



**VILLAGE OF NEW PARIS
PREBLE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



**JIM PETRO
AUDITOR OF STATE**

STATE OF OHIO

VILLAGE OF NEW PARIS
PREBLE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2000	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Proprietary Fund Type – For the Year Ended December 31, 2000	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 1999	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Proprietary Fund Type – For the Year Ended December 31, 1999	6
Notes to the Financial Statements	7
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

INDEPENDENT ACCOUNTANTS' REPORT

Village of New Paris
Preble County
115 North Spring Street
P. O. Box 147
New Paris, Ohio 45347

To the Village Council:

We have audited the accompanying financial statements of the Village of New Paris, Preble County, Ohio (the Village), as of and for the years ended December 31, 2000, and 1999. 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 auditing standards generally accepted in the United States of America 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.

Because of the inadequacy of the Village accounting records, we were unable to obtain sufficient documentation to support total receipts as recorded in the Enterprise Fund Type for the year ended December 31, 1999. Without this evidential matter, we were not able to audit the receipts recorded in the Enterprise Fund or to satisfy ourselves regarding the validity of the receipts through other auditing procedures.

The accompanying financial statements present receipts and disbursements by fund type only, rather than by receipt source and disbursement program or object. The Auditor of State requires financial statements to classify receipts by source and disbursements by function or object.

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 audit the Enterprise Fund Type receipts for the year ended December 31, 1999, and except for the omission of receipt sources and disbursement classifications by program or object, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2000, and 1999, and its combined unclassified 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 August 28, 2001, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the 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

August 28, 2001

VILLAGE OF NEW PARIS
PREBLE COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Unclassified Receipts	\$179,906	\$118,362	\$50,591	\$348,859
Total Cash Receipts	<u>179,906</u>	<u>118,362</u>	<u>50,591</u>	<u>348,859</u>
Cash Disbursements:				
Unclassified Disbursements	158,882	133,086	50,591	342,559
Total Disbursements	<u>158,882</u>	<u>133,086</u>	<u>50,591</u>	<u>342,559</u>
Total Receipts Over/(Under) Disbursements	<u>21,024</u>	<u>(14,724)</u>	<u>0</u>	<u>6,300</u>
Fund Cash Balances January 1	<u>93,124</u>	<u>205,336</u>	<u>0</u>	<u>298,460</u>
Fund Cash Balances, December 31	<u>\$114,148</u>	<u>\$190,612</u>	<u>\$0</u>	<u>\$304,760</u>

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

VILLAGE OF NEW PARIS
PREBLE COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2000

	<u>Enterprise</u>
Operating Cash Receipts:	
Unclassified Receipts	<u>\$991,822</u>
Total Operating Cash Receipts	<u>991,822</u>
Operating Cash Disbursements:	
Unclassified Disbursements	<u>1,088,090</u>
Total Operating Cash Disbursements	<u>1,088,090</u>
Operating Income/(Loss)	<u>(96,268)</u>
Fund Cash Balances, January 1	<u>705,948</u>
Fund Cash Balances, December 31	<u><u>\$609,680</u></u>

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

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**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>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Unclassified Receipts	<u>\$192,024</u>	<u>\$113,953</u>	<u>\$305,977</u>
Total Cash Receipts	<u>192,024</u>	<u>113,953</u>	<u>305,977</u>
Cash Disbursements:			
Unclassified Disbursements	<u>247,553</u>	<u>136,731</u>	<u>384,284</u>
Total Cash Disbursements	<u>247,553</u>	<u>136,731</u>	<u>384,284</u>
Total Receipts Over/(Under) Disbursements	<u>(55,529)</u>	<u>(22,778)</u>	<u>(78,307)</u>
Fund Cash Balances January 1	<u>148,653</u>	<u>228,114</u>	<u>376,767</u>
Fund Cash Balances, December 31	<u>\$93,124</u>	<u>\$205,336</u>	<u>\$298,460</u>

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

VILLAGE OF NEW PARIS
PREBLE COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>Enterprise</u>
Operating Cash Receipts:	
Unclassified Receipts	<u>\$917,290</u>
Total Operating Cash Receipts	<u>917,290</u>
Operating Cash Disbursements:	
Unclassified Disbursements	<u>326,608</u>
Total Operating Cash Disbursements	<u>326,608</u>
Operating Income/(Loss)	<u>590,682</u>
Fund Cash Balances, January 1	<u>115,266</u>
Fund Cash Balances, December 31	<u><u>\$705,948</u></u>

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

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of New Paris, Preble County, Ohio (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, 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 (except for the classification of receipts and disbursements), 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).

The Village prepared unclassified financial statements for receipts and disbursements for the years ended December 31, 2000 and 1999. This presentation is a material departure from the presentation prescribed by the Auditor of State in Ohio Administrative Code, Section 117-2-02 (effective July 1, 2000), and Ohio Administrative Code, Section 117-5-11 (effective until June 30, 2000). These Sections of the Ohio Administrative Code require receipts to be classified by source and disbursements to be classified by program or object.

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

C. Cash and Investments

Certificates of deposit are valued at cost. 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.

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Special Revenue Funds

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.

State Highway Improvement Fund - This fund receives gasoline tax and motor vehicle tax money for improving highways.

3. Capital Project Fund

This fund is used to reflect Preble County Commission expenditures of Community Development Block Grant (CDBG) monies on behalf of the Village. This fund is also used to reflect Ohio Public Works Commission (OPWC) expenditures of grant monies on behalf of the Village. The CDBG project was for fire hydrant replacement. The OPWC project was for water system improvements. Preble County and OPWC made all payment of grant monies directly to the contractor; therefore, the Village did not include any of this activity on its financial statements. Accordingly, there is no budgetary activity reflected in Note 3; however, the financial statements have been adjusted to properly reflect this activity.

4. 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.

Sewer Maintenance Fund - This fund was established to put aside funds for replacement and maintenance of the sewer plant per the OWDA loan agreement.

Water Improvement Fund - This fund was established to account for the financial activity associated with the new water system project.

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 object level of control, and appropriations may not exceed estimated

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end can be carried over and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. However, there were no material encumbrances outstanding at December 31, 1999 and 2000.

A summary of 2000 and 1999 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>2000</u>	<u>1999</u>
Demand deposits	\$ 880,379	\$ 972,398
Total deposits	<u>880,379</u>	<u>972,398</u>
STAR Ohio	<u>34,061</u>	<u>32,010</u>
Total investments	<u>34,061</u>	<u>32,010</u>
Total deposits and investments	<u>\$ 914,440</u>	<u>\$1,004,408</u>

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the Village.

At June 30, 1999, \$497,707 of deposits were not insured or collateralized, contrary to Chapter 135, Ohio Revised Code; at November 30, 2000, \$37,657 of deposits were not insured or collateralized, contrary to Chapter 135, Ohio Revised Code.

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2000, and 1999 follows:

2000 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 175,600	\$ 179,906	\$ 4,306
Special Revenue	132,526	118,362	(14,164)
Enterprise	415,600	991,822	576,222
Total	<u>\$ 723,726</u>	<u>\$ 1,290,090</u>	<u>\$ 566,364</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 284,885	\$ 158,882	\$ 126,003
Special Revenue	337,367	133,086	204,281
Enterprise	1,126,435	1,088,090	38,345
Total	<u>\$ 1,748,687</u>	<u>\$ 1,380,058</u>	<u>\$ 368,629</u>

1999 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 234,420	\$ 192,024	\$ (42,396)
Special Revenue	124,870	113,953	(10,917)
Enterprise	845,000	917,290	72,290
Total	<u>\$ 1,204,290</u>	<u>\$ 1,223,267</u>	<u>\$ 18,977</u>

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 284,588	\$ 247,553	\$ 37,035
Special Revenue	339,425	136,731	202,694
Enterprise	891,746	326,608	565,138
Total	\$ 1,515,759	\$ 710,892	\$ 804,867

Contrary to Ohio law, the Water Improvement fund had expenditures in excess of total appropriations for fiscal year 2000 of \$224,570.

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 payments, the first half is due December 31. The second half payment is due the following June 20.

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, 2000 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$ 377,583	2.00%
OWDA Water System Study Loan	17,000	0.00%
General Obligation Bond Anticipation Note	600,000	7.00%
Public Employees Retirement System Loan	5,752	7.75%
Police Cruiser Lease - Ford Motor Credit Company	5,079	8.00%
Police Cruiser Lease - GMAC	13,519	6.70%
Total	\$ 1,018,933	

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant project. The OWDA loaned \$630,607 to the Village for Project 122SRF. The loan is being repaid in semiannual installments of \$38,412, including interest, over a total of 20 years (the first payment was made in July, 1992).

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

5. DEBT (Continued)

The OWDA Water System Study loan is for reviewing the Village's current water supply system. The OWDA loan was issued on September 26, 1996, and is being repaid in annual installments of \$2,500, due on January 1. The Village made the January 1, 1999, payment in December of 1998. As of December 31, 2000, the Village has \$5,000 yet to be drawn.

The general obligation bond anticipation note was originally issued on June 18, 1999, for \$600,000. The proceeds were to be used to fund water system improvements. The note is rolled over annually and reissued. No bonds were issued.

The Public Employee Retirement System loan was granted by PERS for the Village to satisfy payment of delinquent PERS deductions for one of the Village's employees. PERS approved a loan of \$15,170. The loan is to be repaid in annual installments of \$2,222, including interest, over a ten-year period (the first payment was made in July, 1994).

The lease with Ford Motor Company is for the lease/purchase of a 1998 Ford Crown Victoria Police Sedan. The lease was entered into on July 1, 1998. The original lease/purchase amount was \$19,657 and is being repaid in annual installments of \$5,459. The first payment was made July 1, 1998. The Village will have a concluding payment of \$1 at which time the cruiser will be paid off.

The lease with General Motors Acceptance Corporation is for the lease/purchase of a 2000 Chevrolet Impala Police Sedan. The lease was entered into on October 6, 2000. The original lease/purchase amount was \$18,642 and is being repaid in annual installments of \$5,123. The first payment was made October 24, 2000. The Village will have a concluding payment of \$1 at which time the cruiser will be paid off.

The Village was awarded \$680,130 by the Ohio Public Works Commission on July 1, 1999, for the water supply system project. Of this money, \$340,065 was from a grant and \$340,065 was from a loan. Once the grant amount is fully expended, the loan amount will be drawn on for disbursing the remaining water supply system project obligations. As of December 31, 2000, the Village had not yet exhausted the grant monies.

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

Year ending December 31:	OWDA Loan	OWDA Water System Study Loan	General Obligation Note	PERS Loan
2001	\$ 38,412	\$ 2,500	\$ 642,000	\$ 2,222
2002	38,412	2,500	0	2,222
2003	38,412	2,500	0	2,222
2004	38,412	2,500	0	0
2005	38,412	2,500	0	0
Subsequent	<u>249,678</u>	<u>4,500</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 441,738</u>	<u>\$ 17,000</u>	<u>\$ 642,000</u>	<u>\$ 6,666</u>

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

5. DEBT (Continued)

Year ending December 31:	Police Cruiser Lease - Ford Motor Credit	Police Cruiser Lease - GMAC
2001	\$ 5,459	\$ 5,123
2002	0	5,123
2003	0	5,123
2004	0	0
2005	0	0
Subsequent	0	0
Total	\$ 5,459	\$ 15,369

6. RETIREMENT SYSTEMS

The Village's full-time law enforcement officers belong to the Police and Firemen's Disability and Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post-retirement 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 2000 and 1999, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries in 1999 and 10.84% in 2000.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

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

8. SUBSEQUENT EVENTS

On February 23, 2001, the Village was awarded a loan for \$2,080,000 and grant for \$1,000,000 from the United States Department of Agriculture. The proceeds from the loan and grant are to be used to construct improvements to the Village's existing community water system.

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

9. COMPLIANCE

Contrary to Ohio law, The Village prepared unclassified financial statements for receipts and disbursements for the years ended December 31, 2000 and 1999. This presentation is a material departure from the presentation prescribed by the Auditor of State in Ohio Administrative Code, Sections 117-2-02 and 117-2-03 (effective July 1, 2000) and Ohio Administrative Code, Sections 117-5-07, 09, 10 and 11 (effective until June 30, 2000). These Sections of the Ohio Administrative Code require receipts to be classified by source and disbursements to be classified by program or object.

Contrary to Ohio Law, interest, taxes, and intergovernmental revenue receipts were not properly posted and blanket certificates were not correctly utilized during the audit period.

Contrary to Ohio law, not all original bank statements, canceled checks and supporting documentation were maintained.

10. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

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

Village of New Paris
Preble County
115 North Spring Street
P. O. Box 147
New Paris, Ohio 45347

To the Village Council:

We have audited the accompanying financial statements of the Village of New Paris, Preble County, Ohio (the Village), as of and for the years ended December 31, 2000, and 1999, and have issued our report thereon dated August 28, 2001, in which we noted that the Village had inadequate accounting records to support Enterprise Fund Type receipts in 1999, and which was qualified since the Village did not classify receipts and disbursements in the manner prescribed by the Auditor of State. Except as previously noted, we conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-30368-001 through 2000-30368-008. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated August 28, 2001.

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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 judgment, 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. Reportable conditions are described in the accompanying schedule of findings as items 2000-30368-001, 2000-30368-002, and 2000-30368-008 through 2000-30368-012.

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, of the reportable conditions described above, we consider items 2000-30368-001 and 2000-30368-002, and 2000-30368-009 through 2000-30368-012 to be material weaknesses.

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 August 28, 2001.

This report is intended for the information and use of 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

August 28, 2001

**VILLAGE OF NEW PARIS
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2000 AND 1999**

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

FINDING NUMBER 2000-30368-001

Uniform System of Accounting - Material Noncompliance/Material Weakness

The Village fiscal officer did not maintain a cash journal. Receipt and appropriation ledgers were inaccurate and incomplete. The Village did not always properly code and classify receipts. The Village fiscal officer did not complete an annual financial report for 2000.

Ohio Rev. Code, Section 733.28, requires the Village Clerk to keep the books of the Village, exhibit accurate statements of all monies received and expended, and maintain records of all the property owned by the Village and the income derived.

Prior to July 1, 2000, Ohio Rev. Code, Section 117.43, authorized the Auditor of State to prescribe by rule, requirements for accounting and financial reporting for public offices other than state agencies. The Auditor of State had prescribed a uniform accounting system for villages which is set forth in Ohio Administrative Code, Chapter 117-5, as follows:

1. Rule 117-5-07, Ohio Admin. Code, establishes guidelines for the proper coding and classification of village receipts.
2. Rule 117-5-09, Ohio Admin. Code, provides guidelines for the proper and complete maintenance of a village cash journal.
3. Rule 117-5-10, Ohio Admin. Code, requires that a village post to each receipts account the estimated amount of money to be received into the account as specified by the County Budget Commission. It also provides that receipts should be entered in the "Amount Received" column and in the "Credit" column and subtracted from the budget estimate amount ("Balance").
4. Rule 117-5-11, Ohio Admin. Code, requires the village to maintain an appropriation ledger in a complete and accurate form as prescribed.

After July 1, 2000, Ohio Admin. Code, Sections 117-2-02 and 117-2-03, sets forth the accounting and reporting records that all local public offices shall maintain. 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. The accounting records that all local public offices should maintain include the following:

- 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.
- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses.
- Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts, for at a minimum, each account listed in the appropriation resolution.

FINDING NUMBER 2000-30368-001
(Continued)

Maintaining the above mentioned ledgers will help to provide accurate and complete financial information for management to use in the decision making process. It will also assist in the preparation of the Village's annual financial reports.

We recommend the Village maintain receipt and appropriation ledgers as prescribed by the Ohio Admin. Code. Encumbrances and disbursements should be posted to the appropriation ledger resulting in declining unencumbered balances. Receipts should be posted by fund and line item, with a running balance maintained. Receipts received and checks written should be posted in chronological and numerical order. At year-end, the totals from these ledgers should be carried forward to the annual financial report.

This finding is uncorrected from the prior audit.

FINDING NUMBER 2000-30368-002

Destruction and Loss of Records - Material Noncompliance and Material Internal Control Weakness

Cancelled checks or substitute documents for thirty-six expenditures could not be located. The Village's financial institution was able to provide copies for all but three. Four original bank statements could not be located for the audit period. Supporting documentation could not be found for two expenditures.

Ohio Rev. Code, Section 149.351, establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Rev. Code, Sections 149.38 to 149.42.

Failure to maintain accounting records may adversely affect the decisions of management and could result in inaccurate financial reporting. It could also affect the Village's ability to issue debt or receive grants.

We recommend that the Village maintain all accounting records and original documents.

This finding is uncorrected from the prior audit.

FINDING NUMBER 2000-30368-003

Material Noncompliance - Interest Receipts

All investment earnings, except as provided in Ohio Rev. Code, Section 135.351, and by resolution adopted pursuant to Ohio Rev. Code, Section 3315.01, shall be credited to the general fund of the county, municipal corporation, township, taxing district, assessment district, or other local authority to which the principal sum thereof belongs.

Ohio Rev. Code, Section 5705.10, requires that all revenue derived from a source other than the general property tax, for which the law does not prescribe use for a particular purpose, including interest earned on the principal of any special fund, regardless of the source or purpose of the principal, shall be paid into the general fund. Further, 1982 Op. Atty. Gen. No. 82-031 determined that interest earned on money derived from a motor vehicle license or fuel tax must follow the principal.

Of a total of \$62,768.27 in interest earned during the audit period, only \$39,545.37 was posted to the Village's books. Of the total interest posted for 1999, only \$798.20 was posted to the General Fund; the remaining interest was posted to the Water & Sewer Funds. In 2000, the Clerk pro-rated the interest to

FINDING NUMBER 2000-30368-003
(Continued)

several different funds (General, Street, State Highway, FEMA Grant, Police, Police Education, Water, Sewer). However, the basis for the posting of the interest could not be determined. Adjustments were made to the accounting records and are reflected in the accompanying financial statements.

Failure to post interest to the correct funds and line items can result in misuse of funds received.

The Village should implement procedures to ensure that all interest received is posted to the correct funds and line items. Furthermore, the Village should approve a policy or resolution regarding the allocation of interest received.

This finding is uncorrected from the prior audit.

FINDING NUMBER 2000-30368-004

Receipts- Material Noncompliance

The Village did not properly record intergovernmental and tax revenues received. All taxes were recorded at net; they should be recorded at gross. The Village posted homestead and rollback receipts entirely to the General Fund rather than dividing them correctly between the General Fund and Police Fund. The 2nd half real estate settlement for 1999 and 2nd half exempt personal property settlement for 2000 were not properly posted by fund type. Adjustments have been made to the financial statements to properly classify the monies received.

Ohio Rev. Code, Section 5705.10, requires that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

Failure to properly record receipts can result in overspending funds and negative fund cash balances.

We recommend that the Village implement procedures to properly record all tax and intergovernmental receipts. Receipts posted to the receipt ledger should be reviewed for accuracy. Comparisons between years may aid in the determination if a receipt has been properly posted.

This finding is uncorrected from the prior audit.

FINDING NUMBER 2000-30368-005

Certification of Funds - Material Noncompliance

The Village did not properly certify the availability of funds for purchase commitments for 63.75% of expenditures tested. The Village did not utilize Then and Now Certificates. The Village did not properly encumber 16.13% of invoices that were issued prior to the year ends. These expenditures should have been charged against the prior year appropriations.

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

FINDING NUMBER 2000-30368-005
(Continued)

This Section also provides for two exceptions to the above requirements:

1. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
2. If the amount involved is less than \$1,000, the Clerk-Treasurer may authorize payment through a Then and Now Certificate without affirmation of the Council, if such expenditure is otherwise valid.

Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend the Village obtain approved purchase orders, which contain the Clerk-Treasurer's certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

This finding is uncorrected from the prior audit.

FINDING NUMBER 2000-30368-006

Material Noncompliance - Blanket Certificates

Of the blanket purchase orders tested:

- 79% did not identify a dollar amount; therefore, we could not determine if the blanket purchase order exceeded \$5,000;
- 68% exceeded a period of 3 months;
- 10% did not identify a line item to charge; therefore, we could not determine if only one certificate was outstanding per line item; and
- More than one purchase order was outstanding for a particular item 37% in 7 instances.

Ohio Rev. Code, Section 5705.41(D), states that Fiscal officers may prepare so-called "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding 3 months or running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Failure to properly use blanket certificates can result in overspending of funds and negative cash fund balances.

We recommend the Village obtain properly completed and approved blanket purchase orders, which contain the Clerk's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making commitments.

FINDING NUMBER 2000-30368-007

Material Noncompliance - Depository Collateral

The Village's deposits at Eaton National Bank were not adequately covered by collateral at all times during the audit period. At June 30, 1999, the Village's deposits exceeded legal security by \$497,707; at November 30, 2000, the Village's deposits exceeded legal security by \$37,657.

Ohio Rev. Code, Section 135.18, requires that the treasurer of a political subdivision must require a depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities.

Failure to adequately collateralize deposits can result in loss of funds.

We recommend that the Village implement procedures to verify that depository balances are adequately secured by eligible collateral at all times.

FINDING NUMBER 2000-30368-008

Material Noncompliance and Internal Control Reportable Condition - Expenditures Exceed Appropriations

The Water Improvement fund had expenditures of \$800,470, which were in excess of total appropriations of \$575,900, for a variance of \$224,570 in fiscal year 2000.

Ohio Rev. Code, Section 5705.41(B), states no subdivision or taxing unit is to expend money unless it has been appropriated.

Expenditures exceeding appropriations could result in negative cash balances in individual funds.

We recommend that Village personnel and Council review budgetary compliance on a monthly basis and make adjustments as required.

This finding is uncorrected from the prior audit.

FINDING NUMBER 2000-30368-009

Internal Control Material Weakness - Cash Reconciliations

The Village Clerk-Treasurer did not accurately reconcile its bank accounts/fund balances during 1999 and 2000.

Accurate reconciliations are a basic and essential internal control component for sound fiscal management. Village officials rely on accurate reconciliations when making financial decisions and not having them could put the Village's financial health at risk.

Accordingly, we recommend the Village establish written procedures for cash reconciliations. These procedures should address (but not be limited to) how to handle unrecorded interest, to review bank statements for service charges, making sure the outstanding checklist is accurate and to compensate for utility charges collected by the bank which have not been posted to the cash journal. Additional procedures should include the approval of the reconciliations by a member of the Village's Finance Committee. Such approval should be documented by his/her initialing the reconciliations.

This finding is uncorrected from the prior audit.

FINDING NUMBER 2000-30368-010

Internal Control Material Weakness - Management Oversight

The Village lacks management oversight in the operations of the Village. This lack of oversight is illustrated by the following:

- Minutes from seven meetings during the audit period were not signed by the Clerk; minutes from eight meetings were not signed by the Mayor;
- The Village did not complete an annual financial report for 2000; the 1999 annual financial report was unreliable because the revenue and expenditure ledgers were incomplete and inaccurate;
- Checks and receipts were not always used in sequential order, voided checks were not always readily available;
- Posting of receipts to the wrong funds have gone undiscovered by the Village for the last several years, necessitating fund adjustments; and
- Numerous posting errors in both the receipt and expenditure ledgers have gone undiscovered by the Village during the audit period, necessitating adjustments.

The lack of management involvement could allow the aforementioned internal control weaknesses to continue resulting in management making financial decisions based on erroneous data and/or the opportunity for misappropriation of Village monies.

We recommend:

- The Clerk and Mayor sign all minutes as these are the official and public documents of what transpires at meetings;
- The Village's annual financial reports should be reviewed by the Finance Committee to determine if the prior year ending balances are the same as the current year beginning balances and that the ending balances agree to the December 31st bank reconciliation. All financial information in the annual reports should be supported by the Village ledgers;
- All Village checks and receipts, including voided ones, should be accounted for and used in sequential order; and
- The Finance Committee or designee should review all receipts and expenditures on a monthly basis to ensure proper posting.

This finding is uncorrected from the prior audit.

FINDING NUMBER 2000-30368-011

Internal Control Material Weakness - Utility Department Billing and Collection

The review of the Village's utility billing and collection process noted the following:

- Pay-in receipts were not written for all money collected;

FINDING NUMBER 2000-30368-011
(Continued)

- The dates per the pay-in receipts, computer generated reports and deposits per the bank statements did not always agree. In some cases, the date per the bank statements preceded the date the information was posted into the Village's system (a local bank collects payments on behalf of the Village);
- The Village does not have an ordinance set up to govern money received for late fees. In 1999 and 2000, the late fee was the greater of \$5 or 10% of the bill. All late fee monies collected were posted to the sewer fund; and
- The 1999 meter reading books were not properly secured and were stolen.

This could result in incorrect billing amounts and loss of income to the Village.

To enhance internal controls we recommend:

- Pay-in receipts should be written for all (utility) monies collected. Specific attention must be directed to utility collections made by the local bank;
- Within a 24-hour time period (bank posted collections received after 2:00 PM on the next day) the pay-in receipts, daily computer generated reports, deposits slips and payments made at the bank should agree. Also, the Village Utility Department should be able to "track" an individual's utility billing/payment from the meter reading card through the computer system to the bank deposit;
- An ordinance is needed addressing the amount/percentage of late fees to be assessed and a method of distributing them to both the water and sewer funds; and
- All utility records should be stored in a secure location to prevent theft and alteration of the records.

This finding is uncorrected from the prior audit.

FINDING NUMBER 2000-30368-012

Internal Control Material Weakness - Utility Department Segregation of Duties

There is no segregation of duties within the Utilities Department billing and collection office. The Village Clerk performs all accounting functions within the Department including receipting, posting, and reconciling. It is, therefore, important that management monitor this financial activity closely.

Management should periodically review utility records (i.e. bank reconciliations, delinquent accounts, receivable reports, summaries of rates in current use, etc) and make appropriate inquiries to help determine the continued integrity of the financial information. This information can help answer questions such as the following:

- Are current operating receipts sufficient to cover operating costs?
- Are unusual fluctuations in consumption affecting billing and total receipts?
- Are any new customers being timely added to the billing cycle?
- Are new rate increases being timely and accurately reflected in subsequent billings?

FINDING NUMBER 2000-30368-012
(Continued)

- Were unusual debit or credit adjustments made to the billing system?

These periodic reviews should be noted in the minutes, and documents reviewed should be initialed by the reviewer.

This finding is uncorrected from the prior audit.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

VILLAGE OF NEW PARIS

PREBLE 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 9, 2001**