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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Village of Kelleys Island
Erie County
121 Addison Street, P.O. Box 469
Kelleys Island, Ohio 43438-0469

We have performed the procedures enumerated below, with which the Village Council and Mayor, and the management of the Village of Kelleys Island, Erie County, Ohio (the Village), have agreed, solely to assist the Council and Mayor in evaluating receipts, disbursements and balances recorded in their cash-basis accounting records for the years ended December 31, 2012 and 2011, including mayor's court receipts, disbursements and balances, and certain compliance requirements related to these transactions and balances. Management is responsible for recording transactions; and management, the Mayor, and / or the Council are responsible for complying with the compliance requirements. This agreed-upon procedures engagement was conducted in accordance with the American Institute of Certified Public Accountants' attestation standards and applicable attestation engagement standards included in the Comptroller General of the United States' *Government Auditing Standards*. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

This report only describes exceptions exceeding \$10.

Cash and Investments

1. We tested the mathematical accuracy of the December 31, 2012 and December 31, 2011 bank reconciliations. We found no exceptions.
2. We agreed the January 1, 2011 beginning fund balances recorded in the Monthly Fund Statement Report to the December 31, 2010 balances in the prior year audited statements. We found no exceptions. We also agreed the January 1, 2012 beginning fund balances recorded in the Monthly Fund Statement Report to the December 31, 2011 balances in the Monthly Fund Statement Report. We found no exceptions.
3. We agreed the totals per the bank reconciliations to the total of the December 31, 2012 and 2011 fund cash balances reported in the Monthly Fund Statement Reports. The amounts agreed.
4. We confirmed the December 31, 2012 bank account balance with the Village's financial institution and we observed the year-end bank balances on the financial institution's website. We found no exceptions. We also agreed the confirmed balances to the amounts appearing in the December 31, 2012 bank reconciliation without exception.
5. We selected five reconciling debits (such as outstanding checks) haphazardly from the December 31, 2012 bank reconciliation:
 - a. We traced each debit to the subsequent January bank statement. We found no exceptions.
 - b. We traced the amounts and dates to the check register, to determine the debits were dated prior to December 31. We noted no exceptions.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
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6. We selected all reconciling credits (such as deposits in transit) from the December 31, 2012 bank reconciliation:
 - a. We traced each credit to the subsequent February bank statement. We found no exceptions.
 - b. We agreed the credit amounts to the Monthly Revenue Statement Report. Each credit was recorded as a December receipt for the same amount recorded in the reconciliation.
7. We tested interbank account transfers occurring in December of 2012 and 2011 to determine if they were properly recorded in the accounting records and on each bank statement. We found no exceptions.
8. We tested investments held at December 31, 2012 and December 31, 2012 to determine that they:
 - a. Were of a type authorized by Ohio Rev. Code Sections 135.13, 135.14 or 135.144. We found no exceptions.
 - b. Mature within the prescribed time limits noted in Ohio Rev. Code Section 135.13 or 135.14. We noted no exceptions.

Property Taxes and Intergovernmental Cash Receipts

1. We selected a property tax receipt from one *Statement of Semiannual Apportionment of Taxes (the Statement)* for 2012 and one from 2011:
 - a. We traced the gross receipts from the *Statement* to the amount recorded in the Revenue Entry Journal Report. The amounts agreed.
 - b. We determined whether the receipt was allocated to the proper funds as required by Ohio Rev. Code Sections 5705.05-.06 and 5705.10. We found no exceptions.
 - c. We determined whether the receipt was recorded in the proper year. The receipt was recorded in the proper year.
2. We scanned the Revenue History Report to determine whether it included two real estate tax receipts for 2012 and 2011. We noted the Revenue History Report included the proper number of tax receipts for each year.
3. We selected five receipts from the State Distribution Transaction Lists (DTL) from 2012 and five from 2011. We also selected five receipts from the Erie County Auditor Confirmation from 2012 and five from 2011.
 - a. We compared the amount from the above reports to the amount recorded in the Revenue Entry Journal Report. The amounts agreed.
 - b. We determined whether these receipts were allocated to the proper funds. We found no exceptions.
 - c. We determined whether the receipts were recorded in the proper year. We found no exceptions.

Water Fund Charges for Services

1. We haphazardly selected ten Water Fund collection cash receipts from the year ended December 31, 2012 and ten Water Fund collection cash receipts from the year ended December 31, 2011 recorded in the Payment Detail Report and determined whether the:
 - a. Receipt amount per the Payment Detail Report agreed to the amount recorded to the credit of the customer's account in the System Status Report. The amounts agreed.
 - b. Amount charged for the related billing period:
 - i. Agreed with the debit to accounts receivable in the System Status Report for the billing period. We found no exceptions.
 - ii. Complied with rates in force during the audit period multiplied by the consumption amount recorded for the billing period, plus the quarterly fixed amount, plus any applicable late penalties. We found no exceptions.
 - c. Receipt was posted to the proper fund, and was recorded in the year received. We found no exceptions.
2. We read the System Status Report.
 - a. We noted this report listed \$69,698 and \$78,266 of accounts receivable as of December 31, 2012 and 2011, respectively.
 - b. Of the total receivables reported in the preceding step, none were recorded as more than 90 days delinquent.
3. We read the Transaction Detail History Report.
 - a. We noted this report listed a total of \$983 and \$2,875 non-cash receipts adjustments for the years ended December 31, 2012 and 2011, respectively.
 - b. We selected five non-cash adjustments from 2012 and five non-cash adjustments from 2011, and noted that the Village does not have a review and approval of non-cash adjustments process in place. The lack of review and approval of non-cash adjustments increases the susceptibility that misappropriation of assets could occur and go undetected. The Village should develop a policy over non-cash adjustments and design and implement an approval process for non-cash adjustments with an independent documented review.

Debt

1. From the prior audit documentation, we noted the following loans and bonds outstanding as of December 31, 2010. These amounts agreed to the Villages January 1, 2011 balances on the summary we used in step 3.

Issue	Principal outstanding as of December 31, 2010:
OWDA Water Line Project Loan	\$126,756
OWDA Water Treatment Plant Loan	820,953
USDA Water System Loan	214,600
OPWC Road Project Loan	16,831
WSOS Water Line Project Loan	40,169
USDA Airport Improvement Bonds	194,500

2. We inquired of management, and scanned the Revenue Entry Journal Report and Check Register Report for evidence of debt issued during 2012 or 2011 or debt payment activity during 2012 or 2011. All debt noted agreed to the summary we used in step 3.
3. We obtained a summary of loan and bonded debt activity for 2012 and 2011 and agreed principal and interest payments from the related debt amortization schedules and USDA Rural Development invoices to First Mortgage Debt Service, Water, Road Construction, and Repave Runway and Debt Service fund payments reported in the Check Register Report. We found no exceptions. We also compared the date the debt service payments were due to the date the Village made the payments. We noted the July 1, 2011 OWDA and OPWC and January, 1 2012 OPWC loan payments were paid on July 15, 2011, July 11, 2011, and March 13, 2012, respectively. In order to avoid late fees, we recommend the Village make its debt service payments by the required due dates.

Payroll Cash Disbursements

1. We haphazardly selected one payroll check for five employees from 2012 and one payroll check for five employees from 2011 from the Payroll Distribution Journal Report and:
 - a. We compared the hours and pay rate, or salary recorded in the Payroll Distribution Journal Report to supporting documentation (timecard or legislatively-approved rate or salary). We found no exceptions.
 - b. We determined whether the funds and account codes to which the check was posted were reasonable based on the employees' duties as documented in the employees' personnel files or minute record. We also determined whether the payment was posted to the proper year. We found no exceptions.
2. For any new employees selected in step 1 we determined whether the following information in the employees' personnel file or minute record was consistent with the information used to compute gross and net pay related to this check:
 - a. Name
 - b. Authorized salary or pay rate
 - c. Departments and funds to which the check should be charged
 - d. Retirement system participation and payroll withholding
 - e. Federal, State and Local income tax withholding authorization and withholding
 - f. Any other deduction authorizations (deferred compensation, etc.)

We found no exceptions related to steps a. – f. above

3. We scanned the last remittance of tax and retirement withholdings for the year ended December 31, 2012 to determine whether remittances were timely paid, and if the amounts paid agreed to the amounts withheld, plus the employer's share where applicable, during the final withholding period during 2012. We noted the following:

Withholding (plus employer share, where applicable)	Date Due	Date Paid	Amount Due	Amount Paid
Federal income taxes and Medicare	January 31, 2013	January 10, 2013	\$245	\$245
State income taxes	January 15, 2013	December 19, 2012	354	354
OPERS retirement	January 30, 2013	January 20, 2013	4,279	4,279
OP&F retirement	January 31, 2013	December 19, 2013	161	161

Non-Payroll Cash Disbursements

We haphazardly selected ten disbursements from the Check Register Report for the year ended December 31, 2012 and ten from the year ended December 31, 2011 and determined whether:

- a. The disbursements were for a proper public purpose. We found no exceptions.
- b. The check number, date, payee name and amount recorded on the returned, canceled check agreed to the check number, date, payee name and amount recorded in the Check Register Report and to the names and amounts on the supporting invoices. We found no exceptions.
- c. The payment was posted to a fund consistent with the restricted purpose for which the fund's cash can be used. We found no exceptions.
- d. The Clerk-Treasurer certified disbursements requiring certification or issued a *Then and Now Certificate*, as required by Ohio Rev. Code Section 5705.41(D). We found no exceptions.

Mayors Court Transactions and Cash Balances

1. We tested the mathematical accuracy of the December 31, 2012 and December 31, 2011 bank reconciliations. We found no exceptions.
2. We compared the reconciled cash totals as of December 31, 2012 and December 31, 2011 to the Mayor's Court Agency Fund balance reported in the Monthly Fund Statement Reports. The balance agreed in 2012. In 2011 the Monthly Fund Statement Report reflected the Mayor's Court Agency Fund balance as \$1,970. However, the reconciled fund balance reported \$2,445. The Clerk-Treasurer should record Mayor's Court activity per the Monthly Court Cash Book of the Mayor's Court, not the Mayor's Court monthly bank statement.
3. We compared the totals per the bank reconciliations to the total of December 31, 2012 and December 31, 2011 listing of unpaid distributions as of each December 31. The amounts did not agree for 2012 or 2011. The December, 31 2012 reconciled Mayor's Court Agency Fund balance was \$1,739, while the listing of unpaid distributions reported \$1,056 to be distributed. The

December 31, 2011 reconciled Mayor's Court Agency Fund balance was \$2,445 while the listing of unpaid distributions reported \$1,995 to be distributed. The Mayor's Court Clerk should implement procedures to ensure the reconciled fund balance in the Mayor's Court Agency Fund is equal to the listing of unpaid distributions at month-end.

4. We observed the year-end bank balance on the financial institution's website. The balance agreed. We also agreed the confirmed balance to the amount appearing in the December 31, 2012 bank reconciliation without exception.
5. We haphazardly selected five cases from the Monthly Court Cash Book Reports and agreed the payee and amount posted to the:
 - a. Duplicate receipt book.
 - b. Docket, including comparing the total fine paid to the judgment issued by the judge (i.e. mayor).
 - c. Case file.

The amounts recorded in the Monthly Court Cash Book, duplicate receipts book, docket and case file agreed.

6. From the Monthly Court Cash Book Reports, we haphazardly selected one month from the year ended December 31, 2012 and one month from the year ended December 31, 2011 and determined whether:
 - a. The monthly sum of fines and costs collected for those months agreed to the amounts reported as remitted to the Village, State or other applicable government in the following month. We found no exceptions.
 - b. The totals remitted for these two months per the Monthly Cash Book Report agreed to the returned canceled checks or bank statement debit for payments to the State. The check number, date, payee name and amount recorded on the returned, canceled check agreed to the check number, date, payee name and amount recorded in the Monthly Cash Book Report. The bank statement debit date and amount for State payments agreed to the date and amount recorded in the Monthly Cash Book Report for State payments.

Compliance – Budgetary

1. We compared the total estimated receipts from the *Amended Official Certificate of Estimated Resources*, required by Ohio Rev. Code Section 5705.36(A)(1), to the amounts recorded in the Comparison of Budgeted and Actual Receipts Report for the General, Road Construction Levy, and Street Construction, Maintenance, and Repair funds for the years ended December 31, 2012 and 2011. The amounts agreed.
2. We scanned the appropriation measures adopted for 2012 and 2011 to determine whether, for the General, Road Construction Levy, and Street Construction, Maintenance, and Repair funds, the Council appropriated separately for "each office, department, and division, and within each, the amount appropriated for personal services," as is required by Ohio Rev. Code Section 5705.38(C). We found no exceptions.

3. We compared total appropriations required by Ohio Rev. Code Sections 5705.38 and 5705.40, to the amounts recorded in the Comparison of Disbursements and Encumbrances With Expenditure Authority Report for 2012 and 2011 for the following funds: General, Road Construction Levy, and Street Construction, Maintenance, and Repair. The amounts on the appropriation measures agreed to the amounts recorded in the Comparison of Disbursements and Encumbrances With Expenditure Authority Report, except for the General fund. In 2012 the Comparison of Disbursements and Encumbrances With Expenditure Authority Report recorded appropriations of \$544,452 and the appropriation measures adopted reflected \$544,655. In 2011 the Comparison of Disbursements and Encumbrances With Expenditure Authority Report recorded appropriations of \$859,594 and the appropriation measures adopted reflected \$858,789. The Clerk-Treasurer should periodically compare amounts recorded in the Comparison of Disbursements and Encumbrances With Expenditure Authority Report to amounts approved by the Council to assure they agree. If the amounts do not agree, the Council may be using inaccurate information for budgeting and monitoring purposes.
4. Ohio Rev. Code Sections 5705.36(A)(5) and 5705.39 prohibits appropriations from exceeding the certified resources. We compared total appropriations to total certified resources for the General, Road Construction Levy, and Street Construction, Maintenance, and Repair funds for the years ended December 31, 2012 and 2011. We noted that Street Construction, Maintenance, and Repair fund appropriations for 2012 exceeded certified resources by \$4,000, contrary to Ohio Rev. Code Section 5705.39. The Council should not pass appropriations exceeding certified resources. Allowing this to occur could cause the Village to incur fund balance deficits.
5. Ohio Rev. Code Section 5705.41(B) prohibits expenditures (disbursements plus certified commitments) from exceeding appropriations. We compared total expenditures to total appropriations for the years ended December 31, 2012 and 2011 for the General, Road Construction Levy, and Street Construction, Maintenance, and Repair fund, as recorded in the Comparison of Disbursements and Encumbrances With Expenditure Authority Report. We noted no funds for which expenditures exceeded appropriations.
6. Ohio Rev. Code Section 5705.09 requires establishing separate funds to segregate externally-restricted resources. We scanned the Monthly Revenue Statement Reports for evidence of new restricted receipts requiring a new fund during the years ended December 31, 2012 and 2011. We also inquired of management regarding whether the Village received new restricted receipts. We noted no evidence of new restricted receipts for which Ohio Rev. Code Section 5705.09 would require the Village to establish a new fund.
7. We scanned the 2012 and 2011 Reconciliation of Inter-Fund Transactions Reports for evidence of interfund transfers which Ohio Rev. Code Sections 5705.14 - .16 restrict. We found no evidence of transfers these Sections prohibit, or for which Section 5705.16 would require approval by the Tax Commissioner and Court of Common Pleas.
8. We inquired of management and scanned the Comparison of Disbursements and Encumbrances With Expenditure Authority Reports to determine whether the Village elected to establish reserve accounts permitted by Ohio Rev. Code Section 5705.13. We noted the Village did not establish these reserves.

Compliance – Contracts and Expenditures

We inquired of management and scanned the Check Register Report for the years ended December 31, 2012 and 2011 to determine if the Village proceeded by force account (i.e. used its own employees) to maintain or repair roads (cost of project exceeding \$30,000) or to construct or reconstruct Village roads (cost of project \$30,000/per mile) for which Ohio Rev. Code Sections 117.16(A) and 723.52 requires the Village engineer, or officer having a different title but the duties and functions of an engineer, to complete a force account project assessment form (i.e., cost estimate). We identified no projects requiring the completion of the force account assessment form.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the Village's receipts, disbursements, balances and compliance with certain laws and regulations. Accordingly, we do not express an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management, those charged with governance, and others within the Village, and is not intended to be, and should not be used by anyone other than these specified parties.



Dave Yost
Auditor of State

August 29, 2013



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VILLAGE OF KELLEY'S ISLAND

ERIE 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
OCTOBER 1, 2013**