



Dave Yost • Auditor of State

VILLAGE OF OTWAY
SCIOTO COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Otway
Scioto County
6864 State Route 73
Otway, Ohio 45657

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Otway, Scioto County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Otway, Scioto County as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2011 the Village of Otway adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

November 20, 2013

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$5,889	\$3,495	\$9,384
Intergovernmental	1,682	25,180	26,862
Charges for Services		53,259	53,259
Earnings on Investments	589		589
Miscellaneous	6,600	234,720	241,320
<i>Total Cash Receipts</i>	<u>14,760</u>	<u>316,654</u>	<u>331,414</u>
Cash Disbursements			
Current:			
Security of Persons and Property		34,540	34,540
Community Environment		10,230	10,230
Transportation		2,191	2,191
General Government	8,634	7,152	15,786
Capital Outlay		165,753	165,753
Debt Service:			
Principal Retirement		4,385	4,385
Interest and Fiscal Charges		1,014	1,014
<i>Total Cash Disbursements</i>	<u>8,634</u>	<u>225,265</u>	<u>233,899</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>6,126</u>	<u>91,389</u>	<u>97,515</u>
<i>Net Change in Fund Cash Balances</i>	6,126	91,389	97,515
<i>Fund Cash Balances, January 1</i>	<u>2,879</u>	<u>8,835</u>	<u>11,714</u>
Fund Cash Balances, December 31			
Restricted	0	100,224	100,224
Unassigned (Deficit)	9,005	0	9,005
<i>Fund Cash Balances, December 31</i>	<u>\$9,005</u>	<u>\$100,224</u>	<u>\$109,229</u>

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

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$5,493	\$2,018	\$7,511
Intergovernmental	2,063	18,146	20,209
Charges for Services		26,840	26,840
Earnings on Investments	163		163
Miscellaneous		5,405	5,405
<i>Total Cash Receipts</i>	<u>7,719</u>	<u>52,409</u>	<u>60,128</u>
Cash Disbursements			
Current:			
Security of Persons and Property		31,118	31,118
Community Environment		7,562	7,562
Transportation		1,575	1,575
General Government	7,565	8,681	16,246
Capital Outlay		31,174	31,174
Debt Service:			
Interest and Fiscal Charges		497	497
<i>Total Cash Disbursements</i>	<u>7,565</u>	<u>80,607</u>	<u>88,172</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>154</u>	<u>(28,198)</u>	<u>(28,044)</u>
Other Financing Receipts (Disbursements)			
Debt Proceeds		19,000	19,000
<i>Total Other Financing Receipts (Disbursements)</i>	<u>0</u>	<u>19,000</u>	<u>19,000</u>
<i>Net Change in Fund Cash Balances</i>	154	(9,198)	(9,044)
<i>Fund Cash Balances, January 1</i>	<u>2,725</u>	<u>18,033</u>	<u>20,758</u>
Fund Cash Balances, December 31			
Restricted	0	8,835	8,835
Unassigned (Deficit)	2,879	0	2,879
<i>Fund Cash Balances, December 31</i>	<u>\$2,879</u>	<u>\$8,835</u>	<u>\$11,714</u>

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

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Otway, Scioto County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides street and state highway maintenance and fire protection.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village Clerk invests all available funds of the Village in an interest bearing checking account and a money market account.

D. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

VILLAGE OF OTWAY
SCIOTO COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

D. **Fund Accounting (Continued)**

2. **Special Revenue Funds**

Community Building Fund - This fund receives money for rental of the gymnasium and storage units at the Community Building for maintaining and repairing the Village property.

Volunteer Fire Department Fund – This fund receives property tax money for fire protection in the Village.

E. **Budgetary Process**

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

1. **Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. **Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

3. **Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

F. **Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. **Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

VILLAGE OF OTWAY
SCIOTO COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

F. **Fund Balance (Continued)**

2. **Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. **Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. **Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. **Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. **Property, Plant, and Equipment**

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

2. **Equity in Pooled Deposits and Investments**

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

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

2. Equity in Pooled Deposits and Investments (Continued)

	2012	2011
Demand deposits	\$109,229	\$11,714
Total deposits	\$109,229	\$11,714

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$7,114	\$14,760	\$7,646
Special Revenue	51,137	316,654	265,517
Total	\$58,251	\$331,414	\$273,163

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$9,875	\$8,634	\$1,241
Special Revenue	57,780	225,265	(167,485)
Total	\$67,655	\$233,899	(\$166,244)

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$8,223	\$7,719	(\$504)
Special Revenue	40,298	71,409	31,111
Total	\$48,521	\$79,128	\$30,607

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$8,510	\$7,565	\$945
Special Revenue	53,909	80,607	(26,698)
Total	\$62,419	\$88,172	(\$25,753)

Contrary to Ohio law, budgetary, expenditures exceeded appropriation authority in the State Highway Fund by \$1,630, the Community Building Fund by \$108,896, and the Volunteer Fire Department Fund by \$58,037 for the year ended December 31, 2012 and in the Community Building Fund by \$335 and the Volunteer Fire Department Fund by \$27,628 for the year ended December 31, 2011.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. Budgetary Activity (Continued)

Contrary to Ohio law, appropriation authority exceeded estimated resources in the General Fund by \$287, the Street Construction Maintenance and Repair Fund by \$512, the Community Building Fund by \$533, and the Volunteer Fire Department Fund by \$15,131 for the year ended December 31, 2012 and in the General Fund by \$2,761, the Community Building Fund by \$2,641, and the Volunteer Fire Department Fund by \$4,642 for the year ended December 31, 2011.

4. Property Tax

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

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
WesBanco - Air System	\$14,615	5.25%
Total	\$14,615	

The Village received a note in 2011 through WesBanco Bank for the purchase of an air system for the Fire Department. The original loan was for \$19,000. The full faith and credit of the Village is pledged to repay this debt.

Amortization of the above debt, which does not include interest, is scheduled as follows:

Year ending December 31:	Principal
2013	\$4,619
2014	4,867
2015	5,129
Total	\$14,615

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

6. Retirement Systems

The Village's elected officials belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OPERS members contributed 10%, respectively, of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

7. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.



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

Village of Otway
Scioto County
6864 State Route 73
Otway, Ohio 45657

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Otway, Scioto County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated November 20, 2013 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit. We also noted the Village adopted the Governmental Accounting Standards Board Statement No. 54.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider finding 2012-006 described in the accompanying Schedule of Findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-007 described in the accompanying Schedule of Findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2012-001 through 2012-005.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

November 20, 2013

VILLAGE OF OTWAY
SCIOTO COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity 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 5705.4(D)(3), respectively, of the Ohio Revised Code.

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

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 Village.

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

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

One hundred (100%) of disbursements transactions tested in 2011 and 2012 were not properly certified and there was no evidence that the Village followed the aforementioned exceptions.

The Village did not have sufficient internal controls in place to ensure the certification of the availability of funds. Failure to certify the availability of funds properly can result in overspending funds and negative cash balances.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

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

FINDING NUMBER 2012-001 (Continued)

Noncompliance Citation (Continued)

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

We recommend the Village officials obtain the Village Clerk's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certificate language of Ohio Rev. Code Section 5705.41(D) requires to authorize disbursements. The Village Clerk should sign the certification at the time the Township incurs the commitment, and only when the requirements of Ohio Rev. Code Section 5705.41(D) are satisfied. The Village Clerk should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2012-002

Noncompliance Citation

Ohio Rev. Code Section 149.351 (A) states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code or under the records programs established by the boards of trustees of state-supported institutions of higher education under section 149.33 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

During the audit period, 75% of receipts tested had no supporting documentation, such as copy of check, or receipts issued, and therefore could not be determined if the receipts were being timely deposited. Also, we noted a fire contract was not in place during 2011 to ensure the proper amounts were received.

We recommend that all records be maintained for audit purposes and supporting documentation (e.g. copy of check received or issued receipts) be maintained with revenues received.

VILLAGE OF OTWAY
SCIOTO COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)

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

FINDING NUMBER 2012-003

Noncompliance Citation

Ohio Rev. Code Section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources.

Appropriations exceeded estimated resources at December 31, 2011, in the following funds:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriation Authority</u>	<u>Variance</u>
General	\$8,223	\$8,510	(\$287)
Street Construction Maintenance and Repair	4,738	5,250	(512)
Community Building	6,695	7,228	(533)
Volunteer Fire Department	25,801	40,932	(15,131)

Appropriations exceeded estimated resources at December 31, 2012, in the following funds:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriation Authority</u>	<u>Variance</u>
General	\$7,114	\$9,875	(\$2,761)
Community Building	6,896	9,537	(2,641)
Volunteer Fire Department	38,800	43,442	(4,642)

This could cause the Village to spend in excess of their estimated resources.

We recommend the Village Council not approve appropriations that exceed estimated resources.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

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

FINDING NUMBER 2012-004

Noncompliance Citation

Ohio Revised Code Section 5705.40 states, in part that a subdivision may amend or supplement its appropriation measure provided the entity complies with the same provisions of law as are used in making the original appropriation. In addition, Ohio courts have held that a board or officer whose judgment and discretion is required, was chosen because they were deemed fit and competent to exercise that judgment and discretion and unless power to substitute another in their place has been given, such board or officer cannot delegate these duties to another. Following such reasoning, a Township Board of Trustees would be prohibited from delegating duties statutorily assigned to it, such as the duty of amending appropriations. See C.B. Transportation, Inc. v. Butler County Board of Mental Retardation, 60 Ohio Misc. 71, 397 N.E.2d 781 (C.P. 1979); Burkholder v. Lauber, 6 Ohio Misc. 152, 216 N.E.2d (C.P. 1965).

During 2011, the Village Clerk posted appropriation amendments to the General Fund, Community Building Fund, and the Volunteer Fire Department Fund. However, these amendments were not approved by Village Council in the minutes, nor certified to the County Auditor. A variance existed between the amount approved by the legislative body and the amount posted to the accounting system as follows:

Fiscal Year	Fund	Approved Appropriations	Appropriations per the UAN system	Variance
2011	General	\$8,510	\$10,323	(\$1,813)
2011	Community Building	7,227	8,727	(1,500)
2011	Volunteer Fire Department	40,932	74,020	(33,088)

During 2012, the Village Clerk posted appropriation amendments to the General Fund, State Highway Fund, Community Building Fund, and the Volunteer Fire Department Fund. However, these amendments were not approved by Village Council in the minutes, nor certified to the County Auditor. A variance existed between the amount approved by the legislative body and the amount posted to the accounting system as follows:

Fiscal Year	Fund	Approved Appropriations	Appropriations per the UAN system	Variance
2012	General	\$9,875	\$12,340	(\$2,465)
2012	State Highway	400	2,282	(1,882)
2012	Community Building	9,537	148,854	(139,317)
2012	Volunteer Fire Department	43,442	134,649	(91,207)

Note 3 to the financial statements was adjusted to accurately present appropriations approved by the Village Council.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

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

FINDING NUMBER 2012-004 (Continued)

We recommend the Village Council approve all appropriation amendments, record approval in the Council minutes, and file all appropriation amendments with the County Auditor in order to receive confirmation from the County Auditor that appropriations do not exceed estimated resources. The Village Clerk should only post legislatively approved amendments to the Village's accounting system.

FINDING NUMBER 2012-005

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits subdivisions or taxing authorities from expending money unless it has been appropriated as provided in such chapter.

At December 31, 2012, expenditures exceeded appropriations, as follows:

Fund	Appropriation Authority	Actual Expenditures	Variance
State Highway	\$ 400	\$ 2,030	\$ (1,630)
Community Building	9,537	118,433	(108,896)
Volunteer Fire Department	43,442	101,479	(58,037)

At December 31, 2011, expenditures exceeded appropriations, as follows:

Fund	Appropriation Authority	Actual Expenditures	Variance
Community Building	\$ 7,227	\$ 7,562	\$ (335)
Volunteer Fire Department	40,932	68,560	(27,628)

The practice of allowing expenditures to exceed appropriations could result in negative fund balances for the Village.

We recommend the Village Clerk compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Village Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Village Clerk should deny requests for payment when appropriations are not available.

VILLAGE OF OTWAY
SCIOTO COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)

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

FINDING NUMBER 2012-006

Material Weakness

Sound financial reporting is the responsibility of the Village Clerk and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, the financial statements had the following errors that required audit adjustment or reclassification:

In 2011:

- General Fund investment earnings for three months were unrecorded in the amount of \$47;
- General Fund intergovernmental revenue was misposted as taxes in the amount of \$1,020;
- General Fund tax revenue of \$1,895 was misposted as Fire Fund taxes;
- General Fund tax revenue of \$1,348 was misposted as Fire Fund intergovernmental;
- Fire Fund intergovernmental revenue of \$444 was misposted as General Fund taxes;
- General Fund general governmental expenditures of \$936 were misposted as basic utility services;
- Fire Fund intergovernmental revenue of \$3,000 was misposted as miscellaneous revenue;
- Fire Fund intergovernmental revenue of \$500 was misposted as charges for services;
- Fire Fund debt proceeds of \$18,503 was misposted as miscellaneous revenue;
- Street Construction and Maintenance Fund beginning fund balance was decreased \$100 to agree to the December 31, 2010 audited ending fund balance due to an incorrect fund balance adjustment that should have been posted as a reduction of expenditure, which was also corrected;
- Community Building Fund beginning balance was decreased \$100 to agree to the December 31, 2010 audited ending fund balance due to an unsupported fund balance adjusted;
- State Highway Fund beginning fund balance was increased \$98 to agree to the December 31, 2010 audited ending fund balance due to an incorrect fund balance adjustment that should have been posted as an expenditure, which was also corrected;
- Street Construction and Maintenance Fund committed fund balance of \$241 was reclassified as restricted fund balance;
- Community Building Fund committed fund balance of \$271 was reclassified as restricted fund balance;
- Community Building Fund community environment expenditures of \$7,407 were misposted as basic utility services;
- Fire Fund capital outlay expenditures of \$29,949 were misposted as security of persons and property;
- Fire Fund capital outlay expenditures of \$1,225 were misposted as basic utility services;
- Fire Fund security of persons and property expenditures of \$11,259 were misposted as basic utility services; and
- Fire Fund debt proceeds of \$497 and interest and fiscal charges of \$497 were unrecorded.

VILLAGE OF OTWAY
SCIOTO COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)

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

FINDING NUMBER 2012-006 (Continued)

Material Weakness (Continued)

In 2012:

- General Fund intergovernmental revenue was misposted as taxes in the amount of \$1,009;
- General Fund tax revenue of \$2,201 was misposted as Fire Fund taxes;
- General Fund tax revenue of \$1,388 was misposted as Fire Fund intergovernmental;
- General Fund general government expenditures of \$1,530 were misposted as basic utility services;
- Community Building capital outlay expenditures of \$108,202 were misposted as community environment expenditures;
- Community Building community environment expenditures of \$9,584 were misposted as basic utility services;
- Fire Fund intergovernmental revenue of \$424 was misposted as General Fund taxes;
- Fire Fund general government expenditures of \$144 were unrecorded;
- Fire Fund tax revenue of \$1,026 was misposted as intergovernmental revenue;
- Fire Fund security of persons and property expenditures were misposted as other financing uses in the amount of \$12,650;
- Fire Fund capital outlay expenditures were misposted as other financing uses in the amount of \$34,500;
- Fire Fund debt service principal was misposted as other financing uses in the amount of \$4,385;
- Fire Fund debt service interest was misposted as other financing uses in the amount of \$1,014;
- Fire Fund capital outlay expenditures of \$1,052 were misposted as security of persons and property; and
- Fire Fund security of persons and property expenditures of \$6,293 were misposted as basic utility services.

The Village Clerk/Treasurer made classification errors in posting of revenues and expenditures. This caused the mispostings of revenues and expenditures as noted above.

The audited financial statements and the Village's UAN accounting system have been adjusted for the issues noted above.

We recommend the Village Clerk review the Village Officer's Handbook for guidance on the correct line items to post various receipts and disbursements of the Village to ensure the Village's financial statements are complete and accurate.

VILLAGE OF OTWAY
SCIOTO COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)

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

FINDING NUMBER 2012-007

Significant Deficiency

The Village Council has not established effective internal control processes for monitoring Village financial activity. Examples of deficiencies in monitoring controls include the following:

- Monthly Bank Reconciliations with supporting documentation were not performed each month and not presented to Council noting other adjusting factors amounts during the year;
- Monthly financial reports were approved in the minutes but were not signed by Village Council indicating their review;
- Checks were signed by only one signatory;
- Budget vs. Actual reports were not presented to Council for review; and
- Manual checks were issued during the audit period.

Failure to establish internal controls procedures can result in the Village unable to monitor their financial position.

We recommend Council establish effective internal control procedures and address each of the above noted control weaknesses. This could include such things as providing budget vs. actual reports with the other reports Council approves monthly, reviewing monthly bank reconciliations, having a set time to review and issue non-payroll and payroll disbursements, Village Council signing monthly financial reports indicating their review, and requiring two signatures on all checks. These implemented controls will help Council effectively monitor the Village's financial position and will aid in timely detection of errors or irregularities.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Material weakness for receipts and expenditures being misposted.	No	Not Corrected. Reissued as Finding Number 2012-006
2010-002	Ohio Rev. Code Section 5705.41(D) – availability of funds not properly certified prior to expenditure commitment	No	Not Corrected. Reissued as Finding Number 2012-001

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Dave Yost • Auditor of State

VILLAGE OF OTWAY

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 5, 2013**