



**Auditor of State
Betty Montgomery**

VILLAGE OF WEST ELKTON
PREBLE COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of West Elkton
Preble County
135 North Main Street
P.O. Box 180
West Elkton, Ohio 45070

To the Village Council:

We have audited the accompanying financial statements of the Village of West Elkton, Preble County, Ohio (the Village) as of and for the years ended December 31, 2002, and 2001. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2002, and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The accompanying financial statements have been prepared assuming that the Village will continue as a going concern. As discussed in Note 11 to the financial statements, the Village has been unable to pay obligations when due and has suffered recurring losses in the General Fund and Police Fund which raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Auditor of State has billed the Village of West Elkton for audit services provided for the fiscal years ended December 31, 2000 and 1999. As of the date of this report, the Village has been billed for a total of \$16,777 and has yet to pay \$8,738.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2003, 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 audit committee, management, Village Council and other officials authorized to receive this report under Section 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 18, 2003

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property Tax and Other Local Taxes	\$3,558	\$4,743		\$8,301
Intergovernmental Receipts	26,406	10,270		36,676
Fines, Licenses, and Permits	8,169			8,169
Earnings on Investments	84	49		133
Miscellaneous	328	1,049		1,377
	<u>38,545</u>	<u>16,111</u>	<u>0</u>	<u>54,656</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	5,892	10,513		16,405
Leisure Time Activities	783			783
Transportation		8,971		8,971
General Government	24,374	134		24,508
Debt Service:				
Principal Payments	65,658			65,658
Interest Payments	3,871			3,871
Capital Outlay		362		362
	<u>100,578</u>	<u>19,980</u>	<u>0</u>	<u>120,558</u>
Total Cash Disbursements				
Total Receipts (Under) Disbursements	<u>(62,033)</u>	<u>(3,869)</u>	<u>0</u>	<u>(65,902)</u>
Other Financing Receipts:				
Loan Proceeds	<u>62,900</u>			<u>62,900</u>
	<u>62,900</u>	<u>0</u>	<u>0</u>	<u>62,900</u>
Total Other Financing Receipts				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	867	(3,869)	0	(3,002)
Fund Cash Balances, January 1	<u>(12,185)</u>	<u>23,593</u>	<u>1,842</u>	<u>13,250</u>
Fund Cash Balances, December 31	<u>(\$11,318)</u>	<u>\$19,724</u>	<u>\$1,842</u>	<u>\$10,248</u>
Reserves for Encumbrances, December 31	<u>\$23</u>	<u>\$937</u>	<u>\$0</u>	<u>\$960</u>

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

VILLAGE OF WEST ELKTON
PREBLE COUNTY

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

Non-Operating Cash Receipts:	
Other Non-Operating Receipts	<u>\$9,880</u>
Total Non-Operating Cash Receipts	<u>9,880</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>10,170</u>
Total Non-Operating Cash Disbursements	<u>10,170</u>
Net Receipts (Under) Disbursements	(290)
Fund Cash Balances, January 1	<u>108</u>
Fund Cash Balances, December 31	<u><u>(\$182)</u></u>

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

**VILLAGE OF WEST ELKTON
PREBLE 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>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property Tax and Other Local Taxes	\$3,983	\$5,287		\$9,270
Intergovernmental Receipts	23,889	8,970		32,859
Fines, Licenses, and Permits	3,140			3,140
Earnings on Investments	254	116		370
Miscellaneous	1,338			1,338
	<u>32,604</u>	<u>14,373</u>	<u>\$0</u>	<u>46,977</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	1,828	7,204		9,032
Leisure Time Activities	1,572			1,572
Transportation		9,333		9,333
General Government	27,115	4,171		31,286
Debt Service:				
Principal Payments	20,448	22,446		42,894
Interest Payments	1,180	1,016		2,196
Capital Outlay	6,000	507		6,507
	<u>58,143</u>	<u>44,677</u>	<u>0</u>	<u>102,820</u>
Total Receipts (Under) Disbursements	<u>(25,539)</u>	<u>(30,304)</u>	<u>0</u>	<u>(55,843)</u>
Other Financing Receipts:				
Loan Proceeds	25,727	22,446		48,173
Sale of Fixed Assets	1,581			1,581
	<u>27,308</u>	<u>22,446</u>	<u>0</u>	<u>49,754</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	1,769	(7,858)	0	(6,089)
Fund Cash Balances, January 1	<u>(13,954)</u>	<u>31,451</u>	<u>1,842</u>	<u>19,339</u>
Fund Cash Balances, December 31	<u>(\$12,185)</u>	<u>\$23,593</u>	<u>\$1,842</u>	<u>\$13,250</u>
Reserves for Encumbrances, December 31	<u>\$1,146</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,146</u>

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

VILLAGE OF WEST ELKTON
PREBLE COUNTY

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

Non-Operating Cash Receipts:	
Other Non-Operating Receipts	<u>\$3,923</u>
Total Non-Operating Cash Receipts	<u>3,923</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>4,123</u>
Total Non-Operating Cash Disbursements	<u>4,123</u>
Net Receipts (Under) Disbursements	(200)
Fund Cash Balances, January 1	<u>308</u>
Fund Cash Balances, December 31	<u><u>\$108</u></u>

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

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of West Elkton, Preble County, Ohio (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 and police services. The Village contracts with West Elkton-Gratis Township Joint Fire District to provide fire protection 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. 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 prescribed or permitted by the Auditor of State.

C. Cash

Village funds are pooled in a checking account with a local commercial bank.

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 Funds

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

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

Police Fund - This fund receives money from real estate and personal property taxes to provide for the protection of area citizens.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Village had the following significant Capital Projects Fund:

Rural Development Sewer Line Fund - This fund receives bank loan proceeds, Ohio Water Development Authority loan proceeds and Ohio Public Works monies for the construction of a wastewater treatment plant.

4. Fiduciary Fund (Agency Fund)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Fund:

Mayor's Court Fund - This fund is used to account for the collection and distribution of court fines and forfeitures.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2002 and 2001 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 WEST ELKTON
PREBLE COUNTY**

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

2. EQUITY IN POOLED CASH AND DEPOSITS

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

	2002	2001
Demand deposits	\$10,066	\$13,358

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$30,500	\$101,445	\$70,945
Special Revenue	13,880	16,111	2,231
Total	\$44,380	\$117,556	\$73,176

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$33,479	\$100,601	(\$67,122)
Special Revenue	23,467	20,917	2,550
Capital Projects	1,582	0	1,582
Total	\$58,528	\$121,518	(\$62,990)

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$31,885	\$59,912	\$28,027
Special Revenue	21,405	36,819	15,414
Total	\$53,290	\$96,731	\$43,441

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$32,415	\$59,289	(\$26,874)
Special Revenue	40,531	44,677	(4,146)
Total	\$72,946	\$103,966	(\$31,020)

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio law, in 2001 appropriations exceeded estimated resources as follows: General Fund (\$14,484), Law Enforcement Trust (\$43), Fire Fund (\$534), and Police Fund (\$4,455). For 2002 appropriations exceeded estimated resources as follows: General Fund (\$14,485), Law Enforcement Trust (\$17), Fire Fund (\$534), and Police Fund (\$5,403).

Also contrary to Ohio law, in 2001 budgetary expenditures exceeded appropriation authority as follows: General Fund (\$26,874), Park Fund (\$19,900), and Police Fund (\$3,412). For 2002 expenditures exceeded appropriations as follows: General Fund (\$65,977), Fire Fund (\$25), and Police Fund (\$2,986).

Also contrary to Ohio law, the following funds had negative fund balances as of December 31, 2001: General Fund (\$12,186), Law Enforcement Trust (\$17), and Police Fund (\$7,887). The following funds had negative fund balances as of December 31, 2002: General Fund (\$11,319), Law Enforcement Trust (\$17), Fire Fund (\$206), Mayor's Court (\$182), and Police Fund (\$10,777).

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, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
First Financial Bank Promissory Note (#9002)	\$9,019	6.75%
First Financial Bank Promissory Note (#9004)	22,416	9.50%
First Financial Bank Promissory Note (#9005)	2,857	Variable
Total	<u>\$34,292</u>	

The First Financial Bank promissory note (#9002) was obtained October 23, 1996 for the purpose of procuring land. The Village used \$84,950 to settle a lawsuit regarding a land purchase. The Village made principal and interest payments on this loan during 2001 and 2002. The interest rate was 6.75%. The balance of the loan is due in 2003.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

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

5. DEBT (Continued)

The First Financial Bank promissory note (#9004) was obtained February 1, 1999 for the purpose of renovating the park in corroboration with a grant from NatureWorks. The Village made principal and interest payments on this loan during 2001 and 2002. The interest rate was 9.5%. The balance of the loan is due in 2003.

The First Financial Bank promissory note (#9005) was obtained May 1, 2001 for the purpose of purchasing two police cruisers. The Village made principal and interest payments on this loan during 2001 and 2002. The note has a variable interest rate of the prime rate plus .5%. The initial rate of interest was 8% per annum. The rate at 12/31/02 was 6%. The balance of the loan is due in 2003.

The Village received two loans from the Environmental Protection Agency (EPA). The EPA awarded the Village a \$50,000 loan during 1995 and a \$22,595 loan in 1994 to prepare engineering details for the sewer project. The Ohio Water Development Authority has taken over the administration of the loans. These loans were assumed by Preble County in 2001. Preble County has established Sewer District #3 for the completion of this sewer project.

6. RETIREMENT SYSTEMS

The Village's 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. For 2002 and 2001, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Village has not paid all contributions required through December 31, 2002. Penalties were assessed by PERS for the unpaid balance.

7. RISK MANAGEMENT

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.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. 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 WEST ELKTON
PREBLE COUNTY**

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

7. RISK MANAGEMENT (Continued)

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures losses exceeding \$10,000 if the annual aggregate is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses and loss adjustment expenses should they exceed operating contributions.

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.

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:

<u>Casualty Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$20,174,977	\$19,358,458
Liabilities	(8,550,749)	(8,827,588)
Retained earnings	<u>\$11,624,228</u>	<u>\$10,530,870</u>

<u>Property Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$2,565,408	1,890,323
Liabilities	(655,318)	(469,100)
Retained earnings	<u>\$1,910,090</u>	<u>\$1,421,223</u>

8. PAYROLL WITHHOLDINGS

The Village did not submit payroll withholdings in a timely manner for 2002. State income tax and federal income tax withheld during 2002 in the amounts of \$127 and \$1,498, respectively, were not remitted until February 16, 2003. The payment made to the Internal Revenue Service included penalties of \$92.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

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

9. COMPLIANCE

Contrary to Ohio law:

- the Village did not deposit receipts in a timely manner, including Mayor's Court receipts;
- the Mayor did not deposit Mayor's Court collections with the Village by the first Monday of each month;
- the Mayor did not submit court collections in a timely manner to the appropriate agencies.

10. GOING CONCERN

The Village was unable to pay its debts and obligations at December 31, 2002. The Village also incurred operating losses and negative fund balances. A summary follows:

- The amount of the Village's current debt is \$34,292.
- The Village had negative fund balances at December 31, 2002 in the General Fund (\$11,319), Law Enforcement Trust Fund (\$17), Fire Fund (\$206), Police Fund (\$10,777), and Mayor's Court Fund (\$182).
- The Village had operating losses as follows for 2002: General Fund: \$62,033, State Highway Fund: \$206, Fire Fund: \$2,290, Police Fund: \$2,889, and Ambulance Fund: \$1,158. The Village had operating losses as follows for 2001: General Fund: \$25,539, Parks and Recreation Fund: \$27,477, Police Fund: \$4,448, and Ambulance Fund: \$1,071.
- The Auditor of State billed the Village for audit services provided for the fiscal years ended December 31, 2000, and 1999. As of the date of this report, the Village has been billed for a total of \$16,777 and has yet to pay \$8,738.
- The Village has not paid all PERS contributions required through December 31, 2002. Penalties were assessed by PERS for the unpaid balance.

Management has made no plans to address the above mentioned areas of concern.

11. SUBSEQUENT EVENT

The Village obtained a note consolidation loan on May 1, 2003, to combine and roll over loan numbers 9002 and 9004 in the total amount of \$31,385.

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**Auditor of State
Betty Montgomery**

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

Village of West Elkton
Preble County
135 North Main Street
P.O. Box 180
West Elkton, Ohio 45070

To the Village Council:

We have audited the accompanying financial statements of the Village of West Elkton, Preble County, Ohio (the Village), as of and for the years ended December 31, 2002, and 2001, and have issued our report thereon dated November 18, 2003, wherein we expressed substantial doubt about the Village's ability to continue as a going concern. 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 2002-001 through 2002-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated November 18, 2003.

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 2002-003 through 2002-010.

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 2002-003, 2002-005, 2002-008, 2002-009 and 2002-010 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 November 18, 2003.

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

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

Betty Montgomery
Auditor of State

November 18, 2003

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Finding for Recovery

In 2002, William Crawford, Village Clerk, was compensated twice for services performed for the month of November. The Clerk was compensated in the gross amount of \$400 on check number 7049, dated 9/30/02, and again on check number 7057, dated 10/31/02, in the gross amount of \$400.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against William Crawford, Clerk, in the amount of \$400 and in favor of the Village of West Elkton.

FINDING NUMBER 2002-002

Finding for Recovery

On August 22, 2002, Police Officer Michael Roberts, Jr. was paid for 47.25 hours worked from August 6, 2002 to August 20, 2002 (Check # 7007). On August 29, 2002, Police Officer Michael Roberts, Jr. was paid again for 36.75 hours worked from August 6, 2002 to August 16, 2002 (Check # 7014). The gross amount of wages paid twice was \$367.50.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Michael Roberts, Jr., and William Crawford, Clerk, jointly and severally, in the amount of \$367.50 and in favor of the Village of West Elkton.

FINDING NUMBER 2002-003

Noncompliance/Material Weakness

Ohio Rev. Code, Section 9.38, states that public money must be deposited with the treasurer of the public office or to a designated depository within 24 hours of collection. Public money collected for other public offices must be deposited by the first business day of the week following the date of collection. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, the legislative authority may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than three business days after receiving it. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

The Village did not deposit 67% of village receipts tested within 24 hours. Some deposits were made up to sixty-seven days after being posted to the UAN system. Of the Mayor's Court receipts tested, 83% were not deposited within 24 hours. Failure to deposit funds within 24 hours may result in theft or loss of these funds. These funds do not earn interest and are not available for expenditure until they have been posted by the bank. We recommend that the Village and Mayor's Court deposit all funds received within 24 hours of receipt.

FINDING NUMBER 2002-004

Noncompliance/Reportable Condition

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

This Section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 (\$3,000 effective 4/7/03), the Treasurer may authorize payment through a Then and Now Certificate without affirmation of the Board, if such expenditure is otherwise valid.

The Village did not properly certify the availability of funds for purchase commitments for 45% of expenditures tested and neither of the exceptions were used. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying the availability of funds on properly approved purchase orders. We recommend the Village obtain approved purchase orders, which contain the Clerk's certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2002-005

Noncompliance/Material Weakness

Mayor's Court

Ohio Rev. Code, Section 733.40, provides that at the first legislative meeting of each month the mayor shall submit a full statement of all money received, from whom and for what purpose received, and when paid into the treasury. The Mayor did not submit the aforementioned monthly report.

Ohio Rev. Code, Section 733.40, also requires that all fines, forfeitures, and costs in ordinance cases and all fees collected by the mayor, or which in any manner come into his hands, or which are due such mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses which have been advanced out of the treasury of the municipal corporation, shall be paid by him into such treasury of the first Monday of each month. The Mayor did not always disburse Mayor's Court collections to the Village by the first Monday of each month. Collections from December 2001, January 2002, February 2002, and March 2002 had not yet been disbursed by 12/31/02.

We recommend that the Mayor submit a monthly report to Council to be in compliance with Ohio Revised Code and to enhance accountability of mayor's court activity. These monthly reports should be noted in the Council minutes. The Mayor should also disburse all monies due the Village in a timely manner.

**FINDING NUMBER 2002-005
(Continued)**

The Mayor's Court Clerk did not perform a complete monthly bank reconciliation of the Mayor's Court. The Clerk currently compares the checkbook balance to the bank without identifying open items, reconciling items, or outstanding checks. There were bank service charges and returned checks which were never recorded on the books. The failure to perform a complete monthly reconciliation enhances the possibility that errors or irregularities could occur and not be detected in a timely manner.

Also, the current cut-off for the bank statements is approximately the 10th of each month instead of month end. Therefore, cash book balances cannot be directly traced to the bank statements and additional calculations would be required by the Clerk to reconcile the Mayor's Court account each month.

We recommend that the Mayor's Court Clerk prepare a complete monthly reconciliation that would include open items, reconciling items, and outstanding checks so that all financial transactions are reflected and that errors and irregularities may be detected in a timely manner. The reconciliation should be reviewed by the Mayor. We also recommend that the Clerk request that the bank provide statements as of month end.

The following conditions were identified during testing of Mayor's Court activity:

- Two tickets were not posted to the docket; one ticket could not be located. Not all tickets were issued in sequential order by date.
- Two receipts written in 2001 (#8004 & #8018) were actually deposited for \$23 more than the amount recorded on the receipts (Receipt #8004 – receipt amount \$90, deposit amount \$111; Receipt #8018 – receipt amount \$80, deposit amount \$82).
- Receipt #8061 written on 6/14/02 for \$80 was never deposited.
- Receipt #8041 was deposited 17 months later; Receipts #8091 & #8097 were deposited 10 months later.
- A \$230 receipt for "Asher" was not posted to the Mayor's cashbook, a receipt was not written, and this receipt was not disbursed to the appropriate agencies Receipt #5719 for \$25 was not posted to the Mayor's cashbook.
- Receipt #5740 for \$10 was posted as \$5 to the Mayor's cashbook.

We recommend that receipts be written for all monies received. All receipts should be properly posted to the cash book. Receipts posted to the cash book should be reviewed for accuracy. All receipts collected should be deposited timely. Failure to properly post revenue and make timely deposits can result in inaccurate records and cause the Mayor's Court to misappropriate funds. All tickets should be issued in sequential order by date. All tickets should be maintained and posted to the docket. The docket should be reviewed for completeness and accuracy.

FINDING NUMBER 2002-006

Noncompliance/Reportable Condition

Budgetary

Ohio Rev. Code, Section 5705.39, requires that the total appropriation from each fund should not exceed the total estimated revenue. Appropriations exceeded estimated resources as follows:

**FINDING NUMBER 2002-006
 (Continued)**

2001			
	Estimated Resources	Appropriations	Variance
General Fund	\$17,931	\$32,415	\$(14,484)
Law Enforcement Trust	\$(17)	\$26	\$(43)
Fire Fund	\$2,227	\$2,761	\$(534)
Police Fund	\$(389)	\$4,066	\$(4,455)
2002			
General Fund	\$18,994	\$33,479	\$(14,485)
Law Enforcement Trust	\$(17)	\$0	\$(17)
Fire Fund	\$3,163	\$3,697	\$(534)
Police Fund	\$(1,601)	\$3,802	\$(5,403)

Failure to limit appropriations to total estimated revenue may result in the Village incurring obligations that exceed their available resources and negative fund balances. We recommend that the Village limit appropriations to the total estimated revenue per fund.

Ohio Rev. Code, Section 5705.41(B), requires that no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures exceeded appropriations as follows:

2001			
	Appropriations	Expenditures	Variance
General Fund	\$32,415	\$59,289	\$(26,874)
Park Fund	\$7,577	\$27,477	\$(19,900)
Police Fund	\$4,066	\$7,478	\$(3,412)
2002			
General Fund	\$34,625	\$100,601	\$(65,976)
Fire Fund	\$3,697	\$3,722	\$(25)
Police Fund	\$3,802	\$6,788	\$(2,986)

Failure to limit expenditures to appropriations may result in the Village's misuse of restricted funds and negative fund balances. We recommend that the Village limit expenditures to the appropriated amount.

Ohio Rev. Code, Section 5705.10, requires that money paid into any fund shall be used only for the purpose for which such fund is established.

The following funds had negative fund balances as of 12/31/01: General Fund (\$12,186), Law Enforcement Trust (\$17), and Police Fund (\$7,887). The following funds had negative fund balances as of 12/31/02: General Fund (\$11,319), Law Enforcement Trust (\$17), Fire Fund (\$206), Mayor's Court (\$182), and Police Fund (\$10,777). These deficit fund balances indicate that cash from other funds was used to pay the obligations of the negative funds. We recommend the Village adopt procedures to properly monitor fund balances and their budget to prevent negative fund balances.

Estimated receipts and appropriations for 2001 and 2002 were not properly posted to the Village's books. All estimated receipts and appropriations should be properly posted to the accounting system. Failure to properly post estimated receipts and appropriations may interfere with the Village's ability to monitor revenues and expenditures, and to limit their spending to remain within the limits of their expected revenue.

FINDING NUMBER 2002-007

Reportable Condition

Debt payments were posted to improper funds and line items. Note rollovers were not recorded on the Village's financial records. Failure to properly post debt activity may result in misleading financial statements and incorrect fund balances. All debt should be paid from the proper fund and through the debt service line item. Note rollovers should be recognized as payments of debt principal and proceeds of debt for the gross amount of the rollover. We recommend that the Village properly post debt activity to the correct funds and line items.

The Village did not make timely debt payments and therefore incurred penalties. Failure to make timely debt service payments may result in late penalties and compromise the Village's ability to obtain loans in the future. We recommend that all debt payments be made by the due date.

The Village's Mayor's Court Clerk made a debt payment for the Village and was reimbursed with a Village check. The date on the reimbursement check preceded the date on the Clerk's personal check by ten days. The Village should make payments with Village checks rather than reimbursing employees for expenditures. When a reimbursement is necessary, the actual expenditure should precede the issuance of a reimbursement check.

FINDING NUMBER 2002-008

Material Weakness

The small size of the Village's staff does not allow for an adequate segregation of duties. The Clerk performs all the financial record keeping including receipting, depositing, check writing, check signing and posting. This system could result in diversion of funds and bookkeeping errors without detection in a timely manner.

The following weaknesses were noted:

- Most of the prior audit findings had not been addressed or corrected.
- Prior year audit adjustments were not posted by the Clerk.
- Revenues and expenditures were posted to the wrong funds or accounts and was undetected by Council.
- Council minutes did not identify which bills were to be paid nor which financial statements were reviewed and approved in the minutes.
- Bills and payroll withholdings were often paid late. Penalties were assessed for the late payments.

The financial statements have been adjusted to reflect the proper postings of the incorrect receipts and disbursements.

The Village should implement monitoring controls over financial processing and reporting, compliance with laws and regulations, and audit follow-up that will help support the objectives of Council and management in these areas. Monitoring controls should be performed by someone independent of those performing the tasks.

**FINDING NUMBER 2002-008
(Continued)**

The following procedures should be implemented:

- Council should receive monthly financial reports including, but not limited to: bank reconciliations (with supporting documentation such as bank statements and outstanding checklists, deposits in transit), estimated versus actual receipts, and appropriations compared to actual expenditures. Council should receive these reports prior to the regular meetings so that members have an opportunity to review the information and ask informed questions. Council's approval of these reports should be documented in the minutes. The documents reviewed should be initialed and dated by the reviewer.
- Upon receiving audit reports, the audit committee should take action to see that the findings are addressed and corrected, and these actions should be communicated to Council. Council should evaluate the adequacy of the actions taken.
- When Council approves the payments of bills at its regularly scheduled meetings, any late fees should be investigated. Any unusual items (such as manually generated checks) should be questioned and the response documented.

FINDING NUMBER 2002-009

Material Weakness

The Village does not have proper controls and procedures over bank reconciliations as evidenced by the following:

- The Village did not deposit in a timely manner: The deposit in transit on the reconciliation for 12/31/01 was not deposited until 1/8/02. The 12/31/02 deposit in transit was not deposited until 1/6/03.
- The December 2002 reconciliation was not properly completed. The Village had the wrong value for deposits in transit and had an unexplained error for \$89 which was a County Auditor check that was received in 2002 but not receipted and deposited until 2003.
- The Village did not post interest earned during 2002 until December 31, 2002.
- Two checks dated 8/29/02 in the total amount of \$427.44 were not posted to the system and appeared as reconciling items from the date written through the end of the year.
- Several of the expenditures per the warrant register did not match the corresponding canceled check (the check numbers did not match).

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and that all recorded transactions have been deposited with the financial institution. Transactions should be posted in a timely manner and deposits should be made within twenty-four hours of receipt.

We recommend the Village properly reconcile the account on a monthly basis. Any variances should be immediately investigated, justified, and adjusted for if necessary. We recommend the Village post all transactions timely and accurately. We also recommend that a council member review and sign off on the reconciliation indicating approval and ensuring timeliness of reconciliations.

FINDING NUMBER 2002-010

Material Weakness

The Village lacks management oversight in the payroll operations of the Village. This lack of oversight is illustrated by the following:

- In 2002, Leah Crawford, Mayor's Court Clerk, was compensated twice for services performed for the month of November. The Mayor's Court Clerk was compensated in the gross amount of \$80 on September 30, 2002 on check number 7048 and again on check number 7055 dated October 31, 2002.
- We noted several instances in which the date on an employee's paycheck preceded the dates actually worked. Also, not all information on the employees' W2s matched the actual payroll activity for the audit period.
- The Clerk and Mayor's Court Clerk did not have any federal or state income tax withheld from their paychecks. Two of the three Village's part-time police officers had no PERS, FICA, or PFDPF withheld from their paychecks. The Village was unable to provide us with evidence of exemption forms being completed.
- Withholdings from 2001 and 2002 were not remitted when due resulting in late penalties being assessed.
- There was no salary schedule supporting pay rates.
- As noted in Findings 2002-001 and 2001-002, the Village twice made duplicate compensation to employees.

The lack of management involvement could result in management making financial decisions based on erroneous data and/or the misappropriation of Village monies. To improve recordkeeping and accountability:

- The Village Council should approve all salary rates in the minutes. An annual payroll resolution should be completed which would include all employees and their approved salary rates.
- All payroll checks should be properly calculated. All payroll checks should agree to an approved salary rate or time card.
- Payroll information entered on the W2s should be verified for accuracy.
- Paychecks should not be written until services have been rendered.
- Payroll deductions should be withheld from all required employees. If employees are exempt from withholdings, exemption forms should be maintained in the employee's personnel file. All withholdings should be submitted in a timely manner.

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**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-30368-001	Inadequate segregation of duties	No	Reissued as Finding 2002-008
2000-30368-002	The Village did not prepare accurate cash reconciliations	No	Reissued as Finding 2002-009
2000-30368-003	ORC 733.40, the Mayor did not submit monthly reports or deposit monies in a timely manner	No	Reissued as Finding 2002-003
2000-30368-004	ORC 5705.41(B), expenditures exceeded appropriations	No	Reissued as Finding 2002-006
2000-30368-005	ORC 5705.41(D), failure to properly certify funds	No	Reissued as Finding 2002-006
2000-30368-006	ORC 1905.21, the Mayor did not submit court collections in a timely manner to the appropriate agencies	No	Reissued as Finding 2002-005
2000-30368-007	ORC 5705.10, negative fund balances	No	Reissued as Finding 2002-006
2000-30368-008	ORC 117.43, improper use of appropriation ledger	No	Partially corrected – reissued as recommendation in Finding 2002-006
2000-30368-009	Failure to make debt payments	Yes	Debt was assumed by Preble County in 2001.
Management Letter Recommendation	Failure to monitor payroll expenditures and reports	No	Reissued as Finding 2002-010
Management Letter Recommendation	Failure to perform complete monthly bank reconciliations of the Mayor's Court	No	Reissued as Finding 2002-006
Management Letter Citation	ORC 9.38, failure to make timely deposits	No	Reissued as Finding 2002-003



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VILLAGE OF WEST ELKTON

PREBLE 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 30, 2003**