



Mary Taylor, CPA  
Auditor of State



**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

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# Mary Taylor, CPA

Auditor of State

West Malta Rural Water District  
Morgan County  
P.O. Box 185  
Malta, Ohio 43758

To the Commission:

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

September 29, 2008

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

West Malta Rural Water District  
Morgan County  
P.O. Box 185  
Malta, Ohio 43758

To the Commission:

We have audited the accompanying financial statement of the West Malta Rural Water District, Morgan County, Ohio (the Water District), as of and for the year ended December 31, 2007. This financial statement is the responsibility of the Water District's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

GAAP require presenting entity-wide statements. While the Water District does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Water Districts to reformat their statements. The Water District has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statement referred to above for the year ended December 31, 2007 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Water District as of December 31, 2007, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balance of the West Malta Rural Water District, Morgan County, as of December 31, 2007, and its cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

The Water District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, on our consideration of the Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the financial statement that collectively comprises the Water District's financial statement. The Schedule of Federal Awards Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statement. We subjected the Schedule of Federal Awards Expenditures to the auditing procedures applied in the audit of the financial statement. In our opinion, this information is fairly stated in all material respects in relation to the financial statement taken as a whole.



**Mary Taylor, CPA**  
Auditor of State

September 29, 2008



**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>2007</u>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$6,150
Total Operating Cash Receipts	<u>6,150</u>
<b>Operating Cash Disbursements:</b>	
Contract Services	1,587
Office Supplies	68
Insurance	776
Miscellaneous	307
Total Operating Cash Disbursements	<u>2,738</u>
Operating Income	<u>3,412</u>
<b>Non-Operating Cash Receipts:</b>	
Interest Earnings	702
Intergovernmental Revenues	1,329,960
Total Non-Operating Cash Receipts	<u>1,330,662</u>
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	254,526
Other Non-Operating Cash Disbursements (Construction Related)	1,071,598
Total Non-Operating Cash Disbursements	<u>1,326,124</u>
Net Receipts Over Disbursements	<u>7,950</u>
Cash Balance, January 1	<u>38,435</u>
<b>Cash Balance, December 31</b>	<b><u><u>\$46,385</u></u></b>

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

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**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges for the West Malta Rural Water District, Morgan County, Ohio (the Water District), as a body corporate and politic. The Water District was established as a separate political subdivision of the State of Ohio under provisions of Chapter 6119 of the Ohio Revised Code. Until construction is completed, the affairs of the Water District shall be conducted by a ten-member Commission. After construction is completed, the affairs of the Water District shall be conducted by a three-member Board of Trustees. The Board members are appointed by the Morgan County Common Pleas Court Judge. The Water District will then provide water services to residents of the Water District.

The Water District's management believes this financial statement presents all activities for which the Water District is financially accountable.

**B. Accounting Basis**

This financial statement follows the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Water District recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

This statement includes adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Budgetary Process**

The Ohio Revised Code requires the Water District to budget annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function level of control, and appropriations may not exceed estimated resources. Appropriation authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

**3. Encumbrances**

The Ohio Revised Code requires the Water District to reserve (encumber) appropriations when commitments are made. The Water District did not use the encumbrance method of accounting.

A summary of 2007 budgetary activity appears in Note 3.

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2007  
(Continued)**

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

**D. Property, Plant, and Equipment**

The Water District records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statement does not report these items as assets.

**2. EQUITY IN POOLED CASH**

The Water District may invest in certificates of deposit, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

The carrying amount of cash at December 31 was as follows:

	<u>2007</u>
Demand deposits	<u>\$46,385</u>
Total deposits	<u><u>\$46,385</u></u>

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2007, follows:

<u>2007 Budgeted vs. Actual Receipts</u>		
<u>Budgeted</u>	<u>Actual</u>	
<u>Receipts</u>	<u>Receipts</u>	<u>Variance</u>
<u>\$0</u>	<u>\$1,336,812</u>	<u>\$1,336,812</u>

  

<u>2007 Budgeted vs. Actual Budgetary Basis Expenditures</u>		
<u>Appropriation</u>	<u>Budgetary</u>	
<u>Authority</u>	<u>Expenditures</u>	<u>Variance</u>
<u>\$0</u>	<u>\$1,328,862</u>	<u>(\$1,328,862)</u>

The Water District did not adopt budgeted receipts or appropriations, contrary to Ohio law. In addition, contrary to Ohio law, budgetary expenditures exceeded the Water District's appropriation authority by \$1,328,862 for the year ended December 31, 2007.

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2007  
(Continued)**

**4. DEBT**

Debt outstanding at December 31, 2007, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA	\$734,180	4.52%
OPWC	<u>222,482</u>	0.00%
Total	<u><u>\$956,662</u></u>	

The Water District borrowed funds from the Ohio Water Development Authority (OWDA) in July of 2007 for the construction of the water distribution system. The OWDA has approved up to \$944,000 in loans to the Water District for this project. The loan will be repaid in semiannual installments in July and January of each year. As of December 31, 2007, the Water District had received \$734,180 from OWDA. Repayment of this debt will begin once the project is completed. An amortization schedule will be prepared to reflect any revisions in amounts actually borrowed. The loan is collateralized by water receipts. The Water District has agreed to set utility rates sufficient to cover OWDA debt service requirements. Amortization of the above debt will not be processed until the construction phase is completed.

The Ohio Public Works Commission (OPWC) loan #CR25J relates to the construction of a water system distribution project. The OPWC has approved up to \$1,198,611 in loans to the Water District for this project. The loan will be repaid in semiannual installments in July and January of each year. As of December 31, 2007, the Water District had received \$222,482 from OPWC. Repayment of this debt will begin once the project is completed. An amortization schedule will be prepared to reflect any revisions in amounts actually borrowed. The loan is collateralized by water receipts. The Water District has agreed to set utility rates sufficient to cover OPWC debt service requirements.

**5. RISK MANAGEMENT**

**Commercial Insurance**

The Water District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability.

**6. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the Water District are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**7. SUBSEQUENT EVENTS**

**A. Construction Phase**

The Water District began a water line project in July 2007. The estimated completion date was set for May 2008. However, the principal contractor, Glenn James & Sons Inc. abandoned the project prior to completion and has violated the terms of the contract. The Water District is currently in negotiations for a settlement with CNA Surety who provided the performance and payment bonds on the contract.

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**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Direct Award</i>			
Water and Waste Disposal Systems for Rural Communities	N/A	10.760	<u>\$888,352</u>
Total U.S. Department of Agriculture			<u>888,352</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<i>Direct Award</i>			
Community Development Block Grants/Entitlement Grants	B-W-06-053-1	14.228	<u>201,606</u>
Total U.S. Department of Housing and Urban Development			<u>201,606</u>
<b>Total Federal Awards Expenditures</b>			<b><u><u>\$1,089,958</u></u></b>

*The Notes to the Schedule of Federal Awards Expenditures are an integral part of this Schedule.*

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Water District's federal award programs. The Schedule has been prepared on the cash basis of accounting.





# Mary Taylor, CPA

Auditor of State

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

West Malta Rural Water District  
Morgan County  
P.O. Box 185  
Malta, Ohio 43758

To the Commission:

We have audited the financial statement of the West Malta Rural Water District, Morgan County, Ohio (the Water District), as of and for the year ended December 31, 2007, and have issued our report thereon dated September 29, 2008, wherein we noted the Water District prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the Water District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statement, but not to opine on the effectiveness of the Water District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Water District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Water District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2007-006 through 2007-008.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Water District's internal control will not prevent or detect a material financial statement misstatement.

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Our consideration of the internal control over financial reporting was for a limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings number 2007-007 and 2007-008 are also material weaknesses.

We also noted certain internal control matters that we reported to the Water District's management in a separate letter dated September 29, 2008.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Water District's financial statement is free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2007-001 through 2007-007.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Water District's management in a separate letter dated September 29, 2008.

We intend this report solely for the information and use of management, the Commission, and federal awarding agencies. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

September 29, 2008



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

West Malta Rural Water District  
Morgan County  
P.O. Box 185  
Malta, Ohio 43758

To the Commission:

### Compliance

We have audited the compliance of the West Malta Rural Water District, Morgan County, Ohio (the Water District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2007. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Water District's major federal program. The Water District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Water District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Water District's compliance with those requirements.

In our opinion, the Water District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2007.

### Internal Control over Compliance

The Water District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Water District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Water District's internal control over compliance.

West Malta Rural Water District  
Morgan County  
Independent Accountants' Report on Compliance with  
Requirements to Each Major Federal Program  
and on Internal Control Over Compliance in Accordance  
with OMB Circular A-133

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the Water District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of management, the Commission, and the federal awarding agencies. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

September 29, 2008

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2007**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Water and Waste Disposal Systems for Rural Communities CFDA #10.760
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2007  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-001**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.28(B)(2)(a) provides that the taxing authority of a taxing unit that does not levy a tax is not required to adopt a tax budget pursuant to division (A) of this section. Instead, on or before the fifteenth day of July each year, such taxing authority shall adopt an operating budget for the taxing unit for the ensuing fiscal year. The operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. The operating budget is not required to be filed with the county auditor or the county budget commission.

The Water District did not adopt an operating budget for 2007. Management decided not to follow budgetary requirements until operations begin. Operations are expected to begin in 2009. This could result in the Water District spending more money than is available to spend.

We recommend the Water District adopt an operating budget prior to the fifteenth of July each year for the upcoming fiscal year.

**FINDING NUMBER 2007-002**

**Noncompliance Citation**

According to Ohio Rev. Code Section 5705.28(B)(2)(b), although a taxing unit that does not levy a tax is not a taxing unit for purposes for Ohio Rev. Code Chapter 5705, a water district is still required to follow these Ohio Rev. Code Sections: 5705.36, 5705.38, 5705.40, 5705.41, 5705.43, 5705.44 and 5705.45. These sections separately require the Water District to, in part: certify beginning balances on or about the first day of each fiscal year, certify revenue available for appropriation, adopt appropriations within available resources, certify the availability of funds prior to incurring obligations, and limit expenditures to appropriations for each fund. However, documents prepared in accordance with such sections are not required to be filed with the county auditor or county budget commission.

Ohio Rev. Code Section 5705.36(A)(1) states on or about the first day of each fiscal year, the fiscal officer of each subdivision and other taxing unit is to certify the total amount from all sources available for expenditures from each fund set up in the tax budget.

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to increase estimated resources and reduce estimate resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the original amount of estimated resources approved by the legislative authority.

Ohio Rev. Code Section 5705.36(A)(3) requires increasing estimated resources if the legislative authority intends to appropriate and expend excess revenue.

Ohio Rev. Code Section 5705.36(A)(4) requires reducing estimated resources if the amount of the deficiency will reduce available resources below the current level of appropriation.

Ohio Rev. Code Section 5705.36(A)(5) requires that the total appropriations made during a fiscal year from any fund must not exceed the amount contained in the estimated resources which was certified prior to making the appropriation or supplemental appropriation.

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2007  
(Continued)**

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

**FINDING NUMBER 2007-002 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.28(B)(2)(b) (Continued)**

The Treasurer did not certify the total amount from all sources available for expenditures on or about the first day of the fiscal year to present to the Commission for their approval. Management decided not to follow budgetary requirements until operations begin. Operations are expected to begin in 2009. Preparing estimated resources adopted by the Commission serves as a budgetary tool of the amount available for the Water District to spend during the year.

We recommend the Treasurer prepare the total amount from all sources available for expenditures on or about the first day of the fiscal year and have the Commission approve the estimated resources in the minutes. We further recommend the Treasurer amend estimated resources as needed and have the Commission approve the amendments in the minutes.

**FINDING NUMBER 2007-003**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed.

The Commission did not adopt an appropriation measure for the period under audit. Management decided not to follow budgetary requirements until operations begin. Operations are expected to begin in 2009. This caused a lack of budgetary control by the Commission.

We recommend that, on or about the first day of each fiscal year, the Commission adopt an appropriation measure.

**FINDING NUMBER 2007-004**

**Noncompliance Citation**

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

The Commission did not adopt appropriations during the audit period. Management decided not to follow budgetary requirements until operations begin. Operations are expected to begin in 2009. Therefore, expenditures exceeded appropriations at December 31, 2007 in the following amount:

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Enterprise Fund	\$ -	\$ 1,328,862	\$ (1,328,862)

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2007  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-004 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.41(B) (Continued)**

This resulted in the Commission spending more than was appropriated. In addition, this could result in a negative fund balance.

We recommend the Commission adopt appropriations and monitor its appropriations and expenditures to ensure that expenditures do not exceed appropriations at the legal level of control.

**FINDING NUMBER 2007-005**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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

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

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Water District.

2. **Blanket Certificate** - Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.



**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2007  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-005 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)**

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

The Water District did not properly certify the availability of funds prior to purchase commitment for 100 percent of the expenditures tested in 2007. Management decided not to follow budgetary requirements until operations begin. Operations are expected to begin in 2009. There was no evidence that the Water District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

We recommend the Water District certify purchases to which Section 5705.41(D) applies. The Treasurer should sign the certification at the time the Water District incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied.

**FINDING NUMBER 2007-006**

**Noncompliance Citation and Significant Deficiency**

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

CDBG monies received by the Morgan County Auditor on behalf of the Water District were overstated in the amount of \$139,467. In addition, the Water District Treasurer did not record the OWDA loan origination money as non-operating receipts – intergovernmental and the corresponding disbursement as non-operating disbursements – debt service in the amount of \$3,292. The Treasurer recorded these amounts in error. As a result, these adjustments, with which the Water District's management agrees, were made to the financial statements.

We recommend the Treasurer maintain the necessary ledgers as outlined in OAC 117-2-02(D), post all entries (including on behalf of receipts and disbursements) to these ledgers, and prepare the annual financial report from these ledgers in order to ensure the Water District's year-end financial statements reflect the appropriate sources of the Water District's receipts and disbursements.

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2007  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-007**

**Noncompliance Citation and Material Weakness**

Ohio Admin. Code Section 117-2-02(D) provides that all local public offices may 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:

- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations, and any other information required may be entered in the appropriate columns.

The Water District maintains a manual cashbook as their sole accounting record. However, it only included financial activity for the Water District's checking account. Activity in the Water District's savings account, which had a balance of \$40,837 at December 31, 2007, as well as OPWC and CDBG grant activity amounting to \$427,380 spent on behalf of the Water District, was not recorded in the manual cashbook. The Treasurer has not developed the receipts and appropriation ledgers due to inexperience. This resulted in the ledgers not supporting the financial statements.

We recommend the Water District establish and maintain the required cash journal, receipts ledger, and appropriation ledger in compliance with the Ohio Administrative Code.

**FINDING NUMBER 2007-008**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records. To achieve this, the Treasurer should prepare monthly bank reconciliations to reconcile the Water District's book balances to the bank balances.

The Treasurer did not prepare monthly bank reconciliations. For most months, the ending bank balance agreed to the ending checking account balance. However, the Water District did not include the activity of all accounts on their books due to management oversight. This resulted in adjustments, to which the Commission agreed, to the financial statement. Not preparing timely and complete monthly bank reconciliations could allow the Water District's accounts to become out of balance and could result in overspending by the Commission.

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2007  
(Continued)**

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

**FINDING NUMBER 2007-008 (Continued)**

**Material Weakness (Continued)**

We recommend the Treasurer perform bank reconciliations on a monthly basis for all Water District accounts. This will ensure that the accounting system balance agrees with the bank balance.

**Officials' Response:** We did not receive a response from Officials to the findings reported above.

**3. FINDINGS AND FOR FEDERAL AWARDS**

None.

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .315 (b)  
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2006-001	A noncompliance citation was issued under Ohio Rev. Code Section 9.38 for not depositing timely.	No	Not Corrected; re-issued in Management Letter.
2006-002	A noncompliance citation was issued under Ohio Rev. Code Section 117.38 for not filing the annual financial report.	Yes	
2006-003	A noncompliance citation was issued under Ohio Rev. Code Section 135.18 (A) for inadequate protection against loss in the event of bank failure.	Yes	
2006-004	A noncompliance citation was issued under Ohio Rev. Code Section 149.351 for not maintaining copies of the Commission's meetings.	Yes	
2006-005	A noncompliance citation was issued under Ohio Rev. Code Section 5705.28 (B) (2) (a) for not adopting an operating budget.	No	Re-issued as Finding Number 2007-001.
2006-006	A noncompliance citation was issued under Ohio Rev. Code Section 5705.36 (A)(1) for not certifying the total amount from all sources available for expenditure.	No	Re-issued as Finding Number 2007-002.
2006-007	A noncompliance citation was issued under Ohio Rev. Code Section 5705.38 (A) for not adopting appropriations.	No	Re-issued as Finding Number 2007-003.
2006-008	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41 (B) for expenditures exceeding appropriations.	No	Re-issued as Finding Number 2007-004.

**WEST MALTA RURAL WATER DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .315 (b)  
DECEMBER 31, 2007  
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2006-009	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41 (D) for not properly certifying the availability of funds.	No	Re-issued as Finding Number 2007-005.
2006-010	A noncompliance citation and significant deficiency under OAC 117-2-02 (A) was issued for material posting errors resulting in adjustments to the financial statements.	No	Re-issued as Finding Number 2007-006.
2006-011	A noncompliance citation and material weakness under OAC 117-2-02(D) was issued due to the Water District not maintaining a receipts ledger and an appropriations ledger.	No	Re-issued as Finding Number 2007-007.
2006-012	A material weakness was issued for the Water District Treasurer not performing monthly bank reconciliations.	No	Re-issued as Finding Number 2007-008.





**Mary Taylor, CPA**  
Auditor of State

**WEST MALTA RURAL WATER DISTRICT**

**MORGAN 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  
NOVEMBER 13, 2008**