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Auditor of State

**Village of West Elkton
Preble County, Ohio
Report on Accounting Methods**

Local Government Services Section

Village of West Elkton – Preble County

Report on Accounting Methods

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CERTIFICATION

In compliance with the requirement set forth in Section 118.10(A) of the Ohio Revised Code, an assessment of the methods, accuracy, and legality of the accounts, records, files, and reports of the Village of West Elkton was conducted. This report on accounting methods states whether the accounting system currently in place fulfills the needs of the Village and whether there are adequate controls in place to assure confidence in the records. The control deficiencies and instances of non-compliance with State statutes and the Ohio Administrative Code are identified throughout this report and summarized in the conclusion. Therefore, pursuant to Section 118.10 of the Ohio Revised Code, a "Report on Accounting Methods" is hereby submitted and certified to Paul Marshall, Chairman of the Financial Planning and Supervision Commission of the Village of Piketon; Charles Pennington, Mayor of the Village of West Elkton; and Corwin Talbert; President Pro Tempore of Council.

Mary Taylor

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May 1, 2008

Village of West Elkton – Preble County

Report on Accounting Methods

Purpose

As required by Section 118.10(A), Revised Code, the Auditor of State “...shall issue a preliminary report with respect to the method, accuracy and legality of the accounts, records, files and reports of the municipality. Such report shall state whether Chapter 117 of the Revised Code, the requirements of the office of the Auditor of State have been compiled with...”

Accordingly, this report addresses the following: (1) whether the current accounting system fulfills the needs of the Village, and (2) whether the current accounting system is in compliance with Chapter 117 of the Revised Code and the requirements of the Auditor of State. Information for this report was obtained by interviewing Village personnel and reviewing pertinent accounting, financial and budgetary records.

This report is intended solely for the use of the Financial Planning and Supervision Commission of the Village of West Elkton. We were not engaged to, nor did we perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Village of West Elkton – Preble County

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Governance Overview

The Village of West Elkton (the “Village”) is located in southwest Ohio in Preble County. The Village is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Operating as a statutory village, West Elkton must comply with all State laws regulating village government. The decision-making process is directed by an elected Village Council and Mayor.

The Council is the legislative authority of the Village and consists of six members who are elected at large and serve four year terms. The Council elects a President Pro Tempore to preside over Village Council meetings in the Mayor’s absence. The Village Council has the authority to prescribe, by ordinance, the manner in which any power of the Village shall be exercised.

The Mayor is the chief executive officer of the Village and serves a term of four years. The Mayor supervises the administration of the Village and is the President of Village Council. The Mayor makes recommendations to Village Council and has voting rights only in the case of a tie.

The Clerk Treasurer is an appointed position and serves as the chief fiscal officer of the Village and Clerk for the Village Council. The Clerk Treasurer attends all Council meetings and keeps a record of all proceedings, rules, bylaws, and legislation. In addition, the Clerk Treasurer keeps accurate statements of all monies received and disbursed by the Village and keeps records of all property owned by the Village and of all taxes and assessments. The Clerk Treasurer establishes the accounting procedures necessary to comply with the Ohio Revised Code and the administrative rules adopted by the Auditor of State.

Village Council contracts with an attorney to handle any legal matters for the Village. The Village Solicitor is the chief legal officer of the Village.

On September 16, 2004, the Village was declared to be in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Revised Section 118.05. Commission membership is as follows:

1. The Director of the Office of Budget and Management or a designee;
2. The Mayor of the Village or a designee;
3. The President Pro Tempore of Village Council or a designee;
4. The Treasurer of State or a designee; and
5. Three individuals appointed by the Governor with knowledge and experience in financial matters who are residents of the Village.

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Governance Overview

(continued)

The powers, duties, and functions of the Commission may include:

1. Review all tax budgets, tax levy ordinances, bond and note resolutions or ordinances, appropriations measures, and certificates of estimated resources to ensure they are consistent with the financial recovery plan;
2. Inspect and secure copies of pertinent documents of the Village;
3. Inspect and secure copies of pertinent documents of the County or State agencies relating to the Village;
4. Review, revise, and approve determinations and certifications affecting the Village made by the County Budget Commission or the County Auditor;
5. Bring civil actions to enforce fiscal emergency provisions;
6. Approve the amount and purpose of any debt obligations;
7. Implement steps necessary to bring accounting records, accounting systems, and financial procedures and reports into compliance with rules established by the Auditor of State;
8. Make and enter into all contracts necessary or incidental to the performance of its duties;
9. Make recommendation for cost reductions or revenue increases to achieve a balanced budget; and,
10. Annually, before April 1, make a report and recommendations to the Speaker of the House of Representatives and the President of the Senate on the progress of the Village.

This Commission is required to adopt a financial recovery plan for the Village within one hundred twenty days of its first meeting. The recovery plan was submitted to the Commission on May 24, 2005 . By State statute, the Village must operate within the provisions of the recovery plan.

The Commission will continue in existence until the Auditor of State, or the Commission itself, determines that:

1. An effective financial accounting and reporting system is in the process of being implemented and is expected to be completed within two years;
2. All of the fiscal emergency conditions have been corrected or eliminated and not new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and
4. The Village Council has prepared a financial forecast for a five-year period and such forecast is, in the Auditor of State's opinion, "nonadverse".

Once these requirements are satisfied and certified to the Commission, the Governor, the Director of the Office of Budget and Management, and the County Budget Commission; the role of the Commission will be terminated.

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Budgetary System

Description of an Effective Budgetary System

The legally adopted annual budget plays a unique and central role in determining the amount and type of financial resources that will be raised and how those financial resources will be spent. Annually, a budget consisting of estimated receipts and disbursements for each fund for the next year should be presented to the governing body with sufficient time for review and public input. The budget should identify the major sources of receipts and the programs, activities, and major objects of disbursements. The budget should encompass current operations and maintenance, capital acquisition and replacement, and debt retirement. The budget, once approved by the legislative authority, should be the basis for the appropriation measure. The appropriation measure should identify, by fund, department/activity, and object, the amount of resources authorized to be expended for the various governmental functions and programs. The amount appropriated for each fund should not exceed the estimated resources available in that fund for the year. The estimated revenues and appropriations should be integrated with the accounting system to ensure and demonstrate compliance with the budget and allow for ongoing and timely information on unrealized receipts and balances available for disbursement.

Statutory Requirements

The budgetary process for the Village is prescribed in Chapter 5705, Revised Code, and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance.

The Tax Budget: The Mayor prepares an annual tax budget for the period of January 1 to December 31 of the following year of estimated revenues and expenditures for all funds of the Village. The budget must be filed in the Village Clerk Treasurer's office for public inspection ten days before adoption by Village Council. Section 5705.30 of the Revised Code requires that at least one public hearing be held for discussion of the budget and that public notice be given not less than ten days prior to the date of the hearing. Village Council is required to adopt the budget no later than July 15 and the budget must be submitted to the Preble County Budget Commission by July 20 of each year.

The County Budget Commission examines the budget to ascertain that all tax levies of the Village are properly authorized. The Budget Commission also revises and adjusts the estimated receipts for property taxes and local government fund allocations. The Budget Commission then prepares and submits to the Village the Resolution Accepting Rates for Village Council's consideration. Village Council must accept or reject the rates outlined in the Resolution and file the Resolution with the Budget Commission. On or about October 1, Village Council must authorize, by resolution, the necessary tax levies and certify them to the County Auditor.

The County Budget Commission may, by an affirmative vote of a majority of the Budget Commission, waive the requirement that Village Council adopt a tax budget as provided under section 5705.28 of the Revised Code, but shall require the Village Council to provide such information to the Budget Commission as may be required by the Budget Commission to perform its duties under Chapter 5705 of the Revised Code, including the allocation of inside millage to each subdivision or taxing unit.

Certificate of Estimated Resources: The Budget Commission issues an official certificate of estimated resources on or about September 1, based on information provided in the tax budget and other information available to the Budget Commission.

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Budgetary System

(Continued)

On or about January 1, the Clerk Treasurer certifies the actual year-end balances for all Village funds to the Budget Commission. Upon receipt of the information, the Budget Commission issues an amended official certificate of estimated resources that includes the unencumbered fund balance at December 31. Further amendments may be made during the year if the Clerk Treasurer determines that the revenue to be collected by the Village will be greater than or less than the amount included in the official certificate.

Appropriation Ordinance: Section 5705.38 of the Revised Code requires that on or about January 1, the annual appropriation ordinance must be enacted by the Village Council. Prior to the passage of the annual appropriation measure, a temporary appropriation measure may be passed to meet the ordinary expenses of the Village until April 1. The appropriation ordinance, by fund, must be within the estimated resources as certified by the County Budget Commission. Appropriation measures must be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services. Any revisions that alter the total of any fund appropriation or alter the levels adopted by Village Council must be approved by Village Council. The Village may pass supplemental appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent amended certificate of estimated resources.

The Clerk of Village Council is required to certify a copy of each appropriation ordinance to the County Budget Commission. No appropriations are effective until the County Auditor provides a certificate indicating the appropriations, by fund, are within the estimated resources.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of monies are encumbered and recorded as the equivalent of disbursements in order to reserve that portion of the applicable appropriation and to maintain legal compliance with the adopted appropriations. Disbursements plus encumbrances may not legally exceed appropriations.

Annual Tax Ordinance - Section 705.17 of the Revised Code requires that an annual tax ordinance to determine the amount of the tax levy be prepared by the Mayor, under the direction of the Village Council. The section also requires the involvement of each office and department of the Village, comparative financial information for the previous years and the next year for each office, department, and division, a public hearing after at least one weeks notice, approval of the Village Council, and submission to the County Budget Commission which shall fix the total maximum tax levy permitted to the Village for the ensuing year.

Section 705.18 of the Revised Code provides that an annual appropriation ordinance shall be prepared by the legislative authority of a municipal corporation from estimates submitted by the mayor, the chairman of the commission, or the city manager, as the case may be, in the manner provided in section 705.17 of the Revised Code for the annual tax ordinance. The annual appropriation ordinance shall be submitted to the legislative authority at its first meeting in January and the total of any appropriation ordinance passed by such legislative authority shall not exceed the total balances carried over from the previous year plus the estimated receipts of the current year.

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Budgetary System

(Continued)

Section 705.19 of the Revised Code provides that no money shall be drawn from the treasury of a municipal corporation, except in pursuance of appropriations made by the legislative authority, and whenever an appropriation is so made, the clerk shall forthwith give notice to the Auditor and the Treasurer. Appropriations may be made in furtherance of improvements or other objects or work of the municipal corporation which will not be completed within the current year. At the end of each year, all unexpended balances of appropriations shall revert to the respective funds from which they were appropriated and shall then be subject to future appropriations.

Administrative Code Requirements

All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The legal level of control is the level at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates. Any appropriation amendments to increase or decrease appropriations at the legal level of control must have Council approval. For all local public offices subject to provisions of Chapter 5705 of the Revised Code, which includes the Village, the minimum legal level of control is described in section 5705.38 of the Revised Code.

Methods Used by the Village

The tax budget for the next calendar year is prepared by the Village Clerk Treasurer with input from the Mayor. It is based on prior year actual receipts and expenditures, current year actual and estimated receipts and expenditures, and estimates for the next year based on information available at the time of preparation. The tax budget is reviewed and adopted by the Village Council prior to submission to the county budget commission. The tax budget is generally adopted by Village Council around July 15. The Village received a 30 day extension from the County Auditor for the adoption of the tax budget for 2008. A public hearing was not held for the 2008 tax budget. Council adopted the 2008 tax budget on August 14, 2007 and certified the tax budget to the county auditor on August 21, 2007.

Council received an extension until December 1st for adopting a resolution authorizing the necessary tax levies to be collected in 2006 and 2007. Council adopted the resolutions on October 11, 2005 and October 10, 2006. The Clerk Treasurer certified the resolution to the Preble County Auditor on November 28, 2005 and November 20, 2006.

The Village submits the Certificate of the Total Amount from All Sources Available for Expenditures and Balances, which includes the year-end actual balances, to the county budget commission and the budget commission issues an amended certificate of estimated resources. The certificates with the 2005 and 2006 year-end balances were submitted in March, 2006 and on January 19, 2007, respectively. Estimated receipts are not posted to the accounting system.

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Budgetary System

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Before the start of the new year, the Clerk Treasurer prepares a temporary appropriation ordinance and submits it to Council for discussion. Council approved temporary appropriations for the next year on December 30, 2005 and November 14, 2006. Council adopted a permanent appropriation ordinance on March 14, 2006 and March 20, 2007. The legal level of control established by Council is at the program/activity and major object level.

No appropriation measures for 2007 were filed with the County Auditor. The Village did not receive a certificate that the total appropriations from each fund did not exceed the official or amended official certificate of estimated resources during 2007.

All appropriation changes are entered into the Village's accounting system by the Clerk Treasurer. The Clerk Treasurer reviews the system appropriations and compares them to the appropriation ordinances. The system appropriations did not agree to the appropriation ordinances.

Close to the end of the year, the Clerk Treasurer reviews the appropriation ledger comparing the expenditures plus encumbrances with the appropriations. The Clerk Treasurer also prints an expenditure report from the accounting system that reports the total percentage of appropriations spent, which includes encumbrances by line item. This report is presented to Council.

Auditor of State Comments

- The Village Council did not provide a legal notice or hold a public hearing on the annual tax budget for 2008 as required by Section 5705.30, Revised Code. The Village Clerk Treasurer should provide the public notice ten days in advance of the public hearing by Village Council.
- For 2006, the total amount from all sources available for expenditures and the balances existing at the end of the preceding year were not certified to the County Auditor until March of 2006 contrary to Section 5705.36, Revised Code. The Village Clerk Treasurer should certify to the County Auditor the actual unencumbered fund balances early in January of each year.
- The Village does not compare actual receipts to estimated resources during the year nor request an amended certificate of estimated resources when increases or decreases are appropriate as authorized by section 5705.36, Revised Code. The Clerk Treasurer should routinely compare estimated receipts and present this comparison to the Village Council prior to requesting an amended certificate of estimated resources from the County Auditor.
- No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official or amended official certificate of estimated resources. The Village must anticipate the amount of time needed for the passage of appropriation ordinances and the certification by the county auditor so that obligations are not authorized against increased appropriations before they actually go into effect.

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Budgetary System

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- The Village had deficit fund balances contrary to Section 5705.10, Revised Code, and expenditures plus encumbrances that exceeded appropriations contrary to Section 5705.41(B), Revised Code. Appropriations exceeded estimated resources contrary to Section 5705.39, Revised Code. The Village Clerk Treasurer, as well as Council, must review the financial and budgetary activity to ensure compliance with Ohio budgetary law. This review should be ongoing and documented.
- Estimated receipts were not posted to the accounting system. Appropriation ordinances were not posted correctly to the accounting system. The Village Clerk Treasurer must enter budgetary information into the accounting system and compare the budget amounts in the system to the amended certificate and the appropriation ordinance. Any variance should be identified and corrected. Each comparison should be documented.

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Chart of Fund and Account Codes

Description of an Effective Chart of Fund and Account Codes

Common terminology and classification should be used throughout the budgeting, accounting, and financial reporting activities. The consistent use of fund and account codes is necessary to classify and summarize receipt and disbursement transactions. Fund codes should allow for the classification and identification of fund types and the individual funds. Receipt and disbursement codes should allow the transactions to be summarized by major revenue source or disbursement program. Major object codes for disbursements should be used consistently throughout the various program/activity codes.

The Village should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established.

Statutory Requirements

The creation of funds is authorized by section 5705.09 of the Revised Code. Section 5705.13 of the Revised Code authorizes the Village to establish reserve balances for budget stabilization, for the payment of claims under a self-insurance program, and for the payment of claims under a retrospective workers' compensation plan. This section also allows for the creation of a special revenue fund to accumulate resources for the payment of sick and vacation leave. Additionally, it allows for the creation of capital projects funds to accumulate resources for up to ten years for the acquisition, construction, or improvement of capital assets. Funds may also be established under section 5705.12 of the Revised Code with the written approval of the Auditor of State.

Methods Used by the Village

The Village uses a numeric chart of accounts developed by the Uniform Accounting Network. The chart of accounts classifies revenues by a four-digit number identifying the fund followed by a three-digit number identifying the revenue source. Expenditures are classified by the same fund numbers followed by a three-digit number identifying the activity code and a three-digit number identifying the object code for expenditures.

The Village has not established any new funds since the Clerk Treasurer took office. The Clerk Treasurer is aware that funds must be established according to the Ohio Revised Code or by request to the Office of the Auditor of State.

Auditor of State Comments

- None

Village of West Elkton – Preble County

Report on Accounting Methods

Accounting Journal and Ledgers

Description of Effective Accounting Ledgers

The accounting ledgers of the Village should allow for ongoing and timely information on estimated and actual receipts, disbursements and encumbrances, comparison of expenditures to the appropriation authority, available cash balances for each fund, and the available treasury balance. The information captured for each transaction should allow the transaction to be trailed throughout the journal and ledgers and back to the document that originated the transaction.

Administrative Code Requirements

Section 117-2-02(A), Ohio Administrative Code, requires all local public offices to 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 required by Ohio Administrative Code Section 117-2-03.

Section 117-02-02(C) (1), Ohio Administrative Code, requires all local public offices to integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Section 117-2-02(D), Ohio Administrative Code, requires all local public offices to maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides and should consider the degree of automation and other factors. Such records should include the following:

Cash Journal – The cash journal is the book of original entry for recording all cash receipts and disbursements processed in the Clerk Treasurer’s office. The cash journal presents receipts deposited to and checks drawn against the Village treasury and the fund to which the receipts and checks were recorded. Entries to the cash journal are posted sequentially by date from source documents such as pay-in orders and checks. The related pay-in order or check number, account codes, and date are also recorded for each transaction. At the end of each month, month-to-date totals and year-to-date totals are recorded.

Receipts Ledger – The receipts ledger is used to summarize receipts by fund and account. In addition, the estimated revenue and uncollected balance are presented for each source of revenue. Estimated revenues are recorded from the detail and/or supplemental information used in the preparation of the tax budget and is adjusted for any amendments to the certificate of estimated resources. Receipt transactions are posted from the cash journal based on the account code. A balance reflecting the estimated amount remaining to be received is maintained. At the end of each month, month-to-date totals and year-to-date totals are to be recorded.

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Accounting Journal and Ledgers

(Continued)

Appropriations Ledger – The appropriations ledger is used to summarize appropriations, disbursements, and encumbrances, by fund and account. In addition, the ledger accommodates the encumbering of obligations of the Village, the check/check issued for the payment of the obligation, and necessary adjustments to an appropriation account. The ledger also facilitates budgetary control by enabling the Clerk Treasurer to keep the Village’s disbursements and encumbrances within the amounts appropriated by Council. The unencumbered appropriation balance provides information on the amount available for obligations. At the end of each month, month-to-date totals and year-to-date totals are to be recorded.

Methods Used by the Village

The Village uses the Uniform Accounting Network (UAN) Accounting System provided by the Auditor of State of Ohio. The UAN software is a computerized fund accounting system that uses the procedures, codes, journals, ledgers, and reports commonly used by governments. Journals and ledgers are maintained from the data entered, and Cash Summary by Fund and Annual Financial reports are prepared and printed by the system. In addition to the journals and reports required for governmental accounting, the system also produces other summary and detailed information for receipts, expenditures, and other information relating to the fiscal status of the entity. The system also assists with monthly bank reconciliations. Data is aggregated by fund, revenue source, and expenditure, programs, and object codes and reports are generated in the same manner. The system assigns a sequential transaction number to identify each transaction.

The Clerk Treasurer prepares monthly backup disks of the UAN system. These disks are stored in an unlocked, fire-proof filing cabinet in the Village Municipal Building.

Auditor of State Comments

- The Clerk Treasurer does not always record receipts and expenditures in the cash journal on a regular and timely basis.
- Entries to the cash journal are not always posted sequentially by actual dates of transactions.
- The Village should store the backup disks in a safe, off-site location.

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Report on Accounting Methods

Receipt Transactions

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent classification and identification of each receipt. All receipts should be promptly recorded, safeguarded, and deposited in accordance with State statute. The receipt or pay-in-order form should be a multi-part form that is pre-numbered and consecutive. The receipt should bear the name of the entity and reflect the date received, the payer, the amount, the purpose or nature of the receipt, the account code, and the signature of the person preparing the receipt. Supporting documents should be attached to a copy of the receipt and filed numerically or by payer. Departmental receipts should be summarized and remitted to the finance department daily. The finance department should issue pay-in-orders to those departments depositing daily collections to the finance department and for any payments received from the public. The pay-in order forms should be multi-part, pre-numbered form that bears the name of the entity, the date received, the payer, the amount, the purpose or nature of the receipt, the account code, and the signature or name of the person preparing the pay-in order. Supporting documents should be attached to a copy of the pay-in-order. All receipts or pay-in-orders should be recorded in the cash journal and receipts ledger in a timely manner. Adequate safeguards should be in place to ensure that one individual does not have total control over the receipting of monies, posting of receipts, and reconciliation of bank accounts.

Statutory Requirements

Section 9.38, Revised Code, provides that a person who is a public official, employee, or an agent shall deposit all public monies received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount received exceeds one thousand dollars. If the total amount of the public monies so received does not exceed one thousand dollars, the person shall deposit the monies on the business day next following the day of receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the monies until such a time as the monies are deposited. The policy shall include provisions and procedures to safeguard the public monies until they are deposited. If the public office of which the person is a public official is governed by a legislative authority, only the legislative authority may adopt such a policy.

Section 733.40, Revised Code, requires all fines, forfeitures, and costs in ordinance cases and all fees that are collected by the mayor, that in any manner come into the mayor's hands, or that are due the Mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses that have been advanced out of the treasury of the municipal corporation, and all money received by the mayor for the use of the municipal corporation shall be paid by the mayor into the treasury of the municipal corporation on the first Monday of each month. At the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all money received, from whom and for what purposes received, and when paid into the treasury.

Administrative Code Requirements

Section 117-2-02(D)(1) of the Ohio Administrative Code requires the date, amount, receipt number, account code, and any other information necessary to properly classify the receipt transactions to be recorded in the cash journal. Section 117-2-02(D)(2) of the Ohio Administrative Code requires the amount, date, name of the payer, purpose, receipt number, and other information required for the transaction to be recorded in the receipts ledger.

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Receipt Transactions

(Continued)

Methods Used by the Village

The Mayor and the Clerk Treasurer are bonded. The Clerk Treasurer is generally responsible for receiving, recording, and depositing all monies of the Village. If she is not present, the Mayor may accept receipts. A receipt is generated by the accounting system when entered into the system. The Clerk Treasurer deposits the receipts randomly, depending on her schedule and the amount of deposits. Deposits are kept in a file at the Village Office or the home of the Clerk Treasurer until deposited.

Clerk Treasurer's Office

Taxes are received from the County Auditor. This includes real and personal property taxes and estate taxes. Checks are issued for the net amount after auditor's fees are deducted. The Clerk Treasurer posts the taxes at net amount received.

There are several types of receipts that come from the State. These include gasoline taxes, motor vehicle licenses taxes, and permissive motor vehicle taxes. The Village has chosen to receive these payments by check rather than EFT.

When revenues are received, the Clerk Treasurer holds onto the checks and/or currency and documentation until a deposit slip is made. The receipt documentation is attached to the deposit slip. Once the receipt is recorded in the accounting system, a receipt number is assigned by the system and is printed out by the Clerk Treasurer. For cash or revenues without a receipt, the Clerk Treasurer attaches a note to the deposit slip describing the transaction. Often, monies received during the month are not recorded or deposited until the following month.

Mayor's Court

The Mayor's Court Clerk receives cash and checks relating to fines from individuals in person and through the mail. Once a citation is written, the person cited receives the original copy of the citation while the Mayor's Court Clerk receives the pink copy. The Police Chief receives the remaining copies of the citation from the Police Officers. The chief files the issued citations in numerical order. If the citation is to be heard in a different court, the Mayor's Court Clerk obtains a copy from the Police Chief and sends that copy to the court with jurisdiction. The Police Chief does not track all of the tickets that were issued. The Police Chief also does not track all ticket books that the Police Officers have taken out. Partial ticket books are taken out by the police officers and tickets are written out of sequence.

The pink copies are filed in a case jacket for the court hearing date by the Mayor's Court Clerk. The citation is entered into the Mayor's Court manual docket book. The Mayor's Court Clerk assigns a numeric case number to each citation. The court case numbers are then written on the jacket cover by the Mayor's Court Clerk. The docket book is rubber stamped with the Mayor's signature for each case within the docket by the Mayor's Court Clerk.

The Mayor's Court Clerk receives payments for citations and court fines. The Mayor's Court Clerk has pre-numbered receipt books to record cash payments. The receipt states the amount received, the payer, and the case number. The Mayor's Court Clerk signs each receipt. The original receipt is given to the payer and the duplicate receipt is retained in the receipt book.

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Receipt Transactions

(Continued)

Receipts are manually entered into the Mayor's Court cashbook. The Mayor's Court cashbook shows the case number, defendant, receipt number, receipt date, and amount received. The receipts are also broken down into columns in the cashbook to show where the money is to be distributed, such as State and local governments. The receipt information is also manually posted to the docket book where the fines, total cost, and balances owed on the case are shown.

Monthly or bi-monthly, the Mayor's Court Clerk matches monies collected per the duplicate receipts and prepares a deposit slip. The Mayor's Court Clerk then deposits the monies into the Mayor's Court bank account.

At the end of the month, the Mayor's Court Clerk totals the cashbook receipts for the month to determine the amount to be distributed. Payments to the appropriate vendors, such as the State, do not occur monthly. No bank reconciliations are performed by the Mayor's Court Clerk.

The Village sends two separate letters to those individuals who do not appear for their court date and for those individual who do not pay. The first letter sets a new court date and states the individual is to appear before the court or pay the fine before the court date. If the individual still does not appear before the court or pay the fine a second letter is send that states the individual's license will be forfeited if they do not comply within 30 days. If the individual again fails to appear or does not pay, a license forfeiture is sent to the Bureau of Motor Vehicles or a bench warrant is issued.

Auditor of State Comments

Clerk Treasurer's Office

- The Clerk Treasurer should deposit village receipts within 24 hours of collection, and a policy should be adopted by Council to allow the Clerk Treasurer to hold the money for up to three business days after collection for the daily receipts that are under \$1,000.
- All monies should be safeguarded upon collection until the time of deposit.
- All receipts should be recorded at gross rather than net.

Mayor's Court

- Contrary to Sections 9.10 to 9.14, Revised Code, the Village uses a rubber stamp on each case within the Mayor's Court docket book. This signature stamp is the signature of the Mayor that is used by the Mayor's Court Clerk. Each case within the docket book should be signed manually by the Mayor.
- The Mayor's Court Clerk presents a report periodically to Council that presents the total amount of State and Village fines and court costs each month as well as the officer salaries, expenses and the type of expense. According to Section 733.40, Revised Code, the Mayor should present at the first regular meeting of Council, a monthly report of Mayor's Court that states all money received, from whom and for what purposes received, and when paid into the treasury.

Village of West Elkton – Preble County

Report on Accounting Methods

Receipt Transactions

(Continued)

- Mayor's Court collections were not all posted to the cashbook or the docket book. According to Section 2335.25, Revised Code, Mayor's Court Clerk should enter all receipts received on the day of the receipt into the cashbook and docket book.
- Under Section 733.40 and 1905.21, Revised Code, the Mayor should disburse fines to the State on the first business day of each month and to the Village on the first Monday of each month. Disbursements to the State and Village were not made on a monthly basis.
- The Mayor's Court Clerk receipts the monies, counts the cash, inputs the receipts into the cashbook, deposits to the bank, inputs information into the docket book and rubber stamps the Mayor's signature, disburses monies to the State and Village, and prepares the Mayor's Court report submitted to Council. The Mayor should perform the monthly bank reconciliation. The Mayor should also review and approve all court reports and all cases within the docket book. The Mayor should manually sign each case within the docket book.
- The Mayor's Court Clerk uses case jackets to file all citations set for a certain court date in one jacket. The clerk should file each citation within one case jacket to provide a means of accessibility for each case. The case jacket should provide the case number, amount of the fine, and each receipt received for the case and should be filed in numerical order.
- The Police Chief should receive copies of all issued and voided citations by the Police Officers and should maintain accountability over the citations. A monthly report should be prepared and presented to the Mayor.
- As of January 1, 2008, the Mayor's Court operations have been suspended.

Village of West Elkton – Preble County

Report on Accounting Methods

Purchasing Process

Description of an Effective Method for Purchasing

The process of purchasing goods or services should ensure that each transaction is properly authorized, documented, and recorded and the purchasing should be integrated with the budget. The process should include a justification of need and selection of the vendor with the best price, as well as authorization by an appropriate individual. In addition, authorization must include the fiscal officer's certification of the availability of funds and that the amount has been appropriated and is free from previously encumbered obligations. All purchase orders should be in written form clearly indicating the items, quantities, and unit cost. Authorized purchase commitments should be recorded against a budget line item in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Statutory Requirements

Several State laws govern the purchasing process. The requirements are as follows:

Certification of the Fiscal Officer – Each contract or order for the expenditure of money must be accompanied by a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing fiscal year, the amount required to meet the obligation in the fiscal year in which the contract is made, has been lawfully appropriated for such purposes and is in the treasury or in 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.

Blanket Certification of the Availability of Funds - The subdivision may utilize blanket purchase orders for authorizing obligations for a particular purpose that does not extend beyond year end in an amount established by resolution of the Village Council. A general certification of this type may be established for any appropriation line item and need not identify a specific vendor. This type of purchase order is used for routine, recurring type items or for unanticipated emergencies. An itemized statement of obligations incurred and expenditures made under such certificate shall be rendered to the auditor or other chief fiscal officer before another such certificate may be issued, and not more than one such certificate per appropriation line shall be outstanding at a time.

“Super” Blanket Certification of the Availability of Funds - The super blanket certification permits the fiscal officer to certify any amount from a specific line item appropriation. The certification is authorized to be outstanding for any period up to the end of the year and more than one certificate is permitted to be outstanding at one time. The certification must identify a specific line item appropriation in a specific fund. The certification may be limited to a specific vendor, if desired. A list of obligations incurred and expenditures made under each certification must be maintained and provided by the fiscal officer.

Purchases that may be made through the use of a super blanket certificate are the services of an accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor or appraiser by or on behalf of the subdivision, fuel oil, gasoline, food items, roadway materials, utilities, and any purchase exempt from competitive bidding under Revised Code section 125.04, and any other specific disbursement that is a recurring and reasonably predictable operating expense.

Village of West Elkton – Preble County

Report on Accounting Methods

Purchasing Process

(Continued)

Then and Now Certification - It is intended that the fiscal officer's certification be secured at the time a purchase order is issued or a contract is executed. If timely certification was not obtained, contracts or purchase orders may be certified at the time of payment but the certification must indicate that, both at the time the order was placed (then) and at the current time (now), a sufficient sum was appropriated for the purpose of such contract and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. If the amount exceeds \$3,000, the Village Council has thirty days from the receipt of such certificate to approve payment by resolution. If approval is not made within thirty days, there is no legal liability on the part of the Village.

Authority to Contract – Contracts are approved by the Village Council and executed in the name of the Village by the Mayor and the Clerk Treasurer, except as otherwise specified by statute.

Bidding – All contracts for expenditures in excess of \$25,000 shall be authorized by Council and entered into in writing with the lowest and best bidder. Ohio Revised Code Section 731.14 requires that bids be opened and publicly read by the Clerk Treasurer at the time, date, and place specified in the advertisement for bids. If the position of Village Administrator has been created, Ohio Revised Code Section 731.141 requires that bids be opened and publicly read by the Village Administrator for departments under the Administrator's supervision at the time, date, and place specified in the advertisement for bids. Exceptions to the bidding requirements include contracts for:

1. Personal services of a specialized nature;
2. Goods and services when only one source is available;
3. Work to be done or for the purchase of supplies and materials in any department of the Village if a real and present emergency exists;
4. The purchase of used equipment and supplies at a public auction or at a sale where bids are required by all parties wishing to purchase;
5. Purchases from other political subdivisions and agencies; and
6. Goods purchased under the State Cooperative Purchasing Program.

Findings for Recovery Database – Effective January 1, 2004, Ohio law (ORC section 9.24) prohibits any state agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with state funds, to a person against whom a finding for recovery has been issued by the Auditor of State on or after January 1, 2001, if the finding for recovery is unresolved.

Per Auditor of State Bulletin 2004-006, a contract for purposes of Section 9.24 of the Revised Code is awarded when a written agreement is executed pursuant to a formal competitive contracting procedure that may include competitive bidding, requests for proposals, or invitations to bid. A purchase arrangement that does not involve competitive contracting procedures does not constitute the awarding of a contract and is not subject to Revised Code section 9.24. For purchases made off the State term schedule, the Ohio Department of Administrative Services engages in a contracting process as described under Attorney General Opinion 2004-014 and, consequently, is required to comply with Revised Code section 9.24. State agencies and political subdivisions that purchase off the State term schedule do not engage in their own contracting processes and are not subject to the provisions of Revised Code section 9.24.

Village of West Elkton – Preble County

Report on Accounting Methods

Purchasing Process

(Continued)

Section 9.24 (G)(1)(a) of the Revised Code states that the only contracts subject to the provisions of the statute are those contracts in which the cost of goods, services, or construction exceeds \$25,000. Section 9.24 (G)(1)(b) of the Revised Code provides an exception to this rule and applies the statute to a contract awarded to any person who, in the previous year, received contracts from the State agency or political subdivision, the aggregate of which exceeded \$50,000.

Delinquent Personal Property Taxes - Section 5719.042, Revised Code, provides that after the award by a taxing district of any contract let by competitive bid and prior to the time the contract is entered into, the person making a bid shall submit to the district's fiscal officer a statement affirmed under oath that the person with whom the contract is to be made was not charged at the time the bid was submitted with any delinquent personal property taxes on the general tax list of personal property of any county in which the taxing district has territory or that such person was charged with delinquent personal property taxes on any such tax list, in which case the statement shall also set forth the amount of such due and unpaid delinquent taxes and any due and unpaid penalties and interest thereon. If the statement indicates that the taxpayer was charged with any such taxes, a copy of the statement shall be transmitted by the fiscal officer to the county treasurer within thirty days of the date it is submitted.

Administrative Code Requirements

Section 117-2-02(C)(2) of the Ohio Administrative Code states, “purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s), as required by Section 5705.41(D) of the Revised Code. Purchase orders are not effective unless the fiscal officer’s certificate is attached. The certificate should be attached at the time a commitment to purchase goods or services are made.”

Methods Used by the Village

The Village has no formal policies or procedures for purchases under \$25,000. On occasion, purchase requests are made verbally to the Village Clerk Treasurer or Mayor. Verbal approval of the purchase request is given but a purchase order is rarely prepared before the employee places the order for the goods or services. The Clerk Treasurer prepares a purchase order based on the information given to the Clerk Treasurer by the employee requesting the purchase order and posts it to the system. The Village Clerk Treasurer prepares and signs blanket and regular purchase orders for monthly bills, such as utilities and office supplies. Purchase orders for utilities and contract services are prepared before an obligation is incurred. The Clerk Treasurer signs the purchase order. There is only one copy of the purchase order and it is maintained in a purchase order file for that year.

The Village Council authorizes the Village Clerk Treasurer to advertise for bids for expenditures in excess of \$25,000. The bid openings are generally during an open meeting of Council. The bids are read. Council reviews the bids and contracts with the lowest and/or best bidder.

The Village has no formal policies or procedures for the purchase of gas. There are no gas stations that have a list of employees who are allowed to purchase gas. The Village has one gas credit card which is used by the Police Chief, the Mayor, and employees to purchase gas for the Village vehicles as needed. Receipts are signed by the person who used the credit card and given to the Clerk Treasurer who then verifies the receipt to the monthly credit card statement.

Village of West Elkton – Preble County

Report on Accounting Methods

Purchasing Process

(Continued)

Auditor of State Comments

- The signature of the Clerk Treasurer on purchase orders was either missing or not authentic. All purchase order forms should be signed by the Clerk Treasurer.
- The Village receives invoices before a purchase order is prepared and posted. The Village should consider the use of a purchase order form or a requisition form to document the authorization of purchases. Once the purchase is approved, the Village Clerk Treasurer should encumber funds before funds are obligated through a purchase order per Section 5705.41(D), Revised Code.
- The Village does not use the Auditor of State Findings for Recovery Database when entering into contracts. Section 9.24, Revised Code, prohibits any State agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to any person against whom a finding for recovery has been issued by the Auditor of State, if that finding is unresolved.
- The Village Council, per Section 5705.41(D), Revised Code, should establish, by resolution or ordinance, the maximum amount for blanket purchase orders to be issued by the Village Clerk Treasurer. Blanket purchase orders used without the Village Council's limit are not valid because the Village does not have the authority to use blanket purchase orders without a limit set by Village Council.
- The Clerk Treasurer should implement internal controls over the purchase of gas for the Village vehicles. These controls should include a mileage log for each vehicle and list of approved gas stations for the purchase of fuel. The approved gas stations should be required to reference the Village vehicle and require a signature of the Village employee.

Village of West Elkton – Preble County

Report on Accounting Methods

Cash Disbursements

Description of an Effective Method for Cash Disbursements

The processing of invoices should ensure that each payment represents goods or services that were properly authorized and received by the Village. The processing should include a comparison of the invoiced items and quantities to the purchase order and billing slips or receiving copy of the purchase order, a comparison of the prices on the invoice to the purchase order, and the signature of the individual who made the comparisons. All invoices should be recomputed ensuring accurate extensions and totals. A voucher should be prepared reflecting the proper payee, invoice amount and account codes, and should include a copy of the purchase order, invoice and receiving report or a signed billing slip. A check should be prepared based on the completed voucher, the existence of appropriate vendor information (I.R.S. Form 1099 data), and a properly executed certification by the Clerk Treasurer as to whether there is adequate cash in the fund to pay the obligation. All checks should be signed by the Clerk Treasurer and recorded in the cash journal and appropriations ledger. Vouchers should be filed numerically or by vendor.

Statutory requirements

State law places the following requirements on the disbursement of funds:

Checks - Disbursements may only be made by a proper check drawn against an appropriate fund. The check must show upon its face the appropriation from which the disbursement is made and the fund which it is drawn upon.

Restrictions - Monies are drawn from the Village treasury only for appropriations enacted by Village Council. Disbursements from each fund may be used only for the purposes of such fund and to the extent that cash exists in the fund.

Certification - If no certificate of the fiscal officer is furnished as required, upon receipt by the Village Council of a certificate of the fiscal officer stating that there was at the time of the making of such contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, the Village Council may authorize the drawing of a check in payment of amounts due upon such contract, but such ordinance shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than \$3,000, the fiscal officer may authorize it to be paid without such affirmation of the Village Council, if such expenditure is otherwise valid.

Administrative Code Requirement

Section 117-2-02(C)(3) of the Ohio Administrative Code states “vouchers may be used as a written order authorizing the drawing of a check in payment of a lawful obligation of the public office. Each voucher shall contain the date, purchase order number, the account code, amount, approval, and any other required information.”

Methods Used by the Village

When goods are received by the Village, there is no comparison of the packing slip to the items received by Village officials, except the Police Chief for his department. Even though the Police Chief reviews the packing slip, it is not compared to the purchase order to determine if the order is complete.

Village of West Elkton – Preble County

Report on Accounting Methods

Cash Disbursements

(Continued)

Invoices are either mailed to the Village post office box or received from Village employees and sent to the Clerk Treasurer. Invoices from the Police Department are reviewed and signed by the Police Chief. The Village also issues many reimbursements to Village employees and officials. Reimbursement forms are completed and signed by employees or officials. Invoices for the reimbursements are attached to the reimbursement form. Once received, the invoice is listed on the Bills Due for the month that is presented to Council for approval. Council members sign the Bills Due report indicating approval.

After the Bills Due report is approved by Council, the Clerk Treasurer determines whether there are sufficient funds through the UAN system for the payment of bills. The Clerk Treasurer manually prepares the check on a three part form instead of printing them off the system. The Clerk Treasurer compares the invoices to the checks prepared before signing the check. Approved invoices are attached to the copy of the check. Approved Checks are entered into the computer system by the Clerk Treasurer monthly.

All unused checks are stored in the Clerk Treasurer's office in a box which is accessible only to the Mayor and the Clerk Treasurer. Vouchers are filed numerically by month in a desk drawer in the Clerk Treasurer's office. Photo copies of cancelled checks are filed in the same bank envelope received in the Clerk Treasurer's office.

Auditor of State Comments

- The Village Clerk Treasurer allows various funds to carry a deficit cash balance. Disbursements should not be made from a fund with an insufficient cash balance.
- The Clerk Treasurer prepares checks manually and enters the check information into the UAN System (Uniform Accounting System) monthly. The Village-Clerk Treasurer should prepare and print checks through the UAN system to eliminate errors and to reduce posting time for disbursements.
- Invoices are listed on a "Bills Due Report" upon receipt, which is presented to Council for approval to make payment at the next monthly meeting. This procedure, which is not required by statute, does not allow obligations to be paid in a timely manner. Council already approves the appropriations for each department and authorizes all contracts. Invoices need not be approved for payment by Council. Invoices should be matched to a copy of the purchase order and approved for payment by the department head or supervisor. Prior to the checks being signed and mailed, the voucher containing the invoice, purchase order, and any other supporting documentation should be reviewed by the mayor for a properly issued purchase order, department head or supervisor approval on the invoice, acknowledgement of the receipt of goods, appropriate accounts codes, and that the check is in agreement with the voucher. The mayor should sign or initial the voucher indicating his review and approval for payment. These additional procedures compensate for the Clerk-treasurer having sole responsibility for processing invoices for payment, recording of the transactions, and signing of the all checks for the payment of obligations.
- The signature of the Clerk Treasurer on the Village checks was not always authentic. All checks should be signed by the Clerk Treasurer.

Village of West Elkton – Preble County

Report on Accounting Methods

Cash Disbursements

(Continued)

- The Village employees and officials purchase items and request reimbursement. The practice of employees purchasing items and requesting reimbursement should be terminated. The Village should adopt written procedures for the purchase of goods to be followed by Village employees and officials.
- Invoices are being paid without any verification that goods and services were received, that goods and services received were as ordered (items, quantities, and costs), or that purchases were authorized. The Village must establish a process by which purchases are properly authorized, received, and verified before invoices are paid.

Village of West Elkton – Preble County

Report on Accounting Methods

Payroll Processing

Description of an Effective Method of Payroll Processing

The processing of the payroll should ensure that all employees are compensated on a regular basis for work performed and at the rate approved by the appointing authority. All compensation should be recorded in a permanent record reflecting the hourly rate and hours worked or salary, deductions, and the gross and net compensation for the pay period and for the year. Standard deductions such as pension, Medicare, and Federal and State taxes should also be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the Village should be authorized by the employee and the authorization should be maintained in a file. Payment of the net compensation should be by a check signed by the appropriate official or by electronic funds transfer. Payment of deductions and the related employer obligations should be made timely and reported in the format prescribed by the regulatory agency. Personnel files should contain relevant employee information and any other information required by Federal and/or State laws. If there is a need to establish a new position in the Village, Council must first create the position by legislative action.

Statutory Requirements – The following State statutes apply:

Section 705.13, Revised Code, requires the legislative authority of a municipal corporation to fix, by ordinance, the salary of its members which shall be paid in equal monthly installments. For each absence from regular meetings of the legislative authority, unless authorized by a two-thirds vote all members thereof, there shall be deducted a sum equal to two percent of such annual salary. Absence for ten successive regular meetings shall operate to vacate the seat of a member, unless such absence is authorized by the legislative authority.

Section 731.13 Revised Code, requires the legislative authority of the Village to fix the compensation and bonds of all officers, clerks, and employees of the Village except as otherwise provided by law. The legislative authority must, in the case of elected officers, fix their compensation for the ensuing term of office at a meeting held not later than five days prior to the last day fixed by law for filing for such office. All bonds shall be made with sureties subject to the approval of the mayor. The compensation so fixed shall not be increased or diminished during the term for which any officer is elected or appointed. This section does not prohibit the payment of any increased costs of continuing to provide the identical benefits provided to an officer at the commencement of his term of office.

Methods Used by the Village

The Village relies on advertisement and word of mouth to fill vacant positions. The police chief interviews police officers, performs the background check, and then seeks approval from the Mayor, who makes the final decision. Council is not typically involved in the hiring process. In the past, the Mayor has taken on the responsibility of finding and replacing Village employees

Village of West Elkton – Preble County

Report on Accounting Methods

Payroll Processing

(Continued)

The Village employees consist of the Mayor, Clerk Treasurer, two part-time police officers, and six council members. The Mayor is paid \$1,000 once a year in December. The Clerk-Treasurer salary is \$100 per week plus an additional \$200 per month for the role of Mayor's Court Clerk. A one-time salary adjustment was given to the Clerk Treasurer in the amount of \$1,300, which was approved by Council. The payments for the Mayor and Clerk Treasurer are made once a month and dates range from the beginning of the month to the end of the month. The police officers do not have a set work schedule and are paid \$10 an hour. The officers will get paid when they choose to submit their hours for approval. Hours and dates worked are recorded on a time sheet. The Police Chief or the Mayor is required to approve all police officer hours before a check issuing a check. All hours worked are to be documented in the activity log maintained by the Police Chief. Council members are paid \$350 once a year in December.

The Clerk Treasurer calculates the payroll and issues manual checks for all employees. The Payroll function of the UAN system is not activated or utilized. The Clerk Treasurer prepares a manual payroll register which is updated monthly and includes the gross salary, withholdings, and the check number issued to each employee. Basic information, such as names, addresses, phone numbers, and social security numbers of each employee are maintained in a payroll file. Employees are not required to fill out a W-4 for Federal tax withholding purposes or an IT-4 for State tax withholdings. New employees inform the Clerk Treasurer of amounts they desire to be withheld for taxes or pension. The Village does not have a resolution passed by Council each year to establish pay rates. The only raise that has been given in the past several years was to the Clerk Treasurer for the role of Mayor's Court Clerk, increasing her salary from \$80 per month to \$200 per month on March 1, 2003, due to the increased work load of the Mayor's Court. The raise was given by the Mayor; no approval from Council was found in the minutes.

The Mayor, the Clerk Treasurer, and the police officers pay into Ohio Public Employees Retirement System (OPERS). The Village also contributes the required employer contribution. The monthly reporting and payments to the OPERS are due by the end of the following month. The employer's portion of OPERS is paid quarterly. Withholdings for federal, state, and school district taxes are also paid quarterly. The Village is making monthly payments on prior year Workers' Compensation premiums owed due to the Village incorrectly calculating the amount owed.

Auditor of State Comments

- Per Section 731.13, Revised Code, the Village Council should approve the compensation of all officials, clerks of the Village, and employees by completing an annual payroll resolution. An increase for the Mayor's Court Clerk was not documented or approved within the Village Council minutes. Increases in compensation to clerks or employees must be approved by Council and documented within the minutes.
- There were payroll checks written for two salaried employees that were issued before work was actually done, and the Clerk Treasurer issued payroll checks that compensated an employee twice for the same days worked. There were hours paid to police officers without the approval of the hours by the Police Chief. The Clerk Treasurer should ensure employees are only compensated once for days worked through documentation of a time sheet and require the time sheets to be approved by the department head.

Village of West Elkton – Preble County

Report on Accounting Methods

Payroll Processing

(Continued)

- Police officers do not work a set schedule and hours. Hours are turned in for work done as they become significant. This process often results in actual payments being significantly later than actual days worked. To prevent overpayments or inaccuracies, a formal written policy should be adopted requiring all employees to submit hours for approval either bi-weekly or monthly regardless of the number of hours worked.
- The Village should utilize the UAN system for the payroll process. Several reports can be printed from the UAN system that can be sent directly to the agency, such as OPERS and Employer's Quarterly Taxes (Form 941). Information from the UAN system can be used to properly calculate the Workers' Compensation premium.

Village of West Elkton – Preble County

Report on Accounting Methods

Debt Administration

Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. An ordinance authorizing the issuance of debt should be passed by Council. The statute authorizing the issuance of debt should be identified in the ordinance as well as the purpose of the debt, the maturity, interest rate, and the source of revenue to be used for repayment. Debt proceeds should be receipted into a separate fund and used only for the purpose specified in the authorizing ordinance. Money to be used for debt payments may be receipted in a separate fund created specifically for debt retirement. Care should be taken to insure the timely payment of both principal and interest.

Statutory Requirements

General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code. The statutory requirements vary depending on the nature of the debt being issued.

Methods Used by the Village

The Village’s outstanding long-term obligations are as follows:

Debt Issue	Interest Rate	Original Issue Amount	Outstanding Amount As Of 10/30/07	Final Maturity
Loans Payable				
Twin Valley Bank				
Police Cruiser	5.75%	\$7,497	\$7,497	3/21/08

Auditor of State Comments

- Debt payments are often recorded in the UAN system before the actual payment is made or the check is written. The Village does not always post debt principal and interest payments to their respective account codes. Often, they are both posted to the principal object code or the other debt service object code. Debt payments should be recorded in the accounting system at the time payment is made and the principal and interest payments should be posted to their respective object codes.
- The Village did not make all debt payments timely and incurred penalties for late payments. All debt payments should be made by the due date to avoid late fees.
- The original police cruiser was refinanced with an additional amount for repairs. All debt issued or refinanced should be approved by ordinance of Council and should identify the Revised Code sections granting authority for the issuance of the debt. The ordinance for the issuance of debt should be completed by legal Counsel. No Council ordinance could be located for approval for change in debt.

Village of West Elkton – Preble County

Report on Accounting Methods

Inventory of Capital Assets

Description of an Effective Inventory of Capital Assets

Capital assets of the Village should be adequately safeguarded against loss or theft. An inventory describing each item, cost, serial and/or model numbers, location, and date of purchase should be maintained by the Clerk Treasurer. The inventory should be updated at least annually for purchases and disposals. Verification of the inventoried assets should be performed at least annually. The disposal of an asset should be properly authorized and reported to the Clerk Treasurer.

Administrative Code Requirements

Section 117-2-02(D)(4)(c) of the Ohio Administrative Code, requires that all local public offices should maintain capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

Auditor of State Comments

- The Village does not maintain an inventory of capital assets. Without an inventory of capital assets, the Village is unable to determine if there is adequate insurance coverage, whether assets have been lost or stolen, whether idle assets exist that can be sold to generate additional revenue, and whether assets are used in the most efficient manner. The Village should develop an inventory of all capital assets and update it annually.
- The Village should implement written policies for Village owned property (i.e. vehicles, equipment, cell phones) that addresses control and accountability and that stipulates the personal use of any Village owned property is prohibited.

Village of West Elkton – Preble County

Report on Accounting Methods

Cash Management and Investing

Description of an Effective Method of Cash Management

Cash received by the Village should be deposited in a central bank account. Monies for all funds should be maintained in the account or temporarily used to purchase investments. Idle cash should be invested in interest bearing accounts, certificates of deposits, STAROhio, and/or other investments as authorized by State statutes. The deposits of public money should be insured and/or collateralized to insure repayment of public monies deposited with a financial institution. Interest allocation should be in accordance with the Ohio Constitution and State statutes.

Reconciliation between the bank and cash journal should be completed for all accounts on a monthly basis. The reconciliation should be completed immediately after the books are closed for the month and upon receipt of the bank statement. Reconciling items should be specifically identified and listed.

Statutory Requirements:

Sections 135.14(O)(1), Revised Code states, “Except as otherwise provided in divisions (O)(2) and (3) of this section, no treasurer or governing board shall make an investment or deposit under this section, unless there is on file with the Auditor of State a written investment policy approved by the treasurer or governing board. The policy shall require that all entities conducting investment business with the treasurer or governing board shall sign the investment policy of that subdivision.

Section 135.14(O)(2), Revised Code, states, “if a written investment policy described in division (O)(1) of this section is not filed on behalf of the subdivision with the Auditor of State, the treasurer or governing board of that subdivision shall invest the subdivision’s interim monies only in interim deposits pursuant to division (B)(3) of this section, no-load money market mutual funds pursuant to division (B)(5) of this section, or the Ohio subdivision’s fund pursuant to division (B)(6) of this section.”

Section 135.14(O)(3), Revised Code, states, “Divisions (O)(1) and (2) of this section do not apply to a treasurer or governing board of a subdivision whose average annual portfolio of investments held pursuant to this section is one hundred thousand dollars or less, provided that the treasurer or governing board certifies, on a form prescribed by the Auditor of State, that the treasurer or governing board will comply and is in compliance with the provisions of sections 135.01 to 135.21 of the Revised Code.”

Section 135.22, Revised Code, requires the Village Clerk Treasurer to attend annual training programs of continuing education for treasurers provided by the Treasurer of State.

Section 135.12 of the Revised Code requires that the designation period for depositories be five years.

In addition to the training required by Section 135.22 regarding investing, Section 733.27 of the Revised Code requires that the Clerk Treasurer attend annual training programs of continuing education for village clerks provided by the Auditor of State. This training encompasses a wide variety of topics.

Federal Requirements

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires that, in order for a depositor to have a valid claim to assets of a failed financial institution, there must be a security agreement. This agreement must have been:

Village of West Elkton – Preble County

Report on Accounting Methods

Cash Management and Investing

(Continued)

1. In writing;
2. Executed by the financial institution and the depositor making the claim;
3. Approved by the board of directors or loan committee of the institution; and
4. An official record of the financial institution continuously from the time of its execution.

Methods used by the Village

The Village has a general checking account. The Clerk Treasurer reconciles the general checking account each month; however, the Clerk Treasurer does not reconcile the Mayor's Court bank account.

The UAN software provides a reconciliation from bank to books which is currently being utilized by the Clerk Treasurer. The reconciliation is printed from the software and includes an outstanding checklist. Upon completion of the monthly reconciliation, Village Council reviews and approves the monthly bank reconciliation within the minutes and Council signs the reconciliation.

The Mayor's Court Clerk maintains a manual cashbook for Mayor's Court. After receiving the monthly bank statement, the Mayor's Court Clerk compares the bank balance to the amount to be disbursed per the cashbook. Due to the fact that the Mayor's Court bank account is not reconciled, the amounts to be distributed can not exceed the available bank balance. The cashbook notes the check number and the amount distributed. Generally, all monies are distributed to the Village and the State. The exception would be if a bond that had been posted was refunded to the person who posted it.

The Village has a Mayor's Court change fund to make change for over the counter collections. This change fund was established from receipts received for Mayor's Court that were not deposited. There was no formal authorization for the change fund by Council.

Auditor of State Comments

- The general checking account reconciliations have reconciling items each month. The majority of the reconciling items include interest not being posted monthly and manual checks not being entered into the UAN system. The reconciling items as well as the the amounts should be noted on the reconciliation. The Village Clerk Treasurer should post the reconciling items upon completion of the reconciliation.
- The Mayor's Court cashbook is not reconciled to the bank statement monthly; consequently, the cashbook does not reconcile to the bank statements. Several reconciling items have not been corrected within the cashbook. The Mayor's Court Clerk should perform a reconciliation between the cashbook and the bank on a monthly basis and post reconciling items upon completion of the reconciliation. The Mayor should review and approve the monthly bank reconciliation for Mayor's Court.

Village of West Elkton – Preble County

Report on Accounting Methods

Cash Management and Investing

(Continued)

- There were several Mayor's Court bank statements that could not be located by the Mayor's Court Clerk. The Mayor's Court Clerk should file all records of Mayor's Court in a safe and secure location upon completion of their use.
- The Mayor's Court Clerk has a change fund. A formal authorization and resolution on the existence and use of the change fund should be approved by the Council.

Village of West Elkton – Preble County

Report on Accounting Methods

Financial Reporting

Description of Effective Method of Financial Reporting

At least monthly, the Village Clerk Treasurer should provide Council with the year-to-date receipts, disbursements, outstanding encumbrances, and available fund balances for each fund of the Village. In addition, information concerning the estimated and actual receipts, appropriations, disbursements, and encumbrances should be presented for Council's review. On an annual basis, the Village Clerk Treasurer should prepare and publish financial statements, a comparison of budgeted versus actual information, a summary of debt activity for the year, and the activity and outstanding principal balance on all debt obligations.

Statutory Requirements:

Section 117.38, Revised Code, requires that a financial report be filed with the Auditor of State within sixty days after the close of the fiscal year. At the time the report is filed with the Auditor of State, a notice should be published in the local paper that the report is completed and available at the office of the fiscal officer.

Section 733.45, Revised Code, states, "The treasurer of a municipal corporation shall settle and account with the legislative authority, quarterly, and at any other time which it by resolution or ordinance requires. At the first regular meeting of such legislative authority in January, each year, the treasurer shall report to it the condition of the finances of the municipal corporation, the amount received by him, the sources of such receipts, the disbursements made by him, and on what account, during the year preceding. Such account shall exhibit the balance due on each fund which has come into the treasurer's hands during the year."

On February 2, 2005, the AICPA issued an interpretation of one of its auditing standards (i.e., AU Section 623 Special Reports) that affects those governments that prepare their financial statements using the cash or modified cash basis of accounting. According to the interpretation, the cash basis financial statement presentation must "look like" a GAAP presentation (i.e., GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, once it became effective); otherwise, the Auditor of State or contracted independent public accounting firm is required to issue an adverse opinion. For entities that are not legally required to prepare their financial statement in accordance with GAAP and elect not to present "look alike" statements, (such entities in Ohio include libraries, townships, villages, and special districts), the Auditor of State will render a second opinion at the same time it issues its adverse opinion. Therefore; local governments would receive two opinions as part of their audit report if their cash statements do not look like GAAP statements (i.e., GASB 34).

Administrative Code Requirements:

Ohio Administrative Code Section 117-02-03(A)(2) requires that local public offices file their annual financial report either in paper form or electronically in a manner and format prescribed by the Auditor of State. Ohio Administrative Code Section 117-02-03(D) requires the reports to be filed on the forms provided by the Auditor of State.

Village of West Elkton – Preble County

Report on Accounting Methods

Financial Reporting

(Continued)

Method Used by the Village

The Village prepares its annual financial report on the cash basis of accounting. The report provides for the classification of funds by fund type, and includes combined and combining fund type statements. The 2005 and 2007 Annual Financial Report was filed on time, while the 2006 Annual Financial Report was late. The Village did not prepare its financial statements according to the new preferred reporting model and fund type classifications. Once audited, a dual opinion will be issued for the financial statements filed. An adverse opinion will be issued for the cash statements not resembling a GAAP presentation and then a second opinion will be issued based on the audit testing of the cash statements.

The Village Clerk Treasurer provides Council members with a monthly fund balance report that includes beginning of the year balances and ending balances for the current month. The cash summary report includes year-to-date receipts and expenditures. Council is also provided with a list of bills due for the following month and bills paid during the current month.

Auditor of State Comments:

- Close to the end of the year, the Village Clerk Treasurer presents an expenditure report that shows the total percentage of appropriations used through actual expenditures and encumbrances to Council. A budget versus actual report for revenues is not submitted to Council. The Village Clerk Treasurer should present budget versus actual reports for both revenues and expenditures to Council on a monthly basis.

Village of West Elkton – Preble County

Report on Accounting Methods

Recording Official Proceedings

Description of an Effective Method of Recording Official Proceedings

The Village Council's minutes should reflect full and accurate information to permit the public's understanding and appreciation of the rationale behind Council's decisions. An ordinance, resolution, or bylaw should be limited to one subject, which should be clearly expressed in its title. In the adoption or passage of an ordinance, resolution, or bylaw, the yeas and nays should be entered into the minutes and the ordinance, resolution, or bylaw should be signed by the presiding officer and the Clerk of Council. All Council minutes, ordinances, and resolutions should be maintained as a permanent record of the Village.

Statutory Requirements

Section 121.22, Revised Code, requires the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section. Further, the Ohio Supreme Court has held that the minutes must be "full and accurate", which means that they must contain sufficient facts and information to permit the public to understand and appreciate the rationale behind the relevant decision. The public not only has a right to know a government body's final decision on a matter, but also the means by which those decisions were reached.

Sections 731.20 through 731.24, Revised Code, address the passage, style, number of subjects, authentication, and recording, and publication requirements of Council's legislation. In general, no ordinance, resolution, or bylaw shall contain more than one subject, which shall be clearly expressed in its title. The copy of the proposed ordinance must be filed with the Village Clerk Treasurer and kept open for public inspection for ten days. Each ordinance, resolution, or bylaw is required to be adopted or passed by separate vote of Council and the yeas and nays shall be entered in the minutes. Ordinances, resolutions, and bylaws shall be authenticated by the signature of the presiding officer and clerk. Ordinances and resolutions must be published in an English-speaking newspaper once a week for two consecutive weeks.

Section 149.39, Revised Code, creates in each municipal corporation a records commission composed of the chief executive or his appointed representative, as chairman, and the chief fiscal officer, the chief legal officer, and a citizen appointed by the chief executive. The commission shall appoint a secretary, who may or may not be a member of the commission and who shall serve at the pleasure of the commission. The commission may employ an archivist to serve under its direction. The commission shall meet at least once every six months, and upon call of the chairman. The functions of the commission shall be to provide rules for retention and disposal of records of the municipal corporation and to review applications for one-time records disposal and schedules of records retention and disposition submitted by municipal offices.

Method Used by the Village

The Clerk Treasurer takes hand-written notes of the proceedings of each Council meeting during the Council meeting. After each meeting, she types the minutes into a word processing document and presents them to Council at the next meeting to be approved. The minutes are signed by the President of Council and the Clerk Treasurer.

Village of West Elkton – Preble County

Report on Accounting Methods

Official Proceedings

(Continued)

The approved minutes are not safely secured within a minute record book. Some minutes were located at Village Hall as well as the Clerk Treasurer's house. The Clerk Treasurer had to recreate two meetings in 2004 because they could not be located.

Each proposed ordinance or resolution is read by title on three different Council meetings with a vote by the members after the third reading. If the ordinance or resolution is to be approved as an emergency, Council waives the three readings and votes on the legislation.

Auditor of State Comments

- The Clerk Treasurer was unable to locate the March and April 2004 minutes when requested. These minutes were recreated from handwritten notes of the meetings. The minutes of a regular or special meeting should be promptly prepared, filed, and maintained in a bound minute record and be open to public inspection according to Section 121.22, Revised Code.
- The Village minutes do not contain all actions of Council taken during the meeting or the signatures of the Village Mayor and Clerk Treasurer. Also, the Village minutes for July 2005 contained the wrong date of June 2005. The Village Clerk Treasurer should maintain complete and accurate record of the Village meetings within the minutes. Village Council should note during the reading of the prior meeting minutes corrections of any actions or deliberations not mentioned in the minutes. All minutes should be signed by both the President of Council and Clerk Treasurer after reading and approval of the minutes by Council.
- The Village Council approves most items through motions instead of resolutions or ordinances. The appropriations for the Village were not approved in the form of an ordinance but through motions of Council. The Village Council should make and approve most actions through resolutions and ordinances.
- The Village Council held an executive session on October 12, 2004 for the purpose of discussing the finances of the Village. The Village should only hold an executive session within the regular or special meeting for the purpose(s) outlined in Section 121.22(G) and (J), Revised Code.
- Resolutions and ordinances are not maintained in a book for Resolutions and Ordinances. The Village Clerk Treasurer should maintain and safeguard Village Council approved resolutions and ordinances in an appropriate designated book.
- Ordinances and resolutions of the Village are not always published according to Section 731.20 and 731.21, Revised Code. The signatures of the President of Council and Clerk Treasurer are lacking on some ordinances. Once a week for two consecutive weeks, the Village Clerk Treasurer should publicize in the local newspaper the resolution or ordinance number with the heading and a notice that the complete text of it may be obtained or viewed at the Village Hall. Also, the President of Council as well as the Clerk Treasurer should sign each ordinance.

Village of West Elkton – Preble County

Report on Accounting Methods

Conclusion

The methods as described by the Village and included in this report are based on our inquiries and discussions with Village personnel and the related procedures documented in State statutes and Chapter 117 of the Ohio Administrative Code.

It is our opinion and as is detailed throughout this report, that the current accounting system of the Village of West Elkton is inadequate to fulfill the financial reporting needs of the Village. In addition, the current accounting system is not in compliance with Section 117 of the Ohio Revised Code and the requirements of the Auditor of State as noted in this report.



Mary Taylor, CPA
Auditor of State

VILLAGE OF WEST ELKTON

TRUMBULL 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 2, 2008**