VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005

Auditor of State
Betty Montgomery

VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY

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Auditor of State
Betty Montgomery

Village of Mowrystown
Highland County
50 Maple Street
Mowrystown, Ohio 45155

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 government 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.

Betty Montgomery

Betty Montgomery
Auditor of State

December 6, 2006

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Mowrystown
Highland County
50 Maple Street
Mowrystown, Ohio 45155

To the Village Council:

We have audited the accompanying financial statements of Village of Mowrystown, Highland County, Ohio (the Village), as of and for the year ended December 31, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

The accompanying financial statements present receipts and disbursements by fund type totals only. Ohio Administrative Code, Section 117-2-02(A), requires governments to classify receipt and disbursement transactions.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2005. Instead of the combined funds the accompanying financial statements present for 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005, or its changes in financial position for the year then ended.

Also, in our opinion, except for the omission of receipt and disbursement classifications, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Village of Mowrystown, Highland County, as of December 31, 2005, and its combined unclassified cash receipts and unclassified disbursements for the year then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2005. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Betty Montgomery

Betty Montgomery
Auditor of State

December 6, 2006

VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED DECEMBER 31, 2005

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Total Unclassifed Cash Receipts	$61,804	$81,369	$58,070	$201,243
Cash Disbursements:				
Total Unclassified Cash Disbursements	57,799	68,893	58,070	184,762
Excess of Unclassified Cash Receipts Over/(Under) Unclassified Cash Disbursements	4,005	12,476	0	16,481
Fund Cash Balances, January 1	(1,107)	45,803	1,500	46,196
Fund Cash Balances, December 31	**$2,898**	**$58,279**	**$1,500**	**$62,677**
Reserves for Encumbrances, December 31	$294	$1,949	$66,090	$68,333

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

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 Mowrystown, Highland County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village park operations, fire protection and police 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).

The Village did not classify its receipts and disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code, Section 117-02-02(A). This Ohio Administrative Code Section requires classifying receipts and disbursements.

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

C. Cash and Deposits

The Village deposits all available funds in a non interest-bearing checking account with a commercial bank.

D. Fund Accounting

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

1. General Fund

The General Fund 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:

Fire Levy Fund - This fund receives tax monies and charges for services for providing fire protection to the Village and other contracted governmental entities.

Police Levy Fund -This fund receives tax monies to provide police protection for the Village.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Village Capital Improvement Fund - This fund is being used to account for the monies received from the Ohio Water Development Authority to determine feasibility of the Village installing a sewage system.

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.

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. 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 2005 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.

2. EQUITY IN POOLED CASH AND DEPOSITS

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:

	2005
Demand deposits	$62,677

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

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2005 follows:

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$53,643	$61,804	$8,161
Special Revenue	40,664	81,369	40,705
Capital Projects	0	58,070	58,070
Total	$94,307	$201,243	$106,936

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$58,963	$58,093	$870
Special Revenue	51,479	70,842	(19,363)
Capital Projects	0	124,160	(124,160)
Total	$110,442	$253,095	($142,653)

The Village did not obtain prior certification of the availability of funds from the fiscal officer for all commitments nor were all expenditures properly encumbered as required by Ohio law. Also, the Village fiscal officer did not prepare or file an annual report with Village Council or Auditor of State as required by Ohio law.

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Police Levy fund by $17,352; in the Fire Levy fund by $8,810 and in the Capital Improvement fund by $124,160 for the year ended December 31, 2005. Also contrary to Ohio law, at December 31, 2005, the Police Levy fund had a cash deficit balance of $12,939.

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.

4. PROPERTY TAX (Continued)

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

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. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	$217,246	5.64%
Ohio Public Works Commission Loan	225,000	0.00%
Total	$442,246	

The Ohio Water Development Authority (OWDA) loan relates to a design project for a new wastewater treatment system. The OWDA approved up to $320,950 in loans to the Village for this project. As of December 31, 2005, the Village has drawn down $217,246. Repayment of this debt will not begin until July 1, 2007. At that time, an amortization schedule will be prepared. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission loan relates to new sewer collection system. OPWC approved up to $225,000 in loans to the Village for this project. As of December 31, 2005, the Village has not made any draw downs on this loan. Repayment of this debt will not begin until July 1, 2007. The Village will repay the loans in semiannual installments of $5,625 over 20 years. The scheduled payment amount below assumes that $225,000 will be borrowed. The OPWC will adjust scheduled payment to reflect any revisions in amounts the Village actually borrows. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Amortization of the above OPWC Loan follows:

Year ending December 31:	OPWC Loan
2007	$5,625
2008	11,250
2009	11,250
2010	11,250
2011	11,250
2012-2016	56,250
2017-2021	56,250
2022-2026	56,250
2027	5,625
Total	$225,000

6. RETIREMENT SYSTEMS

The Village's officials contribute to Social Security. Contribution rates for 2005 were 6.2% for employee and employer.

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

The Ohio Revised Code also prescribes contribution rates. For 2005, 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, 2005.

7. RISK MANAGEMENT

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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 occurrence, including claim 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 $10,000,000 in the aggregate per year. Governments can elect additional coverage, from $2,000,000 to $12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to $5,000,000 per year, subject to a per-claim limit of $2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to $100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding $100,000 up to $500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

7. RISK MANAGEMENT (Continued)

Beginning in 2005, Travelers reinsures specific losses exceeding $250,000 up to $600 million per occurrence. APEEP reinsures members for specific losses exceeding $100,000 up to $250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between $100,000 and $250,000, Travelers will reinsure specific losses exceeding $100,000 up to their $600 million per occurrence limit. The aggregate stop-loss limit for 2005 was $1,682,589.

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 township.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004.

Casualty Coverage	2005	2004
Assets	$29,719,675	$27,437,169
Liabilities	(15,994,168)	(13,880,038)
Retained earnings	$13,725,507	$13,557,131

Property Coverage	2005	2004
Assets	$4,443,332	$3,648,272
Liabilities	(1,068,245)	(540,073)
Retained earnings	$3,375,087	$3,108,199

The Casualty Coverage assets and retained earnings above include approximately $14.3 million and $12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Village's share of these unpaid claims is approximately $15,250.

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

Village of Mowrystown
Highland County
50 Maple Street
Mowrystown, Ohio 45155

To the Village Council:

We have audited the financial statements of the Village of Mowrystown, Highland County, Ohio (the Village), as of and for the year ended December 31, 2005, and have issued our report thereon dated December 6, 2006, which was qualified since the Village did not classify receipts and disbursements in its financial statements; and wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures 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 2005-003, 2005-007 and 2005-008.

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 audited 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 2005-003 and 2005-007 listed above to be material weaknesses. In a separate letter to the Village's management dated December 6, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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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 audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-006. In a separate letter to the Village's management dated December 6, 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.

Betty Montgomery

Betty Montgomery
Auditor of State

December 6, 2006

SCHEDULE OF FINDINGS
DECEMBER 31, 2005

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

FINDING NUMBER 2005-001

Finding For Recovery Repaid Under Audit

Public Money Collected but not Accounted For

Ohio Rev. Code, Section 9.39, states "all public officials are liable for all public money received or collected by them or by their subordinates under color of office." Receipts issued and docket postings for fines and court costs by the Mayor's Court Clerk during the audit period totaled $618 more than deposits made to the Mayor's Court bank account.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against Francis C. Terwilliger, Mayor; the Western Surety Company, his bonding company; and Anna M. Gullett, Mayor's Court Clerk, jointly and severally, for $618 and in favor of the Village of Mowrystown Mayor's Court fund.

Officials' Response

This has been paid under audit.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Rev. Code, Section 117.38, requires that all cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. Additionally, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer. The report shall contain the amount of: 1) receipts, and amounts due from each source; 2) expenditures for each purpose; 3) income of any public service industry that the entity owns or operates, as well as the costs of ownership or operation; and 4) public debt of each taxing district, the purpose of the debt, and how the debt will be repaid.

The fiscal officer did not prepare or file an annual report with the Village Council nor with the Auditor of State for 2004.

A complete and detailed financial report should be prepared and presented to the Village Council for their review and approval at each regular monthly meeting. Without a detailed disclosure of all receipts and expenditures of the Village throughout the year, management is at risk of making uninformed decisions which could impact the budgeted financial position of the Village. Additionally, the fiscal officer as required should file with the Auditor of State a complete financial report which has been approved by the Village Council, and should advertise the availability of the report for public inspection.

Officials' Response

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

FINDING NUMBER 2005-003

Noncompliance Citation and Material Weakness

Ohio Admin. Code, Section 117-2-02, outlines the accounting system and accounting records that are to be maintained 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.

Subsection (B), part (5) in part states that the accounting system should assure that the assertion of presentation and disclosure is achieved.

A. The accounting system being maintained should be such that the financial statement elements are properly classified and described as prescribed by the auditor of state.

   - The manual accounting system of the Village did not provide the sufficient level of classification to provide management with the proper presentation and disclosure of financial information to make informed decisions. By not providing management with the proper level of classified receipts and disbursements the risk of taking incorrect action, which could result in negative fund balances is greatly increased.

Subsection (C) provides the following systems and documents that may be used to effectively maintain the accounting and budgetary records of the local public office:

A. The accounting system should integrate the budgetary accounts, at the legal level of control or lower, to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

   - The manual accounting system of the Village did not integrate the approved budgetary amounts into the respective receipts and appropriation journals as required to allow for ongoing comparison and timely reporting to the management of the Village. Without a timely and ongoing comparison of budget to actual amounts, the Village is at risk of over-estimating receipts, and thus increasing the possibility of a negative fund balance. A complete and detailed comparison of budget to actual information should be provided to the Village Council monthly at a regular Council meeting.

B. Purchase orders, certified by the fiscal officer, should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s). The certificate should be attached at the time a commitment to purchase goods or services are made.

   - As noted in finding 2005-004 below, the Village failed to use purchase orders on 100% of its expenditures during the audit period. Without the use of a properly completed purchase order which has been certified by the Fiscal Officer, disbursements could be made without adequate current resources being available, could be made from the wrong budgetary appropriation line item, or could be made in excess of authorized appropriations. A standard purchase order should be completed and certified by the Fiscal Officer prior to the purchase commitment being made, and said purchase order should be properly recorded to the appropriation ledger to encumber funds against the applicable account line items.

FINDING NUMBER 2005-003
(Continued)

Subsection (D) provides that the accounting records should include the following:

A. A cash journal containing the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.

- While the Fiscal Officer did maintain a cash journal during the audit period, it failed to contain fund balances, monthly and year-to-date totals. Without properly maintaining a Cash Journal for all transactions of the Village, the risk of misclassifying receipts and expenditures, and/or identifying unrecorded receipts and expenditures is greatly increased. A Cash Journal containing all required information should be maintained by the Fiscal Officer, and should be reconciled to the receipts ledger, appropriations ledger, and bank balance on at least a monthly basis.

B. A receipts ledger which assembles and classifies receipts into separate accounts and contains the amount, date, name of the payor, purpose, receipt number, and other information required for the transaction.

- While the Fiscal Officer did maintain a manual receipts ledger during the audit period, it failed to contain the appropriate account codes, monthly and year-to-date totals, and the budgeted estimated receipts for each respective line item. A detailed receipts ledger containing the complete and accurate level of account classification of all receipts reduces the risk of misclassifying receipts, provides a continuing comparison of budgeted receipts to actual, and facilitates the preparation of financial reports submitted to management and filed with the Auditor of State. A receipts ledger containing all required information should be maintained by the Fiscal Officer, and should be reconciled to the Cash Journal and bank balance on at least a monthly basis.

C. An appropriation ledger which assembles and classifies expenditures into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, 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.

- While the Fiscal Officer did maintain a manual appropriation ledger during the audit period, it failed to contain the appropriate account codes, and monthly and year-to-date totals. A detailed appropriations ledger containing the complete and accurate level of account classification of all disbursements reduces the risk of misclassifying expenditures, provides a continuing comparison of budgeted appropriations to actual, and facilitates the preparation of financial reports submitted to management and filed with the Auditor of State. An appropriation ledger containing all required information should be maintained by the Fiscal Officer, and should be reconciled to the Cash Journal and bank balance on at least a monthly basis.

Ohio Admin. Code, Section 117-7-01, provides suggested account classifications. These accounts classify receipts by source (taxes or charges for services, for example) and classify disbursements by 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.

Officials' Response

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

FINDING NUMBER 2005-004

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 Board can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

   Amounts of less than $750 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 Board.

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. 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 Board 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.

   One hundred percent (100%) of the purchases tested were initiated without obtaining the prior certification of the Fiscal Officer and were not subsequently approved by the Village Council within the aforementioned 30 day time period.

   The Village should use the encumbrance method of accounting by certifying funds on purchase orders. During our search for unrecorded liabilities, we found that the Village had not obtained purchase orders and encumbered for services provided at the end of the year audited. Failure to properly encumber could result in overspending funds and negative cash fund balances.

FINDING NUMBER 2005-004
(Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's fund exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41 (D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response

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

FINDING NUMBER 2005-005

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), requires that no subdivision is to expend money unless it has been appropriated. During 2005, the following funds had expenditures which exceeded appropriations.

Fund	Appropriations	Expenditures	Variance
Police Levy Fund	$ 8,364	$25,716	($17,352)
Fire Levy Fund	21,100	29,910	(8,810)
Capital Improvement Fund	0	124,160	(124,160)

Officials' Response

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

FINDING NUMBER 2005-006

Noncompliance Citation

Ohio Rev. Code, Section 5705.10, requires that money paid into any fund shall be used only for the purpose for which such fund is established. As of December 31, 2005, the Police Levy Fund had a negative fund balance of $12,939. This deficit balance indicates that cash from other funds was used to pay the obligations of the Police Levy Fund. We recommend the Village adopt procedures to properly monitor fund balances. The Fiscal Officer should not certify available funds or pay amounts that create deficits.

Officials' Response

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

FINDING NUMBER 2005-007

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring adequate security of assets and records; planning for adequate segregation of duties or compensating controls; verifying the existence and valuation of assets and liabilities; and periodically reconciling them to the accounting records.

The Village is not accurately reconciling its cash. This process is composed of taking the total of all bank balances from which outstanding checks are subtracted, other adjustments considered (unrecorded interest income and deposits in transit are examples) and the resulting amount should agree with the Village's book/fund balances. This is to be done at the end of each month.

The Village Fiscal Officer must prepare the monthly bank reconciliation in a timely manner and assure that the reconciliations be supported by detailed and accurate records, which should be available for inspection. The person responsible for the monthly bank reconciliation should be adequately trained and have knowledge of the Village's operations. In addition, we recommend these reconciliations be presented to and approved by the Council.

Officials' Response

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

FINDING NUMBER 2005-008

Reportable Condition

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

The Village did not have adequate control procedures over the operation of the Mayor's Court. The following conditions were noted concerning the Mayor's Court:

- The Mayor's Court Clerk is not reconciling. This process is composed of taking the bank balances from which outstanding checks are subtracted, other adjustments considered (unrecorded interest income and deposits in transit are examples) and the resulting amount should agree with the Mayor's Court's book/fund balances. This is to be done at the end of each month.

- We noted that the checks issued to the State are still being carried on the outstanding check list.

- Several bank statements were not presented for audit. Also cancelled checks or copies were not presented for audit. The bank statements were eventually obtained and presented for audit.

- The Mayor's Court cashbook did not contain beginning, month-to-date, year-to-date, or ending balances. Receipts posted in the cashbook did not agree with bank deposits. Receipt amounts and dates did not match the amounts and dates posted to the docket. The Cashbook did not clearly identify which receipts were being distributed. Cashbook distributions were not clearly separated by month. Lack of properly maintained cashbook balances makes reconciliations difficult and increases the probability that errors or misappropriation of funds will go undetected.

FINDING NUMBER 2005-008
(Continued)

- Mayor's Court does not utilize an open-items report. An open-items report should be kept to record any restitution paid to the Court and to account for bonds being held until the case has been disposed. Using an open-items report will allow the Court to reconcile each month while still retaining the bond money for possible refund disbursement. The report will also serve to help keep the Court from overdrawing on their bank account for bond refunds.

- In a few instances, the docket was not completely prepared. Payment dates and amounts were not always entered into the docket. In some instances, only the payment information was noted, no other information was stated.

- Duplicate receipts were only prepared for money paid in person. Receipt numbers 189277-189280 were skipped in 2005 but were used in April 2006. Receipt numbers 189285 – 189288 were not used. Duplicate receipts were sometimes signed by police officers.

- A ticket file consisting of copies of all ticket in numerical order was not maintained. Payment information on the back of the tickets was not completed.

- Fines charged did not always agree with the schedule of fines and costs presented for audit. The schedule of fines and costs was not approved by Village Council or Mayor. The "Bond" schedule presented for audit appeared to be a waiver schedule. Amounts charged could not be matched to this schedule.

- The Mayor's Court Clerk prepared a monthly report that itemizes all receipts collected and disbursements made by the Court for some months of the audit period. This report serves as a summary of all Court activity for each month. The amounts on the reports did not always agree with the monthly receipts.

- Copies of the Remittance Reports to the State were not maintained by the Mayor's Court Clerk for audit.

Failure to accurately record receipts and maintain Mayor's Court records could cause receipts and fund balances to be stolen or misappropriated. In order to strengthen internal controls over the Mayor's Court and ensure all receipts and disbursements are properly accounted for, we recommend the Village implement the following procedures:

- The Mayor's Court Clerk must prepare the monthly bank reconciliation in a timely manner and assure that the reconciliations be supported by detailed and accurate records, which should be available for inspection. The person responsible for the monthly bank reconciliation should be adequately trained and have knowledge of the Mayor's Court's operations. In addition, we recommend these reconciliations be presented to and approved by the Mayor and Village Council.

- The Mayor's Court Clerk should take steps to contact the State and determine the status of checks paid to the State and not yet cleared by the bank.

- The Mayor's Court Clerk should take steps to obtain from the bank all monthly bank statements and request the bank send either the cancelled checks or copies of these checks.

- The Mayor's Court Clerk should maintain cashbook balances and accurately and completely post all receipt and disbursement activity. The Cashbook should be reconciled to the bank statements on a monthly basis. This reconciliation should be reviewed by the Mayor.

FINDING NUMBER 2005-008
(Continued)

- The Mayor's Court clerk should maintain and open items list and reconcile this to the Mayor's Court bank reconciliation on a monthly basis.

- All pertinent information for all cases should be entered into the docket on a timely basis.

- Duplicate receipts should be written for every receipt. Pre-numbered duplicate receipts should be used in numerical order. Only the Mayor's Court clerk should be collecting money and signing duplicate receipts.

- A ticket file should be kept for audit with all tickets accounted for. Payment information should be included on the tickets.

- The Mayor and Village council should approve the schedule of fines and costs. Approval should be noted in the minute records. All amounts charged should be reconciled to the fee schedule.

- The Mayor should review the Mayor's monthly report and sign off as evidence of that review. Also, we recommend that approval of this report by Council be noted in the minute record each month. Reviewing the report helps to assure the Village that all Court activity was properly recorded.

- Copies of all remittances reports should be maintained and kept on file for audit purposes.

Officials' Response

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

VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2004-001	ORC 117.38 No annual reports filed.	No	Reissued as 2005-001
2004-002	OAC 117-2-02(A) inadequate record keeping.	No	Reissued as 2005-003
2004-003	ORC 5705.41 (D) The availability of funds was not certified for certain commitments.	No	Reissued as 2005-004
2004-004	ORC 5705.41(B) Expenditures exceeded appropriations.	No	Reissued as 2005-005
2004-005	ORC 5705.10 Negative fund balances.	No	Reissued as 2005-006
2004-006	Not reconciling.	No	Reissued as 2005-007

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VILLAGE OF MOWRYSTOWN

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 26, 2006