



Mary Taylor, CPA
Auditor of State

VILLAGE OF WEST ELKTON
PREBLE COUNTY

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Mary Taylor, CPA
Auditor of State

Village of West Elkton
Preble County
135 North Main Street
PO Box 180
West Elkton, Ohio 45070

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

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December 28, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of West Elkton
Preble County
135 North Main Street
PO Box 180
West Elkton, Ohio 45070

To the Village of West Elkton:

We have audited the accompanying financial statements of the Village of West Elkton, Preble County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005. 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.

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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. The Auditor of State served during the years ended December 31, 2006 and 2005 as the Village's financial supervisor under Ohio Revised Code § 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State may assume broad management powers, duties and functions under Ohio Revised Code § 118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

The Auditor of State has billed the Village of West Elkton approximately \$44,605 for audit services provided for fiscal years ending December 31, 1999 through December 31, 2006 and as of the date of this report, \$41,307 remains unpaid. AICPA Code of Professional Conduct, Section 100, ET Section 191 normally considers unpaid audit fees related to periods more than one year prior to the current period under audit to impair the independence of the Auditor of State. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions for the collection of unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located. We believe our audit provides a reasonable basis for our opinion.

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As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of West Elkton, Preble County, Ohio, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The General Fund had negative fund balances of \$24,669 at December 31, 2005 and \$11,600 at December 31, 2006. Management's plan regarding this matter is described in Note 10 to the financial statements.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

December 28, 2007

**VILLAGE OF WEST ELKTON
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, 2006**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Local Taxes	\$4,201	\$5,087	\$0	\$9,288
Municipal Income Tax	15,943			15,943
Intergovernmental	23,662	19,110		42,772
Charges for Services		557		557
Fines, Licenses and Permits	4,189			4,189
Earnings on Investments	64	158		222
Miscellaneous	1,257			1,257
Total Cash Receipts	<u>49,316</u>	<u>24,912</u>	<u>0</u>	<u>74,228</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	1,724	4,361		6,085
Leisure Time Activities	2,111			2,111
Transportation		4,265		4,265
General Government	32,956	128		33,084
Debt Service:				
Redemption of Principal	9,112			9,112
Interest and Fiscal Charges	1,939			1,939
Total Cash Disbursements	<u>47,842</u>	<u>8,754</u>	<u>0</u>	<u>56,596</u>
Total Receipts Over Disbursements	<u>1,474</u>	<u>16,158</u>	<u>0</u>	<u>17,632</u>
Other Financing Receipts:				
Sale of Fixed Assets	11,595			11,595
Total Other Financing Receipts	<u>11,595</u>	<u>0</u>	<u>0</u>	<u>11,595</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	<u>13,069</u>	<u>16,158</u>	<u>0</u>	<u>29,227</u>
Fund Cash Balances, January 1	<u>(24,669)</u>	<u>40,793</u>	<u>334</u>	<u>16,458</u>
Fund Cash Balances, December 31	<u>(\$11,600)</u>	<u>\$56,951</u>	<u>\$334</u>	<u>\$45,685</u>

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

VILLAGE OF WEST ELKTON
PREBLE COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

Non-Operating Cash Receipts:	
Other Non-Operating Cash Receipts	<u>\$5,510</u>
Total Non-Operating Cash Receipts	<u>5,510</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>5,451</u>
Total Non-Operating Cash Disbursements	<u>5,451</u>
Net Receipts Over Disbursements	59
Fund Cash Balances, January 1	<u>1,717</u>
Fund Cash Balances, December 31	<u><u>\$1,776</u></u>

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

**VILLAGE OF WEST ELKTON
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, 2005**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Local Taxes	\$5,087	\$6,336	\$0	\$11,423
Intergovernmental	25,757	17,914		43,671
Charges for Services		5,565		5,565
Earnings on Investments	47	88		135
Miscellaneous	612			612
Total Cash Receipts	<u>31,503</u>	<u>29,903</u>	<u>0</u>	<u>61,406</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	2,920	12,493		15,413
Leisure Time Activities	233			233
Transportation		3,662		3,662
General Government	28,511	190		28,701
Debt Service:				
Redemption of Principal	8,016			8,016
Interest and Fiscal Charges	1,899			1,899
Capital Outlay			1,508	1,508
Total Cash Disbursements	<u>41,579</u>	<u>16,345</u>	<u>1,508</u>	<u>59,432</u>
Total Receipts Over/(Under) Disbursements	<u>(10,076)</u>	<u>13,558</u>	<u>(1,508)</u>	<u>1,974</u>
Other Financing Receipts / (Disbursements):				
Sale of Fixed Assets	1,700			1,700
Transfers-In		807		807
Transfers-Out		(807)		(807)
Total Other Financing Receipts / (Disbursements)	<u>1,700</u>	<u>0</u>	<u>0</u>	<u>1,700</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(8,376)</u>	<u>13,558</u>	<u>(1,508)</u>	<u>3,674</u>
Fund Cash Balances, January 1	<u>(16,293)</u>	<u>27,235</u>	<u>1,842</u>	<u>12,784</u>
Fund Cash Balances, December 31	<u>(\$24,669)</u>	<u>\$40,793</u>	<u>\$334</u>	<u>\$16,458</u>

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

VILLAGE OF WEST ELKTON
PREBLE COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

Non-Operating Cash Receipts:	
Other Non-Operating Cash Receipts	<u>\$915</u>
Total Non-Operating Cash Receipts	<u>915</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u> </u>
Total Non-Operating Cash Disbursements	<u>0</u>
Net Receipts Over Disbursements	915
Fund Cash Balances, January 1	<u>802</u>
Fund Cash Balances, December 31	<u><u>\$1,717</u></u>

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

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of West Elkton, Preble County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services and police services. The Village contracts with West Elkton-Gratis Township Joint Fire district to provide fire protection services and the Village of Gratis to provide emergency medical services.

The Village participates in the Public Entities Pool of Ohio (PEP). PEP is a risk-sharing pool available to Ohio local governments, which provides property and casualty coverage for its members. Note 8 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash

Village funds are pooled in a checking account with a local commercial bank.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose 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.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

Police Fund – This fund receives money from real estate and personal property taxes to provide for the protection of area citizens.

Ambulance Fund – This fund receives money from real estate and personal property tax to provide emergency medical services to area citizens.

3. Capital Project Fund

This fund is used to account for receipts restricted to acquiring or constructing major capital projects. The Village had the following significant Capital Project Fund:

Rural Development Sewer Fund – This fund receives bank loan proceeds, Ohio Water Development Authority loan proceeds, and Ohio Public Works monies for the construction of a wastewater treatment plant.

4. Fiduciary Fund (Agency Fund)

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

Mayor's Court Fund – This fund is used to account for the collection and distribution of court fines and fees.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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 resources. The Village 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.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village canceled \$4,518 in encumbrances at December 31, 2006 and \$428 in encumbrances at December 31, 2005 and re-encumbered these amounts in the subsequent years against current appropriations. The Village did not encumber all commitments required by Ohio law.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

2. Equity in Pooled Cash and Deposits

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

	2006	2005
Demand deposits	\$47,461	\$18,175

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$41,678	\$60,911	\$19,233
Special Revenue	29,711	24,912	(4,799)
Capital Projects	0	0	0
Total	\$71,389	\$85,823	\$14,434

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$46,155	\$47,842	(\$1,687)
Special Revenue	20,242	8,754	11,488
Capital Projects	0	0	0
Total	\$66,397	\$56,596	\$9,801

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. Budgetary Activity (Continued)

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$30,758	\$33,203	\$2,445
Special Revenue	27,611	30,710	3,099
Capital Projects	0	0	0
Total	\$58,369	\$63,913	\$5,544

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$37,655	\$41,579	(\$3,924)
Special Revenue	16,022	17,152	(1,130)
Capital Projects	0	1,508	(1,508)
Total	\$53,677	\$60,239	(\$6,562)

Contrary to Ohio law, in 2005 appropriations exceeded estimated resources as follows: General Fund (\$23,191), Parks and Recreation Fund (\$261), Law Enforcement Trust Fund (\$17), and Police Fund (\$7,855). For 2006, appropriations exceeded estimated resources as follows: General Fund (\$29,146), Parks and Recreation Fund (\$61), Law Enforcement Trust Fund (\$17), Fire Fund (\$201), Police Fund (\$5,053), and Ambulance Fund (\$268).

Contrary to Ohio law, in 2005 expenditures exceeded appropriations as follows: General Fund (\$3,924), FEMA Fund (\$807), Ambulance Fund (\$5,596), and Rural Development Fund (\$1,508). In 2006, expenditures exceeded appropriations as follows: General Fund (\$1,707), State Highway Fund (\$192), and Police Fund (\$63).

Contrary to Ohio law, the following funds had negative fund balances as December 31, 2005: General Fund (\$24,669), Parks and Recreation Fund (\$61), Law Enforcement Trust Fund (\$17), and Police Fund (\$5,886). The following funds had negative fund balances as December 31, 2006: General Fund (\$11,600), Parks and Recreation Fund (\$61), Law Enforcement Trust Fund (\$17), and Police Fund (\$5,660).

4. Property Tax

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

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

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

4. Property Tax (Continued)

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. Local Income Tax

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

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

6. Debt

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Police Cruiser Loan	\$1,494	variable
Park/Water Treatment Plant Loan	8,855	variable
Total	\$10,349	

The police cruiser loan was obtained in September 2003 for \$7,302 to finance the purchase of a police cruiser. This loan was renewed in August 2004 for \$6,771. The loan has a variable interest rate of the prime rate plus 2%. Monthly payments of interest plus principal of \$188 are due. The loan matures on August 20, 2007. The loan is collateralized by the police cruiser.

The park loan was obtained on February 1, 1999 for the purpose of renovating the park in corroboration with a grant from NatureWorks. The water treatment plant loan was obtained on October 23, 1996, for the purpose of procuring land. Each of these loans was renewed on January 31, 2003 [park loan for \$22,416; water treatment plant loan for \$8,969]. The Village obtained a note consolidation loan on May 1, 2003, to combine and refinance these two loans in the total amount of \$31,385. The loan has a variable interest rate of the prime rate plus 2%. Monthly payments of interest plus principal of \$523 are due. The loan matures on May 15, 2008. The loan is unsecured.

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

	Police Cruiser Loan	Park/Water Treatment Plant Loan
Year ending December 31:		
2007	\$1,596	\$7,184
2008		2,689
Total	\$1,596	\$9,873

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. Retirement Systems

The Village's 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. For 2006 and 2005, OPERS law enforcement participants contributed 10.1% of their gross salaries. For 2006 and 2005, the Village contributed to OPERS an amount equal to 16.93 and 16.7%, respectively, of law enforcement members' gross salaries. For 2006 and 2005, other OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village did not pay all contributions required through December 31, 2006. The contributions were remitted late.

8. Risk Management

Risk Pool Membership

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

8. Risk Management (Continued)

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005:

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	(863,163)	(1,068,245)
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty

Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$13,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

8. Risk Management (Continued)

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2004	\$3,895
2005	\$5,589
2006	\$6,721

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

9. Compliance

Contrary to Ohio law:

- The Mayor did not deposit Mayor's Court collections with the Village by the first Monday of each month; nor submit court collections in a timely manner to the appropriate agencies;
- The Mayor did not submit required monthly reports of Mayor's Court collections.

10. Fiscal Emergency

The Village was unable to pay certain obligations at December 31, 2006. The Village also incurred operating losses and negative fund balances. A summary follows:

- The amount of the Village's outstanding obligations for the Police Cruiser and Park / Water Treatment Plan loans are \$10,349.
- The Village had negative fund balances at December 31, 2005 in the General Fund (\$24,669), Law Enforcement Trust (\$17), Parks and Recreation (\$61), and Police Fund (\$5,886). The Village had negative fund balances at December 31, 2006 in the General Fund (\$11,600), Parks and Recreation (\$61), Law Enforcement Trust (\$17), and Police Fund (\$5,660).
- The Village had operating losses as follows for 2005: General Fund - \$10,076; Fire Fund - \$447; and Ambulance Fund - \$650. The Village had no operating losses for 2006.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

10. Fiscal Emergency (Continued)

- The Auditor of State billed the Village for audit services provided for prior fiscal years and the current audit period ended December 31, 2006 and 2005. As of the date of this report, the Village has been billed a total of \$44,605 for the current audit and has yet to pay \$41,307 including current and prior periods.
- Pursuant to Ohio Revised Code, Section 118.03, the Village was declared to be in fiscal emergency, effective September 16, 2004. AOS Local Government Services was designated as the Village's fiscal advisor.
- As part of Management's Plan to emerge from fiscal emergency the Village Council has imposed an income tax, see Note 5.

11. Subsequent Events

The Village issued debt of \$7,497 at a rate of 5.75% on March 21, 2007 to refinance the Park / Water Treatment Plant loan.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of West Elkton
Preble County
135 North Main Street
PO Box 180
West Elkton, Ohio 45070

To the Village Council:

We have audited the financial statements of the Village of West Elkton, Preble County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated December 28, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

The Auditor of State served during the years ended December 31, 2006 and 2005 as the Village's financial supervisor under Ohio Revised Code § 118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State may assume broad management powers, duties and functions under Ohio Revised Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

The Auditor of State has billed the Village of West Elkton approximately \$44,605 for audit services provided for fiscal years ending December 31, 1999 through December 31, 2006 and as of the date of this report, \$41,307 remains unpaid. AICPA Code of Professional Conduct, Section 100, ET Section 191 normally considers unpaid audit fees related to periods more than one year prior to the current period under audit to impair the independence of the Auditor of State. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions for the collection of unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located.

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 the Comptroller General of the United States' *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-004 and 2006-006 through 2006-009.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2006-001, 2006-003, and 2006-009 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated December 28, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-003, 2006-005, and 2006-009.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated December 28, 2007.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, and Village Council. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

December 28, 2007

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**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed. Management should also ensure the collection and compilation of the data needed for the timely preparation of financial statements, as well as verifying the existence and valuation of assets and liabilities and periodically reconciling them to the accounting records. The Village does not have proper controls and procedures over bank reconciliations as evidenced by the following:

- Interest earned on the checking account was not posted timely. In 2005, none of the interest was posted until December 31, 2005. In 2006, none of the interest was posted until December 26, 2006.
- Deposits were not being made timely. In 2005 and 2006, we noted instances in which the receipts were written in advance of being deposited. There were also occasions when the deposit was made well in advance of a receipt being written and posted to the UAN system (e.g. a deposit was made on April 19, 2006, for \$3,366.99. Receipt #90-06, which was included in this deposit, was not written and posted to the system until December 26, 2006).
- A number of checks were listed on the check register as "skipped" (30 for 2005 and 17 for 2006). The physical copies of the voided checks were not maintained. However, these checks did not clear any of the bank accounts during the audit period.
- Check #7736 was listed as "skipped" on the check register. However, it was actually written to William T. Crawford for \$61.77 and cleared the bank on September 9, 2005. It was posted to the system on September 30, 2005 as Memo Expenditure 2-2005.
- The check numbers for five checks did not match the check numbers per the check register. They corresponded to "skipped" check numbers. One check number did not match the check number per the check register. It corresponded to a voided check per the check register.
- All checks are hand written. For a majority of the checks, the date on the hand-written checks did not match the date posted to the UAN system.
- The Village did not maintain two canceled checks. Copies were obtained from the bank.
- Per the UAN check register Check #7633 was incorrectly entered as payable to the Treasurer of State of Ohio. However, per inspection of the actual physical check, the check was written to Brenda White. Supporting documentation indicated the check was paid to the correct vendor.
- Per the UAN check register Check #7803 was incorrectly entered as payable to Premium Finance Corporation. However, per inspection of the actual physical check, the check was written to First Financial Bank. Supporting documentation indicated the check was paid to the correct vendor.
- Per the UAN check register Check #7876 was incorrectly entered as payable to Koorsen Protection Services. However, per inspection of the actual physical check, the check was written to the Preble County District Library. Supporting documentation indicated the check was paid to the correct vendor.

**FINDING NUMBER 2006-001
(Continued)**

- Per the UAN check register Check #7962 was payable to Preble Shawnee High School. However, per inspection of the actual physical check, the payee field was left blank. The Preble Shawnee School Treasurer's stamp was on the bank of the check. Supporting documentation indicated the check was paid to the correct vendor.
- Checks were not always used in sequential number order.
- A bank reconciliation was not completed for March 2006.
- "Other Adjusting Factors" were carried on monthly reconciliations for all months in 2005 and 2006.

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and that all recorded transactions have been deposited with the financial institution.

Transactions should be posted in a timely manner and deposits should be made within twenty-four hours of receipt.

We recommend the Village properly reconcile their books on a monthly basis. Any variances should be immediately investigated, justified, and adjusted for if necessary. We recommend the Village post all transactions timely and accurately.

Officials' Response:

Most of these issues occurred because the Clerk was manually writing checks and later entering everything in the system. This was done to save the Village money because the Village had just received a new order of checks and UAN changed the system so the old checks would not print with the new system. In 2007, the Village switched to laser checks so most of these issues have already been resolved. In hindsight, it would have been worth the expense to order new checks because of all the complications that resulted from doing things manually. The Clerk position is part time and the bank is not located in the Village. Deposits are almost always made within a reasonable period of time considering the Clerk does not work every day. Receipt #90 was an error caught by the Clerk and was corrected. The Clerk was unable to reconcile monthly and required the assistance of Local Government Services. This took some time, so the reconciliations were not done at the end of the month, and "other adjusting factors" were carried over several months, but comments were entered to explain exactly what the amounts were.

FINDING NUMBER 2006-002

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

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

- Homestead and Rollback settlements of \$1,578 for 2005 and \$1,323 for 2006 were posted to taxes rather than intergovernmental revenue.

**FINDING NUMBER 2006-002
(Continued)**

- \$907 of the 1st Half 2006 General Property Tax settlement was incorrectly posted to the Police Fund and should have been posted to the General Fund.
- The November 2006 Gasoline-Cents Per Gallon settlement State Highway Fund portion of \$36 was posted to the Street Fund.
- The July 2005 Gas Tax settlement State Highway Fund portion of \$40 was posted to the Street Fund.
- Municipal Income Tax settlements were posted at net rather than gross for 2006.
- Personal Property Tax Replacement settlements of \$189 for 2006 were posted to taxes rather than intergovernmental revenue.
- Public Utility Reimbursement settlements of \$178 for 2005 and \$178 for 2006 were posted to taxes rather than intergovernmental revenue.
- General Property Tax and Personal Property Tax receipts were posted at net rather than gross for 2005 and 2006.
- Proceeds from the sale of fixed assets of \$11,595 for 2006 and \$1,700 for 2005 were incorrectly posted to miscellaneous revenue.
- Charges for services revenue of \$556 for 2006 and \$5,565 for 2005 was incorrectly posted to miscellaneous revenue.

Adjustments were posted to the financial statements to correct the above classifications.

The lack of proper management oversight could result in material misstatement relating to financial data. To improve record keeping and accountability of receipts we recommend that all county and state revenue receipts be posted properly. For guidance the Village should utilize the Village Officers' Handbook.

Officials' Response:

The issue with the receipts is a lack of knowledge, not oversight. Council is not trained on the specific duties of the Clerk and would not be able to determine if money was receipted to the correct account. The Village feels that obtaining training for all Council members would be a great expense to the Village. The Clerk followed the written instructions for receipting money from a previous clerk. The Clerk now has a better understanding of how the money should be receipted. 2007 was the first time the Village has sent their Clerk to training in over 10 years. Yearly training should also help this situation.

FINDING NUMBER 2006-003

Material Noncompliance and Material Weakness

Mayor's Court

Ohio Revised Code Section 733.40 provides that at the first legislative meeting of each month the mayor shall submit a full statement of all money received, from whom and for what purpose received, and when paid into the treasury. The Mayor did not submit the aforementioned monthly reports. Ohio Revised Code Section 733.40 also requires that all fines, forfeitures, and costs in ordinance cases and all fees collected by the mayor, or which in any manner come into his hands, or which are due such mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses which have been advanced out of the treasury of the municipal corporation, shall be paid by him into such treasury of the first Monday on each month.

The Mayor did not disburse Mayor's Court collections to the Village by the first Monday of each month. For example, collections from November 2004, March 2005, July 2005, September 2005, November 2005, and December 2005 had not yet been disbursed as of August 31, 2007. Collections from

November and December 2006 were not disbursed until June 2007. As of December 28, 2007, November 2004 collections had not yet been disbursed.

Failure to submit the required monthly reports and timely distribute court fines/fees could result in misappropriation of funds. We recommend that the Mayor submit a monthly report to Council to be in compliance with Ohio Revised Code and to enhance accountability of mayor's court activity. These monthly reports should be noted in the Council minutes. The Mayor should also disburse all monies due the Village and the State of Ohio in a timely manner.

In addition to the failure to submit the required monthly reports and timely distribute court fines/fees, the following weaknesses were noted:

- The Village utilizes a rubber stamp of the Mayor's signature in signing the Mayor's Court docket. Unauthorized use of the rubber stamp could result in inaccurate information being documented in the docket book. We recommend that the Village discontinue the use of rubber signature stamps.
- The Mayor's Court Clerk completed monthly bank reconciliations of the Mayor's Court. However, the reconciliations were not accurate nor properly reviewed by supervisory personnel. The failure to have supervisory review of the completed monthly bank reconciliations enhances the possibility that errors or irregularities could occur and not be detected in a timely manner.
- The Mayor's Court Clerk maintained a checkbook register and monthly reports of revenues received; however, they were not complete and accurate. All receipts received, checks written, and bank charges, etc., should be posted to the cash book. The cash book should maintain a running fund balance which can be reconciled to the monthly bank statements. Failure to maintain a complete and accurate cash book enhances the possibility that errors or irregularities could occur and not be detected in a timely manner. We recommend that the Mayor's Court Clerk maintain an accurate cash book of all mayor's court activity.

The following conditions were identified during testing of Mayor's Court activity:

- Not all voided or canceled checks were maintained.
- Many receipts were not deposited timely and some were not deposited until a month or more after they were receipted.
- Tickets were not issued in sequential order by date. Not all tickets were maintained.

**FINDING NUMBER 2006-003
(Continued)**

- Citation #6219 was posted to the docket; however, the citation number was the only information posted. Citation #6742 was posted to the docket; however, the citation number and case number was the only information posted.
- Cases #06-35 and #06-52 did not have citation numbers documented in the docket.
- Receipt #9770 was written and deposited for \$95; however, the receipt was posted to the docket as \$100.
- Receipts #9788, 9787, and 9777 were posted to the docket, but not to the cashbook.
- Receipt #9754 was posted to the cashbook twice, disbursed twice, and only deposited once.
- The case numbers documented on the monthly cash book receipt reports were not always accurate.
- The docket did not always document the amount of fine and costs.
- The Mayor's Court had an operating deficit of \$1,970 for 2005, while only making a profit of \$1,703 for 2006. This equates to an overall operating deficit of \$267 for the period under audit.

We recommend that receipts be written for all monies received. The amount of the receipt should match the amount deposited. All receipts should be properly posted to a cash book. Receipts posted to the cash book should be reviewed for accuracy. All receipts collected should be deposited timely. Failure to properly post revenue and make timely deposits can result in inaccurate records and cause the Mayor's Court to misappropriate funds. All tickets should be issued in sequential order by date. All tickets should

be maintained and posted to the docket. The docket should be reviewed for completeness and accuracy. All voided and canceled checks should be maintained. The amounts of the actual disbursement checks should match the amounts documented in the cash book.

Officials' Response:

Many of the issues with Mayor's Court resulted from errors years ago that has now been resolved. At this point, the Clerk will be able to comply with all recommendations. The checkbook register was complete and accurate, the Mayor signed off on each page of the checkbook register and the President of Council signed each monthly bank reconciliation. Each police officer has his own book of tickets, so the tickets are not in order, but it is done this way to ensure accountability. Receipts are always written for all money received. All voided checks are maintained. The Clerk stated that she was not aware that she needed to verify that the bank returned all cleared checks, and was not aware of any that were missing and she is still not aware.

FINDING NUMBER 2006-004

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should consider verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records and ensuring the collection and compilation of the data needed for timely and accurate preparation of financial statements.

Debt payments were not properly allocated between principal and interest in the accounting system. Debt Service principal was overstated by \$150 in 2006 and understated by \$946 in 2005. Failure to properly post debt activity may result in misleading financial statements. We recommend that all debt payments be properly allocated in the accounting system between principal and interest.

The Village did not make timely debt payments and therefore incurred penalties of \$100 in 2005 and \$300 in 2006. Failure to make timely debt service payments may result in late penalties and compromise the Village's ability to obtain loans in the future. We recommend all debt payments be made by the due date.

Officials' Response:

The Village has continually had problems with First Financial Bank providing invoices for two loans on time. The Clerk spoke with the bank on many occasions. Due to this, the Village switched to Twin Valley Bank, so this issue has been resolved. Also, there were issues with the Mayor picking up the mail and unknowingly not getting it to the Clerk on time. This was resolved in 2007 when it was decided that only the Clerk will pick up the mail.

FINDING NUMBER 2006-005

Material Noncompliance

Ohio Revised Code, Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

**FINDING NUMBER 2006-005
(Continued)**

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.
3. **Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village did not properly certify the availability of funds for purchase commitments for 34 percent and 64 percent of expenditures tested, respectively, for 2006 and 2005 and none of the exceptions above applied. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend that the Clerk-Treasurer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, “then and now” certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials’ Response:

Most of these issues were due to the Clerk entering everything in the system manually and after the fact. To change the system date, the Clerk would have to exit the system. This was overlooked and most items were entered in batch form on the same date. This no longer happens since the Clerk is using laser checks. The funds were always available and the Clerk signed all blanket certificates and purchase orders.

FINDING NUMBER 2006-006

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should ensure that all transactions are properly authorized in accordance with management's policies, ensure that accounting records are properly designed, ensure adequate security of assets and records, and plan for adequate segregation of duties or compensating controls.

The Village paid finance and late charges on many purchases (a total of \$886 for the audit period). This results in additional monies being required for the Village to meet its normal and recurring obligations. All obligations should be paid by their due date. Failure to pay bills in a timely manner could result in penalties and vendors that will not do business with the Village. We recommend that the Village monitor its obligations to ensure that they are paid on a timely basis.

During the audit period the Village made numerous reimbursements to the Mayor for ink and printing supplies and for making copies and preparing the Village newsletter. Documentation from the Village indicates Council approved paying the mayor \$30 per month for the newsletter to include the cost of ink, paper, copies, and delivery. In addition to the \$30 per month, the Mayor was reimbursed \$600 for ink cartridges and \$28 for paper during the audit period. He also received payment of \$51 for making copies at a rate of \$.07 per copy. We recommend Council examine all expenditures and set forth in the minutes whether the newsletter payment is to include the cost of ink and paper.

In June 2005 the Fiscal Officer was reimbursed \$43 for a floppy disk drive she purchased to take files back and forth between work and home. The UAN computer at the Village office has a floppy disk drive and a CD drive. UAN is not installed on the Fiscal Officer's home computer. We recommend Council monitor all expenditures.

During the audit period the Village also made contributions for funeral flower baskets, Memorial Day expenses, and food and beverages for meetings [total of \$753 for 2005; total of \$250 for 2006]. The Village has limited resources from which to make expenditures. The Village was placed in fiscal emergency effective September 16, 2004. Council should implement procedures to closely monitor the Village's budget and eliminate any unconservative expenditures. If such purchases are deemed necessary by Council, we recommend that Council document their decision to consider donations and the purchase of flower baskets, food, and beverages a proper public purpose by a duly-enacted ordinance or resolution. We recommend the Village utilize Auditor of State Bulletin 2003-005 for guidance in determine and documenting proper public purpose.

Officials' Response:

The Clerk has been having difficulty resolving old tax issues and there were fines and penalties applied. The Clerk was able to get many fees and penalties removed. The Clerk has had no training with taxes and worked with a taxpayer's advocate to resolve everything. This will not be a problem in the future since the Clerk now knows what needs to be done. The issue of late fees from First Financial has been resolved since the Village changed banks. Council authorized the Clerk to pay other bills without prior authorization to help with this matter also. The Clerk is now the only one who gets the mail, which has resolved the problem of receiving bills late or not at all. Council examines all reimbursements and questioned many of them but found them to be legitimate. The floppy drive is used on occasion, but as technology has changed, memory sticks are better so the Clerk now uses a memory stick.

FINDING NUMBER 2006-007

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should ensure that all transactions are properly authorized in accordance with management's policies, ensure that accounting records are properly designed, ensure adequate security of assets and records, and plan for adequate segregation of duties or compensating controls.

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

- Supporting documentation was not provided for one IRS payment totaling \$168 in 2006.
- For 2005, the Clerk and Mayor's Court Clerk did not have any federal income tax withheld from their paychecks. For 2006, the Clerk / Mayor's Court Clerk did not have any federal income tax withheld from seventeen paychecks.
- For 2005, the Clerk, Mayor's Court Clerk, Police Chief, Mayor, and six Council members did not have state income tax withheld from their paychecks. For 2006, the Clerk / Mayor's Court Clerk and Mayor did have state income tax withheld from their paychecks.
- For 2005, the Police Chief, police officer, and six council members did not have PERS or FICA withheld from their paychecks. For 2006, the Police Chief did not have PERS or FICA withheld from three paychecks. The six council members did not have PERS or FICA withheld from their paychecks.
- The Village is not timely paying withholdings. In 2005, the Village overpaid the IRS by \$1,413. The State of Ohio Department of Taxation and School District Income Tax were underpaid by \$295 in 2005. Public Employees Retirement System was overpaid by \$445 in 2005. In 2006, the Village underpaid the IRS by \$608. It was remitted in February 2007. The State of Ohio Department of Taxation and School District Income Tax were underpaid by \$239 in 2006. It was remitted in February 2007. Public Employees Retirement System was underpaid by \$315 in 2006. It was remitted in January and February 2007. The Village did not remit municipal income tax withholdings of \$138 to their tax administrator for 2006 until February 2007. Total interest and penalties of \$132 and \$157 were paid in 2005 and 2006, respectively.
- The Village did not properly calculate medicare withholdings. The Village withheld an excess \$73 in medicare withholdings from the Clerk's pay for 2006. The Village withheld an excess \$30 in medicare withholdings from the Mayor's pay for 2006.

The lack of proper management oversight could result in material misstatement, overpayment, or unauthorized payment relating to payroll expenditures. To improve recordkeeping and accountability of payroll expenditures:

- Payroll deductions should be withheld from all required employees. If employees are exempt from withholdings, exemption forms should be maintained in the employee's personnel file.
- All withholdings should be submitted in a timely manner to avoid late fees and interest.
- Retirement contributions should be calculated using the proper rate.
- Supporting documentation should be maintained for all payroll transactions.

**FINDING NUMBER 2006-007
(Continued)**

Officials' Response:

The previous clerks going back over 10 years did not withhold federal tax and the new clerks have continued to do the same as there has not been any training offered for payroll. The Clerk is trying to get on the UAN payroll system which will alleviate many problem, since currently everything is manual. The police chief in 2006 requested that OPERS and FICA not be withheld, so the Clerk complied with his request.

FINDING NUMBER 2006-008

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should plan for adequate segregation of duties or compensating controls.

The small size of the Village's staff does not allow for an adequate segregation of duties. The Clerk performs all the financial record keeping including receipting, depositing, check writing, check signing, and posting. The Clerk also serves as the Village's Mayor's Court Clerk. This system could result in the diversion of funds and bookkeeping errors without detection in a timely manner.

The following material weaknesses were noted:

- Most of the prior audit findings had not been addressed or corrected.
- Revenues and expenditures were posted to the wrong funds or accounts and were undetected by Council.
- Council minutes did not identify which bills were to be paid nor which financial statements were reviewed and approved in the minutes.
- Bills and payroll withholdings were often paid late. Penalties were assessed for the late payments.

The financial statements have been adjusted to reflect the proper postings of the incorrect receipts and disbursements.

We recommend the Village implement monitoring controls over financial processing and reporting, compliance with laws and regulations, and audit follow-up that will help support the objectives of Council and management in these areas. Monitoring controls should be performed by someone independent of those performing the tasks.

The following procedures, at minimum, should be implemented:

- Council should receive monthly financial reports including, but not limited to: estimated versus actual receipts, and appropriations compared to actual expenditures. Council should receive these reports prior to the regular meetings so that members have an opportunity to review the information and ask informed questions. Council's approval of these reports should be documented in the minutes. The documents reviewed should be initialed and dated by the reviewer. Council does sign a monthly list of bills paid; however, there is no actual list in the minutes and they are signed separately from the minutes. There is no evidence that other system reports are approved by Council.
- Upon receiving audit reports, the audit committee should take action to see that the findings are addressed and corrected, and these actions should be communicated to Council. Council should evaluate the adequacy of the actions taken.

**FINDING NUMBER 2006-008
 (Continued)**

- When Council approves the payment of bills at its regularly scheduled meetings, any late fees should be investigated. Any unusual items should be questioned and the response documented.

Officials' Response:

After the prior post audit meeting, the Clerk was told by Marty Votel, Preble County Prosecutor, that the findings from the last audit had been resolved and for the auditors to contact him for verification. The auditors were provided a Village Manual of Policies and Procedures that stated which reports were provided to Council at each meeting for approval, and they would be listed in the minutes as "financial reports". The monthly detailed lists of bills approved by Council are kept in the monthly files and were provided to the auditors. This has not been an issue in prior audits. Monitoring controls are in place. Council signs off on financial reports monthly, authorizes the payment of bills, etc. These reports are signed by Council and are in the monthly files which were provided to the auditors. The Village will provide these missed reports to the auditors again. More training would be very beneficial to the Clerk. The Clerks have never used the budgetary ledger in the UAN system and the current clerk was not aware it was there. LGS is currently assisting her so this issue has been resolved.

Auditor's Conclusion:

This finding is a repeat from the prior audit and was reported in the audit report as Finding Number 2004-012.

FINDING NUMBER 2006-009

Material Noncompliance and Material Weakness

Budgetary

Ohio Revised Code, Section 5705.39, provides that the total appropriations from each fund shall not exceed the total estimated revenue. Appropriations exceeded estimated resources as follows:

2005			
	Estimated Resources	Appropriations	Variance
General Fund	\$14,464	\$37,655	\$(23,191)
Park Fund	(61)	200	(261)
Law Enforcement Trust	(17)	0	(17)
Police Fund	(4,855)	3,000	(7,855)
2006			
General Fund	17,009	46,155	(29,146)
Park Fund	(61)	0	(61)
Law Enforcement Trust	(17)	0	(17)
Police Fund	(2,303)	2,750	(5,053)
Ambulance Fund	8,313	8,581	(268)

Failure to limit appropriations to total estimated revenue may result in the Village incurring obligations that exceed their available resources and negative fund balances. We recommend that the Village limit appropriations to the total estimated revenue per fund.

**FINDING NUMBER 2006-009
 (Continued)**

Ohio Revised Code, Section 5705.41(B), requires that no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures exceeded appropriations as follows:

2005			
	Appropriations	Expenditures	Variance
General Fund	\$37,655	\$41,579	\$(3,924)
FEMA Fund	0	807	(807)
Ambulance Fund	3,048	8,644	(5,596)
Rural Development Fund	0	1,508	(1,508)
2006			
General Fund	46,155	47,862	(1,707)
State Highway Fund	780	972	(192)
Police Fund	2,750	2,813	(63)

Failure to limit expenditures to appropriations may result in overspending and negative fund balances. We recommend that the Village limit expenditures to the appropriated amount. The Clerk should deny any payments until Council has passed the necessary changes to the appropriation measure.

Ohio Revised Code, Section 5705.10(H), requires that money paid into any fund shall be used only for the purpose for which such fund is established.

The following funds had negative fund balances at December 31, 2005 and 2006:

Year	Fund	Amount of Negative Fund Balance
2005	General Fund	(\$24,669)
2005	Parks and Recreation	(61)
2005	Law Enforcement Trust	(17)
2005	Police Fund	(5,886)
2006	General Fund	(11,600)
2006	Parks and Recreation	(61)
2006	Law Enforcement	(17)
2006	Police Fund	(5,660)

These deficit fund balances indicate that cash from other funds was used to pay the obligations of the negative funds. We recommend the Village adopt procedures to properly monitor fund balances and their budget in order to prevent negative fund balances.

Estimated receipts for 2005 and 2006 and appropriations for 2005 and 2006 were not properly posted to the Village's budgetary ledgers. Failure to properly post estimated receipts and appropriations may interfere with the Village's ability to monitor revenues and expenditures, and to limit their spending within the limits of their expected revenue. We recommend the Village properly post estimated receipts and appropriations to their budgetary ledgers.

Officials' Response:

We did not receive a response from Officials for the above finding.

**VILLAGE OF WEST ELKTON
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code, Section 117.28, finding for recovery for public money illegally expended.	No	Not repaid - \$125 due as of December 31, 2006. Referred to the Attorney General by the Preble County Prosecutor.
2004-002	Ohio Rev. Code, Section 117.28, finding for recovery for public money illegally expended.	No	Not repaid - \$260 due as of December 31, 2006.
2004-003	Ohio Rev. Code, Section 117.28, finding for recovery for public monies collected but not account for.	Yes	Repaid \$1,200 on December 28, 2007.
2004-004	Ohio Rev. Code, Section 117.28, finding for recovery for public money illegally expended.	No	Not repaid - \$261 due as of December 31, 2006. Referred to the Attorney General by the Preble County Prosecutor.
2004-005	Ohio Rev. Code, Section 117.28, finding for recovery for public money illegally expended.	No	Not repaid - \$1,700 due as of December 31, 2006. Referred to the Attorney General by the Preble County Prosecutor.
2004-006	Ohio Rev. Code, Section 117.28, finding for recovery for public money illegally expended.	No	Not repaid - \$325 due as of December 31, 2006. Referred to the Attorney General by the Preble County Prosecutor.
2004-007	Finding for Adjustment	Yes	Adjustments posted on December 26, 2007.
2004-008	Ohio Rev. Code, Section 5705.41(D)(1), failure to properly certify funds.	No	Not corrected - Reissued as finding 2006-005.
2004-009	Ohio Rev. Code, Section 733.40, failure to submit monthly Mayor's Court reports or disburse monies in a timely manner. Utilizing a rubber stamp for the Mayor's signature in the docket book. Failure to complete accurate monthly bank reconciliations of the Mayor's Court. Failure to accurately maintain Mayor's Court financial records.	No	Not corrected - Reissued as finding 2006-003.

Village of West Elkton
 Preble County
 Schedule of Prior Audit Findings
 Page 2

2004-010	<p>Ohio Rev. Code, Section 5705.38, failure to timely adopt permanent appropriations.</p> <p>Ohio Rev. Code, Section 5705.39, appropriations exceeded estimated resources.</p> <p>Ohio Rev. Code, Section 5705.41(B), expenditures exceeded appropriations.</p> <p>Ohio Rev. Code, Section 5705.10, negative fund balances.</p> <p>Appropriations and estimated receipt not properly posted to the budgetary ledgers.</p>	No	Not corrected - Reissued as finding 2006-009 and management letter citation.
2004-011	<p>Failure to properly post debt payments.</p> <p>Failure to make timely debt payments.</p> <p>Ohio Rev. Code, Section 121.22, failure to approve debt issuance in an open meeting.</p>	No	Not corrected - Reissued as finding 2006-004.
2004-012	Inadequate segregation of duties.	No	Not corrected - Reissued as finding 2006-008.
2004-013	Failure to prepare accurate cash reconciliations.	No	Not corrected - Reissued as finding 2006-001.
2004-014	Inadequate management oversight of payroll operations.	No	Not corrected - Reissued as finding 2006-007.
2004-015	<p>Payment of finance and late charges on purchases.</p> <p>Failure to monitor the Village's expenditures.</p>	No	Not corrected - Reissued as finding 2006-006.



Mary Taylor, CPA
Auditor of State

VILLAGE OF WEST ELKTON

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
JANUARY 31, 2008**