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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Village of Covington
Miami County
1 South High Street
Covington, Ohio 45318

We have performed the procedures enumerated below, with which the Village Council and Mayor, and the management of the Village of Covington (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, 2014 and 2013, 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

1. We tested the mathematical accuracy of the December 31, 2014 and December 31, 2013 bank reconciliations. We found no exceptions.
2. We agreed the January 1, 2013 beginning fund balances recorded in the YTD Fund Report to the December 31, 2012 balances in documentation in the prior year Agreed-Upon Procedures working papers. We found no exceptions. We also agreed the January 1, 2014 beginning fund balances recorded in the YTD Fund Report to the December 31, 2013 balances in the YTD Fund Report. We found no exceptions.
3. We agreed the totals per the bank reconciliations to the total of the December 31, 2014 and 2013 fund cash balances reported in the YTD Fund Report. The amounts agreed for December 31, 2014. However, the December 31, 2013 bank reconciliation included a variance of \$90 between the reconciled bank balance and the total fund cash balance. If there is a reconciling variance, the Village should investigate and resolve any such variance in the month that it occurred so that the variance does not occur in subsequent months.

Cash (Continued)

4. We confirmed a December 31, 2014 bank account balance with the Village's financial institution. We also observed year-end bank balances on the financial institution's website. The balances agreed. We also agreed the confirmed balances to the amounts appearing in the December 31, 2014 bank reconciliation and we identified an exception. The bank reconciliation included a balance for one account of \$1,199,699, but the confirmed balance for the account was \$1,197,688 for a variance of \$2,011. This variance was composed of eight checks that cleared the bank on December 31, 2014 in the total amount of \$1,450, but were incorrectly included on the December 31, 2014 outstanding check list; two debit card transactions that were made by the Village on December 31, 2014 in the total amount of \$573, but were not recorded as a 2014 expenditure; and December 2014 interest earned in the amount of \$11 that was not recorded as a 2014 revenue. The Village should implement procedures to improve the bank reconciliation process. The bank balance on the month-end bank reconciliation should be the actual ending bank balance directly from the bank statement for all accounts. All expenditures that occur during a year should be recorded on the Village's books for that particular year. Additionally, the Village's outstanding check list should not include any checks that cleared the bank during the reconciled month.
5. We selected five reconciling debits (such as outstanding checks) haphazardly from the December 31, 2014 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.
6. We tested interbank account transfers occurring in December of 2014 and 2013 to determine if they were properly recorded in the accounting records and on each bank statement. We found no exceptions.

Property Taxes, Intergovernmental and Other Confirmable Cash Receipts

1. We selected a property tax receipt from one *Statement of Semiannual Apportionment of Taxes* (the Statement) for 2014 and one from 2013:
 - a. We traced the gross receipts from the *Statement* to the amount recorded in the Receipts by Account 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 Receipts by Account Report to determine whether it included two real estate tax receipts for 2014 and 2013. We noted the Receipts by Account Report included the proper number of tax receipts for each year.
3. We selected five receipts from the State Distribution Transaction Lists (DTL) from 2014 and five from 2013. We also selected five receipts from the County Auditor's Vendor Expense Report from 2014 and five from 2013.
 - a. We compared the amount from the above reports to the amount recorded in the Receipts by Account Report. The amounts agreed.
 - b. We determined whether these receipts were allocated to the proper funds. We found no exceptions.

Property Taxes, Intergovernmental and Other Confirmable Cash Receipts (Continued)

- c. We determined whether the receipts were recorded in the proper year. We found no exceptions.
4. We confirmed the amounts paid during 2014 on behalf of the Village for the Community Development Block Grant with the Miami County. We found no exceptions.
 - a. We determined whether these receipts were allocated to the proper fund. We found no exceptions.
 - b. We determined whether the receipts were recorded in the proper year. We found no exceptions.

Income Tax Receipts

1. We compared the allocation of income tax receipts for the years ended December 31, 2014 and 2013 to the Village's funds according to the allocation requirements of Ordinance No. 15-11 and 18-10. The allocation agreed with the percentages the Ordinance requires.
2. We selected five income tax returns filed during 2014 and five from 2013.
 - a. We compared the payment amount recorded on the tax return to the amount recorded on the deposit ticket. The amounts agreed.
 - b. We compared the deposit ticket total from step a. to the amount recorded as income tax receipts in the Receipts by Account Report for that date. The amounts agreed.
 - c. We determined whether the receipts were recorded in the year received. We found no exceptions.
3. We selected five income tax refunds from 2014 and five from 2013.
 - a. We compared the refund paid from the Detail Expense Transactions by Fund Report to the refund amount requested in the tax return. The amounts agreed.
 - b. With the exception of two refunds, we noted each of the refunds were approved by the Income Tax Administrator or the Fiscal Officer. The Village should implement procedures to verify that a tax return has been reviewed and the refund approved prior to a refund check being issued.
 - c. We noted the refunds were paid from the General Fund and Street Fund; however, the Village ordinances identified above require that income tax receipts be split between the General Fund (80%) and Street Fund (20%), but the 2013 refunds were paid from the General Fund (87%) and Street Fund (13%). The Village should implement procedures to determine that the allocation of refund payments is in accordance with the revenue allocation.

Water, Sewer, and Trash Fund Charges for Services

1. We haphazardly selected 10 Water, Sewer, and Trash Fund collection cash receipts from the year ended December 31, 2014 and 10 Water, Sewer, and Trash Fund collection cash receipts from the year ended 2013 recorded in the Receipts by Account Report and determined whether the:
 - a. Receipt amount per the Receipts by Account Report agreed to the amount recorded to the credit of the customer's account in the Transaction List for Batch Reports. The amounts agreed.
 - b. Amount charged for the related billing period:
 - i. Agreed with the debit to accounts receivable in the Transaction List for Batch Reports for the billing period. We found no exceptions.

Water, Sewer, and Trash Fund Charges for Services (Continued)

- ii. Complied with rates in force during the audit period multiplied by the consumption amount recorded for the billing period, plus any applicable late penalties, plus unpaid prior billings. We found no exceptions.
 - c. Receipt was posted to the proper funds, and was recorded in the year received. We found no exceptions.
- 2. We read the Open AR by Cycle and Book Reports and the Aged AR by Bill Cycle Reports.
 - a. We noted these reports listed \$124,536 and \$105,983 of accounts receivable as of December 31, 2014 and 2013, respectively.
 - b. Of the total receivables reported in the preceding step, \$3,156 and \$1,663 were recorded as more than 90 days delinquent.
- 3. We read the Transaction List for Batch Reports.
 - a. We noted these reports listed a total of \$6,417 and \$4,395 in non-cash receipts adjustments for the years ended December 31, 2014 and 2013, respectively.
 - b. We selected five non-cash adjustments from 2014 and five non-cash adjustments from 2013, and noted that the Village Administrator approved each adjustment.

Debt

- 1. From the prior agreed-upon procedures documentation, we noted the following bonds, leases, notes and loans outstanding as of December 31, 2012. These amounts agreed to the Village's January 1, 2013 balances on the summary we used in step 3.

Issue	Principal outstanding as of December 31, 2012:
Walnut Street Improvement Notes	\$ 160,000
Village Hall Renovation Bonds	\$ 270,000
Ohio Water Development Authority Loan	\$ 2,619,053
TCF Trash Truck Lease	\$ 149,096
Durapatcher Lease	\$ 52,143
2011 Walnut Street Bonds	\$ 375,000

- 2. We inquired of management, and scanned the Receipts by Account Report and Detail Expense Transactions by Fund Report for evidence of debt issued during 2014 or 2013 or debt payment activity during 2014 or 2013. All debt noted agreed to the summary we used in step 3.
- 3. We obtained a summary of leases, notes, loans, and bonded debt activity for 2014 and 2013 and agreed principal and interest payments from the related debt amortization schedules to debt service, general, water, trash, and street fund payments reported in the Detail Expense Transactions by Fund Report. We also compared the date the debt service payments were due to the date the Village made the payments. We found no exceptions related to the proper payment amount being made; however, we identified two exceptions related to debt payments being made timely. A payment for the 2011 Walnut Street Bonds and a payment for the Walnut Street Improvement Notes were due May 1, 2014, but the payments were not made until May 8, 2014. The Village should verify that all debt payments are made on or before the required due date to avoid possible late fees and penalties.

Payroll Cash Disbursements

1. We haphazardly selected one payroll check for five employees from 2014 and one payroll check for five employees from 2013 from the Detail History Report and:
 - a. We compared the hours and pay rate, or salary recorded in the Detail History Report to supporting documentation (timecard, legislatively or statutorily-approved rate or salary). We found no exceptions.
 - b. We determined whether the fund and account code to which the check was posted were reasonable based on the employees' duties as documented in the employees' personnel files. We also determined whether the payment was posted to the proper year. We found no exceptions.

2. We scanned the last remittance of tax and retirement withholdings for the year ended December 31, 2014 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 2014. We noted the following:

Withholding (plus employer share, where applicable)	Date Due	Date Paid	Amount Due	Amount Paid
Federal income taxes, Medicare, and social security for employees not enrolled in pension system	January 31, 2015	December 26, 2014	\$3,712	\$3,712
State income taxes	January 15, 2015	December 23, 2014	\$1,624	\$1,624
Village of Covington income taxes	January 15, 2015	December 23, 2014	\$3,053	\$3,053
OPERS retirement	January 30, 2015	December 23, 2014	\$17,089	\$17,089
OP&F retirement	January 31, 2015	December 23, 2014	\$4,877	\$4,877

3. We haphazardly selected and recomputed one termination payment (unused vacation, etc.) using the following information, and agreed the computation to the amount paid as recorded in the Detail History Report:
 - a. Accumulated leave records
 - b. The employee's pay rate in effect as of the termination date
 - c. The Village's payout policy.

The amount paid was consistent with the information recorded in a. through c. above except for the amount paid to the employee was \$54 less than the amount we computed. The Village should verify that all severance payouts are recalculated and are in accordance with the severance ordinance approved by the Village Council. The Village should also determine that supporting documentation is maintained to support the calculation for all severance payments.

Non-Payroll Cash Disbursements

1. We haphazardly selected ten disbursements from the Detail Expense Transactions by Fund Report for the year ended December 31, 2014 and ten from the year ended 2013 and determined whether:

Non-Payroll Cash Disbursements (Continued)

- a. The disbursements were for a proper public purpose. We found one exception. The Village purchased gift certificates for the purchase of a ham for all employees and other individuals related to the Village. Each gift certificate had a value of \$50 and was specifically identified to only be redeemable for a ham at a local store. The purchase of the gift certificates were not approved by the Village Council and no Village-approved policy existed to warrant the purchase of such items. Auditor of State Bulletin 2003-005 addresses the expenditure of public funds for a proper public purpose. The determination of what constitutes a public purpose is primarily a legislative function. The expenditure of public funds for coffee, meals, refreshments, or other amenities should have prior authorization by the appropriate legislative authority. The Village Council should either adopt a policy on such Village purchases or approve such an expenditure prior to it being made. Approval should identify how/why such an expenditure serves a proper public purpose.
- 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 Detail Expense Transactions by Fund 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 fiscal officer certified disbursements requiring certification or issued a *Then and Now Certificate*, as required by Ohio Rev. Code Section 5705.41(D). We found seventeen instances where the certification date was after the vendor invoice date, and there was also no evidence that a *Then and Now Certificate* was issued. Ohio Rev. Code Section 5705.41(D) requires certifying at the time of a commitment, which should be on or before the invoice date, unless a *Then and Now Certificate* is used. Because we did not test all disbursements requiring certification, our report provides no assurance whether or not additional similar errors occurred.

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 YTD Revenue by Fund Report for the General, Street, and Sewer funds for the years ended December 31, 2014 and 2013. The amounts on the *Certificate* agreed to the amount recorded in the accounting system, except for the General Fund. The YTD Revenue by Fund Report recorded budgeted (i.e. certified) resources for the General fund of \$904,530 for 2013 and \$921,345 for 2014. However, the final *Amended Official Certificate of Estimated Resources* reflected \$898,659 for 2013 and \$893,776 for 2014. The Village should periodically compare amounts recorded in the YTD Revenue by Fund Report to amounts recorded on the *Amended Official Certificate of Estimated Resources* to assure they agree. If the amounts do not agree, the Council may be using inaccurate information for budgeting and in monitoring the amount that is available to spend.
2. We scanned the appropriation measures adopted for 2014 and 2013 to determine whether, for the General, Water, and Trash 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.

Compliance – Budgetary (Continued)

3. We compared total appropriations required by Ohio Rev. Code Sections 5705.38 and 5705.40, to the amounts recorded in the YTD Total Expense by Fund Report for 2014 and 2013 for the following funds: General, Water, and Sewer. The amounts on the appropriation resolutions agreed to the amounts recorded in the YTD Total Expense by Fund Report with one exception. The YTD Total Expense by Fund Report recorded 2013 appropriations for the Water Fund of \$510,275; however, the approved appropriations reflected \$643,620 for 2013 for the Water Fund. The Village should periodically compare appropriation amounts recorded in the YTD Total Expense by Fund Report to appropriations approved by Council to assure they agree. If the amounts do not agree, the Council may be using inaccurate information for budgeting and in monitor spending.
4. Ohio Rev. Code Sections 5705.36(A)(5) and 5705.39 prohibit appropriations from exceeding the certified resources. We compared total appropriations to total certified resources for the General, Street and Capital Improvement funds for the years ended December 31, 2014 and 2013. We noted that Capital Improvement Fund appropriations for 2014 exceeded certified resources by \$20,117, contrary to Ohio Rev. Code Section 5705.39. Certified resources for the fund was \$1,709,883, but approved appropriations were \$1,730,000. The Village should not adopt appropriations in excess of 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, 2014 and 2013 for the General, Street, and Capital Improvement funds, as recorded in the YTD Total Expense by Fund 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 YTD Revenue by Fund Report for evidence of new restricted receipts requiring a new fund during December 31, 2014 and 2013. 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 2014 and 2013 YTD Revenue by Fund Report and YTD Expense by Fund Reports for evidence of inter-fund transfers exceeding \$10,000.00 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 YTD Expense by Fund Report 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.
9. We scanned the YTD Fund Report for the years ended December 31, 2014 and 2013 for negative cash fund balance. Ohio Rev. Code Section 5705.10 (l) provides that money paid into a fund must be used for the purposes for which such fund is established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another. We noted no funds having negative cash fund balance.

Compliance – Contracts & Expenditures

We inquired of management and scanned the Detail Expense Transactions by Fund Report for the years ended December 31, 2014 and 2013 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

August 3, 2015



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VILLAGE OF COVINGTON

MIAMI 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
AUGUST 20, 2015**