



**Auditor of State  
Betty Montgomery**



VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Frazeytsburg  
Muskingum County  
7 W. Second Street  
P.O. Box 160  
Frazeytsburg, Ohio 43822-0160

To Village Council:

We have audited the accompanying financial statements of the Village of Frazeytsburg, Muskingum County, Ohio (the Village), as of and for the year ended December 31, 2002. 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.

The basis of accounting prescribed by the Auditor of State requires the Village to report outstanding encumbrances at year-end as budgetary expenditures. The Village did not record encumbrances. It was not practical for us to determine the amount of unrecorded encumbrances at year-end.

The Village did not allocate withholdings and employer retirement contributions in the same proportion as salaries and wages were paid, resulting in improper allocations of disbursements among the Village's various funds. It was not practicable determine the extent of these improper allocations.

In our opinion, except for such adjustments, if any, that would have been necessary had we been able to determine the extent of improper withholding and retirement allocations, and to reflect year-end outstanding encumbrances, as discussed in the two preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Frazeytsburg, Muskingum County, as of December 31, 2002, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

As discussed in Note 12, the Village had deficit fund balances as of December 31, 2002, in the General, Water, Sewer, and Swimming Pool Funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 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, the 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 3, 2003

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM 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>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$26,419	\$45,648	\$72,067
Municipal Income Tax	172,752		172,752
Intergovernmental	29,826	42,509	72,335
Special Assessments		27,013	27,013
Charges for Services	275	6,372	6,647
Fines, Licenses, and Permits	26,704	888	27,592
Earnings on Investments	192		192
Miscellaneous	5,857	1,946	7,803
	<u>262,025</u>	<u>124,376</u>	<u>386,401</u>
<b>Total Cash Receipts</b>			
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	151,191	61,226	212,417
Leisure Time Activities		12,313	12,313
Community Environment	1,325		1,325
Transportation		44,851	44,851
General Government	94,495	4,953	99,448
Debt Service:			
Principal Payments		4,180	4,180
Interest Payments	1,735	1,085	2,820
Capital Outlay		44	44
	<u>248,746</u>	<u>128,652</u>	<u>377,398</u>
<b>Total Cash Disbursements</b>			
Total Cash Receipts Over/(Under) Cash Disbursements	<u>13,279</u>	<u>(4,276)</u>	<u>9,003</u>
<b>Other Financing Receipts/(Disbursements):</b>			
Transfers-In		10,166	10,166
Transfers-Out	(58,213)		(58,213)
Other Financing Sources	6,647	2,429	9,076
Other Financing Uses	(227)	(7,654)	(7,881)
	<u>(51,793)</u>	<u>4,941</u>	<u>(46,852)</u>
<b>Total Other Financing Receipts/(Disbursements)</b>			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(38,514)	665	(37,849)
Fund Cash Balances, January 1 (Restated - See Note 3)	<u>15,167</u>	<u>75,603</u>	<u>90,770</u>
<b>Fund Cash Balances, December 31</b>	<u><b>(\$23,347)</b></u>	<u><b>\$76,268</b></u>	<u><b>\$52,921</b></u>

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

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$347,376	\$	\$347,376
Miscellaneous	7,687		7,687
Total Operating Cash Receipts	<u>355,063</u>	<u>0</u>	<u>355,063</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	74,455		74,455
Fringe Benefits	59,904		59,904
Contractual Services	107,400		107,400
Supplies and Materials	40,913		40,913
Other	15,546		15,546
Capital Outlay	28,648		28,648
Total Operating Cash Disbursements	<u>326,866</u>	<u>0</u>	<u>326,866</u>
Operating Income/(Loss)	<u>28,197</u>	<u>0</u>	<u>28,197</u>
<b>Non-Operating Cash Receipts:</b>			
Other Financing Sources	4	13,147	13,151
Total Non-Operating Cash Receipts	<u>4</u>	<u>13,147</u>	<u>13,151</u>
<b>Non-Operating Cash Disbursements:</b>			
Redemption of Principal	57,256		57,256
Interest and Other Fiscal Charges	72,100		72,100
Other Financing Uses	38	27,946	27,984
Total Non-Operating Cash Disbursements	<u>129,394</u>	<u>27,946</u>	<u>157,340</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(101,193)	(14,799)	(115,992)
Transfers-In	48,047		48,047
Net Receipts Over/(Under) Disbursements	(53,146)	(14,799)	(67,945)
Fund Cash Balances, January 1 (Restated - See Note 3)	52,540	18,786	71,326
<b>Fund Cash Balances, December 31</b>	<b><u>(\$606)</u></b>	<b><u>\$3,987</u></b>	<b><u>\$3,381</u></b>

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



**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Frazeytsburg, Muskingum 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 water and sewer utilities, park operations, and police services. The Village appropriates local property tax money to support a volunteer fire department.

The Village's management believes these financial statements present all activities for which the Village is financially accountable. Debt service transactions relating to the First Mortgage Sewer Revenue Bonds are maintained by a Trustee and are not included in these financial statements. Assets held by the Trustees are described in Note 10 to the financial statements.

**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 and Investments**

The Village maintains interest-bearing checking and savings accounts.

**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. The Village maintains an Income Tax Fund, to account for local income tax monies as described in Note 6. The activities of this fund are included in the General Fund for reporting purposes since monies derived from the Village's income tax are utilized for the general operations of Village and are not restricted as to use.

**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.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**2. Special Revenue Funds (Continued)**

*Street Lighting Fund* -This fund receives money from a special assessment levied on property owners to pay for street lighting within the Village.

*Fire Protection Fund* -This fund receives fire levy money to support a volunteer fire department and provide fire protection services.

**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:

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

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

*Sewer Debt Service* - This fund receives sewer surcharges for repayment of loans incurred in planning, construction, and operation of the Village's sewer system.

**4. Fiduciary Funds (Agency Funds)**

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 receives fine money which is distributed to state and local entities.

**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 fund 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. Appropriations lapse at year end.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

**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 2002 budgetary activity appears in Note 4.

**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.

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

**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:

	2002
Demand deposits	\$56,302

**Deposits:** Deposits are either insured by the Federal Deposit Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

**3. RESTATEMENT OF FUND BALANCES**

The Mayor's Court Computer Fund was previously reported as an agency fund but has been appropriately reclassified to a special revenue fund as of December 31, 2001 as follows:

	<u>Special Revenue</u>	<u>Agency</u>
December 31, 2001 Fund Balances	\$ 74,630	\$19,759
Restatement Due to Fund Reclassification	973	(973)
Restated Fund Balances at January 1, 2002	\$ 75,603	\$18,786

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

**4. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2002 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$532,252	\$268,672	(\$263,580)
Special Revenue	105,020	136,971	31,951
Enterprise	376,000	403,114	27,114
Total	\$1,013,272	\$808,757	(\$204,515)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$403,375	\$307,186	\$96,189
Special Revenue	66,516	136,306	(69,790)
Enterprise	595,849	456,260	139,589
Total	\$1,065,740	\$899,752	\$165,988

**Accountability and Compliance with Budgetary Law:**

Contrary to Ohio Rev. Code Section 5705.41(D), the fiscal officer's certification of the availability of unencumbered appropriations for expenditures was not made prior to purchase commitments being incurred. As a result, budgetary expenditures disclosed above do not include purchase commitments that should have been encumbered.

Contrary to Ohio Rev. Code Section 5705.41(B), expenditures exceeded appropriations as follows:

Fund Name	Appropriations	Expenditures	Variance
Street Construction, Maintenance and Repair Fund	\$41,016	\$63,244	\$(22,228)
Park Fund	0	12,313	(12,313)
State Grant (FEMA) Fund	0	1,403	( 1,403)
COPS Fast Fund	0	3,807	( 3,807)
Street Lighting Fund	16,000	25,584	( 9,584)
Fire Fund	5,000	29,316	(24,316)
Sewer Fund	157,340	164,473	( 7,133)
Sewer Debt Service Fund	105,000	106,081	( 1,081)

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

**4. BUDGETARY ACTIVITY (Continued)**

**Accountability and Compliance with Budgetary Law: (Continued)**

Contrary to Ohio Rev. Code Section 5705.39, appropriations exceeded estimated resources in certain funds. The following schedule reports amounts which appropriations exceeded estimated resources.

<b>Fund Name</b>	<b>Estimated Resources</b>	<b>Appropriations</b>	<b>Variance</b>
State Highway Improvement Fund	\$ 2,220	\$ 4,500	\$ (2,280)
Water Operating Fund	170,260	274,859	(104,599)
Sewer Operating Fund	103,000	157,340	(54,340)
Swimming Pool Fund	1	58,650	(58,649)

In certain instances, increased amended certificates of estimated resources could have been obtained in accordance with Ohio Revised Code Section 5705.36 which may have eliminated noncompliance with Ohio Rev. Code 5705.39 and may have permitted additional appropriations to be adopted to eliminate noncompliance with Ohio Rev. Code section 5705.41(B).

During 2002, adjustments were made to eliminate improper advances, transfers and other improper transactions. Once adjustments were made, various funds had deficit balances. At December 31, 2002, the General Fund, Water Fund, Sewer Fund and Swimming Pool Fund had negative cash balances of \$23,347, \$11,933, \$19,773 and \$4,282 respectively, contrary to Ohio Rev. Code Section 5705.10.

During 2002, transfers among Village funds were made without Council resolution and/or court order, contrary to Ohio Rev. Code Section 5705.14.

**5. 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.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

**6. LOCAL INCOME TAX**

The Village levied a voted tax of one percent for general operations on the income of residents and/or employees who receive a W-2 form from an employer within the Village and on the net profits of businesses located in the Village. Employers are required to withhold income tax on compensation and remit the tax directly to the Village. Taxpayers over the age of 18 are required to file an annual return. The Village maintains a separate Income Tax Fund and income tax receipts are credited to this fund on the Village's financial records. As discussed in Note 1, the Income Tax Fund activity has been reflected within the General Fund in the accompanying financial statements based upon Frazeytsburg Ordinance No. 2000-039 and due to income tax proceeds being unrestricted as to use. Inter-fund activity between the General Fund and the Income Tax Fund has been eliminated.

**7. DEBT**

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan - Sewer Project	\$68,893	7.96%
Ohio Water Development Authority Loan - Sewer Project	678,536	8.09%
Ohio Water Development Authority Loan - Water System Design	166,809	5.54%
Ohio Water Development Authority Loan - Water Plant	9,000	0.00%
Ohio Water Development Authority Loan - Wastewater Plant	6,000	0.00%
Ohio Water Development Authority Loan - Fresh Water 1998	279,103	6.39%
Ohio Public Works Commission Loan - Storm Sewer Project	33,489	2.00%
Capital Lease - Water Meters	85,758	6.25%
Capital Lease - Skid Steer	42,502	5.75%
First Mortgage Sewer Revenue Bonds	36,000	4.50%
Total	<u>\$1,406,090</u>	

The Ohio Water Development Authority (OWDA) Sewer Project Loans were for the construction, maintenance, and operation of a wastewater treatment plant completed in 1991. The original loans were for \$91,120 and \$984,038, respectively. The loans will be repaid in semiannual installments of \$4,257 and \$46,447, respectively, including interest, over 25 years. The loans are collateralized by revenue generated by the wastewater treatment facility. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements, and has added a surcharge to sewer rates to retire this debt.

The OWDA Water System Design Loan relates to the planning phase of a new water treatment plant and waterlines. The original loan was for the \$142,295 and the schedule above includes interest capitalized on this loan. This loan includes one balloon payment, due January 1, 2004, if not repaid by another loan prior to that date. The loan is collateralized by revenue generated by the water facilities. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

**7. DEBT (Continued)**

The OWDA loans for water, wastewater, and fresh water relate to the planning phase of new waterlines and wastewater treatment plants. The original loans were for \$15,000, \$10,000, and \$250,000, respectively. The water and wastewater loans will be paid in annual installments of \$1,500 and \$1,000, including interest, over 10 years. The fresh water loan includes a balloon payment, due July 1, 2005, if not repaid prior to that date. The schedule above includes interest capitalized on the fresh water loan as of December 31, 2002. The loans are collateralized by revenue generated by the water and wastewater facilities. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) loan relates to a storm sewer project for the Village. The original loan was for \$35,702. The loan will be repaid in semiannual installments of \$1,087, including interest, over 20 years.

The capital lease for the water meters represents a lease purchase agreement, entered into during 2000, between the Village and Century National Bank, Dresden, Ohio for water meters which have been installed within the Village. The original amount of the agreement was for \$92,710. Payments are made in annual installments of \$12,746, including interest, over 10 years. The Village has the option to purchase the equipment by paying the termination value on the due date of each year.

The capital lease for the skid steer represents a lease purchase agreement, entered into in 2001, between the Village and Case Credit, for a skid steer to be used by the Village for municipal operations. The original amount of the agreement was for \$55,042. Payments are made in annual installments of \$15,794 including interest, over 5 years. The Village has the option to purchase the equipment by paying the termination value on the due date of each year.

Amortization of the above debt, including interest, is scheduled as follows, except as explained in Note 10 concerning the First Mortgage Sewer Revenue Bonds:

	OWDA Loan - Sewer Projects	OWDA Loan - Water Projects	OPWC Loan - Sewer Storm	Capital Lease - Water Meters	Capital Lease - Skid Steer
Year ending December 31:					
2003	\$102,407	\$1,500	\$2,175	\$12,746	\$15,794
2004	102,407	168,309	2,175	12,746	15,794
2005	102,407	280,603	2,175	12,746	15,794
2006	102,407	1,500	2,175	12,746	
2007	102,407	1,500	2,175	12,746	
2008 - Subsequent	677,170	1,500	29,357	50,984	
Total	<u>\$1,189,205</u>	<u>\$454,912</u>	<u>\$40,232</u>	<u>\$114,714</u>	<u>\$47,382</u>

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

**8. RETIREMENT SYSTEMS**

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide 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, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2002.

**9. RISK MANAGEMENT**

**Risk Pool Membership**

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5% of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Village also provides health and dental insurance to full-time employees through private carriers.

**10. DEBT SERVICE TRUSTEED FUNDS**

The First Mortgage Sewer Revenue Bond agreement required the Village to establish a debt service fund to make periodic payments from this fund to a trustee. At December 31, 2002, the Trustee held Village assets with an approximate fair value of \$56,685. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements. No further payments are required to be made to the trustee from the Village. The bonds have a scheduled final maturity date of April 1, 2005.



**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

**11. CONTINGENT LIABILITIES**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material. The Village is also a party to a lawsuit of which the ultimate outcome, and possible adverse affect, if any, cannot reasonably be determined at this time.

**12. FINANCIAL DISTRESS CONSIDERATIONS**

The Village experienced funding shortages throughout 2002 and failed to comply with budgetary laws that provide for fiscal control of spending. Various advances and transfers were made throughout the year in an attempt to prevent negative fund balances. However, there was no statutory authority that would have allowed the Village to make many of the transfers and advances actually made. In order to fairly present the financial activity of the Village, adjustments were made to delete the unauthorized transfers and advances, as well as to correct other posting errors, resulting in negative cash balances as of December 31, 2002, in the General, Water, Sewer, and Swimming Pool funds, in the amounts of \$23,347, \$11,933, \$19,773 and \$4,282, respectively.

During 2002 and 2003, receipts and disbursements, both budgeted and actual, were not posted to the Village's accounting system in a timely manner. During 2003, checks were manually prepared rather than prepared through the Village's UAN accounting system. These checks were not posted to the accounting system in a timely basis. As a result, Village management operated throughout the year without knowing actual fund balances, whether appropriations existed for expenditures, and how close actual receipts were to budgeted receipts. As of December 31, 2003, management had posted transactions through October 31, 2003 and had posted audit adjustments for the 2002 audit. As of October 31, 2003, the General Fund, when combined with the Income Tax Fund, had a deficit cash fund balance of \$11,819 and the Swimming Pool Fund had a deficit cash fund balance of \$4,019. The Mayor's Court Agency Fund reflects all of 2003 year-to-date collections of which none have been distributed as required by law. Management anticipates that, once proper distributions are made, the General Fund will receive in excess of \$10,000. Management also plans to obtain a tax advance from the Muskingum County Auditor to eliminate remaining deficit fund balances and pay for current operations. The Village intends to implement budgetary controls to prevent any further negative fund balances.

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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 Frazeytsburg  
Muskingum County  
7 W. Second Street  
P.O. Box 160  
Frazeytsburg, Ohio 43822-0160

To the Village Council:

We have audited the accompanying financial statements of the Village of Frazeytsburg, Muskingum County, Ohio (the Village), as of and for the year ended December 31, 2002, and have issued our report thereon dated December 3, 2003, wherein we noted there were improper allocations of withholdings and employer retirement contributions among Village funds, and wherein we noted the Village did not report encumbrances as budgetary disbursements. We also noted the Village had deficit cash balances in certain funds as of December 31, 2002. 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 2002-011. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated December 3, 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 and 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 2002-001 through 2002-004, 2002-006, and 2002-011 through 2002-017.

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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 over financial reporting 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 2002-002, 2002-003, 2002-006, 2002-0012, and 2002-014 through 2002-017 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 December 3, 2003.

This report is intended solely for the information and use of the audit committee, management and the 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

December 3, 2003

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2002-001**

**Finding for Recovery Repaid Under Audit/Reportable Condition**

Ohio Rev. Code § 2743.70 requires the court in which any person is convicted of or pleads guilty to any offense other than a traffic offense that is not a moving violation, shall impose either a thirty dollar felony or a nine dollar misdemeanor court cost, to be transmitted on or before the first day of the month to the Treasurer of State, Reparations Fund. Ohio Rev. Code § 2949.091 requires an additional sum of eleven dollars in court costs be imposed in these cases, to be transmitted on or before the twentieth day of the following month to the Treasurer of State, General Revenue Fund.

The Village did not transmit \$3,987.50 of the required costs due to the Treasurer of State.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code §117.28, a finding for recovery is hereby issued against the Village of Fazeysburg Mayor's Court Fund, in the amount of \$3,987.50, \$2,189, in favor of the Treasurer of State, General Revenue Fund and \$1,798.50, in favor of the Treasurer of State, Reparations Fund.

The Village's officials were in agreement with this finding and forwarded the amount owed by check number 208011 to the Treasurer of State on November 28, 2003.

We recommend the Mayor's Court Clerk transmit the appropriate court costs to the Treasurer of State, at the appropriate time and to the appropriate funds.

**FINDING NUMBER 2002-002**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code §5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Numerous revenues and expenditures were posted incorrectly to the Village's accounting system. As a result, adjustments and reclassifications, with which the Village management agrees, were necessary to be made to the Village's annual financial reports in order to present the financial activity of the Village more accurately. Adjustments included, but were not limited to, the following:

- 1) Homestead and Rollback receipts and the second half of the Personal Property Tax and Real Estate Tax settlements were posted entirely to the Village's General Fund instead of being properly divided between the General Fund and Fire Fund. These funds were adjusted to reflect the proper distribution.
- 2) Motor Vehicle License Tax received from the Muskingum County Auditor's office was incorrectly posted to the General Fund instead of being distributed to the Street Construction, Maintenance, and Repair Fund. These funds were adjusted to reflect the proper distribution.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
--

**FINDING NUMBER 2002-002 (Continued)**

**Noncompliance Citation/Material Weakness – Ohio Rev. Code §5705.10 (Continued)**

In addition to the mispostings described above that affected fund balances and violated Ohio Revised Code Section 5705.10, we noted the following accounting errors:

- 1) Special assessment receipts for the Village's street lighting were incorrectly posted as "Local Taxes" rather than "Special Assessments".
- 2) Water receipts were sometimes posted as "Miscellaneous Receipts" rather than "Charges for Services".
- 3) Beginning fund balance adjustments were made to various funds for voided checks and memo expenditures rather than posting the appropriate accounts.

We recommend the Clerk-Treasurer review the UAN account codes in the Village Handbook to ensure the correct account codes and funds are used when posting revenue and expenditure activity. When a new source of revenue is received or new type of expenditure is being made, the Village Handbook should be consulted to ensure the appropriate account code is being used, and if necessary, the applicable account code should be activated on the system.

**FINDING NUMBER 2002-003**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code § 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year and cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision (Village Council) which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
--

**FINDING NUMBER 2002-003 (Continued)**

**Noncompliance Citation/Material Weakness - Ohio Rev. Code § 5705.10 (Continued)**

The following advance activity occurred during the year ended December 31, 2002, from the Sewer Debt Service Fund to other funds:

Fund	To:	From:
General Fund	\$19,804	
Street Construction, Maintenance and Repair Fund	8,055	
Water Fund	8,633	
Sewer Fund	4,258	
Swimming Pool Fund	5,732	
Income Tax Fund	18,254	
Sewer Debt Service Fund		\$64,736

The following advance activity occurred during the year ended December 31, 2002, to the Sewer Debt Service Fund from other funds:

Fund	To:	From:
Street Construction, Maintenance and Repair Fund		\$ 523
Street Lighting Fund		8,322
Water Fund		2,977
Sewer Fund		7,413
Swimming Pool Fund		137
Income Tax Fund		9,440
Sewer Debt Service Fund	\$ 28,812	

The following advance activity occurred during the year ended December 31, 2002, from the Street Lighting Fund to other funds:

Fund	To:	From
General Fund	\$ 422	
Street Construction, Maintenance and Repair Fund	309	
Water Fund	2,644	
Sewer Fund	469	
Street Lighting Fund		\$ 3,844

The following advance activity occurred during the year ended December 31, 2002, from the Water Fund to other funds:

Fund	To:	From
General Fund	\$ 121	
Income Tax Fund	2,722	
Water Fund		\$2,843

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
--

**FINDING NUMBER 2002-003 (Continued)**

**Noncompliance Citation/Material Weakness - Ohio Rev. Code § 5705.10 (Continued)**

The following advance activity occurred during the year ended December 31, 2002, from the Sewer Fund to other funds:

Fund	To:	From
General Fund	\$ 945	
Income Tax Fund	3,941	
Sewer Fund		\$4,886

The advance activity was not approved by formal resolutions of Council and there was no explanation of the circumstances surrounding each advance transaction. There was no statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established. The net effect of this activity resulted in a number of advances remaining unpaid as of December 31, 2003.

As a result of the lack of statutory authority for making these advances, advance activity was adjusted by decreasing the General Fund by \$21,292, the Street Construction, Maintenance and Repair Fund by \$7,841, the Water Fund by \$5,457, the Swimming Pool Fund by \$5,595 and the Income Tax Fund by \$15,477, and by increasing the Street Lighting Fund by \$12,166, the Sewer Fund by \$7,572, and the Sewer Debt Service Fund by \$35,924. These adjustments, with which management agrees, have been posted to the Village's books and are reflected in the accompanying financial statements.

Once adjustments were made to eliminate these advances, the following funds had deficit balances at December 31, 2002:

Fund	Amount
General Fund (including Income Tax Fund)	\$ 23,347
Water Fund	11,933
Sewer Fund	19,773
Swimming Pool Fund	4,282

We recommend Village Council first consider the restrictions on inter-fund cash advances prior to advancing monies. If monies are not available in those funds which may meet the inter-fund cash advance restrictions, then Village Council should consider other alternatives. Management should refer to Auditor of State Bulletin 97-003 for guidance when considering inter-fund cash advances.



**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-004**

**Noncompliance Citation/Reportable Condition**

Ohio Rev. Code § 5705.41(D) states 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 fiscal officer (Village Clerk-Treasurer).

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 Certificate – This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time the certification is being completed, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority (Village Council) may authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the Village.
  
- B. If the amount involved is less than one thousand dollars (which was increased to \$3,000 on April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the taxing authority, upon completion of the then and now certificate, provided that the expenditure is otherwise lawful.

The Village's fiscal officer did not certify the availability of funds either prior to obligations being incurred or at the time of payment. As a result, certain purchase commitments in one fiscal period may have been improperly charged against the subsequent fiscal period's appropriations. Without the fiscal officer's certifications, the management of the Village lost budgetary control of expenditures and, as more fully explained in Note 4 to the financial statements, this condition allowed noncompliance with Ohio Rev. Code § 5705.41(B) to occur.

We recommend the Village's management implement procedures to gain fiscal control over expenditures. Purchase orders containing the required fiscal officer's certification should be utilized to certify the availability of funds prior to commitments being incurred. Appropriations should then be encumbered and balances maintained of unencumbered appropriations. Additional purchase orders should be issued only after the fiscal officer determines that sufficient unencumbered appropriations exist in the amount of the requested purchase. In addition, the Village should review the Ohio Compliance Supplement and consider using "Blanket" purchase orders for recurring transactions when applicable.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-005**

**Noncompliance Citation**

Ohio Rev. Code § 5705.36 requires that on or about the first day of each fiscal year, the fiscal officer of each subdivision is to certify to the County Auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

The total amount from all sources which was available for expenditure for 2002 was not certified to the County until March 22, 2002.

We recommend the Village certify to the County Auditor all amounts available for expenditure on or about the first day of each fiscal year.

**FINDING NUMBER 2002-006**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code § 733.40 requires, except as otherwise provided in Ohio Rev. Code § 4511.193, all fines, forfeitures, and cost 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, and all money received by such mayor for the use of such municipal corporation, shall be paid by him into the treasury on the first Monday of each month.

Our review of the Village's Mayor's Court noted the following for the audit period:

- Although Mayor's Court reports were presented to the Board, remittances were not made monthly from the Mayor's Court Agency Fund to the Village's General Fund.
- Disbursements were posted to the Mayor's Court Agency Fund including, but not limited to, salaries, supplies, and computer software and equipment.
- Minor variances existed between amounts reported as received in the Mayor's Court Agency Fund and amounts recorded in the Mayor's Court Cashbook. This indicates that daily collections were not reconciled with amounts deposited.

These weaknesses resulted in a \$13,469 being due the General Fund as of December 31, 2002 and resulted in improper amounts being sent to the Treasurer of State and Village Treasury. These weaknesses could also allow irregularities to occur and remain undetected. Adjustments to correct the aforementioned items, with which Village management agrees, have been made to the Village's books and are reflected in the accompanying financial statements.

We recommend the Village distribute fines collected by the Village's Mayor's Court to the Village's General Fund by the first Monday of each month as required by Ohio Revised Code Section 733.40. In addition, we recommend that only distributions of Mayor's Court collections be made from the Mayor's Court Fund. Costs associated with operating the Mayor's Court should be paid out of the General Fund. We also recommend the Mayor review Court records periodically to ensure that amounts are being distributed to the applicable agencies by the required dates. Daily collections should be compared to amounts to be deposited to assure they are the same.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

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

**FINDING NUMBER 2002-007**

**Noncompliance Citation**

Ohio Rev. Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated.

During the year ended December 31, 2002, the following funds had expenditures in excess of appropriations, prior to audit adjustments being made:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Street Construction, Maintenance and Repair Fund	\$41,016	\$63,244	(\$22,228)
Park Fund	0	12,313	(12,313)
State Grant (FEMA) Fund	0	1,403	(1,403)
COPS Fast Fund	0	3,807	(3,807)
Street Lighting Fund	16,000	25,584	(9,584)
Fire Fund	5,000	29,316	(24,316)
Sewer Fund	157,340	164,473	(7,133)
Sewer Debt Service Fund	105,000	106,081	(1,081)

We recommend that expenditures only be made once appropriations have been adopted. The Clerk-Treasurer should deny payment requests where appropriations are not available.

**FINDING NUMBER 2002-008**

**Noncompliance Citation**

Ohio Rev. Code § 5705.39 requires appropriations from each fund to be limited to total estimated resources. 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.

The following schedule reports amounts which appropriations exceeded estimated resources.

<b>Fund Name</b>	<b>Estimated Resources</b>	<b>Appropriations</b>	<b>Variance</b>
State Highway Improvement Fund	\$ 2,220	\$ 4,500	\$ (2,280)
Water Operating Fund	170,260	274,859	(104,599)
Sewer Operating Fund	103,000	157,340	(54,340)
Swimming Pool Fund	1	58,650	(58,649)

In certain instances, increased amended certificates of estimated resources could have been obtained in accordance with Ohio Revised Code Section 5705.36 which may have eliminated noncompliance with Ohio Rev. Code 5705.39 and may have permitted additional appropriations to be adopted to eliminate noncompliance with Ohio Rev. Code section 5705.41(B).

Prior to Council authorizing original appropriations or approving any amendments, we recommend Council compare proposed appropriations with the Certificate of Estimated Resources and any amendments thereto, to ensure appropriations will not exceed estimated resources.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

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

**FINDING NUMBER 2002-009**

**Noncompliance Citation**

Ohio Rev. Code § 5705.36 allows all political subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

Actual revenues were significantly less than estimated resources in the General Fund, the Street Construction, Maintenance and Repair Fund, the Fire Fund, and the Water Fund, for the year ended December 31, 2002. A reduced amended certificate should have been obtained for these funds when management became aware that estimates were too high.

We recommend Council compare actual receipts to estimated receipts on a monthly basis to determine if amended certificates are needed and to comply with the aforementioned requirement.

**FINDING NUMBER 2002-010**

**Noncompliance Citation**

Ohio Rev. Code § 731.16 states that alterations or modifications to Village contracts shall be made only by the Village Administrator in writing and shall have no effect until the price to be paid for the work and material, or both, have been agreed upon in writing, and signed by the contractor and Village Administrator.

During 2002, the Village paid a contractor \$3,807 in excess of the amount for which the bid was awarded for the sewer improvement contract. However, no evidence was provided indicating that a change order had been executed.

We recommend the Village execute a change order, signed by both the Village administrator and the contractor, for any future alterations or modifications to contracts awarded. If the Village has no village administrator, then Council may modify contracts by resolution and the mayor must sign the contract modification.

**FINDING NUMBER 2002-011**

**Noncompliance Citation/Reportable Condition**

Ohio Rev. Code §5705.14 permits transfers from the General Fund to any other fund of the Village by resolution passed with an affirmative vote of a simple majority of the Council Members. Certain other permissible transfers are set forth in this section, but they may only be made by resolution of the Village Council passed with an affirmative vote of two-thirds of the Council Members. Transfers may also be made by court order if they do not fall under one of the exceptions provided for in Ohio Rev. Code § 5705.14.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-011 (Continued)**

**Noncompliance Citation/Reportable Condition (Continued)**

**Ohio Rev. Code §5705.14 (Continued)**

A transfer of \$1,365 was made from the Swimming Pool Fund to the Income Tax Fund and a transfer of \$10,000 was made from the Mayor's Court Fund to the General Fund. Council's minutes did not include approvals of these transfers and neither transfer can be made without a court order. Adjustments, with which management agrees, have been made to the Village's books and are reflected in the accompanying financial statement.

We recommend the Village only make transfers that are authorized by the Ohio Rev. Code and legislatively approved and adopted in resolution form by an affirmative vote of two-thirds of the Council members (or a majority vote of Council for transfers from the General Fund).

**FINDING NUMBER 2002-012**

**Material Weakness - Monitoring of Budgetary and Financial Activity**

The small size of the Village's staff did not allow for an adequate segregation of duties; the Village Clerk-Treasurer and assistant performed all accounting functions, including receipting, depositing, disbursing and reconciling Village monies. It is therefore important that Council function as a finance and audit committee to monitor financial activity closely and to follow up on any audit findings.

While Council approved bills for payment, there was no documentation of the extent to which Council reviewed budget versus actual information to monitor the financial activity of the Village. As indicated in Finding Number 2002-004, budgetary control was not maintained over spending and monthly financial reports were not available to management to enable management to make informed decisions. This resulted in the Village expending funds in excess of legislatively established appropriations. This also resulted in numerous errors occurring and remaining undetected by management.

We recommend that, after the Village Clerk-Treasurer has performed the monthly bank reconciliation, Council review the validity of the computations and attest to its accuracy. Also, Council should carefully review and approve pertinent financial information, such as the 1) Receipts Ledger, 2) Appropriations Ledger, 3) Cash Journal, 4) Budget versus Actual Reports, 5) Payroll Journal and 6) Check Register, on a monthly basis, and make appropriate inquiries to help determine the continued integrity of financial information.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-012 (Continued)**

**Material Weakness - Monitoring of Budgetary and Financial Activity (Continued)**

Appropriate inquiries would include:

- Are current receipts sufficient to cover expenditures?
- Are budgeted receipts and expenditures posted to the accounting system in line with those approved by Council?
- Are actual receipts and expenditures in line with the budget?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted for?
- Are anticipated receipts being received in a timely manner?

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Village. The Village Clerk-Treasurer, Council and Mayor should become familiar with the Ohio Compliance Supplement, which has been provided to the Village, and use this as a tool to assist them in complying with applicable Ohio laws and regulations. The timely adoption of budgetary measures and the integration of the measures into the Village's accounting system should be made a priority by all Village officials and management.

**FINDING NUMBER 2002-013**

**Reportable Condition - Daily Reconciling Procedures**

Our review of the Village's court, utility department and income tax receipts indicated that receipts posted to these systems were not reconciled to source documents and deposits on a daily basis. In addition, monthly receipts were not reconciled to the Village's separate bank accounts for these departments.

As a result, variances that existed between amounts posted to the Village's accounting system and amounts recorded on departmental records went undetected and unresolved. When the cash to book balance reconciliations were eventually performed, they were made more difficult since discrepancies were not found and addressed on a prompt basis.

We recommend that each of the aforementioned departments generate daily receipt reports at the close of each day's activity. These reports should be reconciled with the applicable source documents (i.e. mayor's court receipts, income tax returns/receipts, bill payments stubs) and should be reconciled to the daily deposit for each individual department. Any variances noted should be promptly investigated and corrected. Copies of these reconciled reports should be marked "Reconciled," initialed, and dated by the Village personnel performing this function. Daily reports should be maintained on file for future reference. We recommend, as part of the monthly cash reconciliation process, that each department reconcile monthly receipts to the Village's bank statements for total deposits and promptly investigate any variances.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-014**

**Material Weakness - Cash Reconciliations**

A significant number of reconciling items were combined into an item called "Other Adjusting Factors" on each monthly reconciliation rather than each of the reconciling items being listed and addressed in a timely manner. More specifically, we noted the following:

- Variances were noted between the Village's outstanding checks listed and those actually outstanding.
- Not all deposits in transit were included on the cash reconciliation.
- Interest was not posted to the accounting system.
- Service charges by the Village's financial institution were not recorded by the Village.
- Certain disbursements were recorded multiple times on the Village's records.
- Certain deposits were recorded multiple times on the Village's records.
- Certain transactions were not recorded on the Village's records.
- Certain checks were marked "User Skipped Warrant" on the Village's Warrant Register, however, these checks cleared the bank.

These weaknesses resulted in inaccurate information being provided to Village management which contributed to the Village having negative cash balances in certain funds. These weaknesses also resulted in difficulties in performing audit procedures such as tracing deposits and checks to the Village's cash journal. Irregularities could occur and remain undetected. Adjustments with which Village management agrees have been made to the books and are reflected in the accompanying financial statements.

We recommend the Clerk-Treasurer perform bank reconciliations on a monthly basis, promptly when bank statements are received from the Village's financial institution. Bank statements should be reviewed for interest, service charges, debit/credit memos and any other items and made a part of the reconciliation process. If needed, these items should be posted to the accounting system and/or adjustments should be made to the bank account. Reconciliations should be reviewed by the Mayor and Finance Committee once they are completed to ensure the accuracy of the reconciliation. Reconciliations should be signed or initialed by the appropriate management who perform these reviews as evidence that these reviews were performed.

**FINDING NUMBER 2002-015**

**Material Weakness - Appropriation Ledger**

Appropriation amounts adopted by Village Council did not agree to appropriations posted to the accounting system. In addition, monthly reports of budget vs. actual disbursements were not provided to management in a timely fashion.

As a result, actual expenditures exceeded appropriations and there was no method established whereby Village management could accurately and timely monitor the amounts of budgetary expenditures versus appropriations.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-015 (Continued)**

**Material Weakness - Appropriation Ledger (Continued)**

We recommend the Clerk-Treasurer post appropriation amounts to the accounting system, once appropriations are adopted by Village Council and certified by the Budget Commission. Comparisons of budgeted (appropriated) expenditures to actual expenditures should then be presented to management, on a monthly basis, as a tool to manage the Village. Furthermore, we recommend that management periodically agree appropriated amounts and subsequent amendments to budget vs. actual disbursement reports to ensure that appropriations and any amendments are correctly posted in a timely manner.

**FINDING NUMBER 2002-016**

**Material Weakness - Receipts Ledger**

During the audit period, we noted budgeted receipts were not posted correctly to all funds on the Village's accounting system as documented in the Official Certificate of Estimated Resources and any amendments thereto.

Consequently, there was no method established whereby Village management could compare budgeted receipts to actual receipts and file any subsequent Amended Certificates of Estimated Resources when needed.

We recommend budgeted receipts be accurately posted to the accounting system by the Clerk-Treasurer. Amounts certified by the Budget Commission as "Taxes" and "Other Sources" on the Official Certificate of Estimated Resources should be posted to the accounting system as budgeted receipts. When subsequent amendments are obtained, they should be reviewed for the appropriate changes and these changes should be promptly posted to the accounting system. Periodically, we recommend management agree budgeted amounts according to the latest certificate of estimated resources to amounts posted in the budgeted receipts column according to the accounting system.

**FINDING NUMBER 2002-017**

**Material Weakness - Payroll System**

Our review of the Village's payroll records indicated that employee withholdings for PERS, state taxes, and federal taxes, as well as the employer portions of PERS, were not paid out proportionately from the funds from which each employee's and official's gross pay was calculated. For instance, the July 31, 2002 payment of \$1,187.52 to PERS was allocated by charging the Swimming Pool Fund, Water Fund, Sewer Fund and Income Tax Fund \$296.88 each, without regard to the where the net pay was made and the proper funds from which employees/officials should be paid. PERS should have been paid from the General Fund and Street Construction, Maintenance and Repair Fund, as well as the aforementioned funds.

This method of paying withholdings and employer contributions did not allow for the recognition of expenditures in the proper funds. It was not practical for us to determine the effect of these improper allocations and the corresponding adjustments that would be required to be made to each fund to recognize these expenditures in the proper funds.



**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-017 (Continued)**

**Material Weakness - Payroll System (Continued)**

We recommend the Village allocate withholdings and employer contributions in the same proportions as gross pay is allocated to the various funds.

We also noted the following weaknesses:

1. Withholdings were not always remitted to the applicable agencies within a reasonable time.
2. Leave balances, including amounts earned and used, were not accurately maintained by the Village.
3. Individual contractors (i.e., Village Solicitor and Magistrate) were included in the payroll ledgers.
4. Time cards were not always approved by supervisors and/or the Mayor.
5. Employees were compensated for tasks other than those approved by Council. The pool manager worked as a part-time office clerk and was paid the pool manager rate. The clerk-treasurer worked as a lifeguard and was paid at the lifeguard rate.
6. The Clerk-Treasurer was paid an hourly wage for Utility Department Clerk duties while being compensated as Clerk-Treasurer on a salary basis.

These conditions could result in employees being compensated incorrectly, and did result in late penalties and interest being incurred by the Village. Other errors or irregularities could occur and remain undetected.

We recommend the following:

1. Taxes, retirement contributions, and other withholdings should be remitted to the applicable agencies promptly at the end of each month or quarter depending on the requirements of the individual agency.
2. A formal method of maintaining leave balances should be implemented by the Village management.
3. Contractors should not be included in payroll ledgers, but should be considered for potential issuance of Form 1099s.
4. Time cards should be approved by department supervisors and/or the Mayor.
5. No individual should be compensated for performing duties other than those disclosed in employee job descriptions without the approval of Council. All pay rates and hiring of employees should be approved by Council and documented in the minutes record.
6. Village Council should consult with legal counsel concerning the statutory duties of the Clerk-Treasurer and the possibility of combining the Utility Department Clerk's position with that of Clerk-Treasurer. One salary could then be set for the combined position without concern for segregating hours for each position.

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain:</b></i>
2001-31060-001	Ohio Rev. Code Section 5705.41(D) – Fiscal Officer’s Certification	No	Not Corrected – Reissued as finding No. 2002-004
2001-31060-002	Ohio Rev. Code Section 5705.41(B) – Appropriations Limited by Appropriation Authority	No	Not Corrected – Reissued as finding No. 2002-007
2001-31060-003	Ohio Rev. Code Section 5705.10 – Negative Fund Balances	No	Not Corrected – Reissued as finding No. 2002-003
2001-31060-004	Ohio Rev. Code Section 5705.39 - Appropriations limited by Estimated Resources	No	Not Corrected – Reissued as finding No. 2002 – 008
2001-31060-005	Ohio Rev. Code Section 5705.36 – Failure to properly amend estimated revenues.	No	Not Corrected – Reissued as finding No. 2002-005
2001-31060-006	Ohio Rev. Code Section 5705.14 – Failure to properly approve transfers.	No	Not Corrected – Reissued as finding No. 2002-011
2001-31060-007	Ohio Rev. Code Section 731.141 – Unable to locate certain contracts.	Yes	Corrected
2001-31060-008	Ohio Rev. Code Section 731.16 – Failure to obtain change orders.	No	Not Corrected – Reissued as finding No. 2002-010
2001-31060-009	Ohio Rev. Code Section 4115.004 – Failure to document that prevailing wages were paid.	Yes	Corrected
2001-31060-010	Failure to Monitor Village Financial Activity	No	Not Corrected – Reissued as finding No. 2002-012
2001-31060-011	Cash Reconciliations	No	Not Corrected – Reissued as finding No. 2002-014

**VILLAGE OF FRAZEYSBURG  
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2002  
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain:</b></i>
2001-31060-012	Daily Reconciling Procedures	No	Not Corrected – Reissued as finding No. 2002-013
2001-31060-013	Ohio Rev. Code Section 733.40 – Method to maintain Mayors Court	No	Not Corrected – Reissued as finding No. 2002-006
2001-31060-014	Proper documentation for vouchered disbursements	No	Partially Corrected – Refer to finding No. 2002-015
2001-31060-015	Failure to disclose “On-Behalf Of” payments on financial statements	Yes	Corrected
2001-31060-016	No method to properly maintain appropriation ledger.	No	Not Corrected – Reissued as finding No. 2002-015
2001-31060-017	No method to properly maintain receipt ledger.	No	Not Corrected – Reissued as finding No. 2002-016

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**VILLAGE OF FRAZEYSBURG**

**MUSKINGUM 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  
JANUARY 15, 2004**