:

The Fiscal Officer will implement procedures to make sure that all 1099G's are issued.

FINDING NUMBER 2018-008

Noncompliance Citation – Purpose of Executive Sessions

Ohio Rev. Code § 121.22(G)(1) states, in part, "the motion and vote to hold that executive session shall state which one or more of the approved purposes listed in division (G)(1) of this section are the purposes for which the executive session is to be held"

Council entered executive session during regular meetings held on July 2, 2018 and June 5, 2017 for which the purpose of the executive session was not given.

The improper use of executive session privileges could result in an injunction being issued, in which case the Council could be required to correct its actions, and be responsible for paying various court costs, fines, and attorney fees.

Council should review the Ohio Sunshine Laws, specifically focusing on the Ohio Open Meetings Act referenced in Ohio Rev. Code Section 121.22 to develop and implement procedures to follow when utilizing executive sessions. These resources are available at www.ohioauditor.gov.

Officials' Response:

The Fiscal Officer shall ensure that the purpose of entering executive session in future meetings is clearly stated in the meeting minutes. The Fiscal Officer will refer to the Sunshine Laws for guidance.

FINDING NUMBER 2018-009

Noncompliance Citation – Public Records and Training

Ohio Rev. Code § 149.43(E)(2) states, in part, that "the public office shall distribute the public records policy adopted by the public office under this division to the employee of the public office who is the records custodian or records manager or otherwise has custody of the records of that office. The public office shall require that employee to acknowledge receipt of the copy of the public records policy."

Ohio Rev. Code §149.43(B)(2) states, in part, that "to facilitate broader access to public records, a public office or the person responsible for public records shall organize and maintain public records in a manner that they can be made available for inspection or copying in accordance with division (B) of this section. A public office also shall have available a copy of its current records retention schedule at a location readily available to the public."

FINDING NUMBER 2018-009
(Continued)

Ohio Rev. Code §§ 109.43(B) and 149.43(E)(1) require all state and local elected officials, or their designees, to attend 3 hours of training on Ohio's Public Records Laws during each term of office. The training received must be certified by the Ohio Attorney General. Proof of completion of training must include documentation either from the Attorney General's Office or from another entity certified by the Attorney General to provide the training to the elected official or his/her designee. Attendees who successfully complete the training will receive a certificate to serve as proof of training.

Due to the deficiencies in internal controls over public records laws and training procedures and monitoring, the Village did not have an acknowledgement of receipt of the public records policy by the records custodian or records manager or other who had custody of the records on file, did not have an approved records retention schedule on file as required, and all of the Village's elected officials with terms ending in 2018, did not, during their term of office, attend a required Certified Public Records Training or have an appropriate designee attend a training. This could result in improper education of public offices regarding the offices' duties related to public records requests as well as improper withholding of information from stakeholders. Also, by not having an approved records retention policy, this may result in requests for records that are not required and/or no longer maintained by the Village and could lead to records being disposed of in error or in noncompliance with Ohio Revised Code.

The Village should implement procedures to ensure that written evidence is maintained showing that the Public Records Policy was provided to the records custodian/manager, that a formal records retention policy is adopted, and that all elected officials or an approved designee attend the required public records training during each term in office and maintain proof of completion of training.

Officials' Response:

The Village has an approved Public Records Policy and draft Records Retention Schedules; however, the Records Committee has not been able to convene to review and approve the Records Retention Schedules. The Village's Administration will strive to complete this task in 2021.

FINDING NUMBER 2018-010

Noncompliance Citation – Ohio Pooled Collateral System

Ohio Rev. Code § 135.182(M), states, in part, that "the treasurer of state may adopt rules necessary for the implementation of this section and sections 135.18 and 135.181 of the Revised Code." **Ohio Admin. Code 113-40-01 (A)(17)** states: "Operating policies" means the set of operational procedures, policies, and requirements for the use of Ohio Pooled Collateral System (OPCS), to be made available by the treasurer of state. All participation in OPCS and use of OPCS shall be subject to the operating policies, maintained at the sole discretion of the treasurer of state. These policies in part state PUs (Public Units or governments) are responsible for reviewing the reports posted on OPCS related to their deposits of public funds and for verifying the accuracy of the daily reports of their itemized deposits. PUs must report any discrepancies on their deposit accounts to their FIs (Financial Institutions). PUs shall inform their FIs of a significant change in the amount or activity of its deposits within a reasonable time before the change occurs. FIs may notify the Treasurer's Office if a PU repeatedly fails to inform them of a significant change in the amount or activity in deposits.

Upon access and review of the OPCS system, the Village had not logged in to monitor the OPCS amounts in relation to the deposits of the Village. Per review of the Public Unit Insufficiency Report there were two dates in which funds were noted as insufficient, October 29, 2018 and November 23, 2018, both instances were only one day and corrected the next. The failure to monitor the system may result in the inadequate collateral for the Village's deposits for the repayment.

**FINDING NUMBER 2018-010
(Continued)**

The Village should develop policies and procedures for logging into the OPCS to monitor the information in relation to the Villages' deposits and accounts.

Officials' Response:

The Fiscal Officer will implement a day of the month to look at the OPCS accounts in relation to the deposits of the Village of Spencerville.

FINDING NUMBER 2018-011

Noncompliance Citation – Maintenance of Public Records

Ohio Rev. Code § 149.351(A), states, in part, that "all records are the property of the public office concerned 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 commission provided for under sections 149.38 to 149.42 of the Revised Code Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, destroyed, mutilated, or transferred unlawfully."

Council minutes for the April 3, 2017 and July 17, 2017 meetings were not available for review during the audit. The failure to properly maintain the minutes could result in the Village having no record of the official approval of legislation and other matters.

Policies should be developed and procedures implemented for the maintenance, retention, and destruction of public records of the Village. Prior to disposal of any records, approval should be obtained from the Village's records commission, the Auditor of State and the Ohio Historical Society.

Officials' Response:

Upon Council approval of meeting minutes and legislation, the Fiscal Officer will process the meeting minutes and legislation in a timely manner and place in the records books. The Fiscal Officer will also keep electronic copies as well.

FINDING NUMBER 2018-012

Noncompliance Citation – Outstanding Checks

Ohio Rev. Code § 9.39 provides, in part, that "all money received or collected by a public official under color of office and not otherwise paid out according to law shall be paid into the treasury of the public office with which he is connected to the credit of a trust fund and shall be retained there until claimed by its lawful owner. If not claimed within a period of five years, the money shall revert to the general fund of the public office."

**FINDING NUMBER 2018-012
(Continued)**

In addition, Auditor of State Bulletin 91-11 addresses the accounting procedures to follow regarding outstanding, stale-dated warrants / checks issued by the governmental entity. According to the audit bulletin, when the warrant / check becomes stale-dated (90 days from the issue date) a memorandum pay-in should be made to the unclaimed monies fund. A transaction description on the cash journal and receipt ledger should include the warrant / check number, name of payee, and the transaction should be identified as being an unclaimed warrant / check. The original entry should not be reversed. At this time, the warrant / check should be removed from the list of outstanding warrants / checks. If the rightful owner claims the unpaid money, a warrant / check would be paid from the unclaimed monies fund. If the liability remains unclaimed for a period of five years from the date the money was placed in the unclaimed monies fund, the money shall then be paid to the General Fund. If, after the five year period, the rightful owner claims the unpaid money, a warrant / check would be paid from the General Fund. Additionally, it is recommended that warrants / checks be printed with the statement "Void After 90 Days".

As of December 31, 2018, the Village had four checks outstanding longer than 90 days in the amount of \$1,638.

Failure to properly move long outstanding checks to the unclaimed fund, could result in future non-compliance and inaccurate bank reconciliations.

The Village should implement procedures to ensure that long outstanding checks are properly moved to an unclaimed fund.

Official's Response:

The Fiscal Officer will move any outstanding checks (over 90 days) to the unclaimed funds in UAN.

FINDING NUMBER 2018-013

Noncompliance Citation – Purchase of Gift Cards and Supporting Documentation

Ohio Rev. Code Section 149.351(A), states, in part, "that all records are the property of the public office concerned 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. Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, destroyed, mutilated, or transferred unlawfully".

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit 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 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

In December 2018, the police chief purchased \$1,000 in gift cards to an automotive repair business in order to spend 2018 budgeted funds before the end of the year. These cards were to be subsequently used to pay for repairs to the police vehicle in 2019. In review of the documentation maintained to support the expenditures of the gift card funds, one transaction in the amount \$27.36 did not have supporting documentation and could not be determined if was a 2018 or 2019 expenditure and could not determine the use of the expenditure.

**FINDING NUMBER 2018-013
 (Continued)**

The Village should maintain documentation (i.e. an invoice) for each expenditure that contains support for the amount of the expenditure, the fund and account it is recorded in, as well as the purpose of the expenditure. The Village should ensure that the expenditure was actually incurred and was for an allowable public purpose. In addition, the purchase of gift cards for future purposes should not be used as this increases the risk of improper expenditures being made.

Official's Response:

The Fiscal Officer has made the decision to not use gift cards for the purchase of services or materials.

FINDING NUMBER 2018-014

Noncompliance Citation – Certificate of Estimated Revenue / Appropriations Exceeding Estimated Resources

Ohio Rev. Code § 5705.36(A)(1) provides, in part, 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 set up in the tax budget or, if adoption of a tax budget was waived under section 5705.281 of the Revised Code, from each fund created by or on behalf of the taxing authority.

The budget commission, taking into consideration the balances and revenues to be derived from taxation and other sources, shall revise its estimate of the amounts that will be credited to each fund from such sources, and shall certify to the taxing authority of each subdivision an amended official certificate of estimated resources.

The Village did not obtain a certificate of estimated resources from the Budget Commission in 2018 for all funds required to be budgeted. This was not detected by the Village due to deficiencies in the budgetary compliance and monitoring control policies and procedures. Failure to obtain the required amended certificate of estimated resources can lead to improper budgeting and limits the effectiveness of management monitoring.

Ohio Rev. Code § 5705.39 provides that total appropriations from each fund “shall not exceed the total of the estimated revenue available for expenditure there-from, as certified by the county budget commission. No appropriation measure shall become effective until the county auditor files a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate.” For purposes of this section of the Ohio Revised Code, estimated revenue is commonly referred to as “estimated resources” because it includes unencumbered fund balances.

Due to deficiencies in the Village’s compliance monitoring policies and procedures, in 2018, the Village had the following funds in which the appropriation exceeded the total estimated resources available for expenditure:

Fund	Appropriations	Estimated Resources	Variance
General	\$445,512	\$296,551	\$(148,961)
Income Tax	700,772	8,274	(692,498)
Capital Projects	338,100	33,370	(304,730)
Water Operating	582,043	321,129	(260,914)

Failure to limit appropriations to the amount certified by the budget commission could result in overspending and negative cash fund balances.

**FINDING NUMBER 2018-014
 (Continued)**

The Village should, on or about the first day of each fiscal year, certify to the county auditor the total amount from all sources available for expenditures from each fund and obtain the approved amended certificate of estimated resources. Also, the Village should draft, approve, and implement procedures to compare appropriations to estimated resources and, if adequate resources are available for additional appropriations, the Village should submit an amended certificate of estimated resources to the budget commission for certification. If the resources are not available to cover the appropriations, an amendment to the appropriation resolution should be passed by Council to reduce the appropriations.

Official's Response:

The Fiscal Officer will certify with the County Auditor of the total amount from all sources available and all the expenditures from each fund and have it approved. The Fiscal Officer will implement procedures to compare the appropriations to the estimated resources and, if applicable, the Fiscal Officer will submit an amended Certificate of Estimated Resources to the County Auditor for approval.

FINDING NUMBER 2018-015

Noncompliance Citation – Expenditures in Excess of Appropriations

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority unit from making any expenditure of money unless it has been appropriated in accordance with the Ohio Revised Code.

Due to inadequate policies and procedures in approving and reviewing budget versus actual information, the Village had expenditures in excess of appropriations. In the amounts below, we included encumbrances to be used in monitoring the budget; however, the Village's note disclosure incorrectly did not include the encumbrances due to lack of accuracy in preparing their notes to the financial statements.

Per the Uniform Accounting Network (UAN) system, the Village had expenditures and contract commitments exceeding approved appropriations in both 2018 and 2017 in multiple line items at the legal level of control. For 2018 and 2017 amounts were noted at the fund level for the following funds:

Year / Fund	Appropriations	Expenditures	Deficit
2018 General Fund	\$445,512	\$748,124	\$(302,612)
2018 Income Tax	700,772	1,174,371	(473,599)
2018 Capital Projects	338,100	380,505	(42,405)
2018 Sewer Operating	453,359	490,227	(36,868)
2017 Income Tax	31,357	145,927	(114,570)

The Village also had reconstruction services performed on the accounting records for 2018 and 2017. The Village had expenditures and contract commitments exceeding approved appropriations for both 2018 and 2017 at the fund level for the following funds upon reconstruction:

**FINDING NUMBER 2018-015
 (Continued)**

Year / Fund	Appropriations	Expenditures	Deficit
2018 General	\$511,590	\$899,585	\$(387,995)
2018 Street Construction, Maintenance and Repair	174,144	241,960	(67,816)
2018 Permissive Motor Vehicle License Tax	27,000	33,076	(6,076)
2018 Police Enforcement	90,625	194,373	(103,748)
2018 Water Operating	634,524	674,394	(39,870)
2018 Swimming Pool	37,579	65,876	(28,297)
2018 Garbage	164,379	166,280	(1,901)
2017 General	524,987	562,954	(37,967)
2017 Street Construction, Maintenance and Repair	174,356	176,024	(1,668)
2017 Police Enforcement	103,760	130,719	(26,959)
2017 Swimming Pool,	40,052	53,417	(13,365)
2017 Garbage	132,000	146,140	(14,140)

Failure to have adequate appropriations in place at the time expenditures are made could cause expenditures to exceed available resources, further resulting in deficit spending practices.

The Council should closely monitor expenditures and appropriations and make the necessary appropriation amendments, if possible, to reduce the likelihood of expenditures exceeding appropriations. Additionally, the Clerk-Treasurer should deny payment requests exceeding appropriations when appropriations are inadequate to cover the expenditures.

Official's Response:

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

FINDING NUMBER 2018-016

Noncompliance Citation – Ohio Police and Fire Withholding and Remittances

Ohio Rev. Code § 742.31(A) states, in part, that “each employee shall contribute an amount equal to a percentage of the employee’s salary to the Ohio police and fire pension fund in the amount of twelve and one-quarter per cent.” **Ohio Rev. Code § 742.33(A)** states, in part, that “each employer shall pay monthly, on such dates as the board of trustees of the Ohio police and fire pension fund requires, an amount known as ‘police officer employers’ contribution,’ which shall be nineteen and one-half per cent of the salaries of the members of the police department of the employer.” Additionally, **Ohio Rev. Code § 742.32(A)** states, in part, that “the fiscal officer of each employer shall transmit monthly to the secretary of the board of trustees of the Ohio police and fire pension fund a report of employee deductions in such form as the board requires. The report shall show all deductions for the fund made pursuant to section 742.31 of the Revised Code and shall be accompanied by payments covering the total of such deductions. The report shall also include the name of each member for whom deductions were made and the portion of the payment attributed to that member. Separate payments shall be so transmitted for that portion of such deductions made from the salaries of members of the police department and for that portion of such deductions made from the salaries of members of the fire department. The report and payment are due the last day of the month following the last business day of the reporting period.” **Ohio Rev. Code § 742.35** states, in part, “each employer shall pay its police officer employers’ contribution and firefighter employers’ contribution in monthly payments as provided in sections 742.33 and 742.34 of the Revised Code. The employer shall make each payment not later than the last day of the month after the month for which the police officer or firefighter employee contributions were withheld. If an employer fails to make the payment installment by the date it is due, a penalty determined under section 742.352 of the Revised Code shall be assessed against the employer.”

**FINDING NUMBER 2018-016
(Continued)**

Due to the lack of monitoring procedures in place, withholdings for pension were not properly or timely remitted to the Ohio police and fire pension fund in 2018 and 2017. In addition, in 2017 the Village had one police officer's pension that was withheld at incorrect rates for five pay periods. Also during 2018 and 2017, the Village incorrectly calculated and remitted the employer share at 24% for one employee. These variances were noted by the Ohio police and fire pension fund and corrections to remittances were requested and paid.

Failure to properly withhold and remit withholdings and contributions could result in errors and/or irregularities occurring and remaining undetected during the normal course of business and could subject the Village to penalties and interest charges. Procedures should be implemented to ensure that the Village properly withholds and remits employee withholdings and employer contributions timely to the Ohio police and fire pension fund as required by Ohio Revised Code. The Village Council should implement procedures to monitor these payments to ensure they are being made timely and for the proper amounts.

Official's Response:

The Fiscal Officer has put procedures in place for the filing of the OP&F monthly reports if the internet is not working correctly in the office, to transfer the file to the website.

FINDING NUMBER 2018-017

Noncompliance Citation – Ohio Public Employees Retirement System Withholding and Remittances

Ohio Rev. Code § 145.47(A), states, in part, that each public employee who is a contributor to the public employees retirement system shall contribute an amount, as determined by the public employees' retirement board, not to exceed ten percent from each employee's earnable salary. **Ohio Rev. Code § 145.47(B)**, states, in part, that the fiscal office of each local authority subject to this chapter, shall transmit to the system for each contributor subsequent to the date of coverage an amount equal to the applicable per cent of each contributor's earnable salary at such interval and in such form as the system shall require. **Ohio Rev. Code § 145.48 (A)** states, in part, that each employer shall pay to the public employees' retirement system an amount that shall be a certain per cent of the earnable salary of all contributors to be known as the "employer contribution, not to exceed fourteen per cent of the earnable salaries of all contributors.

Due to the lack of monitoring procedures performed by management of the remittance of the withholdings and contributions made by the Clerk-Treasurer, employee withholdings and employer contributions were not properly or timely remitted to the Ohio Public Employees Retirement System (OPERS) in 2018 or 2017. In addition, due to the lack of support available for review, payments made during each year could not be verified to determine the period to which the expenditures belonged.

Failure of management to monitor the proper withholding and remitting of withholdings/ contributions could result in errors and/or irregularities occurring and remaining undetected and could subject the Village to penalties and interest charges.

The Village should implement procedures to monitor pension contributions and payroll withholding transactions to ensure that all OPERS amounts withheld and employer contributions are properly calculated and paid.

Official's Response:

The Fiscal Officer has put procedures in place for the filing of the OPERS monthly reports if the internet is not working correctly in the office, to transfer the file to the website.

FINDING NUMBER 2018-018

Noncompliance Citation – Remittance of Federal Withholdings

26 U.S.C. § 3402(a)(1) states in part, that every employer, including the state and its political subdivisions making payments of any compensation to an employee who is a taxpayer, to deduct and withhold from such compensation for each payroll period a tax substantially equivalent to the tax reasonably estimated to be due under this chapter with respect to the amount of such compensation included in his adjusted gross income during the calendar year.

Due to the lack of monitoring procedures of the remittance of the withholdings made by the Clerk-Treasurer, the Form 941 quarterly reports and related federal withholdings were not properly filed or remitted as required by the IRS in a timely manner. As of December 31, 2018, the Village had not paid all of the federal withholdings as required. Failure to properly withhold and remit taxes could subject the Village to potential penalties and interest charges.

Management should implement monitoring procedures to ensure that all federal amounts withheld are properly remitted and that the employer's share is properly calculated and paid. The required amounts and reports should be timely remitted and filed when completing the last payroll of each quarter to avoid interest and penalties.

Officials' Response:

The Fiscal Officer has implemented a schedule to file the 941 taxes on a regular basis.

FINDING NUMBER 2018-019

Noncompliance Citation – Prior Certification of Funds and Negative Fund Balances

Ohio Rev. Code § 5705.10(I) requires that "money paid into any fund shall be used only for the purposes for which such fund is established." Therefore, a negative fund cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance.

Ohio Rev. Code § 5705.41(D)(1) provides that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that treasurer'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 Rev. Code.

- A. "Then and Now" Certificate - If the chief fiscal officer can certify that both at the time 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 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 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.

**FINDING NUMBER 2018-019
(Continued)**

- B. Blanket Certificate - Fiscal Officer may prepare "blanket" certificates for a certain sum of money not to 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. 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 appropriations.
- C. Super Blanket Certificate - The Village may also make expenditures and contract 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, roadway materials, utilities, and any other specific recurring and reasonably predictable operating expense. This certificate may, but need not, be limited to a specific vendor. This certificate is not to extend beyond the current fiscal year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

Throughout 2018 and 2017, various funds reflected deficit balances as a result of accounting errors. After a reconstruction of the accounting records, the Swimming Pool Fund had a deficit fund balance of \$24,330 at December 31, 2018 and \$12,441 at December 31, 2017. Due to deficiencies in internal controls, the Village did not properly certify the availability of funds prior to the purchase commitment due to the deficit fund balances maintained and there was no evidence the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can 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 help ensure 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, the Clerk-Treasurer should certify 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. The Village should also implement procedures to ensure expenditures do not exceed available resources, thus avoiding negative fund balance situations and enabling the Village to properly certify the availability of funds for purchases.

Officials' Response:

The Fiscal Officer has implemented a policy for the process of purchase orders.

FINDING NUMBER 2018-020

Noncompliance Citation – Timely Filing of the Financial Statements

Ohio Rev. Code § 117.38(A) provides that each public office "shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office." **Ohio Rev. Code § 117.38(B)** states, in part, that the report "shall be certified by the proper officer or board and filed with the auditor of state within sixty days after the close of the fiscal year."

The Village failed to file the annual financial reports for 2018 and 2017 by the required due dates of March 1, 2019 and March 1, 2018, respectively. The Village did not file the 2018 and 2017 annual financial reports until July 15, 2020. Pursuant to Ohio Rev. Code § 117.38 the Village may be fined and subject to various other administrative remedies for its failure to file the required financial report timely.

**FINDING NUMBER 2018-020
(Continued)**

The Village should ensure that the annual financial report is filed in the Hinkle System by the required due date each year to avoid being in non-compliance with Ohio Rev. Code § 117.38 requirements and to provide for timely information to its users.

Official's Response:

The Fiscal Officer has implemented a schedule of filing of the financial statements before the deadline.

FINDING NUMBER 2018-021

Noncompliance Citation – Use of a Debit Card

Ohio Rev. Code § 9.22, states, in part, that "no political subdivision may hold or utilize a debit card account, except for law enforcement purposes." The Village utilized a debit card in 2018 and 2017 for expenditures that were not for law enforcement expenditures.

By using a debit card, the Village has an increased risk related to the improper use of its funds and continued noncompliance with Ohio Revised Code requirements.

The Village should discontinue the use of the debit cards and review and evaluate different purchasing methods to reduce the risks of misuse of funds and to meet the Ohio Revised Code compliance requirements.

Official's Response:

The Village ceased the use of a debit card effective December 8, 2020. The Village plans to acquire a credit card that can be used for vendors in which the Village does not have an active account. The Village already has a Credit Card Usage Policy that will be followed when a credit card has been acquired.

FINDING NUMBER 2018-022

Internal Control Deficiency - General Account Bank Reconciliation and Financial Report Monitoring

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records. All public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices. In addition, the Council should monitor the monthly activity of the Village through the review and approval of monthly financial reports.

The reconciliation of cash (bank) balances to accounting system records (book) to the accounting system is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection. Monitoring of financial information is also a valuable tool for ensuring the accuracy and completeness of the Village's accounting records. The Clerk-Treasurer is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis, and the Council and/or other administrators are responsible for reviewing the reconciliations and related support including monthly financial reports.

**FINDING NUMBER 2018-022
(Continued)**

Monthly bank to book reconciliations were not prepared or reviewed each month of 2018 or 2017. As a result, reconciliation difficulties for the Village occurred and the Auditor of State's Local Government Services reconstructed 2018 and 2017 bank and financial activity. In addition, the Village Council approved the payment of bills; however, Village Council did not perform monitoring of the posting of revenues, disbursements, and budgetary information through the approval of monthly financial activity reports.

Failure to reconcile monthly and to properly monitor and approve financial activity increases the possibility that the Village will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

The Clerk-Treasurer should record all transactions and prepare monthly bank to book cash reconciliations, which include all bank accounts and all fund balances. Variances should be investigated, documented and corrected. In addition, the Council should review the monthly cash reconciliations including the related support (such as reconciling items) and implement procedures for the review and approval of monthly revenue and disbursement reports from the accounting system, and monthly budgetary reports showing budgeted amounts verses actual activity and document the reviews.

Officials' Response:

The Fiscal Officer has implemented policies and procedures to ensure timely reconciliation of financial records.

FINDING NUMBER 2018-023

Internal Control Deficiency - Income Tax Collections and Recording

The Village levied a municipal tax of one and a half percent for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities, capital improvements, and to provide revenue to pay for police, fire and ambulance protection of the municipality. The tax was on salaries, wages, commissions, other compensation, and on net profits. Income tax collections were to be allocated between the Income Tax Fund, General Fund, and Capital Project Fund, and beginning in 2013, the Police Enforcement Fund began receiving a portion of income tax revenue as well. Income tax revenues accounted for 31% and 30% of the total revenue for the years ended December 31, 2018 and 2017, respectively.

The Village did not maintain all income tax returns received by the Village. A total of 80% of the income tax revenues in 2018 did not have support maintained and a total of 65% of the income tax revenues in 2017 did not have support maintained. In addition, the returns maintained by the Village did not indicate the amount collected or date received. Due to the lack of maintaining returns, indicating the amounts collected and date received, difficulties were encountered in determining if tax revenues were being properly collected and deposited timely.

Also, the lack of documentation maintained did not allow for us to determine whether tax receipts were for tax years after 2013, and therefore belong to the Police Enforcement Fund in accordance with the Village's updated Income Tax Ordinance.

The failure to maintain complete and accurate income tax forms and accounting system reports could lead to a loss of revenue for the Village as well as the inability to detect errors and omissions promptly.

**FINDING NUMBER 2018-023
(Continued)**

Additionally, the Village Clerk –Treasurer / Income Tax Administrator should review the adopted ordinances related to the 1.5% income tax and the municipal income tax rules and regulations and the contents within. Furthermore, the Village should develop and implement procedures to verify that all the income tax ordinances are followed, and that all required income tax returns are filed. This might include matching applicable street names or area codes from other computer files (such as IRS or State files), making periodic inquiry to major local employers for lists of employees, obtaining notices of utility hookups for new residents, etc. Because of the inadequacies in the Village’s accounting records related to income tax revenues in the Income Tax Fund, the General Fund, the Capital Projects Fund, and the Police Enforcement Fund we were unable to determine the accuracy of income tax revenues reported for these funds in the accompanying combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) – all governmental fund types.

Officials’ Response:

The Income Tax Administrator will implement month end procedures and reports for the income tax received.

FINDING NUMBER 2018-024

Internal Control Deficiency - Segregation of Duties - Utilities

The Utilities Clerk had the ability to perform the following duties:

- Receive over the counter money and process it through the cash register;
- Open mail and process the money through the cash register;
- Prepare and make the daily deposits with the bank;
- Post transactions in the Intedata System;
- Determine adjustments and post to the system;
- Send delinquent notices; and
- Determine abatement of penalties and interest.

Allowing one individual to perform all of these functions, without supervisory reviews, did not provide for proper segregation of duties and could allow the manipulation of records and misappropriation of assets in the normal course of business to occur without being detected. Additionally, lack of supporting documentation or supervisory approval of account adjustments increases the risk that improper adjustments may be used to divert receipts.

The duties of opening mail, receiving and depositing utility payments, and reconciling should be segregated from the posting of the information to the system, calculating adjustments and sending delinquent notices to ensure that no single person has control over all phases of a transaction. In a small operation such as a Village, it is not always possible to have enough staff to properly segregate duties. Understanding this, the Council should take a more active role in monitoring transactions, such as reviewing the work completed by others. In addition, Village Council should develop a policy or written procedures for independent reviews and approval of all adjustments to utility accounts.

Officials’ Response:

The Village will implement a policy that spells out appropriate segregation of duties regarding the Utilities Department. This policy will be completed and approved by Village Council during the first quarter of 2021.

FINDING NUMBER 2018-025

Internal Control Deficiency – Leave Accruals

The Village has established policies for the accrual of sick leave. Per section 4, policy 4-05, full time employees accrue sick leave at a rate of 15 days or a total of 120 hours per calendar year. The Village did not have procedures in place to properly record leave accrual amounts. As a result, in 2017, all employees tested were credited with sick leave accumulations in excess of 120 hours. Tested employees had between 135 hours and 165 hours added as the amount to be accumulated during 2017. This resulted in remaining unused balances exceeding actual remaining balances by 15 to 45 hours.

Also, the Village has established policies for the accrual of vacation leave. Per section 4, policy 4-02, employees with greater than 15 years of service accrue 20 days (or 160 hours) of vacation per calendar year. During 2018, one employee tested was credited with vacation accumulations in excess of 120 hours. This has been corrected by the Village.

These errors had no financial effect on the Village during the audit period as the employees did not take more than what should have been accumulated or available from prior balances remaining. These errors have not been corrected.

By not properly recording leave accrual amounts, employees may be over compensated for leave time to which they are not entitled and may result in the Village making improper payments based on incorrect leave balance calculations. The Village should implement policies and procedures for the proper recording of accumulation and use of sick and vacation leave.

Official's Response:

The Fiscal Officer will implement a procedure to appropriately track and record the leave balances for eligible full-time employees.

FINDING NUMBER 2018-026

Internal Control Deficiency – Mayor's Court Reconciliation and Remittances

The Village established a separate bank account for Mayor's Court activity; however, a monthly bank reconciliation was not performed during the audit period. A monthly statement of activity prepared by the Court Clerk was given to the Mayor and Village Clerk-Treasurer indicating revenues and expenditures for each month; however, this statement was not reconciled to the bank account or the financial records and there was no indication that anyone reviewed the activity presented. In addition, the remittances of the Mayor's Court funds were not timely remitted to the Village and State.

The lack of performing monthly bank reconciliations, reviewing activity, and remitting payments timely could result in errors or irregularities going undetected during the course of business operations.

The Village should implement procedures to reconcile the Mayor's Court bank account monthly. The reconciliations and monthly activity statements should be reviewed by the Mayor and this review should be documented. In addition, the Village should ensure that remittances are properly performed on a monthly basis.

Official's Response:

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

FINDING NUMBER 2018-027

Internal Control Deficiency - Use of Cashier's Checks

On four occasions in 2018, the Village utilized cashier's checks to correct activity for the utility department. The Clerk-Treasurer deposited a check that included an amount for the payment of utilities into the Village's bank account but this activity was not properly recorded in the utility department accounting system. Instead of posting a correction of the receipt through the general accounting system (UAN), the Village obtained cashier's checks to withdrawal the funds previously deposited and then have them re-deposited by the Utilities Department in order to properly reflect the utility payments and to be recorded in the utility department accounting system.

The utilization of cashier's checks increases the risk of the loss or misuse of funds collected. The Village should develop procedures for the correction of the receipts through the UAN system instead of the utilization of cashier's checks.

Official's Response:

The Village has implemented a procedure to ensure that all payments are directed to the appropriate department before being deposited, which will eliminate the need to use cashier's checks.

FINDING NUMBER 2018-028

Internal Control Deficiency - Posting of Approved Budgetary Appropriations and Estimated Receipts

Sound accounting practices require accurately posting estimated receipts and appropriations to the ledgers to provide information for budget versus actual comparison and to allow the Council to make informed decisions regarding budgetary matters.

The Appropriation resolution and subsequent amendments establish the legal spending authority of the Village and the appropriation ledger provides the process by which the Village controls spending, it is therefore necessary the amounts appropriated by the Council are precisely stated and accurately posted to the appropriation ledger.

The original certificate of estimated resources and amendments establish the amounts available for expenditures for the Village and the receipts ledger provides the process by which the Village controls what is available, it is therefore necessary the amounts estimated by the County Budget Commission are posted accurately to the receipts ledger.

Variances existed between the appropriation resolutions to the amounts posted to the accounting system. The following variances occurred in 2018:

Fund	Amount per Appropriations Resolution and Approved Amendments	Amount posted to the accounting system (UAN)	Variance
General	\$445,512	\$680,770	\$235,258
Income Tax	700,772	256,896	(443,876)
Capital Projects	338,100	52,025	(286,075)
Sewer Operating	453,359	109,378	(343,981)

**FINDING NUMBER 2018-028
 (Continued)**

The following variances occurred in 2017:

Fund	Amount per Appropriations Resolution and Approved Amendments	Amount posted to the accounting system (UAN)	Variance
General	\$488,093	\$597,558	\$109,465
Income Tax	31,357	1,107,945	1,076,588
Capital Projects	306,400	1,639,256	1,332,856

Variances existed between the Amended Certificates of estimated resources and the amounts posted to the accounting system. The following variances occurred in 2018:

Fund	Amount per Amended Certificate	Amount posted to the accounting system (UAN)	Variance
General	\$410,123	\$294,815	\$115,308
Street Construction			
Maintenance and Repair	0	122,510	(122,510)
Income Tax	0	979,302	(979,302)
Capital Projects	0	1,381,395	(1,381,395)
Water Operating	0	480,500	(480,500)
Sewer Operating	0	595,717	(595,717)
Swimming Pool	0	31,276	(31,276)
Garbage	0	132,000	(132,000)

The following variances occurred in 2017:

Fund	Amount per Amended Certificate	Amount posted to the accounting system (UAN)	Variance
General	\$448,815	\$0	\$448,815
Street Construction			
Maintenance and Repair	109,000	0	109,000
Police Enforcement	48,000	0	48,000
Permissive Motor Vehicle			
License Tax	979,302	0	979,302
Capital Projects	1,381,395	0	1,381,395
Water Operating	226,500	0	226,500
Sewer Operating	9,850	0	9,850

The Village did not have procedures in place to accurately post authorized budgetary measures to the accounting system. The appropriations and amendments approved by Council were not properly posted to the accounting system. Additionally, the approved Certificate of Estimated Resources and amendments were not posted to the accounting system.

Failure to accurately post the appropriations and estimated resources to the ledgers could result in overspending and negative cash balances. In addition, this could lead to inaccurate reporting of the budgetary information in the notes to the financial statements.

To effectively control the budgetary cycle and to maintain accountability over receipts and expenditures, the Village should post to the ledgers, on a timely basis, estimated resources as certified by the budget commission and appropriations approved by the Council. The Village should then monitor budget versus actual reports to help ensure amended certificates of resources and appropriations have been properly posted to the ledgers.

**FINDING NUMBER 2018-028
(Continued)**

Official's Response:

The Fiscal Officer will implement a procedure to monitor the budget versus actual reports to help ensure amended certificates of resources and appropriations have been posted properly.

FINDING NUMBER 2018-029

Internal Control Deficiency - Establishment of Pay for Mayor and Council Members

Employment contracts and salary ordinances to document the authorized rates of pay for all employees and officials should be maintained by the Village. There was no support for the annual salary amounts paid to the Mayor and Council members during the audit period. Payments were made based on a historical annual salary of \$8,500 for the Mayor and \$1,200 for the Council.

The failure to maintain support for the approval of the annual salaries paid to elected officials could result in incorrect payments being issued and potential findings for recovery in the event of an overpayment.

Procedures should be implemented to provide that annual salary amounts are approved through an employment contract or ordinance and noted in Council minutes. These documents should be updated when there is a change in the pay rate.

Official's Response:

At the first Council meeting of every year, the Mayor shall announce the current rate of pay for all elected officials. This announcement shall be reflected in the meeting minutes.

FINDING NUMBER 2018-030

Internal Control Deficiency / Noncompliance Citation - Accuracy of Financial Statement Reporting

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Ohio Rev. Code § 733.28 requires that the Village Clerk/Treasurer shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all the property owned by the Village and the income derived there from, and of all taxes and assessments. Additionally, **Ohio Admin. Code § 117-2-02(A)**, states, in part, that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report the transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village did not properly classify various receipt and disbursement transactions due to lack of proper procedures in place for recording activity and the lack of proper reviewing and monitoring procedures of financial information. The following errors were noted on the Village's annual reports:

In 2017, the Village incorrectly classified pool salaries in the amount of \$1,845 in the Sewer Fund.

**FINDING NUMBER 2018-030
(Continued)**

Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB Codification 1800.168-1800.177) - *Fund Balance Reporting and Governmental Fund Type Definitions* gives definitions for each of the following fund types General, Special Revenue, Capital Project, Debt Service, and Permanent. GASB Statement No. 54 also establishes fund balance classifications that stipulate use of fund balances based on the extent to which a government is required to observe constraints imposed upon the use of the resources reported in governmental funds and for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority. The following errors were noted as a result of the Village not properly implementing GASB statement No 54:

In both 2018 and 2017, the Village failed to properly classify the General Fund in the amount of \$23,566 and \$35,389, respectively, as unassigned fund balances.

The adjustments above have been reflected in the financial statements. In addition to the adjustments listed above, we also identified additional misstatements of \$849 and \$7,110 that we have brought to the Village's attention. These were not adjusted to the financial statements.

Financial statement reporting errors inhibit the users' understanding of the financial position at fiscal year-end and the activity during the year. Procedures and controls should be in place to help prevent and detect errors and provide meaningful information to the users of the Village's financial statements. Prior to submitting the annual compilation to the Auditor of State, the Village's Clerk-Treasurer should review the compilation to identify and correct reporting errors. Resources such as those found on the Auditor of State web site, including the Village Handbook and others pertaining to financial reporting should be utilized when recording financial transactions and reviewing the annual financial statements.

Official's Response:

The Fiscal Officer will implement a procedure to monitor accuracy of the financial reporting.

FINDING NUMBER 2018-031

Internal Control Deficiency - Pool and Concession Receipts

The Village operated a pool with a concession stand. There was no review over daily admission collections and concessions sales revenue at the pool during the summer months. Failure to review daily pool revenue documentation could result in receipts not being properly collected or recorded, or funds diverted for improper use.

A reconciliation performed by the pool manager or the Clerk-Treasurer of attendance and amounts collected for admittance compared to approved prices should also be performed daily to ensure proper amounts are being collected. Proper inventory should be maintained and used to reconcile amounts purchased and sold at approved prices compared to ending inventory to verify amounts are being properly collected for concession sales. Council should be reviewing these reconciliations on a timely basis.

Official's Response:

The Village Administrator, Fiscal Officer and Pool Manager will all work collectively, to ensure there is better internal control of receipts, deposits, expenses, tracking attendance, etc.

FINDING NUMBER 2018-032

Internal Control Deficiency – Disaster Recovery Plan for Accounting Activity

A disaster recovery plan, which identifies the procedures to perform in the event of a disaster, should be maintained to minimize disruption to computer services. Disaster recovery plans identify arrangements for alternative data processing on compatible hardware and software. A proper plan removes as much time-consuming decision making as possible from the period immediately following the disaster.

The Village does have a disaster recovery plan but it does not include the procedures to be used for the continuation of recording and monitoring financial activity during a disaster. Without documented business recovery procedures, critical resources and processing may not be restored in a timely and efficient manner. As a result, substantial costs could be incurred attempting to retrieve and recreate pertinent financial information for internal and external purposes.

An elaborate plan is not necessary; however, additional tasks should be performed to help provide for an efficient recovery if a disaster occurs. A disaster recovery plan should be developed to include:

- recovery terms and definitions;
- technical (hardware/software) recovery procedures;
- end user recovery procedures;
- readiness plan;
- emergency contact list;
- reciprocal agreement with compatible site(s).

The lack of a disaster recovery plan to include accounting and relating activity procedures could result in data being lost and the Village not being able to operate and deliver uninterrupted service in the event of an actual disaster.

The Village should develop and adopt a specific written disaster recovery plan that would include accounting procedures. Once developed, the plan should be tested to ensure that it will meet the needs of the Village in the event of an actual disaster. Additionally, a copy of the plan and backups performed should be stored off-site.

Official's Response:

The Village will consider adopting a Disaster Recovery Plan during calendar year 2021.

FINDING NUMBER 2018-033

Internal Control Deficiency – Income Tax Department Omissions in Recording Transactions

Omissions were noted between the receipts per the Municipal Income Tax System (MITS) system reports and the receipts posted to the Uniform Accounting Network (UAN) system. In 2018, \$290,586 or 43% of the income tax receipts were not recorded in MITS and in 2017, \$138,418 or 22% of the income tax receipts were not recorded in MITS.

Failure to input information in the Village's income tax software, could result in misallocation of revenues to improper funds, not completing returns when warranted, not maintaining proof of payment for individual tax payers, etc.

The Village should implement and strengthen procedures in relation to income tax accounting system; and take into consideration the following:

**FINDING NUMBER 2018-033
(Continued)**

- Ensure that the Village's personnel have been adequately trained to use any information technology systems.
- Rely on manual application controls (e.g., comparison of system data to non-system data) to assess whether the applications are functioning as intended.
- Obtain software support agreements with their application or hardware system vendor.
- Ensure that operators/users back-up programs on a regular basis and store the back-ups in a secure off-site location
- Maintain supporting documentation to support amounts collected for individual returns
- Maintain support for calculations of income tax allocations
- Segregate duties of the income tax department.

Officials' Response:

The Fiscal Officer will implement month end procedures to reflect all of the transactions on a monthly basis that coincide with the MITS and UAN.

FINDING NUMBER 2018-034

Internal Control Deficiency – Income Tax Department Lack of Segregation of Duties

The Clerk-Treasurer / Income Tax Administrator had the ability to perform the following duties:

- Receive mail and over the counter money and process it through the cash register;
- Prepare and make the daily deposits with the bank;
- Post transactions in the MITS System as well as in UAN;
- Determine who receives a refund and pay out the refunds;
- Send delinquent notices; and
- Determine abatement of penalties and interest.

Allowing one individual to perform all of these functions did not provide for proper segregation of duties and could allow the manipulation of records and misappropriation of assets in the normal course of business without being detected.

The duties of opening mail, receiving and depositing tax payments, and reconciling should be segregated from the posting of the information to the system calculating refunds and sending delinquent notices. In addition, Village Council should develop a policy for independent review and approval of all adjustments to income tax accounts.

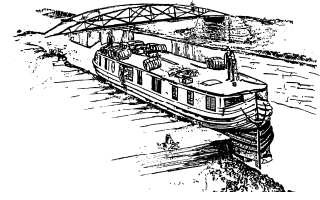
Official's Response:

The Village will implement a policy that spells out appropriate segregation of duties regarding the Income Tax Department. This policy will be completed and approved by Village Council during the first quarter of 2021.



Village of Spencerville

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On the Banks of the Miami-Erie Canal

VILLAGE OF SPENCERVILLE ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2018 AND 2017

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2016-001	Posting of Receipts and Disbursements	No	Comment repeated as 2018-030
2016-002	Bank reconciliations	No	Comment repeated as 2018-022
2016-003	Income Taxes	No	Comment repeated as 2018-023

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OHIO AUDITOR OF STATE KEITH FABER



VILLAGE OF SPENCERVILLE

ALLEN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



Certified for Release 1/5/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov