



**Auditor of State
Betty Montgomery**

VILLAGE OF BUTLER
RICHLAND COUNTY

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**Auditor of State
Betty Montgomery**

Village of Butler
Richland County
33 Elm Street
Butler, Ohio 44822

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Betty Montgomery
Auditor of State

April 7, 2006

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Butler
Richland County
33 Elm Street
Butler, Ohio 44822

To the Village Council:

We were engaged to audit the accompanying financial statements of the Village of Butler, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village's management.

The Village failed to reconcile financial statements for the years ended December 31, 2004 and 2003. Material reconciling items were not able to be identified by the client caused by errors in posting transactions and adjustments to bank reconciliations were not supported by documentation.

The Village management declined to provide written representations related to the financial records and supporting documentation regarding the 2004 and 2003 bank reconciliations.

Since the Village did not provide reconciled financial statements or evidence to support the material reconciling errors, the scope of our auditing procedures were not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

The Auditor of State performed the Village's bank to book reconciliation as of December 31, 2004 and 2003 and significantly adjusted the Village's financial statements and underlying accounting records. *Government Auditing Standards* considers these services to impair the independence of the Auditor of State to audit the Village because the Auditor of State is performing management functions and making management decisions.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

April 7, 2006

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**VILLAGE OF BUTLER
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | <u>Governmental Fund Types</u> | | Totals (Memorandum Only) |
|--|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property Tax and Other Local Taxes | \$112,997 | | \$112,997 |
| Intergovernmental Receipts | 45,094 | \$62,034 | 107,128 |
| Fines, Licenses, and Permits | 15,082 | | 15,082 |
| Earnings on Investments | 903 | | 903 |
| Miscellaneous | 5,206 | | 5,206 |
| | <u>179,282</u> | <u>62,034</u> | <u>241,316</u> |
| Total Cash Receipts | | | |
| Cash Disbursements: | | | |
| Current: | | | |
| Security of Persons and Property | 74,753 | | 74,753 |
| Public Health Services | | 1,375 | 1,375 |
| Leisure Time Activities | 302 | | 302 |
| Community Environment | 1,115 | | 1,115 |
| Transportation | | 73,058 | 73,058 |
| General Government | 110,931 | | 110,931 |
| Debt Service: | | | |
| Principal Payments | 2,089 | 14,446 | 16,535 |
| Interest Payments | 174 | 1,203 | 1,377 |
| Capital Outlay | 11,245 | | 11,245 |
| | <u>200,609</u> | <u>90,082</u> | <u>290,691</u> |
| Total Cash Disbursements | | | |
| Total Receipts (Under) Disbursements | <u>(21,327)</u> | <u>(28,048)</u> | <u>(49,375)</u> |
| Other Financing Receipts/(Disbursements): | | | |
| Loan Proceeds | 6,450 | | 6,450 |
| Other Sources | | 1,501 | 1,501 |
| Transfers-In | 3,317 | 10,000 | 13,317 |
| Other Uses | (75) | | (75) |
| Transfers-Out | (11,939) | | (11,939) |
| | <u>(2,247)</u> | <u>11,501</u> | <u>9,254</u> |
| Total Other Financing Receipts/(Disbursements) | | | |
| Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements | <u>(23,574)</u> | <u>(16,547)</u> | <u>(40,121)</u> |
| Fund Cash Balances, January 1 | <u>3,137</u> | <u>39,701</u> | <u>42,838</u> |
| Fund Cash Balances, December 31 | <u>(\$20,437)</u> | <u>\$23,154</u> | <u>\$2,717</u> |
| Reserves for Encumbrances, December 31 | <u>\$8,417</u> | <u>\$4,962</u> | <u>\$13,379</u> |

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

**VILLAGE OF BUTLER
RICHLAND 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, 2004**

| | <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only)</u> |
|---|----------------------------------|--------------------------------|---|
| | <u>Enterprise</u> | <u>Agency</u> | |
| Operating Cash Receipts: | | | |
| Charges for Services | \$168,812 | | \$168,812 |
| Fines and Forfeitures | | \$15,131 | 15,131 |
| Total Operating Cash Receipts | <u>168,812</u> | <u>15,131</u> | <u>183,943</u> |
| Operating Cash Disbursements: | | | |
| General Government | | 14,830 | 14,830 |
| Personal Services | 50,529 | | 50,529 |
| Travel Transportation | 944 | | 944 |
| Contractual Services | 98,676 | | 98,676 |
| Supplies and Materials | 66,597 | | 66,597 |
| Capital Outlay | 3,935 | | 3,935 |
| Total Operating Cash Disbursements | <u>220,681</u> | <u>14,830</u> | <u>235,511</u> |
| Operating Income/(Loss) | <u>(51,869)</u> | <u>301</u> | <u>(51,568)</u> |
| Non-Operating Cash Receipts: | | | |
| Intergovernmental Receipts | 34,612 | | 34,612 |
| Loan Proceeds | 30,923 | | 30,923 |
| Other Non-Operating Receipts | 1,538 | | 1,538 |
| Total Non-Operating Cash Receipts | <u>67,073</u> | <u>0</u> | <u>67,073</u> |
| Excess of Receipts Over Disbursements Before Interfund Transfers | 15,204 | 301 | 15,505 |
| Transfers-In | 1,939 | | 1,939 |
| Transfers-Out | (1,939) | (1,378) | (3,317) |
| Net Receipts Over/(Under) Disbursements | 15,204 | (1,077) | 14,127 |
| Fund Cash Balances, January 1 | <u>77,991</u> | <u>1,897</u> | <u>79,888</u> |
| Fund Cash Balances, December 31 | <u>\$93,195</u> | <u>\$820</u> | <u>\$94,015</u> |
| Reserve for Encumbrances, December 31 | <u>\$9,689</u> | <u>\$0</u> | <u>\$9,689</u> |

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

| | <u>Governmental Fund Types</u> | | | <u>Totals (Memorandum Only)</u> |
|--|--------------------------------|----------------------------|-----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | |
| Property Tax and Other Local Taxes | \$108,779 | | | \$108,779 |
| Intergovernmental Receipts | 45,403 | \$86,504 | | 131,907 |
| Fines, Licenses, and Permits | 15,178 | | | 15,178 |
| Earnings on Investments | 1,385 | | | 1,385 |
| Miscellaneous | 11,276 | | | 11,276 |
| | <u>182,021</u> | <u>86,504</u> | <u>\$0</u> | <u>268,525</u> |
| Total Cash Receipts | | | | |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | 69,145 | | | 69,145 |
| Public Health Services | | 1,040 | | 1,040 |
| Leisure Time Activities | 561 | | | 561 |
| Community Environment | 2,213 | | | 2,213 |
| Transportation | | 133,115 | | 133,115 |
| General Government | 76,929 | | | 76,929 |
| Debt Service: | | | | |
| Principal Payments | | 10,923 | | 10,923 |
| Interest Payments | | 1,746 | | 1,746 |
| Capital Outlay | 367 | | 774 | 1,141 |
| | <u>149,215</u> | <u>146,824</u> | <u>774</u> | <u>296,813</u> |
| Total Cash Disbursements | | | | |
| Total Receipts Over/(Under) Disbursements | <u>32,806</u> | <u>(60,320)</u> | <u>(774)</u> | <u>(28,288)</u> |
| Other Financing Receipts/(Disbursements): | | | | |
| Transfers-In | | 50,000 | | 50,000 |
| Other Uses | (207) | | | (207) |
| Transfers-Out | (50,000) | | | (50,000) |
| | <u>(50,207)</u> | <u>50,000</u> | <u>0</u> | <u>(207)</u> |
| Total Other Financing Receipts/(Disbursements) | | | | |
| Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements | <u>(17,401)</u> | <u>(10,320)</u> | <u>(774)</u> | <u>(28,495)</u> |
| Fund Cash Balances, January 1 | <u>20,538</u> | <u>50,021</u> | <u>774</u> | <u>71,333</u> |
| Fund Cash Balances, December 31 | <u><u>\$3,137</u></u> | <u><u>\$39,701</u></u> | <u><u>\$0</u></u> | <u><u>\$42,838</u></u> |
| Reserves for Encumbrances, December 31 | <u><u>\$6,798</u></u> | <u><u>\$6,316</u></u> | <u><u>\$0</u></u> | <u><u>\$13,114</u></u> |

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

**VILLAGE OF BUTLER
RICHLAND 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, 2003**

| | <u>Proprietary Fund Types</u> | <u>Fiduciary Fund Types</u> | <u>Totals (Memorandum Only)</u> |
|--|-----------------------------------|---------------------------------|---|
| | <u>Enterprise</u> | <u>Agency</u> | |
| Operating Cash Receipts: | | | |
| Charges for Services | \$147,761 | | \$147,761 |
| Fines and Forfeitures | | \$9,476 | 9,476 |
| | <u>147,761</u> | <u>9,476</u> | <u>157,237</u> |
| Total Operating Cash Receipts | | | |
| Operating Cash Disbursements: | | | |
| General Government | | 9,666 | 9,666 |
| Personal Services | 61,432 | | 61,432 |
| Travel Transportation | 134 | | 134 |
| Contractual Services | 84,124 | | 84,124 |
| Supplies and Materials | 33,143 | | 33,143 |
| | <u>178,833</u> | <u>9,666</u> | <u>188,499</u> |
| Total Operating Cash Disbursements | | | |
| Operating (Loss) | <u>(31,072)</u> | <u>(190)</u> | <u>(31,262)</u> |
| Non-Operating Cash Receipts: | | | |
| Intergovernmental Receipts | 25,993 | | 25,993 |
| Other Non-Operating Receipts | 907 | | 907 |
| | <u>26,900</u> | <u>0</u> | <u>26,900</u> |
| Total Non-Operating Cash Receipts | | | |
| Net Receipts (Under) Disbursements | (4,172) | (190) | (4,362) |
| Fund Cash Balances, January 1 | <u>82,163</u> | <u>2,087</u> | <u>84,250</u> |
| Fund Cash Balances, December 31 | <u>\$77,991</u> | <u>\$1,897</u> | <u>\$79,888</u> |
| Reserve for Encumbrances, December 31 | <u>\$8,810</u> | <u>\$0</u> | <u>\$8,810</u> |

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Butler, Richland County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village contracts with Worthington Township to receive 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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

Investments are included in the fund cash balance. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts.

The Village values certificates of deposit at cost. The investment in STAR Ohio (the State Treasurer's Investment Pool) is valued at amounts reported by the State Treasurer.

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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

VILLAGE OF BUTLER
RICHLAND COUNTY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

Permissive Sales Tax Fund - This fund receives county excess sales and use tax proceeds for road repair and related expenses.

3. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

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 Agency Fund:

Mayor's Court Fund - This fund receives money from fines and forfeitures. This fund is strictly custodial.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. Village 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.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(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 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. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

| | 2004 | 2003 |
|--------------------------------|------------|------------|
| Demand deposits | \$31,236 | \$50,893 |
| Certificate of deposit | 11,490 | 16,500 |
| Total deposits | 42,726 | 67,393 |
| STAR Ohio | 54,006 | 55,333 |
| Total deposits and investments | \$96,732 | \$122,726 |

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

| 2004 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$169,309 | \$189,049 | \$19,740 |
| Special Revenue | 138,495 | 73,535 | (64,960) |
| Enterprise | 156,698 | 237,824 | 81,126 |
| Agency | 1 | 15,131 | 15,130 |
| Total | \$464,503 | \$515,539 | \$51,036 |

| 2004 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$170,021 | \$221,040 | (\$51,019) |
| Special Revenue | 171,393 | 95,044 | 76,349 |
| Enterprise | 234,688 | 232,309 | 2,379 |
| Agency | 2,087 | 16,208 | (14,121) |
| Total | \$578,189 | \$564,601 | \$13,588 |

| 2003 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$219,059 | \$182,021 | (\$37,038) |
| Special Revenue | 120,996 | 136,504 | 15,508 |
| Capital Projects | 0 | 0 | 0 |
| Enterprise | 177,193 | 174,661 | (2,532) |
| Agency | 0 | 9,476 | 9,476 |
| Total | \$517,248 | \$502,662 | (\$14,586) |

| 2003 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$137,800 | \$206,220 | (\$68,420) |
| Special Revenue | 169,958 | 153,140 | 16,818 |
| Capital Projects | 774 | 774 | 0 |
| Enterprise | 250,668 | 187,643 | 63,025 |
| Agency | 1,378 | 9,666 | (8,288) |
| Total | \$560,578 | \$557,443 | \$3,135 |

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio law, budgetary expenditures (per the clients unadjusted expenditures) exceeded appropriation authority in the General Fund by \$24,806 for the year ended December 31, 2004, and budgetary expenditures (per the clients unadjusted expenditures) exceeded appropriation authority in the General Fund by \$51,650, in the Street Construction Maintenance and Repair Fund by \$18,456, and in the Permissive Sales Tax Fund by \$813 for the year ended December 31, 2003. In addition, there were numerous line items at the legal level of control that had budgetary expenditures exceeding the appropriation authority.

Contrary to Ohio law, the Village had a negative cash fund balance in the General Fund and Street Construction Maintenance and Repair Fund in 2004 in the amount of \$20,437 and \$19,770, respectively, and in the Street Construction Maintenance and Repair Fund in 2003 in the amount of \$3,120. In addition, there were numerous times during 2004 and 2003 that various funds had negative cash fund balances.

Contrary to Ohio law, the Village made an interfund transfer of \$12,000 from the Permissive Sales Tax Fund to the Street Construction Maintenance and Repair Fund without proper approval from the Tax Commissioner and the Court of Common Pleas.

Contrary to Ohio law, the Village did not certify the availability of funds for all expenditures during 2004 and certain expenditures during 2003.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

5. LOCAL INCOME TAX

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

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

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

6. DEBT

Debt outstanding at December 31, 2004 was as follows:

| | Principal | Interest Rate |
|------------------------------|-----------|---------------|
| Ohio Public Works Commission | \$2,979 | 0.00% |
| Ohio Public Works Commission | 30,923 | 0.00% |
| Equipment Lease/Purchase | 9,068 | 6.85% |
| Police Cruiser Loan | 4,361 | 4.70% |
| Total | \$47,331 | |

The Ohio Public Works Commission Loan was entered into during July 2000 to finance the Resort Drive culvert replacement project. This loan will be repaid in semi-annual installments of \$2,979, with no interest, through January 2005. The loan is collateralized by the Village's taxing authority.

The Ohio Public Works Commission Loan was entered into during 2004 to finance the wastewater plant repairs. This loan will be repaid in semi-annual installments of \$773, with no interest through December 2024. The loan is collateralized by the Village's taxing authority.

The Equipment Lease/Purchase agreement was entered into on August 4, 2000 for the purpose of obtaining a dump truck, snow plow and spreader. The lease will be paid in annual installments of \$9,689 through August 4, 2005, and bears interest of 6.85%. The lease is collateralized by the 2001 Dodge dump truck.

The Police Cruiser Loan was entered into in May 2004 for the purpose of obtaining a police cruiser for the police department. The loan will be repaid in monthly installments of \$277 through May 2006, and bears interest of 4.7%. The loan is collateralized by the police cruiser.

Amortization of the above debt, including interest, follows:

| Year ending December 31: | OPWC | OPWC | Equipment Lease/Purchase | Police Cruiser Loan |
|--------------------------|---------|----------|--------------------------|---------------------|
| 2005 | \$2,979 | \$1,546 | \$9,689 | \$3,385 |
| 2006 | | 1,546 | | 1,122 |
| 2007 | | 1,546 | | |
| 2008 | | 1,546 | | |
| 2009 | | 1,546 | | |
| 2010-2014 | | 7,731 | | |
| 2015-2019 | | 7,731 | | |
| 2020-2024 | | 7,731 | | |
| Total | \$2,979 | \$30,923 | \$9,689 | \$4,507 |

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

7. RETIREMENT SYSTEM

The Village's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

8. 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 coverage 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. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, 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.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding 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 local 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:

**VILLAGE OF BUTLER
RICHLAND COUNTY**

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

8. RISK MANAGEMENT (Continued)

| | | |
|--------------------------|---------------------|---------------------|
| <u>Casualty Coverage</u> | <u>2004</u> | <u>2003</u> |
| Assets | \$30,547,049 | \$25,288,098 |
| Liabilities | <u>(16,989,918)</u> | <u>(12,872,985)</u> |
| Retained earnings | <u>\$13,557,131</u> | <u>\$12,415,113</u> |
| | | |
| <u>Property Coverage</u> | <u>2004</u> | <u>2003</u> |
| Assets | \$3,652,970 | \$3,158,813 |
| Liabilities | <u>(544,771)</u> | <u>(792,061)</u> |
| Retained earnings | <u>\$3,108,199</u> | <u>\$2,366,752</u> |

The Village also provides health, dental and vision insurance to its full-time employees through the Richland County Flexible Benefits Program.

9. CONTINGENT LIABILITIES

The Village is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the Village's financial condition.

10. SUBSEQUENT EVENTS

A fiscal watch may be declared if the following condition is met (pursuant to Ohio Rev. Code Section 118.022: the aggregate of deficit amounts of all deficit funds at the end of the preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred as provided in Ohio Rev. Code § 5705.14 to meet that deficit, exceeded one-twelfth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than transfers from the general fund.

As of December 31, 2004, after audit adjustments, the Village's General Fund had a deficit of \$20,437 and the Street Construction Maintenance and Repair Fund had a deficit of \$19,770. The remaining special revenue funds and the enterprise funds are restricted as to use and would require a court order to transfer funds. (See Ohio Rev. Code Sections 5705.15 and 5705.16). The total deficit of \$40,207 is greater than one-twelfth of the total of the general fund budget for 2004 which was \$14,168.

The elected Clerk/Treasurer resigned effective November 19, 2004 and was replaced by an appointed Fiscal Officer effective November 22, 2004.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Butler
Richland County
33 Elm Street
Butler, Ohio 44822

To the Village Council:

We were engaged to audit the financial statements of the Village of Butler, Richland County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003. Our report indicated that because the financial statements were not reconciled and we could not obtain certain representations from Village management, we did not express an opinion on the financial statements. In addition, we noted the Auditor of State performed the Village's bank to book reconciliation as of December 31, 2004 and 2003 and significantly adjusted the Village's financial statements and underlying accounting records. *Government Auditing Standards* considers these services to impair the independence of the Auditor of State to audit the Village because the Auditor of State is performing management functions and making management decisions.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine 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 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-007 through 2004-017.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we were engaged to audit may occur and not be timely detected by employees when 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 material weaknesses. We consider reportable conditions 2004-011 through 2004-017 listed above to be material weaknesses.

In a separate letter to the Village's management dated April 7, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-001 through 2004-006.

In a separate letter to the Village's management dated April 7, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and Village Council. It is not intended for 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

April 7, 2006

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10 requires that monies paid into any fund be used only for the purposes for which such fund is established.

The Village had negative cash fund balances during 2004 and 2003 as follows:

| <u>2004</u> | | <u>2003</u> | |
|---------------------------|----------|--------------------------|-----------|
| As of 3/16/04: | | As of 2/18/03: | |
| Street Construction Fund | (\$98) | General Fund | (\$4,687) |
| | | Street Construction Fund | (3,358) |
| As of 5/26/04: | | As of 3/19/03: | |
| Water Fund | (725) | General Fund | (1,917) |
| As of 6/23/04: | | Street Construction Fund | (8,615) |
| Street Construction Fund | (5,362) | As of 5/30/03: | |
| As of 7/12/04: | | Street Construction Fund | (3,670) |
| Street Construction Fund | (4,501) | As of 6/23/03: | |
| As of 8/24/04: | | Street Construction Fund | (3,670) |
| General Fund | (10,321) | As of 7/22/03: | |
| Street Construction Fund | (3,966) | Street Construction Fund | (11,719) |
| Permissive Sales Tax Fund | (1,906) | As of 8/18/03: | |
| As of 9/28/04: | | Street Construction Fund | (29,437) |
| General Fund | (927) | As of 12/31/03: | |
| Street Construction Fund | (6,612) | Street Construction Fund | (3,120) |
| Permissive Sales Tax Fund | (3,588) | | |
| As of 12/31/04: | | | |
| General Fund | (20,437) | | |
| Street Construction Fund | (19,770) | | |

The Village did not have month end reports. Therefore, the reports the Village did have during the month were used for testing of negative fund balances throughout the year.

Negative cash fund balances are an indication that revenues from other sources were used to pay obligations of these funds. Also, revenues and expenditures were not posted timely, which did not reflect accurate fund balances, causing some of the funds to appear negative. Fund activity should be monitored to prevent future expenditures in excess of available resources, and transactions should be posted timely to reflect accurate fund balances. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Rev. Code.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. Transfers from the General Fund require a resolution passed by a majority of the Council members of the taxing authority. In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by a resolution passed by a two-thirds vote of the taxing authority. In addition to transfers from the General Fund and those permitted by Ohio Rev. Code 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and the Court of Common Pleas, may transfer from one fund to any other public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code Section 5705.15. The following transfer was made contrary to these Ohio Revised Code Sections:

| 2003 | <u>Transfer Out of Fund</u> | <u>Transfer Into Fund</u> | <u>Amount</u> |
|-------------|------------------------------------|---|----------------------|
| | Permissive Sales Tax Fund | Street Construction Maintenance and Repair Fund | \$12,000 |

The transfer in 2003 from the Permissive Sales Tax Fund of \$12,000 to the Street Construction Maintenance and Repair Fund was not approved by the Tax Commissioner and the Court of Common Pleas.

Also noted during 2003, was one transfer approved by Council that was never posted to the Village's books, and two transfers approved by Council during 2003 that were not posted until 2004.

The Village should expend monies directly from the Permissive Sales Tax Fund when it is appropriate to do so rather than transferring these monies. Otherwise, the Village should obtain the proper authorization from the Tax Commissioner and the Court of Common Pleas for such transfer. Also, the Village should post all transfers that are approved by Council timely.

The Village made the necessary adjustments to correct these errors. These adjustments are reflected within the Village's accounting records and financial statements.

FINDING NUMBER 2004-003

Noncompliance Citation

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

At December 31, 2004 and 2003, fund level expenditures (per the client's unadjusted expenditures) plus outstanding encumbrances exceeded appropriations in the following funds:

| <u>2004</u> | <u>Appropriations</u> | <u>Expenditures</u> | <u>Difference</u> |
|---|------------------------------|----------------------------|--------------------------|
| General Fund | \$170,021 | \$194,827 | (\$24,806) |
| <u>2003</u> | | | |
| General Fund | \$137,800 | \$189,450 | (\$51,650) |
| <u>Special Revenue Funds:</u> | | | |
| Street Construction Maintenance and Repair Fund | 73,000 | 91,456 | (18,456) |
| Permissive Sales Tax Fund | 65,900 | 66,713 | (813) |

FINDING NUMBER 2004-003 (Continued)

Noncompliance Citation (Continued)

At December 31, 2004 and 2003, fund, function and object level expenditures plus outstanding encumbrances exceeded appropriations in the following line items:

| <u>2004</u> | <u>Appropriations</u> | <u>Expenditures</u> | <u>Difference</u> |
|--|-----------------------|---------------------|-------------------|
| <u>General Fund:</u> | | | |
| Police Law Enforcement – Supplies and Materials | \$13,000 | \$22,246 | (\$10,754) |
| Recreation Program – Contractual Services | 20 | 67 | (47) |
| Mayor’s and Administrative Office – Personal Services | 6,300 | 7,545 | (1,245) |
| Legislative Activities – Travel Transportation | 100 | 310 | (210) |
| Mayor’s Court – Supplies and Materials | 100 | 672 | (572) |
| Clerk-Treasurer – Contractual Services | 1,600 | 2,717 | (1,117) |
| Clerk-Treasurer – Supplies and Materials | 1,300 | 2,250 | (950) |
| Travel Transportation | 100 | 321 | (221) |
| Contractual Services | 1,500 | 2,850 | (1,350) |
| Supplies and Materials | 800 | 1,122 | (322) |
| Land and Buildings – Contractual Services | 12,000 | 20,011 | (8,011) |
| Land and Buildings – Supplies and Materials | 2,000 | 23,196 | (21,196) |
| Income Tax Workers Comp | 400 | 686 | (286) |
| Transfers Out | 0 | 11,939 | (11,939) |
| Other Uses | 0 | 75 | (75) |
| <u>Special Revenue Fund:</u> | | | |
| Street Construction Maintenance and Repair Fund | | | |
| Contractual Services | 500 | 686 | (186) |
| <u>Enterprise Fund:</u> | | | |
| Water Fund | | | |
| Contractual Services | 6,300 | 15,631 | (9,331) |
| Other | 625 | 686 | (61) |
| <u>2003</u> | | | |
| <u>General Fund:</u> | | | |
| Police Law Enforcement – Personal Services | \$39,850 | \$41,456 | (\$1,606) |
| Police Law Enforcement – Contractual Services | 9,400 | 9,404 | (4) |
| Police Law Enforcement – Supplies and Materials | 3,500 | 3,899 | (399) |
| Street Lighting – Contractual Services | 12,500 | 14,387 | (1,887) |
| Mayor’s and Administrative Office – Personal Services | 6,350 | 7,716 | (1,366) |
| Mayor’s and Administrative Office – Contractual Services | 1,750 | 1,981 | (231) |
| Legislative Activities – Personal Services | 6,600 | 10,351 | (3,751) |
| Legislative Activities – Contractual Services | 1,500 | 1,615 | (115) |
| Mayor’s Court – Personal Services | 1,200 | 2,576 | (1,376) |
| Mayor’s Court – Contractual Services | 100 | 1,535 | (1,435) |
| Mayor’s Court – Supplies and Materials | 70 | 73 | (3) |

FINDING NUMBER 2004-003 (Continued)

Noncompliance Citation (Continued)

| 2003 | <u>Appropriations</u> | <u>Expenditures</u> | <u>Difference</u> |
|--|------------------------------|----------------------------|--------------------------|
| <u>General Fund:</u> | | | |
| Clerk-Treasurer – Contractual Services | \$1,600 | \$3,258 | (\$1,658) |
| Clerk-Treasurer – Supplies and Materials | 1,200 | 1,375 | (175) |
| Personal Services | 7,500 | 8,355 | (855) |
| Supplies and Materials | 500 | 508 | (8) |
| Land and Buildings – Contractual Services | 9,600 | 11,515 | (1,915) |
| Land and Buildings – Supplies and Materials | 1,500 | 2,057 | (557) |
| Transfers Out | 0 | 40,000 | (40,000) |
| Other Uses | 0 | 207 | (207) |
| <u>Special Revenue Fund:</u> | | | |
| Street Construction Maintenance and Repair Fund | | | |
| Personal Services | 40,000 | 40,960 | (960) |
| Contractual Services | 18,800 | 43,034 | (24,234) |

The Village should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the fund level and at the fund, function and object level to avoid overspending.

We reported a similar matter in the management letter of our December 31, 2002 and 2001, audit of the financial statements.

FINDING NUMBER 2004-004

Noncompliance Citation

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.

There are several exceptions to the standard requirement stated above that a fiscal officer’s certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. “Then and Now” certificate – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

FINDING NUMBER 2004-004 (Continued)

Noncompliance Citation (Continued)

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During 2004 and 2003, 100% and 76%, respectively, of the expenditures tested were not certified by the Clerk-Treasurer prior to incurring the obligation. It was also found that none of the three exceptions above were utilized for the items found to be in noncompliance. The Village should certify the availability of funds for expenditures and also implement the use of Then and Now Certificates, Blanket Certificates, and Super Blanket Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

FINDING NUMBER 2004-005

Noncompliance Citation

Ohio Rev. Code Section 118.021 provides that a Village may undergo a fiscal watch review to determine whether it is approaching a state of fiscal emergency. The review will be initiated by a written request to the Auditor of State from the council members of the Village.

Pursuant to Ohio Rev. Code Section 118.022(A)(2), the following is one of the conditions that are grounds for a fiscal watch:

“The aggregate of deficit amounts of all deficit funds at the end of the preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred as provided in Ohio Rev. Code § 5705.14 to meet that deficit, exceeded one-twelfth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than transfers from the general fund.”

As of December 31, 2004, after audit adjustments, the Village’s General Fund had a deficit of \$20,437 and the Street Construction Maintenance and Repair Fund had a deficit of \$19,770. The remaining special revenue funds and the enterprise funds are restricted as to use and would require a court order to transfer funds. (See Ohio Rev. Code Sections 5705.15 and 5705.16). The total deficit of \$40,207 is greater than one-twelfth of the total of the general fund budget for 2004 which was \$14,168.

The Village should undergo a fiscal watch review to determine whether it is approaching a state of fiscal emergency.

FINDING NUMBER 2004-006

Noncompliance Citation

Ohio Admin. Code Section 117-2-02(A) provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements. Per Ohio Admin. Code Section 117-2-02(D), accounting records should include a:

- Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.
- Check register that includes, in numerical sequence, the check number, payee, net amount, and the date.

Ohio Admin. Code Section 117-9-01 provides that Villages must maintain financial records on a fund basis. This code provides suggested account classifications. Village receipts may be classified by fund and source (taxes or charges for services, for example) and disbursements may be classified by fund and program (security of persons and property, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

In 2004 and 2003, the Village did not properly maintain a receipt ledger, appropriation ledger, cash journal, or check register. The Village did not print any of these reports during the year or at year end. At the request of the Auditor of State, the Village was able to print a receipt ledger and appropriation ledger for each year end for 2004 and 2003. The check register was not able to be printed for the entire year for either year. The Village did not correctly classify receipt and disbursement transactions and the entries in these records were not in sequential numeric order. Additionally, there were occurrences of Village receipts and disbursements not being posted for days or months after the transaction occurred. Although the Village maintained a receipt and appropriation ledger, numerous inaccuracies were noted resulting in restatements of fund balances and expenditures in excess of the fund balances in the general and street construction maintenance and repair funds.

In addition, the supporting documentation for the receipt and appropriation ledgers was not well organized. The pay-ins were not in any order, which made it difficult to find specific pay-ins. Also, the invoices for expenditures were maintained in files by vendor, but the invoices within those files were not in any order. In addition, there were some invoices that were not maintained in the vendor file, and there were some invoices that could not be located at all.

The Village should maintain an accounting system and accounting records as required by the Ohio Administrative Code. This would include a receipt ledger, appropriation ledger, check register and cash journal. These reports should be printed and maintained, at a minimum, at the end of each year. The supporting documentation for these reports should be kept in an orderly manner so that transactions can be found easily. In addition, as chief fiscal officer, the Village Clerk-Treasurer is responsible for all financial activity of the Village, and we recommend the Village Council review and approve the monthly reports and bank reconciliations.

FINDING NUMBER 2004-007

Reportable Condition

Policies and Procedures Manual

The Village has not implemented a formal policy and procedures manual to include fiscal and administrative procedures. By not implementing a policy and procedures manual there is no clear and concise way Village employees should handle different situations that may arise in the normal course of business. A policy and procedures manual would be especially helpful when there is a turnover of employees.

A policy and procedures manual should be implemented to include all fiscal and administrative procedures to allow consistency with the various procedures of Council. This should include, among other things, policies and procedures in regards to the receipting and disbursing of Village monies. The policies and procedures should include specific procedures for each department, and include such things as how often deposits are to be made, how often to post transactions, the procedures to be followed for issuing a purchase order and issuing checks, etc. These policies and procedures should also address issues of segregation of duties and cross-training of employees to ensure that, in the absence of an employee, the Village can continue to operate effectively. These policies and procedures will ensure that everyone performing various fiscal and administrative duties understand what is expected of them and how they are to perform those duties.

FINDING NUMBER 2004-008

Reportable Condition

Negative Bank Balances

During July 2003, the Village had negative balances in the general checking bank account up to \$28,835. The Village transferred monies from the savings account to cover these negative balances.

As a result of the negative balances, the Village was charged \$312 in handling fees.

By not monitoring the bank balances, the Village could spend more money than what they have and would not have any money in other accounts to cover negative balances in the general checking account.

The Village should monitor the bank balance to ensure there is enough money in the checking account to cover the checks that are written. If the balance in the checking account is getting low, money should be transferred into the checking account from another Village account to ensure the general checking account does not go negative. Having accurate cash reconciliations would also help the Village to be able to monitor the bank and the book balances.

FINDING NUMBER 2004-009

Reportable Condition

Segregation of Duties

The utilities clerk opens the mail and the drop box mail and posts to the utility billing customer receipt journal. The clerk also prepares the deposit and takes it to the bank. In addition, the income tax clerk opens all income tax mail, posts to the income tax receipts, and prepares and deposits the monies. These responsibilities do not allow for proper segregation of duties in the receipting process and could lead to the misappropriation of Village funds.

In order to maintain proper internal control over the receipt of cash, the Village should have the income tax clerk open all utilities mail and make a listing of receipts, and have the utilities clerk post the receipts to the customer receipt journal. In addition, since the income tax department only has one employee, the utilities clerk should open all income tax mail and make a listing for the income tax clerk for posting to the income tax receipts. This will help ensure all monies received are properly reported within the ledgers.

FINDING NUMBER 2004-010

Reportable Condition

Debt Payments

Appendix C-2 of the Promissory Note with the Ohio Public Works Commission states that "if recipient shall fail to make any payment hereunder when due, and the same is not corrected within thirty days, then the amount of such default shall bear interest thereafter at the rate of eight percent per annum from the date of the default until the date of the payment thereof, and the entire principal hereof then remaining unpaid, together with all accrued interest and other charges, shall, at the Lender's option, become immediately due and payable and/or the Lender by and through its Director may, in the Director's sole and complete discretion and in accordance with Section 164.05 of the Ohio Revised Code, direct the county treasurer of the county in which the Recipient is located to pay the amount due hereunder from funds which would otherwise be appropriated to the Recipient from such county's undivided local government fund pursuant to Section 5745.51 to 5747.53 of the Revised Code."

During 2004 and 2003, the Village paid their loan payment to the Ohio Public Works Commission anywhere from 15 to 21 days late. In addition, it was noted during 2004 the lease payment for equipment was made 22 days late. The lease agreement had similar language as the Ohio Public Works loan as to the consequences of late payments.

Paying loan payments late can lead to paying interest and other penalties, and could lead to the Lender calling the entire unpaid principal balance to be due immediately.

The Village should ensure all debt payments are made on time to avoid paying interest and penalties and to avoid having the entire unpaid principal called due immediately.

FINDING NUMBER 2004-011

Material Weakness

Bank Reconciliations

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records. This process involves reconciling the bank balance to the cash and investment balance. For all of 2004 and 2003, the Village did not resolve various differences between the adjusted bank balance and the balance reflected within the Village's accounting records for the general checking account. Since the Village did not provide reconciled financial statements or evidence to support the material reconciling errors, the scope of our auditing procedures were not sufficient to enable us to express an opinion on the financial statements. The Auditor of State performed the Village's bank to book reconciliation as of December 31, 2004 and 2003 significantly adjusted the Village's financial statements and underlying accounting records. *Government Auditing Standards* considers these services to impair the independence of the Auditor of State to audit the Village because the Auditor of State is performing management functions and making management decisions. In addition, except for the Mayor's Court, the bank accounts have not been reconciled with the Village's ledgers throughout 2005 and as of the date of this report. For all of 2003 and part of 2004, the Village did not perform reconciliations over the Mayor's Court bank account. The unreconciled differences for 2004 and 2003 resulted in the book balance being \$25,037 higher than the bank balance in 2004, and the book balance being \$9,895 less than the bank balance in 2003.

Without complete and accurate monthly bank reconciliations, the Village's internal control is weakened, which could hinder the Village managements detection of errors or irregularities in a timely manner.

The Village should perform, and complete, monthly bank reconciliations in a timely manner. Any variances should be investigated to determine the cause of the variance and should be corrected before the subsequent month's reconciliation is completed. The reconciliations should be reviewed by someone other than the preparer. The reviewer should sign or initial the reconciliation to indicate they have completed the review. In addition, Council should review and approve the reconciliations as part of their financial package that is approved each month. Starting in June 2004, the Mayor's Court reconciliations were performed and reviewed and approved by Council.

We reported a similar matter in the management letter of our December 31, 2002 and 2001, audit of the financial statements.

As of the date of this report, the Village's accounting records remain unreconciled. The Village is only including their general checking account in their monthly reconciliation. The Village must reconcile all depository and investment accounts with their ledgers on a monthly basis.

FINDING NUMBER 2004-012

Material Weakness

Council Monitoring of Financial Reports

During the audit period, the Clerk-Treasurer did not prepare accurate monthly financial reports for Council to review and approve. The only report Council received was a monthly fund balance report. However, this fund balance report was not up-to-date because there were numerous transactions not posted timely.

This does not allow Council to be up to date on the financial activity of the Village and restricts their monitoring abilities over the Clerk-Treasurer and the Village's finances. Not reviewing and approving monthly reports demonstrates a lack of fiscal monitoring by Village Council. Unrecognized errors resulting in misstatements of the Village's records occurred and were not timely detected as a result of not monitoring the monthly reports.

We recommend Council request monthly financial reports and formally recognize in the minutes the acceptance of monthly reports they receive from the Clerk-Treasurer. Reports should include, but not be limited to, monthly cash reconciliations, budget to actual statements, year-to-date receipt, expenditure, and fund balance reports, etc. These reports should reflect all activity of the Village and should be up-to-date. This will increase Council's awareness of all finance related activity and facilitate their decision making process.

FINDING NUMBER 2004-013

Material Weakness

Timely Deposits

During our testing, 13.33 percent of the utility receipts received by the Clerk-Treasurer of the Village were not deposited with the designated depository for a period of 3 days to 22 days. The Clerk-Treasurer also indicated that utility bills were not collected daily but left in the locked drop box outside of the Village Hall. Delays of this nature could cause daily receipts to be stolen, lost, or misplaced without being detected in a timely manner.

We recommend that the Clerk-Treasurer check the utility drop box on a daily basis and deposit receipts with the designated depository within 24 hours of receipt. In addition, Village Council should ensure that procedures are in place to properly safeguard receipts until the time of deposit.

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

FINDING NUMBER 2004-014

Material Weakness

Timely Posting of Transactions

During our testing, we noted numerous instances in which receipt and expenditure transactions for one month were recorded on the Village's financial records in the subsequent month, or sometimes even months later, up to eight months after the date of the transaction. Also, there were some transactions that were not posted to the Village's financial records at all. This resulted in improper cut-off for monthly activity and at year-end, and caused numerous reconciling difficulties.

Not posting transactions timely could allow for material errors to occur in the financial statements and lead to unsupported reconciling items. Also, it does not allow for the Council to review accurate financial statements, which hinders them in their decision making for the Village.

We recommend all transactions be posted to the financial records on a timely basis. At a minimum, all transactions for a particular month should be posted within that month before closing the books and reconciling the book balance to deposit and investment balances for that month.

FINDING NUMBER 2004-015

Material Weakness

Posting of Receipts

The Clerk-Treasurer routinely recorded various receipts incorrectly. For example, real property tax receipts were recorded as personal property tax receipts or miscellaneous receipts. Also, the taxes were recorded at net rather than gross. There were instances when intergovernmental receipts were posted to the incorrect line items and funds, and income tax receipts were recorded in miscellaneous receipts. There were some transfers that were posted as expenditures and miscellaneous revenue rather than transfers in and out. This could allow for misstatement of the financial statements and makes it difficult to compare receipts between years.

The Clerk-Treasurer should properly record tax receipts to the appropriate line item and at gross rather than net. Intergovernmental receipts such as Motor Vehicle Tax and Gasoline Tax are restricted as to use and should be posted to the correct fund and line items to ensure that they are used as intended. Income tax receipts and other various receipts need to be posted to the correct line items as well to allow the Clerk-Treasurer to be able to monitor the actual and expected receipts, and to be able to investigate any discrepancies. If necessary, the Village should create additional revenue line items to more accurately track and record the revenues. The Village Officer's Handbook can be used as a guide in determining the correct classification of receipts.

We reported a similar matter in the management letter of our December 31, 2002 and 2001, audit of the financial statements.

FINDING NUMBER 2004-016

Material Weakness

Nonpayroll Disbursements

The following problems were noted while testing nonpayroll disbursements:

- There were two checks that had an unusual relationship between the date of the check and the date the check was paid (up to two and one half months). This could indicate that checks are being held for an unusual period of time before being issued.
- There was one check that cleared the bank a day before the date on the check. This indicates checks are being dated for a future date, and not dated as of the date the check was written.
- There were nine checks that were not signed by the Clerk-Treasurer. This could result in improper payments being made by the Village.
- There were sixty checks that were not posted timely, with some checks not being posted for up to eight months after they were written. This does not allow for accurate financial statements and makes it difficult for the Village to monitor their financial activity.
- There were three checks that did not have the same check number between the actual check and what was posted. This could result in checks being paid twice and would make it difficult to track the checks to the ledgers.
- There was a check that did not have the same vendor on it as was in the expenditure ledger. This could result in the wrong vendor being paid.
- There were various transactions in the expenditure ledger that did not have a vendor indicated, did not have a check number indicated, or did not have the correct check number. This does not allow for an easy audit trail for anyone reviewing the reports.
- There were twenty-eight transactions that were not posted to the proper line items. This makes it difficult for the Village to monitor and compare data between years.
- There was one transaction that did not have the entire amount of the check posted to the system. This could result in the financial statements being overstated.
- There were two checks that were posted to the system twice. This resulted in the financial statements being understated.
- There were two checks that did not have supporting documentation. This could result in the Village paying for services or goods that it did not receive.
- There was a batch of checks that could not be located. This could result in the checks being used without authorization.
- There were numerous checks not issued in sequential order. This increases the risk of checks not being accounted for or unauthorized use of checks.
- There were numerous transactions that did not have a purchase order. This can result in the Village spending more money than what they have.
- There were numerous payments that were paid late. This resulted in various late fees and penalties paid by the Village.
- There were numerous payments that were partial payments of an invoice rather than paying the entire amount due on the invoice or the amount paid was some amount other than what was on the invoice. This resulted in various late fees and penalties for balances that were not paid in full, and resulted in numerous overpayments to vendors. By not paying the amount on the invoice, it makes it difficult for the Village to track their spending and be able to monitor their financial situation.
- The files were not orderly, and some of the supporting documentation was not easily attainable. The vendor files did not always have the invoices or supporting documentation in them, and they were not in any type of order (i.e. numerically by check number). This does not allow for an easy audit trail, and makes it difficult for the Village to monitor their financial activity.
- The Village only required one signature on checks. Without having dual signatures, it is possible that a payment could be made that is not authorized by the Village.

FINDING NUMBER 2004-016 (Continued)

Material Weakness (Continued)

Nonpayroll Disbursements (Continued)

To correct these issues, the Village should implement the following recommendations:

- All checks should be sent out in the mail immediately after printing.
- All checks should be dated the date they are processed and not dated with a future date.
- The Clerk-Treasurer should exercise due care when preparing the checks and should ensure all checks are signed. The Village did implement the use of dual signatures during 2004. However, there were still some checks that were not signed by the Clerk-Treasurer.
- All checks should be posted at the time they are printed so that no checks are overlooked or missed when posting. This will ensure completeness of the financial statements and will allow the Village to review accurate financial statements.
- The Clerk-Treasurer should exercise due care when entering the checks into the computer system to ensure the correct check number and vendor name are entered for all transactions.
- The Clerk-Treasurer should review the invoice to determine what the check is for, and review the chart of accounts of the Village to determine which fund and account to post the check. Also, postings should be consistent between like transactions. For example, all Ohio Edison bills should be posted to a contractual services line item, rather than posting some Ohio Edison bills to supplies and some to contractual services.
- The Clerk-Treasurer should exercise due care when entering the checks to ensure the correct amounts are entered and ensure checks are only paid and posted once.
- The Clerk-Treasurer should ensure checks are paid only with original supporting documentation, and the supporting documentation should be maintained.
- The Clerk-Treasurer should maintain all checks and ensure voided checks are properly defaced.
- The Clerk-Treasurer should issue checks in numerical sequence to ensure accountability.
- The Clerk-Treasurer should issue purchase orders for all nonpayroll related transactions to ensure funds are available before incurring the expense.
- The Clerk-Treasurer should pay all bills timely and pay the entire bill to avoid paying late fees and possibly having services shut-off. Also, due care should be taken to ensure bills are not overpaid.
- The Village should maintain their records in an orderly manner so there is an audit trail for each transaction, and so Village personnel can locate the files.
- The Village started using dual signatures on checks in June 2004 and we recommend each individual signing the check review the invoice to ensure the check is proper.

FINDING NUMBER 2004-017

Material Weakness

Payroll Payment Frequency

At various times during 2004 and 2003 the Clerk-Treasurer paid herself for up to 4 months in advance, resulting in being paid for work that she had not yet performed.

This could result in various issues and problems if the Clerk-Treasurer was ever unable to perform her work for the time she had been paid. Also, this could result in the Clerk-Treasurer being subject to ethics violations. In addition, the Village was having financial problems during the audit period, and these advance payments inflated the expenditures for the months they were made, which affected the Village's cash flows for the month.

In July 2004, the Council adopted a policy regarding a payroll schedule for when employees were to be paid. We recommend that Council enforce this policy and ensure no employee is paid in advance, but only paid for work they have completed.

**VILLAGE OF BUTLER
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2002-001 | Revised Code § 5705.14, 5705.15 and 5705.16, illegal transfers. | No | Not Corrected. See Schedule of Findings 2004-002. |
| 2002-002 | Revised Code § 5705.10, negative cash balances. | No | Not Corrected. See Schedule of Findings 2004-001. |
| 2002-003 | Revised Code § 5705.41(D), failure to encumber funds. | No | Not Corrected. See Schedule of Findings 2004-004. |
| 2002-004 | Timely posting of transactions. | No | Not Corrected. See Schedule of Findings 2004-013. |



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF BUTLER

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 9, 2006**