



Dave Yost • Auditor of State

OHIO AUDITOR OF STATE **KEITH FABER**



January 31, 2019

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 14, 2019. Reports completed prior to that date contain the signature of my predecessor.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

**WARREN WATER AUTHORITY
JEFFERSON COUNTY
DECEMBER 31, 2017 AND 2016**

TABLE OF CONTENTS

TITLE	PAGE
Report on the Financial Statements, Internal Control, and Compliance.....	1
Prepared by Management:	
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) – Enterprise Funds FYE 12/31/2017	3
Notes to the Financial Statements FYE 12/31/2017.....	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) – Enterprise Funds FYE 12/31/2016	11
Notes to the Financial Statements FYE 12/31/2016.....	13
Schedule of Findings.....	19
Summary Schedule of Prior Audit Findings (Prepared by Management).....	27

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Dave Yost • Auditor of State

REPORT ON THE FINANCIAL STATEMENTS, INTERNAL CONTROL, AND COMPLIANCE

Warren Water Authority
Jefferson County
P.O. Box 106
Rayland, Ohio 43943

To the Board of Public Affairs:

We have selectively tested certain accounts, financial records, reports and other documentation of the Warren Water Authority, Jefferson County, (the Authority), as of and for the years ended December 31, 2017 and 2016. These procedures were designed to satisfy the audit requirements of Section 117.11, Ohio Rev. Code, and Section 117-4-02, Ohio Admin. Code. Our engagement was not designed as a basis to opine on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinions on these matters.

Internal Control Over Financial Reporting

Certain of the aforementioned tests relate to internal control over financial reporting. The results of those tests may allow us to identify internal control deficiencies. An internal control deficiency 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, whether caused by error or fraud.

Our internal control tests were not designed to identify all internal control deficiencies that might exist. Therefore, unidentified weaknesses may exist. However, we consider findings 2017-004 through 2017-006 reported in the Schedule of Findings to be internal control deficiencies management and those charged with governance should address.

Compliance and Other Matters

We also tested compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to the Authority, noncompliance with which could directly and materially affect the determination of financial statement amounts. The results of our tests disclosed instances of noncompliance we believe could directly and materially affect the determination of financial statement amounts that we reported in the Schedule of Findings as items 2017-001 through 2017-003.

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

December 27, 2018

Warren Water Authority
Jefferson County
Combined Statement of Receipts, Disbursements
And Changes in Fund Balances (Cash Basis)
Enterprise Funds
For the Year Ended December 31, 2017

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Operating Cash Receipts	
Charges for Services	<u>\$115,555</u>
<i>Total Operating Cash Receipts</i>	<u>115,555</u>
Operating Cash Disbursements	
Personal Services	30,900
Utilities	7,360
Repairs and Maintenance	11,839
Testing and Licenses	369
Other Contractual Services	1,680
Chemicals and Operating Supplies	48,458
Office Supplies and Materials	1,560
Insurance	3,445
Rent	<u>832</u>
<i>Total Operating Cash Disbursements</i>	<u>106,443</u>
<i>Operating Income</i>	<u>9,112</u>
Non-Operating Cash Disbursements	
Debt Service	15,308
Other Non-Operating Cash Disbursements	<u>745</u>
<i>Total Non-Operating Cash Disbursements</i>	<u>16,053</u>
<i>Net Receipts (Under) Disbursements</i>	<u>(6,941)</u>
Cash Balances, January 1	<u>44,003</u>
<i>Cash Balances, December 31</i>	<u><u>\$37,062</u></u>

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

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**WARREN WATER AUTHORITY
JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1.) REPORTING ENTITY

The constitution and laws of the State of Ohio established the rights and privileges for the Warren Water Authority Jefferson County as a body corporate and politic. The Authority is directed by a three-member Board of Trustees. Board members are appointed for lifetime terms by the Jefferson County Judge. Subdivisions within the Authority are Warren Township (partial) Jefferson County and Peace township (partial) Belmont County. The Authority provides water and sewer services to residents of the Authority. Water and Sewer services are purchased by the Authority from the Village of Yorkville, Ohio.

The Authority believes these financial statements present all activities for which the Authority is financially accountable.

2.) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Authority used fund accounting to segregate cash and investments that are restricted as to use. The Authority classifies all funds as Enterprise Funds Type.

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 Authority had the following significant Enterprise Funds:

Water Fund – This fund receives charges for services from residents to cover water service cost.

Sewer Fund – This fund receives charges for services from residents to cover sewer service cost.

Ohio Water Development Authority – This fund receives a \$10 fee from each customer per month used to pay related debt for new water tank.

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 when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

WARREN WATER AUTHORITY
JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

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

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

A summary of 2017 budgetary activity appears in Note 4.

Deposit and Investments

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

The Authority values Certificates of Deposit at cost.

Capital Assets

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

3.) COMPLIANCE

Contrary to Ohio law, the Authority failed to adopt an operating budget and appropriation resolution in 2017. Also contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Water, Sewer and OWDA funds by \$55,487, \$51,701, and \$15,308 for the year ended December 31, 2017.

4.) BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2017 follows:

**WARREN WATER AUTHORITY
JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

2017 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$0	\$115,555	(\$115,555)
\$0	\$115,555	(\$115,555)

2017 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$0	\$122,496	(\$122,496)
\$0	\$122,496	(\$122,496)

5.) DEPOSITS AND INVESTMENTS

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

	2017
Demand deposits	\$12,778
Certificates of deposit	24,284
Total deposits and investments	\$37,062

DEPOSITS:

Deposits are insured by the Federal Depository Insurance Corporation

6.) DEBT

Debt outstanding as of December 31, 2016 was as follows:

	Principal	Interest Rate
OWDA Water System Expansion Plan	\$144,332	2.00%
Total	\$144,332	

**WARREN WATER AUTHORITY
JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

The Authority secured an Ohio Water Development Authority loan to upgrade the water storage tank, the booster station and to place additional water lines. The original loan was for \$300,000 plus \$9. Accrued interest totaling \$300,009 at 2% interest for 25 years. The first payment date was January 1, 2004 and the last payment date is July 1, 2028. Semi-annual payments of \$7,654 are due each July 1 and December 1 of each year. Future revenues from the Authority's water utility operations collateralize this loan.

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

Year Ending December 31:	OWDA Loan
2018	\$15,308
2019	15,308
2020	15,308
2021	15,308
2022	15,308
2023-2027	76,540
2028	7,654
Total	<u>\$160,734</u>

7.) RISK MANAGEMENT

Commercial Insurance

The Authority has obtained commercial insurance for the following risks:

Comprehensive property and general liability
Vehicles; and
Errors and omission

8.) DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

Authority 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 percent of their gross salaries and the Authority contributed an amount equaling 14 percent of participants' gross salaries. The Authority has paid all contributions required through December 31, 2017.

WARREN WATER AUTHORITY
JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

9.) POSTEMPLOYMENT BENEFITS

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, and deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the traditional pension plan and combined plan was 0 percent during calendar year 2017. The portion of employer contributions allocated to health care for members in the member-directed plan was 1 percent during calendar year 2017.

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Warren Water Authority
Jefferson County
Combined Statement of Receipts, Disbursements
And Changes in Fund Balances (Cash Basis)
Enterprise Funds
For the Year Ended December 31, 2016

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Operating Cash Receipts	
Charges for Services	\$116,703
	<hr/>
<i>Total Operating Cash Receipts</i>	<i>116,703</i>
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Operating Cash Disbursements	
Personal Services	25,299
Utilities	7,111
Repairs and Maintenance	10,193
Testing and Licenses	365
Other Contractual Services	12,892
Chemicals and Operating Supplies	42,835
Office Supplies and Materials	3,484
Insurance	3,206
Rent	780
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<i>Total Operating Cash Disbursements</i>	<i>106,165</i>
	<hr/>
<i>Operating Income</i>	<i>10,538</i>
	<hr/>
Non-Operating Cash Disbursements	
Debt Service	15,308
Other Non-Operating Cash Disbursements	2,308
	<hr/>
<i>Total Non-Operating Cash Disbursements</i>	<i>17,616</i>
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<i>Net Receipts (Under) Disbursements</i>	<i>(7,078)</i>
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Cash Balances, January 1	51,081
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<i>Cash Balances, December 31</i>	<i>\$44,003</i>
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The notes to the financial statements are an integral part of this statement.

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WARREN WATER AUTHORITY
JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

1.) REPORTING ENTITY

The constitution and laws of the State of Ohio established the rights and privileges for the Warren Water Authority Jefferson County as a body corporate and politic. The Authority is directed by a three-member Board of Trustees. Board members are appointed for lifetime terms by the Jefferson County Judge. Subdivisions within the Authority are Warren Township (partial) Jefferson County and Peace township (partial) Belmont County. The Authority provides water and sewer services to residents of the Authority. Water and Sewer services are purchased by the Authority from the Village of Yorkville, Ohio.

The Authority believes these financial statements present all activities for which the Authority is financially accountable.

2.) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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 Authority had the following significant Enterprise Funds:

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Sewer Fund – This fund receives charges for services from residents to cover sewer service cost.

Ohio Water Development Authority – This fund receives a \$10 fee from each customer per month used to pay related debt for new water tank.

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 when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

WARREN WATER AUTHORITY
JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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 District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

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

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

A summary of 2016 budgetary activity appears in Note 4.

Deposit and Investments

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

The Authority values Certificates of Deposit at cost.

Capital Assets

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

3.) COMPLIANCE

Contrary to Ohio law, the Authority failed to adopt an operating budget and appropriation resolution in 2016. Also contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Water, Sewer and OWDA funds by \$53,550, \$54,923, and \$15,308 for the year ended December 31, 2016.

4.) BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2016 follows:

**WARREN WATER AUTHORITY
JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

2016 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$0	\$116,703	(\$116,703)
\$0	\$116,703	(\$116,703)

2016 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$0	\$123,781	(\$123,781)
\$0	\$123,781	(\$123,781)

5.) DEPOSITS AND INVESTMENTS

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

	2016
Demand deposits	\$19,814
Certificates of deposit	24,189
Total deposits and investments	\$44,003

DEPOSITS:

Deposits are insured by the Federal Depository Insurance Corporation

6.) DEBT

Debt outstanding as of December 31, 2016 was as follows:

	Principal	Interest Rate
OWDA Water System Expansion Plan	\$156,570	2.00%
Total	\$156,570	

**WARREN WATER AUTHORITY
JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The Authority secured an Ohio Water Development Authority loan to upgrade the water storage tank, the booster station and to place additional water lines. The original loan was for \$300,000 plus \$9. Accrued interest totaling \$300,009 at 2% interest for 25 years. The first payment date was January 1, 2004 and the last payment date is July 1, 2028. Semi-annual payments of \$7,654 are due each July 1 and December 1 of each year. Future revenues from the Authority's water utility operations collateralize this loan.

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

Year Ending December 31:	OWDA Loan
2017	\$15,308
2018	15,308
2019	15,308
2020	15,308
2021	15,308
2022-2026	76,540
2027-2028	22,962
Total	<u>\$176,042</u>

7.) RISK MANAGEMENT

Commercial Insurance

The Authority has obtained commercial insurance for the following risks:

Comprehensive property and general liability
Vehicles; and
Errors and omission

8.) DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

Authority 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 percent of their gross salaries and the Authority contributed an amount equaling 14 percent of participants' gross salaries. The Authority has paid all contributions required through December 31, 2016.

WARREN WATER AUTHORITY
JEFFERSON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

9.) POSTEMPLOYMENT BENEFITS

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, and deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the traditional pension plan and combined plan was 0 percent during calendar year 2016. The portion of employer contributions allocated to health care for members in the member-directed plan was 2 percent during calendar year 2016.

10.) RELATED PARTY TRANSACTION

The Secretary/Treasurer of the Water Authority is also the owner of J.O. Tax Services. The Authority contracts with J.O. Tax Services for \$150 for Utility Collecting and for Accounting Services. The Authority paid J.O. Tax Services \$1,800 during 2016.

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**WARREN WATER AUTHORITY
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016**

1. Noncompliance – Adoption of Tax Budget

<i>Finding Number</i>	2017-001
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Ohio Rev. Code § 5705.28(B)(2) provides, in part, for taxing units that do not levy a tax that on or before the fifteenth day of July each year, such taxing authority shall adopt an operating budget consisting of estimated receipts, expenses and debt charges for the ensuing fiscal year. Documents prepared in accordance with such sections are not required to be filed with the county auditor or county budget commission.

The Authority did not adopt an operating budget including the items above for 2017 or 2016. The Authority did not have procedures in place to help ensure budgetary compliance. Failure to follow sound budgetary practices could result in overspending and could cause a weakness in accountability, fiscal integrity, negative cash fund balances and proper reporting.

To help improve control over budgetary procedures, the Authority should create an operating budget with the required elements describe above, ensure the ledgers include budgeted and actual information and maintain the budget and supporting documentation for audit. Implementation of sound budgetary practices may help ensure the Authority is in compliance with the Ohio Rev. Code requirements and may help the Board monitor the fiscal integrity of the Authority.

2. Noncompliance – Remittance of Withholdings

<i>Finding Number</i>	2017-002
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26 USC §§ 3102 and 3402 require the employing government to withhold federal and employment-related taxes (such as Medicare and Social Security) from each employee. Furthermore, these chapters hold employers liable for reporting and payment of these taxes.

Ohio Rev. Code § 5747.07(B) provides that with certain exceptions every employer required to deduct and withhold any amount under Ohio Revised Code Section 5747.06 shall file a return and shall pay the amount required by law in accordance with guidelines provided by this section.

Ohio Rev. Code § 145.47(B) provides, in part, the head of each authority should remit payment for retirement contributions within 30 days from the reporting period. In addition, a penalty shall be added when such report is filed thirty or more days after the last day of such reporting period.

The Authority had the following issues with their remittances of withholdings:

- The Authority remitted payments to the respective agencies beyond the 30 day requirement;
- The Authority submitted the January and February 2016 Ohio Public Employees Retirement System (OPERS) payments on March 2 and April 18, 2016, respectively, which resulted in the assessment and subsequent payment of late fees in the amount of \$6;
- The Authority has documentation the State of Ohio 2017 4th quarter state tax remittance was remitted in the amount of \$63, however, a review of the bank statements did not identify the amount being deducted from the Authority's bank account; and
- The Authority did not remit to the IRS the 2017 4th quarter federal tax remittance in the amount of \$693.

<i>Finding Number</i>	2017-002 (Continued)
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Failure to remit withholdings accurately and in a timely manner could result in additional late fee assessments and possible findings for recovery.

The Authority should implement procedures by which the Secretary/Treasurer remits withholdings to the Internal Revenue Service, State of Ohio and OPERS in a timely manner and can accurately track when all remittances are due and paid. This may help strengthen control over the Authority's payroll cycle and may help reduce the risk of unnecessary penalties and interest and duplicate payments.

3. Noncompliance – Annual Appropriations

<i>Finding Number</i>	2017-003
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Ohio Revised Code § 5705.38 requires, in part, that on or about the first day of the fiscal year, an appropriation measure be passed.

The Authority did not adopt an appropriation measure for 2017 or 2016 causing 100% of the disbursements to exceed appropriations. This is the result of the Authority not reviewing the above Revised Code Section. Failure to pass an appropriation measure, which serves as a tool by which disbursements can be monitored, could result in overspending.

The Authority should pass an appropriation measure as required so disbursements can be monitored and to help ensure compliance with the Ohio Revised Code.

4. Internal Control Deficiency – Cash Reconciliation

<i>Finding Number</i>	2017-004
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Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) to the accounting system is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

The Secretary/Treasurer is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis and the Board is responsible for reviewing the reconciliations and related support.

The Authority lacked procedures to help ensure reconciliations were performed accurately and timely resulting in the following issues:

<i>Finding Number</i>	2017-004 (Continued)
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- The Treasurer did not perform monthly reconciliations during 2017 and 2016; rather, reconciliations were performed as of the date of the monthly board meeting. The Treasurer completed the monthly reconciliations subsequent to 2017 and 2016;
- The Authority does not maintain fund ledgers to show the monthly and annual balances of each fund;
- The Authority is carrying a \$130 other adjustment on both the 2017 and 2016 reconciliations;
- One check is included as an outstanding check which was issued in December of 2016 in the amount of \$2,801, however, this check was not originally cashed by the payee instead it was subsequently re-issued and cashed. The Authority maintains the original check on the listing when it should be voided; and
- The Treasurer failed to maintain an accurate outstanding check list in 2017 and 2016.

As a result the Authority's 2017 and 2016 year end reconciliation show the Authority's depository balance exceed the book balance by \$2,879 and \$2,771, respectively. Failure to reconcile monthly increases the possibility the Authority will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

The Secretary/Treasurer should record all transactions and prepare monthly bank to book cash reconciliations, which include all bank accounts and all fund balances. The variances noted above should be investigated, documented and corrected. Variances between bank and book amounts could result in possible findings for recovery issued against responsible officials/employees. In addition, the Board should review the monthly cash reconciliations including the related support (such as reconciling items) and document the reviews.

5. Internal Control Deficiency – System of Internal Controls

<i>Finding Number</i>	2017-005
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Ohio Admin. Code § 117-2-01(A) provides that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. "Internal Control" is defined as a process effected by the Authority's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting;
- Effectiveness and efficiency of operations;
- Compliance with applicable laws and regulations; and
- Safeguarding of assets.

Internal control consists of several components, one of which is monitoring, which is a process that assesses the quality of internal control performance over time.

<i>Finding Number</i>	2017-005 (Continued)
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Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual fluctuations;
- Identification of unusual fluctuations;
- Comparison of financial statement position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non-payroll transactions);
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

Lack of effective monitoring controls could lead to theft of entity funds, expenditure of funds contrary to the directives of the governing body, undetected errors affecting the monthly bank versus book reconciliations.

The Authority has the following deficiencies related to their system of internal controls:

- No one independent of the purchasing process reviewed the activity to ensure the accuracy, appropriateness, or allowability of the expenditures; In 2017 and 2016 checks were only signed by the Treasurer. The checks only being signed by one person in conjunction with the lack of board monitoring and segregation of duties could lead to unallowable expenditures and increase the risk of theft/fraud;
- No evidence that an adequate segregation of duties exists;
- The Board did not consistently review and approve expenditures prior to being made to ensure they were accurately recorded, necessary and for a public proper purpose;
- No evidence of the Board's review of bank reconciliations; and
- No evidence of monitoring by the Board over monthly and audited financial statements and revenue and expenditure reports.

The Authority lacked procedures to help ensure required records are maintained. The lack of record keeping greatly increases the risk of misstatement, fraud and abuse related to non-payroll and payroll disbursements, and receipt transactions. These weaknesses significantly reduce management's ability to effectively monitor the finances and make appropriate operating decisions and led to an opinion not being rendered over the Authority's financial statements.

<i>Finding Number</i>	2017-005 (Continued)
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The Water Authority should improve internal controls over reporting by implementing the following:

- Receive Board approval on all payments prior to being made;
- Receipts and disbursements should be reconciled to the bank deposits, customer ledgers, and financial ledgers on a monthly basis. Supporting documentation should be available for each figure on the reconciliation; and
- Present monthly bank reconciliations to the Board for their review, and approval should be documented in the minutes.

6. Internal Control Deficiency – Accounting System and Accounting Records

<i>Finding Number</i>	2017-006
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Ohio Admin Code § 117-2-02(A) requires that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Additionally, Ohio Admin. Code § 117-2-02(D) requires all local public offices to maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

1. Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payer, purpose, receipt number, and other information required for the transaction can be recorded on this ledger.
3. Appropriation ledger, which may assemble and classify disbursements or expenditures/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.
4. In addition, all local public offices should maintain or provide a report similar to the following accounting records:
 - a. Payroll records including:
 - (i) W-2's, W-4's and other withholding records and authorizations.
 - (ii) Payroll journal that records, assembles and classifies by pay period the name of employee, hours worked, wage rates, pay date, withholdings by type, net pay and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments.
 - (iii) Check register that includes, in numerical sequence, the check number, payee, net amount, and the date.

<i>Finding Number</i>	2017-006 (Continued)
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(iv) Information regarding nonmonetary benefits such as car usage and life insurance.

(v) Information, by employee, regarding leave balances and usage.

b. Utilities billing records including:

(i) Master file of service address, account numbers, billing address, type of services provided, and billing rates.

(ii) Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and noncash adjustments, each maintained by date and amount.

(iii) Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above.

The Authority did not maintain an accounting system sufficient to accurately record and report its financial activity, their accounting system had the following deficiencies:

- A complete receipt ledger or appropriation ledger was not maintained for 2017 and 2016;
- The monthly payroll reports presented did not include the check numbers, fund charged, quarterly and year to date totals;
- The Authority could not provide sufficient payroll documentation for 2017 and 2016, such as salary and pay rates, to support whether employees of the Authority were being properly paid. The Authority also did not always retain supporting documentation for withholding remittances such as the Quarterly 941's, State Tax Remittances, and OPERS monthly remittances; and
- The Authority could not provide sufficient expenditure documentation for two purchases in 2016, such as invoices, to support the amount and purpose of the expenditure being made.

The condition of accounting records prohibited us from obtaining sufficient evidential matter in our procedures to express an opinion on the financial statements.

The Authority lacked procedures to ensure the preparation of complete and accurate cash journal, receipts ledger, and appropriation ledger.

The Authority should also establish specific procedures to effectively control each payroll disbursement transaction, including but not limited to the following:

1. Complete and accurate payroll ledgers should be maintained and should include the check number, check date, payee, wage rate, hours worked, gross pay, withholdings, and net pay;
2. The payroll ledger should include month-to-date, quarter-to-date, and year-to-date totals for each employee for each year;
3. Time sheets (when applicable) should be utilized and should be signed by the employee and an immediate supervisor attesting to their validity;
4. All wage rates, new hires, and appointments should be formally approved by the Board and noted in the minute record; and
5. All withholding remittances should be maintained and on file including the Federal 941 reports, State Income Tax remittances, and monthly OPERS reports and remittances.

The Authority should retain all invoices to help substantiate the amount and purpose of the purchase.

The Authority should prepare and maintain water and sewer ledgers including a usage report, billing register, or posted payments ledger.

The officials should review the guidelines contained in the Ohio Administrative Code to guide them in maintaining the necessary accounting records. Implementation of the suggested procedures may help provide the means to determine the financial activity of the Water Authority is properly reported and accounted for.

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

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WARREN WATER AUTHORITY
P.O. BOX 106
RAYLAND, OHIO 43943
PRESIDENT: RICHARD COUP
VICE PRESIDENT: MARTY BARBALEY
SECRETARY/ TREASURER: JOHN ORIZCZAK

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017 AND 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Material Weakness – Cash Reconciliations	Not Corrected	Re-Issued as Finding 2017-004
2015-002	Material Weakness – Utility Ledger Reconciliation	Fully Corrected	
2015-003	Material Weakness – Utility Deposits	Fully Corrected	
2015-004	Material Weakness – Accounting System and Accounting Records	Not Corrected	Re-Issued as Finding 2017-006
2015-005	Material Weakness – System of Internal Controls	Not Corrected	Re-Issued as Finding 2017-005
2015-006	Non-Compliance/Material Weakness – Budgetary Procedures Ohio Revised Code 5705.28(B)(2)	Not Corrected	Re-Issued as Finding 2017-001
2015-007	Non-Compliance – Annual Appropriation Measure – Ohio Revised Code 5705.38	Not Corrected	Re-Issued as Finding 2017-003

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OHIO AUDITOR OF STATE KEITH FABER



WARREN WATER AUTHORITY

JEFFERSON 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
JANUARY 31, 2019**