



Certified Public Accountants, A.C.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY
Single Audit
For the Year Ended December 31, 2013**

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Marietta, OH 45750
740.373.0056

1907 Grand Central Ave.
Vienna, WV 26105
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104 South Sugar St.
St. Clairsville, OH 43950
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Dave Yost • Auditor of State

Village Council
Village of Mount Sterling
1 South London Street
Mt. Sterling, Ohio 43143

We have reviewed the *Independent Auditor's Report* of the Village of Mount Sterling, Madison County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Mount Sterling is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

October 4, 2018

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VILLAGE OF MOUNT STERLING
MADISON COUNTY

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INDEPENDENT AUDITOR'S REPORT

June 15, 2018

Village of Mount Sterling
Madison County
1 South London Street
Mt. Sterling, Ohio 43143

To the Village Council:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements and related notes of the **Village of Mount Sterling**, Madison County, Ohio (the Village), as of and for the year ended December 31, 2013.

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 Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2 03(D) permit; 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 based on conducting the audit 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*.

Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Village personnel used public funds to make illegal purchases and illegal payroll compensation. This resulted in unsupported evidence of expenditures. We were unable to satisfy ourselves by other auditing procedures the existence and accuracy of recorded transactions in respect to the elements making up the Combined Statements of Receipts, Disbursements, and Changes in Fund Balances as of and for the year ended December 31, 2013.

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Disclaimer of Opinion

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Village will continue as a going concern. As discussed in Notes 13 and 14 to the financial statements, the Village expenses have exceeded revenues in the General Fund as of December 31, 2013. These conditions raise substantial doubt about the Village's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Federal Awards Expenditures (the Schedule) presents additional analysis as required by the 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 statements.

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, it is inappropriate to express and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2018, 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.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:	\$ 731,667	\$ 716,784	\$ 1,448,451
Cash Disbursements:	<u>801,834</u>	<u>689,785</u>	<u>1,491,619</u>
<i>Net Change in Fund Cash Balances</i>	(70,167)	26,999	(43,168)
<i>Fund Cash Balances, January 1 Restated See Note 15</i>	<u>149,657</u>	<u>44,255</u>	<u>193,912</u>
Restricted:			
Street Construction & Maintenance	-	43,671	43,671
State Highway Improvement	-	40,941	40,941
Parks and Recreation	-	599	599
Permissive Motor Vehicle License Tax	-	17,649	17,649
Enforcement and Education	-	399	399
Special Assessment	-	912	912
Computer Fund	-	750	750
Assigned:			
Outstanding Encumbrances	2,570	-	2,570
Unassigned (Deficit)	<u>76,920</u>	<u>(33,667)</u>	<u>43,253</u>
<i>Fund Cash Balances December 31</i>	<u><u>\$ 79,490</u></u>	<u><u>\$ 71,254</u></u>	<u><u>\$ 150,744</u></u>

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

VILLAGE OF MOUNT STERLING
MADISON COUNTY

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Proprietary Fund Types</u>		Totals (Memorandum Only)
	<u>Water</u>	<u>Sewer</u>	
Cash Receipts:	\$ 2,058,744	\$ 5,194,334	\$ 7,253,078
Cash Disbursements:	<u>1,599,805</u>	<u>4,805,445</u>	<u>6,405,250</u>
<i>Net Change in Fund Balance</i>	458,939	388,889	847,828
<i>Fund Cash Balances, January 1 Restated See Note 15</i>	<u>78,233</u>	<u>255,816</u>	<u>334,049</u>
<i>Fund Cash Balances December 31</i>	<u>\$ 537,172</u>	<u>\$ 644,705</u>	<u>\$ 1,181,877</u>

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

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Note 1 – Reporting Entity

The Village of Mount Sterling (the Village), Madison County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, including water and sewer utilities and park operations. The Village contracts with the Madison County sheriff's department for police protection.

The Village participates in a public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool:

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members").

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund - The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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:

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

State Highway Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing state highways within the Village.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Operating Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Operating Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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).

The Village did not classify its receipts and disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-2-02(A). The Ohio Administrative Code Section requires classifying receipts and disbursements.

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

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. Unencumbered appropriations lapse at year end.

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

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

A summary of 2013 budgetary activity appears in Note 4.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

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 values U.S. Treasury Notes and common stock at cost. Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

Capital Assets

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

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

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:

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

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.

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.

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.

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.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

Fund Balance (Continued)

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.

Note 3 – Compliance

Contrary to Ohio law, appropriations exceeded estimated resources in 2013.

Contrary to Ohio law, expenditures exceeded appropriations in 2013.

Contrary to Ohio law, the Furtherance of Justice Fund had a deficit fund balance as of December 31, 2013.

Contrary to Ohio law, certification of availability of unencumbered appropriations for expenditure was not obtained for expenditures in 2013.

Contrary to Ohio law, an increased or decreased amended certificate was not certified when revenues were higher or lower than originally budgeted in 2013.

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2013 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 779,940	\$ 731,667	\$ (48,273)
Special Revenue	1,986,337	716,784	(1,269,553)
Enterprise	1,145,070	7,253,078	6,108,008
Total	\$ 3,911,347	\$ 8,701,529	\$ 4,790,182

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 522,636	\$ 804,404	\$ (281,768)
Special Revenue	116,048	690,784	(574,736)
Enterprise	1,002,375	6,407,705	(5,405,330)
Total	\$ 1,641,059	\$ 7,902,893	\$ (6,261,834)

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

Note 5 – Deposits and Investments

The Village maintains a deposit and investment pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31, 2013 was as follows:

	2013
Demand deposits	\$ 1,310,037
Other time deposits (savings)	11,041
Total deposits	<u>1,321,078</u>
STAR Ohio	<u>11,543</u>
Total investments	<u>11,543</u>
Total deposits and investments	<u><u>\$ 1,332,621</u></u>

Deposits

At December 31, 2013, \$1,065,646 of deposits were not collateralized, contrary to Ohio law.

Investments

Investments in STAR Ohio are not evidenced by securities that exist in physical or book entry form.

Note 6 – Taxes

Property Taxes

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.

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

Local Taxes

The Village levies a municipal income tax of 1% on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

Note 7 – Risk Management

Risk Pool Membership

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 members as of December 31, 2013.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2013.

	2013
Assets	<u>\$13,774,304</u>
Liabilities	<u>(7,968,395)</u>
Members' Equity	<u>\$5,805,909</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Village employees 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. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2013.

Note 9 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 1 percent of the employer contribution to fund these benefits.

Note 10 - Debt

Debt outstanding at December 31, 2013 was as follows:

	<u>Principal</u>	<u>Interest</u>
OWDA - 2388	\$ 27,590	4.04%
OWDA - 4792	434,935	2.00%
OWDA - 6339	5,528,689	0.00%
OWDA - 6450	295,395	1.99%
OPWC - Improvements Phase A	101,681	0.00%
OPWC - Improvements Phase B	330,606	0.00%
Land Acquisition Bonds Series 2013	100,000	3.50%
Milton Bank - Tractor	10,757	3.29%
	<u>\$ 6,829,653</u>	

The Ohio Water Development Authority (OWDA) loans 2388 relates to the wastewater treatment plant sludge project. This loan will be repaid in semi-annual installments of \$4,929 including principal and interest. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The final payment for loan 2388 is January 1, 2017.

The Ohio Water Development Authority (OWDA) loan 4792 relates to water main replacement project. This loan will be repaid in semi-annual installments of \$12,983 including principal and interest. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The final payment for loan 4792 is July 1, 2034.

The Ohio Water Development Authority (OWDA) loan 6339 relates to the wastewater treatment plant. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. This loan has not been fully disbursed as of December 31, 2013, and no amortization schedule is available for its repayment.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

Note 10 – Debt (Continued)

The Ohio Water Development Authority (OWDA) loan 6450 relates to the wellfield design and water treatment plant design. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. This loan has not been fully disbursed as of December 31, 2013, and no amortization schedule is available for its repayment.

During 2009, the Village entered into a loan agreement with the Ohio Public Works Commission (OPWC) for Phase A of water system improvements. The original amount of the loan was \$135,575 to be paid in biannual payments of \$3,389. The final payment is due January 2029.

During 2010 the Village entered into a loan agreement with the Ohio Public Works Commission (OPWC) for Phase B of water system improvements. The original amount of the loan was \$413,258 to be paid in biannual payments of \$10,331. The final payment is due January 2030.

On September 23, 2013, the Village entered into a bond for land acquisition and site improvements. The original amount of the bond was \$100,000 to be repaid in 5 annual payments. The final payment is due September 1, 2018.

On June 26, 2012, the Village entered into a loan agreement with The Milton Banking Company for the purchase of a 2012 Kubota RTV for Village use. The original amount of the loan was \$14,117 to be paid in 4 annual payments. The final payment is due June 26, 2016. The Kubota RTV collateralized the loan.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	OWDA 2388	OWDA 4792	OPWC Phase A	OPWC Phase B	Milton Bank Kubota	Land Acquis Bonds
2014	9,858	\$ 12,983	\$ 6,779	\$ 20,663	\$ 3,824	\$ 21,876
2015	9,858	25,966	6,779	20,663	3,824	22,149
2016	9,858	25,966	6,779	20,663	3,824	22,174
2017	4,929	25,966	6,779	20,663	-	22,174
2018	-	25,966	6,779	20,663	-	22,149
2019-2023	-	129,832	33,895	103,315	-	-
2024-2028	-	129,832	33,891	103,315	-	-
2029-2033	-	129,832	-	20,661	-	-
2034-2038	-	25,966	-	-	-	-
Total	<u>\$ 34,503</u>	<u>\$ 532,309</u>	<u>\$ 101,681</u>	<u>\$ 330,606</u>	<u>\$ 11,472</u>	<u>\$ 110,522</u>

An amortization schedule for OWDA Loan #6339 and 6450 has not been presented, as all funds have not yet been disbursed as of December 31, 2013.

Note 11 – Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. 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.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

Note 12 – Deficit Fund Balances

The Village had a deficit fund balance in the Furtherance of Justice Fund in the amount of \$33,667 as of December 31, 2013.

Note 13 – Going Concern

The Village expenses exceeded revenues for the General Fund during 2013.

While the Village is in a positive cash balance position overall, a significant portion of the cash is in the Special Revenue Funds and the Proprietary Funds. The use of these funds is limited either by statute, levy ballot language or debt covenant agreement and therefore, the Village is not permitted to use these monies to remedy the deficit balances.

The Village Council is looking into new and enforcing policies regarding expenditure, internal controls, vendor selection, grants, outstanding receivables reviews, etc. to remedy the situation.

The Auditor of State has various remedies available to it, the most severe of which include placing the Village on fiscal watch or fiscal emergency.

The accompanying financial statements do not include any adjustments that might be necessary if the Village is unable to continue as a going concern.

Note 14 – Subsequent Event

Fiscal Emergency

On June 22, 2017, the Auditor of State declared the Village in fiscal emergency at December 31, 2016 and April 30, 2017, due to the existence of negative fund balances under Sections 118.03(A)(5) and 118.03(B) of the Ohio Revised Code. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 15 – Restatement of Beginning Fund Balances

The Furtherance of Justice Fund was classified as a Proprietary Fund Type in the December 31, 2012 audit report ending balance. This fund was restated as a Special Revenue Fund Type as of December 31, 2012 in the amount of (\$33,667).

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**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/ Pass through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
Passed through Ohio Department of Development			
Community Development Block Grant	C-W-11-2MM-1	14.228	\$ 590,000
Total U.S. Department of Housing & Urban Development			590,000
TOTAL FEDERAL AWARDS EXPENDITURES			\$ 590,000

The accompanying notes to this schedule are an integral part of this schedule

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Note A – Significant Accounting Policies

The accompanying Schedule of Federal Awards Expenditures (the Schedule) reports the Village's federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting.

Note B – Matching Requirements

Certain federal programs require the Village to contribute non-federal funds (matching funds) to support the federally-funded programs. The Village has met all matching requirements. The Schedule does not include the expenditure of non-federal matching funds.



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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**

June 15, 2018

Village of Mount Sterling
Madison County
1 South London Street
Mt. Sterling, Ohio 43143

To the Village Council:

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the **Village of Mount Sterling**, Madison County, (the Village) as of and for the year ended December 31, 2013, and the related notes to the financial statements and have issued our report thereon dated June 15, 2018, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit wherein we also noted the Village has suffered negative change in fund balance in the General Fund and will continue as a going concern. Our report disclaims an opinion on the financial statements due to the lack of support for financial transactions.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements of the Village, 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 audit findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and significant deficiencies.

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Internal Control Over Financial Reporting (Continued)

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 findings 2013-001 through 2013-008 and 2013-011 through 2013-019 described in the accompanying schedule of audit findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-009 and 2013-010 described in the accompanying schedule of audit findings to be significant deficiencies.

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of audit findings as items 2013-014 through 2013-021.

We also noted a certain matter not requiring inclusion in this report that we communicated to management in a separate letter dated June 15, 2018.

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.



Perry and Associates
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Marietta, Ohio



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

June 15, 2018

Village of Mount Sterling
Madison County
1 South London Street
Mt. Sterling, Ohio 43143

To the Village Council:

Report on Compliance for the Major Federal Program

We have audited the **Village of Mount Sterling's** (the Village) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Village of Mount Sterling's major federal program for the year ended December 31, 2013. The *Summary of Audit Results* in the accompanying Schedule of Audit Findings identifies the Village's major federal program.

Management's Responsibility

The Village's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the Village's compliance for each of the Village's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Village's major program. However, our audit does not provide a legal determination of the Village's compliance.

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Opinion on the Major Federal Program

In our opinion, the Village of Mount Sterling complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of audit findings as item 2013-022. This finding did not require us to modify our compliance opinion on the major federal program.

Report on Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Village's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Village's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. SUMMARY OF AUDIT RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Disclaimed
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant CFDA #14.228
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**2. FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2013-001

Material Weakness

Posting Receipts, Disbursements, and Fund Balances

During 2013, several receipts, disbursements and fund balances were not posted into accurate classifications based on the source of the receipt, disbursement and GASB 54 definition. The following mispostings were noted during the audit:

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

2. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2013-001 (Continued)

Material Weakness (Continued)

Posting Receipts, Disbursements, and Fund Balances (Continued)

- Debt payments were not properly recorded as expenditures;
- Loan proceeds and the corresponding capital outlay were not recorded;
- Payroll disbursements were not always posted to the UAN system;
- Fund balance classifications in accordance with GASB 54 were not presented;
- State and local highway and gasoline excise tax receipts were allocated and recorded to the incorrect fund; and
- Permissive tax receipts were recorded to the incorrect fund;

Not posting receipts and disbursements or classifying fund balances accurately resulted in the financial statements requiring adjustments and reclassifications. The Village has made all adjustments to its accounting system. The financial statements reflect all adjustments and reclassifications.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all sources of revenues are properly identified and classified on the financial statements.

We also recommend the Village Clerk refer to the Ohio Village Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and disbursements. The Village Clerk should refer to Auditor of State Technical Bulletin 2011-004 for assistance in properly classifying fund balances.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-002

Material Weakness

Bank Reconciliations

The Village Clerk did not prepare accurate monthly reconciliations of bank balances to book balances. There were significant numbers of reconciling items and other adjusting factors that were not identified. The lack of proper reconciliations among the bank statements and ledgers resulted in numerous errors which remained undetected and/or uncorrected until the audit. The extensive problems with these reconciliations resulted in the need for the Village to obtain assistance from Local Government Services.

We recommend the Village Clerk prepare detailed bank reconciliations that include all bank account balances being reconciled to total fund balances, with support for all reconciling items or other adjusting factors. Copies of bank reconciliations should be presented to Council for review and use in managing the Village.

Management's Response – We did not receive a response from officials to this finding.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

FINDING NUMBER 2013-003

Material Weakness

Internal Control and Review Procedures

Although the Council receives and reviews a select number of reports from the Village Clerk for approval on a monthly basis, the Village has not established formal procedures to reasonably assure completeness and accuracy of the monthly reporting. During our testing and analysis, we noted that Village Council or the Village Administrator is not reviewing the numerical check sequence prior to approving of purchases. In addition, neither party is reviewing the bank statement for proper inclusion of authorized expenditures within the cancelled checks nor electronic fund withdraws.

The Village should carefully review this information and make appropriate inquires to help determine the integrity of the financial information. When performing such review, the officials' signatures or initials and the date should be affixed to the documents examined and it should be noted in the monthly minutes that the officials' thoroughly reviewed and approved those documents. In addition, we also recommend the numerical check sequence be noted in the minutes and signed off of by the Council each month.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-004

Material Weakness

Outsourcing Payroll

During our audit, we noted the Village out-sources its payroll functions to a payroll specialist, which provides documentation to the Village to enter the payroll information into the UAN system. The lack of knowledge and understanding on the Village's part as to how to record each payroll in the accounting system led to numerous errors in posting payroll disbursements to the UAN system. With adequate training, the Village will become familiar with the necessary procedure to input the payroll disbursements properly and efficiently.

It is important to mention that the financial statements referred to above are the responsibility of the Village and management even though the payroll function is currently outsourced. Careful attention to the Village's general ledger and financial statements should be maintained on a regular basis. The Village is also still responsible for assessing the risk of fraud and maintaining proper controls to mitigate the lack of segregation of duties.

We recommend that Village management receive an instructional understanding from the payroll specialist, specifically in reading and understanding the payroll reports provided to the Village. We also recommend that this take place immediately or that other options be exercised to help ensure that payroll disbursements are properly reflected on the financial statements throughout the year.

Management's Response – We did not receive a response from officials to this finding.

VILLAGE OF MOUNT STERLING
MADISON COUNTY

SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013

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

FINDING NUMBER 2013-005

Material Weakness

Unsupported/Unauthorized and Improper Disbursements

During 2013, we noted the following:

- Unsupported and unauthorized check and credit card disbursements
- Unsupported and unauthorized payroll disbursements
- Improper leave payouts

We recommend all disbursements be approved by Council and the proper supporting documentation maintained by the Village in accordance with the Village's record retention policy.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-006

Material Weakness

Dual Signatures of Checks

During our disbursement testing, we determined warrants were only signed by the Village Administrator or Village Clerk. Lack of dual signatures eliminates a significant control point. In addition, lack of dual signatures could result in the Village making inappropriate disbursements for goods or services that are not for a proper public purpose.

We recommend that no payment be made from the Village without at least one signature from the Village Clerk and one from a Village Council Member.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-007

Material Weakness

Pledged Collateral for Cash and Investments

During our review of the Village's cash and investments, we were not able to acquire evidence of pledged collateral for the Village's bank balances. Without supporting documentation being provided we determined there was not sufficient collateral pledged by the financial institution to adequately cover the Village's depository balances. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. As of December 31, 2013, the Village's bank balances of cash and investments totaled \$1,338,230. Of this balance, \$1,076,687 was exposed to custodial credit risk.

We recommend the Village contact the financial institution and secure adequate pledged collateral.

Management's Response – We did not receive a response from officials to this finding.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

FINDING NUMBER 2013-008

Material Weakness

Village Credit Cards

The Village paid credit card expenses that were not itemized or supported by receipts. The Village did not maintain a written credit card policy identifying guidance regarding allowable expenses, limitations, required supporting documentation, or review and approval of use. Neither the Village Clerk nor Council reviewed monthly credit card expenditures to ensure items purchased were properly supported and allowable. The lack of documentation made it difficult to determine the nature of certain charges and whether each related to the operations of the Village. Through review of available documentation obtained from vendors, we identified the Village Administrator charged personal expenses on the Village credit cards for non-business related items.

It is the Village Clerk and Council's responsibility to implement internal controls to reasonably ensure credit card transactions were supported, accurately recorded and for Village purposes. It was the Village Clerk and Council's responsibility to monitor these control procedures and verify they were operating effectively. Failure to provide detailed guidance addressing required supporting documentation and allowable expenditures, and failing to review transactions resulted in personal purchases being paid by the Village.

We recommend the Village establish written policies and procedures related to credit card transactions that specifically address items such as authorized users, allowable and prohibited expenditures, and required documentation, including the submission of original, itemized receipts. The Village should also establish procedures for review and approval of credit card transactions and specifically designate those individuals required to review and approve transactions to ensure sufficient documentation is provided to support the nature and business purpose of credit card charges prior to paying bills. To be effective, the performance of internal controls must be sufficiently documented to provide assurance the control was in place and functioning as management intended.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-009

Significant Deficiency

Monitoring of Adjustments to Water and Sewer Accounts

Council was not presented with and did not review any adjustment reports relating to customer billing. This could result in an increased risk of the Village not receiving monies owed for water and sewer utilities. Also, inappropriate adjustments are more likely to occur without proper approval from the Council prior to any adjustments being made.

We recommend the Council review and approve bill adjustment reports on a monthly basis.

Management's Response – We did not receive a response from officials to this finding.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

FINDING NUMBER 2013-010

Significant Deficiency

Monitoring of Delinquent Water and Sewer Accounts

Village Council is responsible for monitoring water and sewer services provided to Village residents. They should receive financial information from the Utilities Clerk at their monthly meetings, including a list of delinquent water and sewer accounts. As a result of not receiving this information, Village Council may be making uninformed decisions regarding their water and sewer operations, needed revenues may not be readily available, and appropriate actions may not be taken in regards to outstanding customer accounts.

We recommend the Village Utilities Clerk provide, at least, a summary of delinquent account information to Village Council monthly and a complete listing of all delinquent accounts at least quarterly. The Village should implement and enforce a policy for past due accounts to be shut off if not collected in a timely manner.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-011

Material Weakness

Lack of Council Oversight

Monitoring controls include management and governing board activities established to ensure compliance with policies and procedures, achievement of operational objectives, and proper and effective use of available resources.

Our audit noted the following conditions which are indicative of weak management and governing board oversight of Village activities:

- Lack of employee knowledge of Village approved policies and procedures;
- Purchase orders, detailed invoices, receipts, and monthly reconciliations, were hardly ever reviewed and approved by the Council's Finance Committee, to evidence approval of expenses;
- Failure to require the Village Clerk to attend Village Council meetings in order to report financial information and address Council member questions and concerns. Instead, the Council allowed the Village Administrator to perform the Village Clerk duties at Council meetings. This was an inappropriate role of the Village Administrator and a lack of segregation of duties.

Lack of proper governing board oversight increases the risk that established policies and procedures are not followed, whether misinterpreted or intentional, and operational objectives are not met. In addition, the lack of oversight increases the possibility errors or irregularities could occur and not be discovered in a timely manner and increases the opportunity for fraud to occur.

We recommend Council take a more active role in monitoring compliance with Village policies and procedures. We also recommend Council strengthen their internal controls in the Village to help provide financial stability going forward.

Management's Response – We did not receive a response from officials to this finding.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

FINDING NUMBER 2013-012

Material Weakness

Segregation of Duties/Internal Controls

We noted an inadequate segregation of duties and lack of established internal controls at the Village. The Village Administrator had the ability to perform fiscal responsibilities, including preparing disbursements, processing and authorizing payroll disbursements through the Village's payroll vendor, issuing and signing Village checks and electronically paying bills from Village bank accounts. There was no documented review or approval by management of the invoices or detailed receipts supporting the checks written and signed by the Village Administrator. The Village Administrator also presented the financial information at Village Council meetings. We also noted the Village lacked formalized written policies and procedures over the payroll and non-payroll disbursement processes.

The lack of segregation of duties increases the possibility of errors or irregularities occurring and not being discovered timely. Not establishing internal controls can lead to payroll and non-payroll disbursements being made that are improper and increase the opportunity for fraud to occur.

We recommend the Village develop internal control procedures that promote an adequate segregation of duties for the payroll and non-payroll processes. Job duties should be separated between employees to strengthen controls, including separating daily fiscal responsibilities, including preparing disbursements, writing and signing checks, and processing payroll disbursements, from the Village Administrator, thereby decreasing the risk of fraud. These procedures should also promote effective management oversight by Council to ensure the non-payroll and payroll systems are providing complete, accurate, and timely information.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-013

Material Weakness

Health Insurance Reimbursement

Through a review of the Village of Mount Sterling Employee Manual, we determined the Village had not adopted a health insurance reimbursement policy that addressed items such as reimbursable medical expenses, total yearly maximum employee reimbursement, and appropriate support documentation. In addition, Village management did not adequately track employee's health insurance reimbursements to ensure they didn't exceed the yearly maximum amount. The risk of inappropriate health insurance reimbursement is increased without a formal policy.

The Village reimbursed employees for health insurance expenses totaling \$67,189. Our examination of employee reimbursements noted the Village inconsistently reimbursed employees for health insurance expenses, including out of pocket deductibles, copays, prescriptions, and procedures not covered by the insurance. Documents supporting the reimbursements did not identify whether or not the employee paid the expenses prior to seeking reimbursement.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

FINDING NUMBER 2013-013

Material Weakness (Continued)

Health Insurance Reimbursement (Continued)

Failure to have a health insurance reimbursement policy and established internal controls to verify that all expenses were paid by the employee and within the reimbursement limit, resulted in the Village paying for charges that may have been excessive and/or not paid by the employee.

We recommend the Village implement a policy that specifically identifies allowable health insurance reimbursement expenses and the maximum yearly employee reimbursement amount. The Village should also include in the policy that all employees are required to provide evidence the health insurance expense was paid by the employee prior to requesting reimbursement. In addition, the Village should establish internal controls for reviewing and approving the health insurance reimbursements prior to payment. Village Council or the Administrator should review the reimbursements for compliance with Village policies prior to payment. The review and approval must be sufficiently documented to provide assurance the control was in place and functioning as management intended.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-014

Noncompliance and Material Weakness

Budgetary Controls

The budget is an instrument of public policy: A governing board expresses its desires for using a government's limited resources through its appropriations. Ohio Revised Code Section 5705 deals with a variety of budgetary requirements that all subdivisions must comply with in order to ensure fiscal responsibility.

In performing the audit we noted several violations of budgetary law which, although they do not in and of themselves, result in errors in financial reporting, may lead to the Village making financial decisions based on incorrect or incomplete information. We noted the following:

- Violations of 5705.39 indicating appropriations cannot exceed estimated resources;
- Violations of 5705.41(B) stating no subdivision is to expend money unless it has been appropriated (expenditures exceeded appropriations);
- Violations of 5705.41(D) relating to expenditures having prior certification of availability of funds.
- Violations of 5705.36 (A) stating that upon determination that the revenue will be greater or less than the amount included in the official certificate of estimated resources, the Village Clerk should obtain an amended certificate; and
- Violations of 5705.10 stating the existence of deficit fund balances indicates money from another fund or funds was used to pay obligations of funds that carry the deficit fund balance.

Although Council approves budgets for revenue and expenses and receives monthly reports of budget and actual information, it does not ensure budgetary forms are properly completed and submitted to the County Budget Commission timely.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

FINDING NUMBER 2013-014 (Continued)

Noncompliance and Material Weakness (Continued)

Budgetary Controls (Continued)

Council should review the requirements of ORC section 5705 to be familiar with these laws and to make sure the Village is complying with applicable sections. If the Council does not consider this necessary steps should be taken to make sure amounts are encumbered (purchase orders are used and assigned to each purchase prior to ordering), certifications of available funds are done by the Village Clerk prior to purchasing and unencumbered balances are tracked for each line item.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-015

Noncompliance and Material Weakness

Village Clerk/Treasurer

Ohio Rev. Code Section 733.26 and 733.42 states the Village clerk and treasurer shall be elected for a term of four years. Ohio Rev. Code Section 733.262 provides that rather than having the elected offices of Village Clerk and treasurer, or the combined elected office of Clerk-Treasurer, as provided in Ohio Rev. Code Section 733.261, a Village may combine the duties of the Clerk and Treasurer into one appointed office, to be known as the Village Clerk. To make this change, the Village legislative authority shall pass, by a two-thirds vote, an ordinance or resolution proposing to make the change.

Ohio Rev. Code Section 733.27 provides the Village clerk shall attend all meetings of the legislative authority of the Village and keep a record of its proceedings and of all rules, bylaws, resolutions, and ordinances passed or adopted, which shall be subject to the inspection of all persons interested. Ohio Rev. Code Section 733.28 also provides that the Village Clerk shall keep the books of the Village, exhibit accurate statement of all moneys received and expended, of all the property owned by the Village and income derived therefrom, and of all the taxes and assessments. Ohio Rev. Code Section 733.43 states that the Treasurer of a municipal corporation shall keep an accurate account of all moneys received by him, showing the amount thereof, the time received, from whom, and on what account received; and all disbursements made by him, showing the amount thereof, the time thereof, the time made, to whom, and on what account paid.

During the period, Ms. Sheets was employed part time as the acting Village Clerk. However, Village Council did not pass an ordinance or resolution combining the duties of the clerk and treasurer into one Village Clerk position. In addition, Village Council did not pass an ordinance or resolution formally hiring Ms. Sheets as the Village Clerk.

Ms. Liff was appointed Village Clerk of Council. By performing duties of the Clerk of Council, including attending all council meetings and keeping a record of all minutes, ordinances and resolutions, Ms. Liff was acting as the Village Clerk. However, Ms. Liff did not perform any additional duties of a Village Clerk.

In addition, the Village Clerk did not maintain complete books of the Village, failed to maintain accurate statements of moneys received and expended, and of all the property owned by the Village. The Village Clerk did not prepare accurate and complete monthly bank to book reconciliations.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

FINDING NUMBER 2013-015 (Continued)

Noncompliance and Material Weakness (Continued)

Village Clerk/Treasurer (Continued)

Failure to comply with applicable laws regarding the appointment of Village officials increases the risk job duties are not properly completed or completed at all. In addition, the lack of compliance increases the possibility financial information will not be properly communicated to the governing board and errors or irregularities could occur and not be discovered in a timely manner. This ultimately increases the possibility for fraud to occur.

We recommend Village Council become familiar with the Village Clerk and Treasurer positions and demonstrate compliance with the stated requirements. In addition, the Village Clerk/Treasurer or Village Clerk should record all the financial activity of the Village in the receipts ledger, appropriation ledger, and cash journal as appropriate, so that accurate statements of all monies received and expended can be prepared. The Village Clerk/Treasurer or Village Clerk should perform monthly bank reconciliations. Financial statements and monthly bank reconciliations should be presented to Council for review. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-016

Noncompliance and Material Weakness

Records Retention

Ohio Rev. Code § 149.39 provides that each Village shall establish a records commission composed of the Mayor or the Mayor's appointed representative, as chairperson, and the Treasurer, the Village Solicitor, and a citizen appointed by the Mayor. The commission shall appoint a secretary, who may or may not be a member of the commission and who shall serve at the pleasure of the commission. The commission may employ an archivist or records manager to serve under its direction. The commission shall meet at least once every six months and upon call of the chairperson.

The functions of the commission shall be to provide rules for retention and disposal of records of the Village and to review applications for one-time disposal of obsolete records and schedules of records retention and disposition. The commission may dispose of records pursuant to the procedure outlined in this section. The commission at any time may review any schedule it has previously approved and for good cause shown may revise that schedule.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

FINDING NUMBER 2013-016 (Continued)

Noncompliance and Material Weakness (Continued)

Records Retention (Continued)

When the Village records commission has approved any application for one-time disposal of obsolete records or any schedule of records retention and disposition, the commission shall send that application or schedule to the Ohio Historical Society for its review. The Ohio Historical Society shall review the application or schedule within a period of not more than sixty days after its receipt of it. Upon completion of its review, the Ohio Historical Society shall forward the application for onetime disposal of obsolete records or the schedule of records retention and disposition to the Auditor of State for the Auditor's approval or disapproval. The auditor shall approve or disapprove the application or schedule within a period of not more than sixty days after receipt of it. Before public records are to be disposed of, the commission shall inform the Ohio Historical Society of the disposal through the submission of a certificate of records disposal and shall give the society the opportunity for a period of fifteen business days to select for its custody those public records that it considers to be of continuing historical value.

Furthermore, Ohio Rev. Code § 149.43(B)(2) provides that a public office shall have available a copy of its current records retention schedule at a location readily available to the public.

The Village was unable to provide the following records:

- Detailed support or voucher packets for disbursements examined;
- Complete bank statements and copies of cancelled checks received from Chase Bank for the period; and
- Complete payroll records for calendar year 2013.

Additionally, the Village did not maintain monthly statements or itemized receipts supporting expenditures charged on the Village's Chase credit card and Wex, Inc. fleet fuel card. All credit card transactions lacked itemized receipts or other detailed receipts or invoices.

In addition, the Village had neither established a records commission nor established rules for the retention and disposal of Village records. Lack of supporting documentation for disbursements limits management's ability to review and approve transactions and increases the risk of errors. Failure to adequately control and maintain documents could result in the inability to review prior transactions for accuracy or fraud. Also by not establishing a proper records retention policy, the Village risks being in noncompliance and not properly maintaining public documents.

We recommend the Village take measures to ensure all records are adequately safeguarded. We further recommend the Village establish a records commission for the purpose of establishing rules for the retention and disposal of Village records and to review applications for one-time disposal of obsolete records and schedule of records retention and disposition.

Management's Response – We did not receive a response from officials to this finding.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

FINDING NUMBER 2013-017

Noncompliance and Material Weakness

Public Records Policy

Ohio Rev. Code § 149.43(E) provides that all public offices shall adopt a public records policy for responding to public records requests. In adopting a public records policy, a public office may obtain guidance from the model public records policy developed and provided to the public office by the attorney general under § 109.43 of the Revised Code. Except as otherwise provided in this section, the policy may not limit the number of public records that the public office will make available to a single person, may not limit the number of public records that it will make available during a fixed period of time, and may not establish a fixed period of time before it will respond to a request for inspection or copying of public records, unless that period is less than eight hours.

Furthermore, the public office shall distribute the public records policy adopted by the public office to the employee of the public office who is the records custodian or records manager or otherwise has custody of the records of that office. The public office shall require that employee to acknowledge receipt of the copy of the public records policy. The public office shall create a poster that describes its public records policy and shall post the poster in a conspicuous place in the public office and in all locations where the public office has branch offices. The public office may post its public records policy on the internet web site of the public office if the public office maintains an internet web site. A public office that has established a manual or handbook of its general policies and procedures for all employees of the public office shall include the public records policy of the public office in the manual or handbook.

During the period, the Village had not established a public records policy.

By not adopting a public records policy, the Village risks being in noncompliance with public record laws. All Village employees need to be aware of the public record laws and what procedures to follow when a member of the public requests to examine public records.

We recommend the Village adopt a public records policy that is modeled after the example published by the Ohio Attorney General. The model public records policy is available on the Attorney General's website. This policy should be distributed to Village employees and posted at the Village or available on the Village's internet web site. Additionally, the Village's elected officials are required to attend public records training. The Village should identify a records custodian or records manger. The Village should also consider having the records custodian or records manager attend public records training.

Management's Response – We did not receive a response from officials to this finding.

VILLAGE OF MOUNT STERLING
MADISON COUNTY

SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013

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

FINDING NUMBER 2013-018

Noncompliance and Material Weakness

Taxable Fringe Benefits

26 C.F.R § 1.61-21(a)(1) provides that, except as otherwise provided in subtitle A of the Internal Revenue Code of 1986, gross income includes compensation for services, including fees, commissions, fringe benefits, and similar items. Internal Revenue Service (IRS) Publication 5137, Section 15 Equipment and Allowances, the Fringe Benefit Guide, documents that clothing or uniforms were excluded from wages of an employee if they were (1) specifically required as a condition of employment; and (2) were not worn or adaptable to general usage as ordinary clothing.

During the period, the Village purchased work clothing for the Village Administrator, water and sewer employees, and Utilities Clerk. The clothing included boots, jeans, sweatshirts, overalls, jackets, socks, and hats. The clothing did not meet the exclusive definition. As such, these payments were taxable fringe benefits for the Village employees. However, these fringe benefits were not reported as gross income on the employee's W-2 forms. As a result, there is an increased likelihood of federal taxes being paid at an incorrect amount. In addition, the Village lacked formalized written policies and procedures over the clothing allowance benefit, including the classification of employees receiving the allowance and yearly allowance amount.

We recommend the Village review the IRS regulations regarding taxable fringe benefits. The Village should review W-2s upon creation and determine if all taxable income is included. This will help ensure that the W-2s report all income subject to taxation.

In addition, the Village should establish formal written policies and procedures over the clothing allowance benefit. The policies should include but not be limited to a description of the classification of employees receiving the clothing allowance and yearly allowance amount for each employee.

This matter will be referred to the Internal Revenue Service.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-019

Noncompliance and Material Weakness

Proper Fund Approval

Ohio Rev. Code § 5705.12 provides that, in addition to the funds provided for by sections 5705.09, 5705.121, 5705.13 and 5705.131 of the Rev. Code, the taxing authority of a subdivision may establish, with the approval of and in the manner prescribed by the Auditor of State, such other funds as are desirable, and may provide by ordinance or resolution that money derived from specified sources other than general property tax shall be paid directly into such funds. The Auditor of State shall consult with the tax commissioner before approving such funds. In 2013 and affecting 2014 and 2015, the Village established a Capital Improvement Fund by ordinance without receiving approval from the Auditor of State.

VILLAGE OF MOUNT STERLING
MADISON COUNTY

SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013

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

FINDING NUMBER 2013-019 (Continued)

Noncompliance and Material Weakness (Continued)

Proper Fund Approval (Continued)

This error is a result of inadequate policies and procedures over establishing new funds. We recommend the Village Clerk review Audit Bulletin 1999-006, prior to the establishment of new funds, for information on the Auditor of State's authorization of funds that are not specifically provided for in the Ohio Rev. Code.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-020

Noncompliance

26 Code of Federal Regulations Section 1.6041-2 provides that wages, as defined in 26 United States Code Section 3401 should be reported on a Form W-2, or "all other payments of compensation" are to be reported on a form 1099. 26 United States 3402 states "...every employer making payment of wages shall deduct and withhold upon such wages as determined in accordance with the tables or computation procedures prescribed by the Secretary of the Treasury".

We could find no evidence that the Village issued an IRS Form 1099 to all independent, unincorporated contractors for which the Village paid \$600 or more in 2013.

The Village should issue a Form 1099 to all independent, unincorporated contractors to whom the Village pays \$600 or more in a given calendar year.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2013-021

Noncompliance

Fraud Reporting System

Ohio Revised Code 117.103(B)(1) states that a public officer shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty's days after beginning employment. A model form is available on the auditor of state's web site <https://ohioauditor.gov/fraud/FraudReportingSystemModelForm.pdf> may be printed and used by new public employees to sign and verify their receipt of information as required by this section. The auditor of state shall confirm, when conducting an audit under section 117.11 of the Revised Code that new employees have been provided information as required by this division.

The Village did not provide information about the Ohio fraud-reporting system upon employment with the public office. Employees being aware of this program may help reduce incidences of fraud.

**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

FINDING NUMBER 2013-021 (Continued)

Noncompliance (Continued)

Fraud Reporting System (Continued)

We recommend the Village provide a new employee with the required information about the Ohio fraud-reporting system. The employee should sign a confirmation they have received a copy of the law and the Village should retain a signed copy in the employee's file.

Management's Response – We did not receive a response from officials to this finding.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2013-022
CFDA Title and Number	CFDA #14.228 Community Development Block Grant
Federal Award Number/Year	2013
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Noncompliance

Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, Section .200(b) provides that a non-federal entity that expends \$500,000 or more in a year in federal awards shall have a single audit conducted as discussed in the Circular. Section .105 defines such entities as "auditees". **Section .300(a)** states, an auditee shall "identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received.

Federal programs and award identification shall include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the Federal agency, and name of the pass-through entity."

Section .300(e) further states, an auditee shall "ensure that the audits required by this part are properly performed and submitted when due." **Section .320(a)** provides that single audits shall be completed and a reporting package submitted to the federal clearinghouse designated by OMB, within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

The Village expended in excess of \$500,000 in federal awards during the year ended December 31, 2013; however, the Village has not filed their report with the Federal Audit Clearinghouse as of the date of this report, which is past the March 31 filing deadline.

We recommend the Village develop procedures for timely submission of its A-133 reporting package.

Management's Response – We did not receive a response from officials to this finding.

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**VILLAGE OF MOUNT STERLING
MADISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-01	Posting Receipts and Disbursements	No	Repeated as Finding 2013-001
2012-02	Bank Reconciliations	No	Repeated as Finding 2013-002
2012-03	Monitoring of Delinquent Water and Sewer Accounts	No	Repeated as Finding 2013-009
2012-04	Internal Control and Review Procedures	No	Repeated as Finding 2013-003
2012-05	Outsourcing Payroll	No	Repeated as Finding 2013-004
2012-06	ORC 733.40 Mayor's Court Remittances	Yes	N/A; No longer have Mayor's Court
2012-07	ORC 2743.70 and 2949.091 Mayor's Court Timely Remittances	Yes	N/A; No longer have Mayor's Court
2012-08	Budgetary Controls	No	Repeated as Finding 2013-015

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Dave Yost • Auditor of State

VILLAGE OF MOUNT STERLING

MADISON 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 16, 2018