



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF LAFAYETTE
ALLEN COUNTY

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STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Lafayette
Allen County
P.O. Box 7184
Lafayette, Ohio 45854

To the Village Council:

We have audited the accompanying financial statements of the Village of Lafayette, Allen County, (the Village), as of and for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Because of the inadequacy of Village accounting records, we were unable to obtain sufficient documentation to support amounts recorded as charges for services in the Enterprise Fund Type for the years ended 2001 and 2000. (Stated at \$58,067 and \$60,330, respectively) Village records did not permit us to extend our auditing procedures sufficiently to satisfy ourselves regarding the validity of the receipts through other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to determine the validity of the sewer receipts, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2001 and 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2002 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

October 7, 2002

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

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

| | <u>Governmental Fund Types</u> | | <u>Totals (Memorandum Only)</u> |
|--|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property Tax and Other Local Taxes | \$19,142 | | \$19,142 |
| Intergovernmental Receipts | 16,064 | \$22,927 | 38,991 |
| Earnings on Investments | 1,323 | | 1,323 |
| Miscellaneous | 1,270 | 69 | 1,339 |
| | <u>37,799</u> | <u>22,996</u> | <u>60,795</u> |
| Total Cash Receipts | | | |
| Cash Disbursements: | | | |
| Current: | | | |
| Security of Persons and Property | 4,391 | | 4,391 |
| Transportation | 10,595 | 25,251 | 35,846 |
| General Government | 14,460 | | 14,460 |
| | <u>29,446</u> | <u>25,251</u> | <u>54,697</u> |
| Total Cash Disbursements | | | |
| Total Receipts Over/(Under) Disbursements | <u>8,353</u> | <u>(2,255)</u> | <u>6,098</u> |
| Other Financing Receipts and (Disbursements): | | | |
| Advances-In | | 2,300 | 2,300 |
| Other Sources | 330 | 106 | 436 |
| Transfers-Out | (6,000) | | (6,000) |
| Advances-Out | (21,500) | | (21,500) |
| | <u>(27,170)</u> | <u>2,406</u> | <u>(24,764)</u> |
| Total Other Financing Receipts/(Disbursements) | | | |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (18,817) | 151 | (18,666) |
| Fund Cash Balances, January 1, 2001 | <u>15,870</u> | <u>732</u> | <u>16,602</u> |
| Fund Cash Balances, December 31, 2001 | <u>(\$2,947)</u> | <u>\$883</u> | <u>(\$2,064)</u> |

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

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

| | <u>Enterprise</u> |
|--|-------------------------------|
| Operating Cash Receipts: | |
| Charges for Services | <u>\$58,067</u> |
| Total Operating Cash Receipts | <u>58,067</u> |
| Operating Cash Disbursements: | |
| Personal Services | 16,394 |
| Contractual Services | 33,488 |
| Supplies and Materials | <u>6,496</u> |
| Total Operating Cash Disbursements | <u>56,378</u> |
| Operating Income/(Loss) | <u>1,689</u> |
| Non-Operating Cash Receipts: | |
| Other Non-Operating Receipts | <u>265</u> |
| Total Non-Operating Cash Receipts | <u>265</u> |
| Non-Operating Cash Disbursements: | |
| Debt Service | |
| Principal | 9,000 |
| Interest | <u>13,450</u> |
| Total Non-Operating Cash Disbursements | <u>22,450</u> |
| Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances | (20,496) |
| Transfers-In | 29,100 |
| Advances-In | 19,200 |
| Transfers-Out | <u>(23,100)</u> |
| Net Receipts Over/(Under) Disbursements | 4,704 |
| Fund Cash Balances, January 1, 2001 | <u>38,952</u> |
| Fund Cash Balances, December 31, 2001 | <u><u>\$43,656</u></u> |

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

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

| | <u>Governmental Fund Types</u> | | <u>Totals (Memorandum Only)</u> |
|--|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property Tax and Other Local Taxes | \$17,745 | | \$17,745 |
| Intergovernmental Receipts | 21,255 | \$10,227 | 31,482 |
| Earnings on Investments | 1,224 | | 1,224 |
| Miscellaneous | 8,802 | 319 | 9,121 |
| | <u>49,026</u> | <u>10,546</u> | <u>59,572</u> |
| Cash Disbursements: | | | |
| Current: | | | |
| Security of Persons and Property | 4,899 | | 4,899 |
| Transportation | 5,835 | 22,517 | 28,352 |
| General Government | 13,854 | | 13,854 |
| | <u>24,588</u> | <u>22,517</u> | <u>47,105</u> |
| Total Cash Disbursements | <u>24,588</u> | <u>22,517</u> | <u>47,105</u> |
| Total Receipts Over/(Under) Disbursements | <u>24,438</u> | <u>(11,971)</u> | <u>12,467</u> |
| Other Financing Receipts and (Disbursements): | | | |
| Transfers-In | | 5,500 | 5,500 |
| Other Sources | 1,302 | 158 | 1,460 |
| Transfers-Out | (22,425) | | (22,425) |
| | <u>(21,123)</u> | <u>5,658</u> | <u>(15,465)</u> |
| Total Other Financing Receipts/(Disbursements) | <u>(21,123)</u> | <u>5,658</u> | <u>(15,465)</u> |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | 3,315 | (6,313) | (2,998) |
| Fund Cash Balances, January 1, 2000 | <u>12,555</u> | <u>7,045</u> | <u>19,600</u> |
| Fund Cash Balances, December 31, 2000 | <u>\$15,870</u> | <u>\$732</u> | <u>\$16,602</u> |

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

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

| | Enterprise |
|--|-------------------------------|
| Operating Cash Receipts: | |
| Charges for Services | \$60,330 |
| Miscellaneous | 636 |
| | <u>60,966</u> |
| Operating Cash Disbursements: | |
| Personal Services | 17,604 |
| Contractual Services | 18,741 |
| Supplies and Materials | 17,295 |
| | <u>53,640</u> |
| Total Operating Cash Disbursements | <u>53,640</u> |
| Operating Income/(Loss) | <u>7,326</u> |
| Non-Operating Cash Receipts: | |
| Other Non-Operating Receipts | <u>1,306</u> |
| Total Non-Operating Cash Receipts | <u>1,306</u> |
| Non-Operating Cash Disbursements: | |
| Debt Service | |
| Principal | 8,000 |
| Interest | 13,850 |
| | <u>21,850</u> |
| Total Non-Operating Cash Disbursements | <u>21,850</u> |
| Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances | (13,218) |
| Transfers-In | 40,025 |
| Transfers-Out | <u>(23,100)</u> |
| Net Receipts Over/(Under) Disbursements | 3,707 |
| Fund Cash Balances, January 1, 2000 | <u>35,245</u> |
| Fund Cash Balances, December 31, 2000 | <u><u>\$38,952</u></u> |

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Lafayette, Allen County (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including sewer utilities, and park operations (leisure time activities). The Village has a mutual aid agreement with the Allen County Sheriff's department to provide security of persons and property. The Village contracts with Jackson Township to provide fire protection and emergency medical services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

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

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Enterprise Funds

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

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

Bond Retirement Fund – This fund is used for the accumulation of resources for retirement of the 1980 sewer improvement bond issue.

Bond Reserve Fund – This fund is a mandatory reserve fund to help assure prompt and complete payment of the sewer improvement bond issue.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. The Village did not use the encumbrance method of accounting.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

| | 2001 | 2000 |
|-------------------------|-----------------|-----------------|
| Demand deposits | \$7,592 | \$21,554 |
| Certificates of deposit | 34,000 | 34,000 |
| Total deposits | \$41,592 | \$55,554 |

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|------------------|
| General | \$45,230 | \$38,129 | (\$7,101) |
| Special Revenue | 14,650 | 23,102 | 8,452 |
| Enterprise | 90,200 | 87,432 | (2,768) |
| Total | \$150,080 | \$148,663 | (\$1,417) |

2001 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|--------------------|
| General | \$0 | \$35,446 | (\$35,446) |
| Special Revenue | 0 | 25,251 | (25,251) |
| Enterprise | 0 | 101,928 | (101,928) |
| Total | \$0 | \$162,625 | (\$162,625) |

2000 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|-----------------|
| General | \$46,666 | \$50,328 | \$3,662 |
| Special Revenue | 14,794 | 16,204 | 1,410 |
| Enterprise | 89,548 | 102,297 | 12,749 |
| Total | \$151,008 | \$168,829 | \$17,821 |

2000 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|--------------------|
| General | \$0 | \$47,013 | (\$47,013) |
| Special Revenue | 0 | 22,517 | (22,517) |
| Enterprise | 0 | 98,590 | (98,590) |
| Total | \$0 | \$168,120 | (\$168,120) |

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Money was moved from the general fund to other funds without obtaining the majority approval of Council in violation of Ohio Rev. Code Section 5704.14.

Actual expenditures exceeded appropriations in the General Fund for 2001, the Street Construction, Maintenance, and Repair Fund for both 2000 and 2001, and the Enterprise Fund for 2001 in violation of Ohio Rev. Code Section 5705.41(B).

The Village did not adopt permanent appropriations, for either 2000 or 2001, nor file the permanent appropriation ordinance with the County Auditor for 2001 in violation of Ohio Rev. Code Section 5705.38.

In 2001, the Village did not file a copy of the permanent appropriation ordinance with the county auditor; therefore, the appropriation measure was not in effect for the year 2001. In violation of Ohio Rev. Code Section 5705.39. For the year 2000, the county auditor issued a certificate stating that the total appropriation from each fund does exceed the official estimate of resources. However, permanent appropriations were not passed by council prior to April 1, 2000.

Prior certification was not obtained for the expenditure of Village funds for 100 percent of the transactions in the years 2000 and 2001 in violation of Ohio Rev. Code Section 5705.41(D).

Also contrary to Ohio Rev. Code Section 5705.10, at December 31, 2001, the General Fund had a cash deficit balance of \$2,947.

4. PROPERTY TAX

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

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

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

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

5. DEBT

Debt outstanding at December 31, 2001 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|------------------------|------------------|----------------------|
| Mortgage Revenue Bonds | <u>\$260,000</u> | 5% |

The First Mortgage Revenue Bonds were issued for the construction of the Sanitary Sewer System. Property and revenue of the utility have been pledged to repay these debts. As required by the mortgage revenue bond covenant, the Village has established and funded an enterprise reserve fund. The balance in the fund at December 31, 2001 is \$23,728.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

5. DEBT (Continued)

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

| Year Ending December 31: | Mortgage Revenue Bonds |
|-------------------------------------|---------------------------------------|
| 2002 | \$22,000 |
| 2003 | 22,550 |
| 2004 | 22,050 |
| 2005 | 22,550 |
| 2006 | 22,000 |
| Subsequent | <u>289,350</u> |
| Total | <u>\$400,500</u> |

An Operation and Maintenance Fund had not been established, an annual budget had not been prepared, nor had an annual audit been conducted and the report filed with the bondholder, as required by the bond covenant.

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. The Village contributed an amount equal to 13.55 percent of participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contribution rate to 8.13 percent, effective July 1, 2000 through December 31, 2000. The Village has not paid all employer contributions required through December 31, 2001. The Village owes \$658 to the Ohio Public Employees Retirement System as of December 31, 2001.

7. RISK MANAGEMENT

A. Risk Pool Membership

The Village belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

B. Casualty Insurance

PEP retains casualty risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

7. RISK MANAGEMENT (Continued)

C. Property Insurance

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

D. Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: (Latest information available.)

| Casualty Coverage | 2000 | 1999 |
|--------------------------|--------------------|--------------------|
| Assets | \$17,112,129 | \$15,295,389 |
| Liabilities | <u>7,715,035</u> | <u>6,636,543</u> |
| Retained earnings | <u>\$9,397,094</u> | <u>\$8,658,846</u> |
| | | |
| Property Coverage | 2000 | 1999 |
| Assets | \$1,575,614 | \$1,118,222 |
| Liabilities | <u>281,561</u> | <u>279,871</u> |
| Retained earnings | <u>\$1,294,053</u> | <u>\$838,351</u> |

8. RELATED PARTY TRANSACTIONS

The Village acquired various services, including sewer pipe installation and repair, planting of trees, and various heavy equipment rentals from Gary Kramer, Clerk/Treasurer, and owner of a business known as Kramer Excavating. During the years 2001 and 2000, the Village paid \$7,389 and \$5,357, respectively, for these services.



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

Village of Lafayette
Allen County
P.O. Box 7184
Lafayette, Ohio 45854

To the Village Council:

We have audited the accompanying financial statements of the Village of Lafayette, Allen County, (the Village), as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated October 7, 2002, which was qualified due to the inadequacy of Village accounting records for charges for services recorded in the sewer revenue fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-30202-001 through 2001-30202-013. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 7, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-30202-014 through 2001-30202-017.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2001-30202-014 through 2001-30202-017 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated October 7, 2002.

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



Jim Petro
Auditor of State

October 7, 2002

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

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

Finding Number – 2001-30202-001

Ohio Rev. Code Section 5705.14(E) allows transfers to be made from the general fund to any other fund of the subdivision by ordinance or resolution with a majority vote of the taxing authority.

Money was moved from the general fund to the street and sewer funds, whenever there was a shortfall in the fund balance, without a resolution or ordinance authorized by the majority of Council.

Failure to obtain prior approval to move funds may result in the financial statements requiring adjustments because money may only be moved from one fund to another through Board approved action. The following represents the money moved during the audit period for which there were no authorizations:

| Date | From General | 2001 | | 2000 | |
|----------|------------------|-----------------|------------------|-----------------|------------------|
| | | Street | Sewer | Street | Sewer |
| 08/31/00 | \$ 1,925 | | | | \$ 1,925 |
| 09/30/00 | 1,000 | | | | 1,000 |
| 10/31/00 | 1,500 | | | 1,500 | |
| 11/30/00 | 11,000 | | | 3,000 | 8,000 |
| 12/31/00 | 4,000 | | | 1,000 | 3,000 |
| 03/31/01 | 2,500 | | 2,500 | | |
| 04/30/01 | 10,000 | | 10,000 | | |
| 10/31/01 | 4,000 | | 4,000 | | |
| 12/31/01 | 5,000 | 2,300 | 2,700 | | |
| Total | <u>\$ 40,925</u> | <u>\$ 2,300</u> | <u>\$ 19,200</u> | <u>\$ 5,500</u> | <u>\$ 13,925</u> |

Movement of money from the general fund must be approved with a formal ordinance or resolution enacted by Council, in accordance with statutory requirements. If the movement of money is an advance, the approval must include a specific statement that the transaction is an advance of cash, and state the fund from which the advance is expected to be repaid and the time-frame. Both transfers and advances require a two-thirds approval by Council. Evidence to support the approval should also be documented in the minutes with proper labeling as transfers or advances.

On November 13, 2002, Council enacted Resolution Numbers #02-03 and #02-04, that retroactively approved the transfer of funds from the general to the street and sewer funds in the amounts of \$5,500 and \$13,925, respectively, for the year 2000. The amounts moved from general to the street and sewer during the year 2001, were approved as advances and were to be repaid from those funds in the amounts of \$2,300 and \$19,200, as of the resolution date.

The accompanying financial statements have been adjusted to reflect the retroactive actions taken by Council.

**NONCOMPLIANCE – OHIO REVISED CODE
(Continued)**

FINDING NUMBER – 2001-30202-002

Records Destruction

Ohio Revised Code Section 149.351(A), states 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. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

Due to a computer software malfunction, the sewer records for the years 2000 and 2001, which included the billing, payment and delinquency ledgers, could not be accessed or generated, and the hard copies of the sewer records were not retained for audit in accordance with the aforementioned provisions.

The lack of retaining required records could result in loss of revenue if evidence of account activity cannot be presented, improper presentation of financial statements amounts because sufficient records are not available to support the amount reported, and increased audit costs.

A policy should be adopted establishing procedures for the retention of records generated and the manner in which they are to be maintained. Records may be destroyed only after a request for destruction has been submitted to the Records Commission and the appropriate procedures have been addressed.

FINDING NUMBER – 2001-30202-003

Ordinances and Resolutions

Ohio Rev. Code Section 731.17(A), states that the following procedures shall apply to the passage of ordinances and resolutions of a municipal corporation:

1. Each ordinance and resolution shall be read by title only, provided the legislative authority may require any reading to be in full by a majority vote of its members.
2. Each ordinance and resolution shall be read on three different days, provided the legislative authority may dispense with this rule by a vote of at least three-fourths of its members.
3. The vote on the passage of each ordinance and resolution shall be taken by yeas and nays and entered upon the journal.
4. Each ordinance and resolution shall be passed, except as otherwise provided by law, by a vote of at least a majority of all members of the legislative authority.

There was no evidence presented to support that each ordinance and resolution was: 1) read by title only, or read in full by a majority vote of the legislative authority; 2) read on three different days, or passed as an emergency by a vote of at least three-fourths of the legislative authority; 3) passed on a vote of yeas and nays and entered upon the journal; and 4) passed by a vote of at least a majority of all members of the legislative authority.

Failure to pass ordinances and resolutions in the prescribed method could result in ordinances and resolutions that are null and void and not legally enforceable.

Ordinances and resolutions represent the legal policies and procedures adopted by the legislative authority, and as such, should be adopted in accordance with the Ohio Rev. Code.

**NONCOMPLIANCE – OHIO REVISED CODE
(Continued)**

FINDING NUMBER – 2001-30202-004

Authentication of Ordinances and Resolutions

Ohio Rev. Code Section 731.20, states that ordinances, resolutions and by-laws shall be authenticated by the signature of the presiding officer and clerk of the legislative authority of the municipal corporation. As soon as an ordinance, resolution or by-law is passed and signed, it shall be recorded by the clerk in a book furnished by the legislative authority for that purpose.

The ordinances, resolutions and by-laws were not authenticated by signatures of the presiding officer and the clerk of the legislative authority, nor were they immediately recorded by the clerk in a book furnished for said purpose.

Failure to authenticate and record ordinances, resolutions and by-laws in the prescribed method could result in ordinances and resolutions that are null and void and not legally enforceable.

The ordinances, resolutions and policies and procedures enacted by Council represent the laws of the Village, and as such should be properly authenticated, recorded and adequately safeguarded. A policy should be adopted establishing procedures on the retention of these permanent records.

FINDING NUMBER – 2001-30202-005

Publication and Certification of Ordinances and Resolutions

Ohio Rev. Code Section 731.21, requires that each ordinance and resolution, or a succinct summary of each, is required to be published. Further, **Ohio Rev. Code Section 731.25**, states that in municipal corporations in which no newspaper is published, publication of ordinances and resolutions shall be accomplished by posting copies in not less than five of the most public places in the municipal corporation, for a period of not less than fifteen days prior to the effective date thereto, as determined by the legislative authority, or by publication in any newspaper printed in this state and of general circulation in such municipal corporation, once a week for two consecutive weeks.

When such publication is by posting, the clerk shall make a certificate as to such posting, and as to the times when and the places where such posting is done, and shall sign his name thereto officially. Such certificate shall be prima-facie evidence that the copies were posted as required.

In addition, **Ohio Rev Code Section 731.24**, states that the clerk of the legislative authority, immediately after the expiration of the period of publication, shall enter on the record of ordinances, in a blank to be left for such purpose under the recorded ordinance, a certificate stating in which newspaper and on what dates such publication was made, and shall sign his name thereto officially. Such certificate shall be prima-facie evidence that legal publication was made.

Ohio Rev. Code Section 731.26, states that it is a sufficient defense to any suit or prosecution under an ordinance, to show that no publication or posting was made as required by Sections 731.21 to 731.25 of the Ohio Rev. Code.

The prescribed procedures were not followed regarding the required publication and certification of ordinance and resolutions. Failure to publish ordinances and resolutions in the prescribed method could result in ordinances and resolutions that are null and void and not legally enforceable.

The ordinances, resolutions and policies and procedures enacted by Council represent the laws of the Village, and as such, should be published and certified in accordance with the Ohio Rev. Code.

**NONCOMPLIANCE – OHIO REVISED CODE
 (Continued)**

FINDING NUMBER – 2001-30202-006

Accurate Records/Reconciliation

Ohio Rev. Code 733.28, states that the Village clerk shall keep the books of the village, exhibit accurate statements of all money received and expended, of all property owned by the village and the income derived there from.

The books did not reconcile with the bank for the entire audit period; therefore accurate statements of all money received and expended were not maintained. Numerous errors and omissions occurred in the cash journal, the receipts ledger, and the appropriation ledger. The generated outstanding checklists were not valid. Also, the annual financial statements prepared for the years 2001 and 2000 were incomplete, which resulted in numerous adjustments and reclassifications.

In addition, the quarterly Federal Form 941's for 2000; various budgetary documents; monthly forms for the remittance of the employee share of PERS for the following months: June, November, and December 2000, and March, April, May, June, August, October, November and December 2001; deposit slips for October, November and December 2000; and various invoices with a duplicate check attached were not retained for audit.

The lack of accurate records and not posting transactions timely could result in the Village expending funds that are not available. In addition, additional accounting and auditing procedures are necessary to complete the audit which results in increased audit costs. The following represent the adjustments to the accompanying financial statements that were necessary to balance the records with the depositories.

| Fund | 12/31/2001 Balance | Net Adjustments | Adjusted 12/31/2001 Balance | 12/31/2000 Balance | Net Adjustments | Adjusted 12/31/2000 Balance |
|---------------|-------------------------------|----------------------------|--|-------------------------------|----------------------------|--|
| General | \$ 5,077 | \$ (8,024) | \$ (2,947) | \$ 16,932 | \$ (1,062) | \$ 15,870 |
| Street | 2,426 | (1,543) | 883 | 587 | 145 | 732 |
| Sewer | 1,456 | 6,948 | 8,404 | 703 | 3,646 | 4,349 |
| Sewer Debt | 11,525 | | 11,525 | 10,875 | | 10,875 |
| Sewer Reserve | 23,728 | | 23,728 | 23,728 | | 23,728 |
| Total | \$ 44,212 | \$ (2,619) | \$ 41,593 | \$ 52,825 | \$ 2,729 | \$ 55,554 |

The cash journal should be supported by the receipts and appropriations subsidiary ledgers, and reconcile with the depositories. In turn, the records should support the compilation of the annual financial statements. In addition, a policy should be adopted establishing procedures for the retention of records generated and the manner in which they are to be maintained.

FINDING NUMBER – 2001-30202-007

Village Surety Bonds

Ohio Rev. Code Section 733.69, states that each officer of a municipal corporation required by law or ordinance to give bond shall do so before entering upon the duties of the office. **Bond Ordinance 79-4** requires the clerk to obtain an additional \$20,000 fidelity bond to protect the Village against loss.

The Clerk was not bonded during the audit period, and the additional fidelity bond required by the bond ordinance had not been obtained. Failure to obtain the required bonds could place the Village at risk if a loss of revenue should occur due to misappropriation of funds. Review of the bank deposits indicated some deposits were in excess of \$20,000, and in the months of April, June, August, September, October, and December of 2001, receipts were held and there were no deposits made, which could result in a significant loss to the Village in the event of misappropriation.

**NONCOMPLIANCE – OHIO REVISED CODE
(Continued)**

**FINDING NUMBER – 2001-30202-007
(Continued)**

A tickler file should be maintained that indicates when the bonds of the various officials become due, and Council should review the bonds annually to ensure they are current and that the Village is adequately protected.

FINDING NUMBER – 2001-30202-008

Negative Fund Balances

Ohio Rev. Code Section 5705.10, states money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund 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.

After a negative net adjustment in revenue of \$7,735, the General Fund had a negative fund balance of \$2,947 at December 31, 2001, which indicates other funds were used to meet the general fund obligations. In addition, an amount of \$6,906 was posted to the general fund instead of the sewer fund which indicates that revenues may not have been used for the intended purpose. The financial statements have been adjusted for these amounts.

The failure to post revenue to the proper fund results in inaccurate and possibly negative fund balances. Council should monitor the financial records presented and be alert for incorrect fund postings that could significantly impact financial reporting.

FINDING NUMBER – 2001-30202-009

Approval of Permanent Appropriations

Ohio Rev. Code Section 5705.38 states that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until April 1.

The Village adopted temporary appropriations for the years 2001 and 2000; however, there was no evidence that permanent appropriation ordinances had been adopted or signed by Council, although an unsigned appropriation ordinance had been filed with the County Auditor for the year 2000. In addition, unauthorized appropriation amounts had been posted to the UAN system without properly executed appropriation ordinances.

Failure to adopt and sign an appropriation ordinance results in expenditures which may not be considered legal, and could also result in the county auditor withholding resources due the Village. In addition, the posting of unapproved amounts to the UAN system could result in expenditures in excess of available resources and deficit balances.

The appropriation ordinance should be enacted annually, formally documented in the minutes, signed by Council and filed with the county auditor prior to April 1 each year. Only a legally enacted appropriation ordinance should be posted to the system.

**NONCOMPLIANCE – OHIO REVISED CODE
 (Continued)**

FINDING NUMBER – 2001-30202-010

Appropriations Limited by Estimated Revenue

Ohio Rev. Code Section 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

For the year 2001, a copy of the permanent appropriation ordinance was not filed with the county auditor, therefore, a certificate stating that the total appropriations from each fund do not exceed the total official estimate or amended official estimate could not be issued by the county auditor. As a result, the appropriation measure was not in effect for 2001. In the year 2000, the county auditor issued a certificate stating that the total appropriations from each fund did exceed the official estimate of resources. The general fund had estimated resources in the amount \$46,666 and the appropriated amount was \$65,069.

Failure to file the annual appropriation ordinance with the county auditor and obtain the necessary certificate could lead to expenditures being made in excess of appropriations and the official estimate of resources, which could lead to deficit spending. The adopted annual appropriation ordinance should be filed with the county auditor by April 1 of each year, and the required certificate should be obtained before any appropriations go into effect.

FINDING NUMBER – 2001-30202-011

Expenditures Limited by Appropriations

Ohio Rev. Code Section 5705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. Although appropriation amounts for the year 2001 had been entered into the UAN system, an appropriation ordinance had not been officially adopted or filed. As a result, expenditures (including transfers and advances) exceeded appropriations as follows:

| 2001 | Fund | Appropriations | Expenditures | Excess |
|-------------|-----------------|-----------------------|---------------------|---------------|
| | General | \$0 | \$56,946 | (\$56,946) |
| | Special Revenue | 0 | 25,251 | (25,251) |
| | Enterprise | 0 | 101,928 | (101,928) |
| 2000 | | | | |
| | General | \$0 | \$47,013 | (\$47,013) |
| | Special Revenue | 0 | 22,517 | (22,517) |
| | Enterprise | 0 | 98,590 | (98,590) |

The failure to adopt an appropriation ordinance and monitor appropriations versus expenditures could result in expenditures in excess of available resources and result in deficit spending and deficit fund balances. Expenditures should not exceed appropriated amounts, and when necessary amended or supplemental appropriations should be approved by Council if resources are available.

FINDING NUMBER – 2001-30202-012

Prior Certification of Commitments

Ohio Rev. Code Section 5705.41 (D) states that no subdivision or taxing authority shall make any contract or give any order involving the expenditure of money unless there is attached thereto, a certificate of the fiscal officer that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

**NONCOMPLIANCE – OHIO REVISED CODE
(Continued)**

**Finding Number – 2001-30202-012
(Continued)**

An exception to this basic requirement provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time certification is being completed, sufficient funds were available or were in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrances, the taxing authority can authorize the drawing of the warrant (“then and now”). The taxing authority has 30 days from the receipt of such certificate to approve payments by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amount of less than \$1000 may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

Prior certification was not obtained for 100 percent of the expenditures during the years 2001 and 2000. In addition, there was no evidence of certification that the funds were available at the time of making the obligation and at the time of payment (“then and now”), nor the subsequent approval within thirty days from the Village Council for all amounts over one thousand dollars.

Also, a system of encumbering was not in place. This prohibits the fiscal officer’s ability to certify that the amount was in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, since the amount of the available unencumbered balances is unknown for any given line item at any point in time.

The lack of proper certifications could result in the Village obligating funds in excess of fund balances resulting in a deficit spending situation. Certification that funds are available should be obtained prior to purchasing goods and services to prevent possible overspending of resources and/or the obligation of amounts in excess of specific line item appropriations. Also, a system of encumbering should be placed in operation to allow the fiscal officer to track the amount of outstanding encumbrances and available unencumbered balances, thus allowing for accurate certifications.

The Village should establish procedures for obtaining certification prior to incurring an obligation, or for subsequent certification and approval as provided by the exception noted above.

BOND COVENANT

FINDING NUMBER – 2001-30202-013

Bond Ordinance Compliance

Bond Ordinance 1979-4 Section 8(c) states that so long as the bonds hereby authorized remain unpaid complete books and records will be maintained relating to the operation of the system and its financial affairs (a sewage plant was built with the monies provided by the bond sale). Such books and records are to be audited annually at the end of each fiscal year and an audit report shall be prepared and shall be submitted to the Farmers Home Administration as long as it is holder of any of the Bonds without request, and shall be furnished to any other holder of the Bonds upon written request. Section 8 (f) states that prior to the beginning of each fiscal year the Village will prepare an annual budget of said system for the ensuing fiscal year itemized on the basis of monthly requirements and a copy of such budget shall be mailed without request to the Farmers Home Administration as long as the government is holder of any of the Bonds and upon written request of any other bondholder.

BOND COVENANT

FINDING NUMBER – 2001-30202-013 (Continued)

In addition, the ordinance requires a transfer of funds each month from the Sewer Revenue Fund Account to an Operation and Maintenance Fund Account. The amount of the transfers should be sufficient to pay the reasonable and necessary current expenses for operating and maintaining a Sanitary Sewer System.

There was no evidence that an annual audit was performed of the sewer accounts and an audit report submitted to the proper agency. There was no evidence that an annual budget was prepared and sent to the applicable agency at the beginning of each fiscal year. In addition, a fund has not been established for an Operation and Maintenance Fund, nor has any funds been transferred, to pay the current expenses of operating and maintaining the Village's sanitary sewer system.

A copy of Village Ordinance 1979-4 should be maintained on file and the requirements added to a tickler file in order to comply with all requirements set forth therein. In addition, the required Operation and Maintenance Fund should be established, and the monthly amount necessary to pay the current operating and maintenance costs for the sanitary sewer system determined and transferred.

REPORTABLE CONDITIONS – MATERIAL WEAKNESSES

Finding Number – 2001-30202-014

Bank to Book Reconciliations

During the audit period, checks were issued manually while the check number, payee, amount, date, and line item account were posted to the UAN System. However, the check written was not in agreement with the check number posted to the System, and in some instances the amounts did not agree. For these issues, it was necessary to request that the records be manually reconstructed in order to balance.

Monthly bank to book reconciliations were not being performed on a timely basis nor were they accurate. The outstanding checklists were not valid for both years under audit, because of the check number problem, and the reasoning behind the adjusting factors on the reconciliations were not explained. Several instances were noted where outstanding checks, in a total amount of \$3,885, were dropped from the outstanding check list when they had not been redeemed, or voided. Also, various receipts and disbursements had not been posted. Receipts were not deposited or recorded timely resulting in significant timing differences. Various addition errors occurred in the cash journal. These problems resulted in significant variances between the bank and the year-end fund balances.

Amounts, account coding, descriptions and other information varied from the general ledger to subsidiary ledgers to supporting documentation. I.E., receipts did not contain account codes or a description of the origin of the receipt. The check register (check stubs) included stubs marked as void when the ledgers and canceled checks were proof of payment. The check register included amounts which differed from amounts recorded in the ledgers and on the canceled check or outstanding checklists. Outstanding checks were removed from the outstanding checklist without being canceled, voided, or reentered in the journal.

The absence of complete and accurate record-keeping resulted in errors or irregularities occurring without detection in the normal course of business in a timely manner.

**REPORTABLE CONDITIONS – MATERIAL WEAKNESSES
(Continued)**

**Finding Number – 2001-30202-014
(Continued)**

Throughout the process of receipting and disbursing monies, all supporting documentation should be agreed with the amounts posted to ledgers and should clearly identify all changes to the original documentation (for errors or other noted differences/changes). Also, complete and accurate descriptions/information should be provided on all of the aforementioned ledgers and documents to provide cross referencing for referral to supporting documentation and ledger postings.

Failure to have agreement between the revenues received and the actual written checks with the UAN System lead to incorrect fund balances, inaccurate outstanding check lists, and difficulties in performing the monthly bank to book reconciliation. The integrity of the UAN System is also compromised when the actual documents do not agree to the posted information.

Regular monthly bank reconciliations should be performed timely and reconciled with the cash journal in order to find any discrepancies. The outstanding checklists should be verified as to accuracy and any adjusting factors should be adequately explained. If the records do not balance with the bank, the accuracy of the amounts posted as receipts and the manual checks should be verified and any necessary adjustments made timely. Adjustments were made to reconcile the accompanying financial statements as indicated in Finding 2001-30202-006.

FINDING NUMBER – 2001-30202-015

Monitoring of Monthly Financial Reports

For the audit period, the amounts posted to the records did not balance with the banks; deposits were not made timely, nor were the outstanding checklists accurate. In addition, it was necessary to reconstruct the accounting records in order to perform an audit. There was no evidence that Council and the Board of Public Affairs (BPA) received monthly financial reports that included the monthly bank reconciliation, a month-to-date financial report, and a year-to-date report that compares budget to actual. Proper monitoring duties cannot be performed if the necessary reports are not being received. The lack of proper and correct financial information impedes the ability of officials to act responsibly in conducting Village affairs.

The Village did not post expenditures or receipts to the UAN system for 2001 until May 2001. The Village also did not post items to the proper account codes.

Failure to correctly post expenditures or receipts resulted in the inability to reconcile the books with the bank and lead to misstated financial statements. Also, failure to charge items to the correct fund lead to misstated fund balances and findings for adjustment.

Receiving inaccurate financial information could result in Council and/or the BPA obligating funds that are not available, or making unsound decisions based on inaccurate data. Also, the failure to properly monitor the receipts, disbursements, fund balances, and the monthly bank reconciliations could result in misappropriation of revenues without timely detection by management.

Council should monitor the monthly reports timely to ensure related documents agree, and that the monthly bank to book reconciliation agrees with the fund balances and includes all the bank accounts and investments including certificates of deposit. The reconciling items should be reviewed to verify there are no unexplained items, and/or that the explanations are factual. The following month's bank statement should be reviewed to verify that the prior month's reconciling items, such as deposits in transit and

REPORTABLE CONDITIONS – MATERIAL WEAKNESSES
(Continued)

FINDING NUMBER – 2001-30202-015
(Continued)

outstanding checks, were accurately stated. Council should also review for payments to retirement systems, payroll withholdings, insurance, and utilities to ensure that the obligations of the Village are being paid timely.

The Village should post items timely to the UAN system in order to reconcile the books with the bank and to properly reflect the activity of the Village. The UAN manual and the chart of accounts should be utilized to ensure that expenditures and receipts are properly classified.

Council should initial and date the reports as proof of their review and the signed copy should be included in the minute book. Council should be aware on a continuing basis of the financial position of the Village in order to make informed decisions.

In addition, since the Village is small, and staff is limited, it is important that Council monitor the financial activity closely. At each regular meeting Council should carefully review the reports provided and make appropriate inquiries to help determine the continued integrity of financial information.

These reports provide important data necessary to manage the Village. This information should be used to answer questions such as the following:

- Are current receipts sufficient to cover expenditures?
- Are expenditures in line with prior year costs?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted?
- Are anticipated receipts being timely received?
- Is the Village maximizing its return on invested cash balances?
- Are the Village records and reports maintained and presented in a manner that provides accurate and meaningful information to Council?

Finding Number – 2001-30202-016

Segregation of Duties and Maintenance of Sewer Records

In an entity the size of the Village it is usually not cost effective to employ the basic internal controls necessary to provide management with reasonable assurance that all related procedures are functioning properly. The Village Clerk is responsible for preparing the sewer bills, posting to the billing and payment registers, collecting and preparing the collections for deposit.

For the audit period, the sewer records were incomplete and were not provided for audit. There was no indication that the utility stubs were reconciled with the deposits, nor that a monthly reconciliation was performed between the amount posted to the cash journal/receipt ledger and the amount posted to the sewer registers. There were no hard copies of the monthly sewer registers generated to provide a complete record of utility billings and collections. In addition, utility collections were not deposited timely, and for several months there were no deposits made.

**REPORTABLE CONDITIONS – MATERIAL WEAKNESSES
(Continued)**

**Finding Number – 2001-30202-016
(Continued)**

When one person performs incompatible functions, there is the possibility of errors or irregularities to occur without being detected in the normal course of business operations. The lack of complete records and untimely deposits could result in the misappropriation of funds without detection and resulted in an opinion qualification.

A policy should be adopted establishing adequate accounting and administrative control procedures, including the requirement of a periodic review to determine that the adopted procedures are being followed: The policy should require that a hard copy of the monthly utility registers be generated and maintained in chronological order. This will allow the status of each account to be followed from one month to the next. Sewer collections should be reconciled with the utility stubs and timely deposits made. The stubs that comprise each deposit should be bound and marked with the date collected and deposited. The copies of the deposit slips and the utility stubs should then be filed together to support the dates the amounts were posted to the utility registers. This will allow reconciliations to be performed and deposits to be tied to a specific period. A monthly reconciliation should be performed between the cash/receipt journals and the sewer payment register.

The Board of Public Affairs should review the revenue posted to the receipts journal at the monthly meetings to determine that the monthly amounts collected and deposited are consistent, and if not, an explanation given.

FINDING NUMBER – 2001-30202-017

Deposit of Public Money

Utility collections and other revenue were deposited once or twice a month during the year 2000. However, during 2001, revenue was not deposited during the months of April, June, August, September, October, and December. These receipts had been held for up to three months prior to deposit, and utility collections for October through December 2001 were not deposited until January 2002. In some instances, amounts in excess of \$20,000 had been held and there was no evidence of a policy regarding the handling or depositing of cash.

The failure to adopt a policy which establishes proper safeguards and requires the deposit of collections timely could lead to a loss of revenue in the form of interest, and an increased risk of theft or loss due to the large amount of cash being held.

A policy should be adopted by Council, in accordance with Ohio Rev. Code Section 9.38, which should include a time frame in which deposits are to be made, the method of safeguarding if not deposited immediately, (deposits should be made within three days from collection) and the maximum amount that may be held before a deposit is required.

In addition, the Board of Public Affairs should periodically review the recording of utility collections and subsequent deposits to insure they are recorded and deposited timely and in the correct amount. The revenue journal should be reviewed monthly to verify that revenue is posted to the proper funds.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 - 2000**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|-----------------------|--|-------------------------|---|
| 1999-30202-001 | Purchase Orders | No | Ohio Admin. Code Section eliminated. However, ORC 5705.41(D) issued in current report (2001-30202-012). |
| 1999-30202-002 | Appropriations Limited by Estimated Revenue | No | Not Corrected, reissued as finding 2001-30202-010. |
| 1999-30202-003 | Actual Expenditures Exceeding Appropriations | No | Not Corrected, reissued as finding 2001-30202-011. |
| 1999-30202-004 | Maintaining Accurate Journals | No | Ohio Admin. Code Section eliminated. However, ORC 733.28 issued in current report (2001-30202-006). |
| 1999-30202-005 | Bond Ordinance Compliance | No | Not Corrected, reissued as finding 2001-30202-013). |
| 1999-30202-006 | Accounting Records | No | Not Corrected, reissued as findings 2001-30202-014 and 015. |
| 1999-30202-007 | Transfers and Budgetary Amendments | No | Advances were not approved, reissued as finding 2001-30202-001. |



STATE OF OHIO
OFFICE OF THE AUDITOR

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VILLAGE OF LAFAYETTE

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 12, 2002**