



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 1999	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types – For the Year Ended December 31, 1999	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 1998	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types – For the Year Ended December 31, 1998	6
Notes to the Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of McDonald
Trumbull County
451 Ohio Avenue
McDonald, Ohio 44437

To the Village Council:

We have audited the accompanying financial statements of the Village of McDonald, Trumbull County, Ohio, (the Village) as of and for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Insurance claims reported in the self insurance fund (an internal service fund) are processed by a service organization that is independent of the Village. The service organization did not provide us with evidence we requested regarding the design or proper operation of its internal control relative to the processing of the Village's health insurance claim transactions. We were unable to perform procedures to satisfy ourselves as to the proper processing of health insurance claims. Those claims represent 100% of disbursement for the internal service fund type, for the years ending December 31, 1999 and 1998.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding health insurance claims, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 1999 and 1998, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2000 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 grants.

This report is intended solely for the information and use of the audit committee, management, and Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

April 3, 2000

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$122,637				\$122,637
Intergovernmental Receipts	129,419	\$177,644		\$18,040	325,103
Charges for Services	4,979	41,735			46,714
Fines, Licenses, and Permits	32,210	3,646			35,856
Miscellaneous	70,905			9,271	80,176
Total Cash Receipts	<u>360,150</u>	<u>223,025</u>		<u>27,311</u>	<u>610,486</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	351,932	36,092			388,024
Public Health Services	12,368				12,368
Leisure Time Activities	23,445				23,445
Community Environment	5,569				5,569
Basic Utility Services	132,963				132,963
Transportation		330,970			330,970
General Government	167,909	5,478			173,387
Debt Service:					
Principal Payments			22,426		22,426
Interest Payments			6,574		6,574
Capital Outlay				88,694	88,694
Total Disbursements	<u>694,186</u>	<u>372,540</u>	<u>29,000</u>	<u>88,694</u>	<u>1,184,420</u>
Total Receipts (Under) Disbursements	<u>(334,036)</u>	<u>(149,515)</u>	<u>(29,000)</u>	<u>(61,383)</u>	<u>(573,934)</u>
Other Financing Receipts/(Disbursements):					
Other Sources	3,958	835			4,793
Transfers-In	350,000	190,000	29,000	123,165	692,165
Transfers-Out		(16,000)			(16,000)
Total Other Financing Receipts	<u>353,958</u>	<u>174,835</u>	<u>29,000</u>	<u>123,165</u>	<u>680,958</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	19,922	25,320		61,782	107,024
Fund Cash Balances January 1	71,411	59,544	1,115	253,653	385,723
Fund Cash Balances, December 31	<u>\$91,333</u>	<u>\$84,864</u>	<u>\$1,115</u>	<u>\$315,435</u>	<u>\$492,747</u>

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	Proprietary Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$829,967	\$92,486		\$922,453
Miscellaneous	4,539		\$17,669	22,208
Total Operating Cash Receipts	834,506	92,486	17,669	944,661
Operating Cash Disbursements:				
Personal Services	225,133		41,300	266,433
Insurance Benefits		54,546		54,546
Contractual Services	359,425			359,425
Supplies and Materials	14,212			14,212
Capital Outlay	38,515		65,390	103,905
Total Operating Cash Disbursements	637,285	54,546	106,690	798,521
Operating Income/(Loss)	197,221	37,940	(89,021)	146,140
Non-Operating Cash Receipts:				
Property Tax and Other Local Taxes			972,414	972,414
Total Non-Operating Cash Receipts			972,414	972,414
Non-Operating Cash Disbursements:				
Debt Service	184,588			184,588
Total Non-Operating Cash Disbursements	184,588			184,588
Excess of Receipts Over Disbursements Before Interfund Transfers	12,633	37,940	883,393	933,966
Transfers-In	50,000		47,000	97,000
Transfers-Out	(79,165)		(694,000)	(773,165)
Net Receipts Over/(Under) Disbursements	(16,532)	37,940	236,393	257,801
Fund Cash Balances, January 1	317,665	22,743	668,262	1,008,670
Fund Cash Balances, December 31	\$301,133	\$60,683	\$904,655	\$1,266,471

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$128,742				\$128,742
Special Assessments		1,604			1,604
Intergovernmental Receipts	172,634	183,314		7,780	363,728
Charges for Services	5,756	2,717			8,473
Fines, Licenses, and Permits	34,222	4,122			38,344
Miscellaneous	73,927	300		9,448	83,675
	<u>415,281</u>	<u>192,057</u>		<u>17,228</u>	<u>624,566</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	335,604	78,418			414,022
Public Health Services	2,327				2,327
Leisure Time Activities	22,629				22,629
Community Environment	6,398				6,398
Basic Utility Services	79,000				79,000
Transportation	735	242,545			243,280
General Government	254,678	61			254,739
Debt Service:					
Principal Payments			131,767		131,767
Interest Payments			81,821		81,821
Capital Outlay				33,731	33,731
	<u>701,371</u>	<u>321,024</u>	<u>213,588</u>	<u>33,731</u>	<u>1,269,714</u>
Total Receipts Over/(Under) Disbursements	<u>(286,090)</u>	<u>(128,967)</u>	<u>(213,588)</u>	<u>(16,503)</u>	<u>(645,148)</u>
Other Financing Receipts/(Disbursements):					
Sale of Notes				145,000	145,000
Other Sources	34,121	2,979			37,100
Sale of Fixed Assets				32,703	32,703
Transfers-In	301,000	128,500	213,643	38,165	681,308
Transfers-Out	(20,355)			(100,000)	(120,355)
	<u>314,766</u>	<u>131,479</u>	<u>213,643</u>	<u>115,868</u>	<u>775,756</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	28,676	2,512	55	99,365	130,608
Fund Cash Balances January 1	42,735	57,032	1,060	154,288	255,115
Fund Cash Balances, December 31	<u>\$71,411</u>	<u>\$59,544</u>	<u>\$1,115</u>	<u>\$253,653</u>	<u>\$385,723</u>
Reserves for Encumbrances, December 31	<u>\$3,995</u>				

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	Proprietary Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Cash Receipts:				
Charges for Services	\$797,685	\$93,955		\$891,640
Miscellaneous			\$7,063	7,063
Total Operating Cash Receipts	797,685	93,955	7,063	898,703
Operating Cash Disbursements:				
Personal Services	252,704		37,909	290,613
Insurance Benefits		83,604		83,604
Travel Transportation	5,992			5,992
Contractual Services	332,722			332,722
Supplies and Materials	16,978			16,978
Capital Outlay	45,543		46,988	92,531
Total Operating Cash Disbursements	653,939	83,604	84,897	822,440
Operating Income/(Loss)	143,746	10,351	(77,834)	76,263
Non-Operating Cash Receipts:				
Property Tax and Other Local Taxes			897,097	897,097
Intergovernmental Receipts	3,626			3,626
Total Non-Operating Cash Receipts	3,626		897,097	900,723
Excess of Receipts Over Disbursements Before Interfund Transfers	147,372	10,351	819,263	976,986
Transfers-In	80,356		131,000	211,356
Transfers-Out	(293,808)		(478,500)	(772,308)
Net Receipts Over/(Under) Disbursements	(66,080)	10,351	471,763	416,034
Fund Cash Balances, January 1	383,745	12,392	196,499	592,636
Fund Cash Balances, December 31	\$317,665	\$22,743	\$668,262	\$1,008,670
Reserve for Encumbrances, December 31	\$8,163			

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of McDonald, Trumbull County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, park operations (leisure time activities), and police services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. 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.

3. Debt Service Fund

This fund is used to accumulate resources for the payment of note indebtedness.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Capital Project Funds

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds).

5. Enterprise Funds

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

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

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

6. Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Income Tax Fund - Revenues are received through the collection of a two-percent income tax. The revenue received is transferred to other funds and used to meet the general obligations of these funds.

Police and Fire Pension Fund - Revenues are received through taxes designated for the payment of Police and Fire Pension.

E. Budgetary Process

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

1. Appropriations

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

2. 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 also approve estimated resources.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 1999 and 1998 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>1999</u>	<u>1998</u>
Demand deposits	\$ 48,318	\$ 4,347
Total deposits	<u>48,318</u>	<u>4,347</u>
Sweep Account	872,016	984,911
STAR Ohio	<u>838,884</u>	<u>405,135</u>
Total investments	<u>1,710,900</u>	<u>1,390,046</u>
Total deposits and investments	<u>\$ 1,759,218</u>	<u>\$ 1,394,393</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by the financial institution's public entity deposit pool.

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 1999 and 1998 follows:

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 743,600	\$ 714,108	\$ (29,492)
Special Revenue	388,748	413,860	25,112
Debt Service	29,000	29,000	0
Capital Projects	411,455	150,476	(260,979)
Enterprise	903,200	884,506	(18,694)
Internal Service	75,200	92,486	17,286
Agency	956,000	1,037,083	81,083
Total	<u>\$ 3,507,203</u>	<u>\$ 3,321,519</u>	<u>\$ (185,684)</u>

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 741,295	\$ 694,186	\$ 47,109
Special Revenue	423,051	388,540	34,511
Debt Service	29,000	29,000	0
Capital Projects	456,312	88,694	367,618
Enterprise	1,096,516	901,038	195,478
Internal Service	75,500	54,546	20,954
Agency	811,890	800,690	11,200
Total	<u>\$ 3,633,564</u>	<u>\$ 2,956,694</u>	<u>\$ 676,870</u>

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 805,436	\$ 750,402	\$ (55,034)
Special Revenue	342,300	323,536	(18,764)
Debt Service	220,000	213,643	(6,357)
Capital Projects	280,000	233,096	(46,904)
Enterprise	1,035,000	881,667	(153,333)
Internal Service	60,000	93,955	33,955
Agency	824,500	1,035,160	210,660
Total	<u>\$ 3,567,236</u>	<u>\$ 3,531,459</u>	<u>\$ (35,777)</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

3. BUDGETARY ACTIVITY (Continued)

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 824,091	\$ 725,721	\$ 98,370
Special Revenue	353,404	321,024	32,380
Debt Service	220,393	213,588	6,805
Capital Projects	246,970	133,731	113,239
Enterprise	1,159,807	955,910	203,897
Internal Service	75,000	83,604	(8,604)
Agency	872,634	563,397	309,237
Total	\$ 3,752,299	\$ 2,996,975	\$ 755,324

4. PROPERTY TAX

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

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

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

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

5. DEBT

Debt outstanding at December 31, 1999 was as follows:

	Principal	Interest Rate
Water Tower Renovation Note	\$ 70,724	5.90%
General Obligation Bonds	99,370	4.65%
Ohio Public Works Commission Loan	360,000	0.00%
Ohio Water Development Authority Loan	1,275,232	5.00%
Total	\$ 1,805,326	

The Water Tower Renovation Notes were issued for \$86,000 at an interest rate of 5.9% for the renovation of the Villages water tower. The note was entered into on December 13, 1995 for a period of 20 years. The notes will be repaid in annual installments of \$7,437, including interest, over the twenty year term. The notes will be repaid by user fees.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

5. DEBT (Continued)

The Permanent Improvement Notes were issued for \$145,000 at an interest rate of 4.65% for the Villages 1997 street paving program. The terms require payments to be made annually. The notes are to be repaid with the general operating funds of the village.

The Ohio Public Works Commission (OPWC) loans relate to the sewer plant expansion project. The OPWC has approved up to \$600,000 in loans to the Village for this project. These loans will be repaid in semiannual installments of \$15,000 over 20 years. This loan will be repaid by user fees.

The Ohio Water Development Authority (OWDA) loans relate to the sewer plant expansion project. The OWDA has approved up to \$1,846,956 in loans to the Village for this project. The loan will be repaid in semiannual installments of \$73,575, including interest over 20 years.

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

Year ending December 31:	Water Tower Mortgage Revenue Note	Permanent Improvement Notes	OPWC Loan	OWDA Loan
2000	\$ 7,437	\$ 29,000	\$ 30,000	\$ 147,150
2001	7,437	29,000	30,000	147,150
2002	7,437	29,000	30,000	147,150
2003	7,437	29,000	30,000	147,150
2004	7,437	0	30,000	147,150
Subsequent	<u>81,807</u>	<u>0</u>	<u>210,000</u>	<u>1,030,050</u>
Total	<u>\$ 118,992</u>	<u>\$ 116,000</u>	<u>\$ 360,000</u>	<u>\$ 1,765,800</u>

6. RETIREMENT SYSTEMS

Full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 1999 and 1998, members of PERS contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 1999.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Wrongful Acts
- Inland Marine
- Crime

The Village provides dental and vision coverage to full-time employees through a private carrier.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

7. RISK MANAGEMENT (Continued)

The Village also provides health insurance benefits to employees through a co-insurance plan with American Medical Securities (AMS). The Village's self-insurance plan covers amounts up to \$5,000 of medical expenses for each employee, any amount over \$5,000 is covered by AMS.

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of McDonald
Trumbull County
451 Ohio Avenue
McDonald, Ohio 44437

To the Village Council:

We have audited the accompanying financial statements of the Village of McDonald, Trumbull County, Ohio (the Village), as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated April 3, 2000, which was qualified due to the lack of evidential matter related to the Internal Service Fund Type disbursements for the years ending December 31, 1999 and 1998. Except as discussed in the proceeding sentence we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated April 3, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 1999-31178-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However we consider item 1999-31178-001 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated April 3, 2000.

This report is intended for the information and use of the audit committee, management, and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

April 3, 2000

**SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998**

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

FINDING NUMBER 1999-31178-001

In order to process claims from healthcare providers for the services rendered to the village employees, the village had two third party administrators during the audit period.

The village has not established procedures to reasonably determine that health insurance claims have been completely and accurately processed by the TPAs in accordance with the health insurance contract. The weaknesses described could result in material errors occurring but not being detected by the village.

We recommend the Village implement procedures to reasonably assure the completeness, and accuracy (including eligibility and allowability) of health insurance claims processed by its TPA. Statement on Auditing Standard No. 70 (SAS-70), as amended by SAS No. 88, prescribes testing and reporting standards for reviews of claims processing controls which should satisfy the village regarding the completeness and accuracy of the processing at its TPA. As described in the statement, we suggest the village obtain a "Report on Policies and Procedures Placed in Operation and Tests of Operation Effectiveness" from the TPA. Such a report, if unqualified, would provide evidence to the village's management that health insurance claims were being processed in conformance with the contract.