



Dave Yost • Auditor of State

VILLAGE OF HEMLOCK
PERRY COUNTY

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Dave Yost • Auditor of State

AUDITOR'S REPORT

Village of Hemlock
Perry County
8434 High Street
Hemlock, Ohio 43730

To the Village Council:

We have selectively tested certain accounts, financial records, files, and reports of the Village of Hemlock, Perry County, Ohio (the Village), as of and for the years ended December 31, 2015, 2014 and 2013 following Ohio Admin. Code § 117-4-02.

The accompanying financial statements present receipts and disbursements by fund totals only. Ohio Admin. Code § 117-2-02 requires governments to classify receipt and disbursement transactions.

There are reportable findings and conditions as a result of performing these procedures. Our reportable findings and conditions follow the financial statement presentation. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, and we express no opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State
Columbus, Ohio

December 7, 2016

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**VILLAGE OF HEMLOCK
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND FUND CASH BALANCES
ALL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance 1/1/2015	Receipts	Disbursements	Balance 12/31/2015
General	\$2,905	\$7,726	\$8,944	\$1,687
Special Revenue:				
State Highway Fund	1,079	87	81	1,085
Street Construction, Maintenance and Repair Fund	7,169	1,072	2,273	5,968
<i>Total Special Revenue</i>	<u>8,248</u>	<u>1,159</u>	<u>2,354</u>	<u>7,053</u>
<i>Total All Funds</i>	<u><u>\$11,153</u></u>	<u><u>\$8,885</u></u>	<u><u>\$11,298</u></u>	<u><u>\$8,740</u></u>

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

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND FUND CASH BALANCES
ALL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance 1/1/2014	Receipts	Disbursements	Balance 12/31/2014
General	\$3,356	\$8,081	\$8,532	\$2,905
Special Revenue:				
State Highway Fund	974	325	220	1,079
Street Construction, Maintenance and Repair Fund	7,324	3,964	4,119	7,169
<i>Total Special Revenue</i>	<u>8,298</u>	<u>4,289</u>	<u>4,339</u>	<u>8,248</u>
<i>Total All Funds</i>	<u><u>\$11,654</u></u>	<u><u>\$12,370</u></u>	<u><u>\$12,871</u></u>	<u><u>\$11,153</u></u>

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

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND FUND CASH BALANCES
ALL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance 1/1/2013	Receipts	Disbursements	Balance 12/31/2013
General	\$6,510	\$6,618	\$9,772	\$3,356
Special Revenue:				
State Highway Fund	865	389	280	974
Street Construction, Maintenance and Repair Fund	7,237	4,802	4,715	7,324
<i>Total Special Revenue</i>	<u>8,102</u>	<u>5,191</u>	<u>4,995</u>	<u>8,298</u>
<i>Total All Funds</i>	<u><u>\$14,612</u></u>	<u><u>\$11,809</u></u>	<u><u>\$14,767</u></u>	<u><u>\$11,654</u></u>

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

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**VILLAGE OF HEMLOCK
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015, 2014 AND 2013**

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 Hemlock, Perry County, the Village as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides street and highway maintenance services.

B. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D). 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).

The Village did not classify its receipts and disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Admin. Code § 117-2-02.

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

C. Deposits and Investments

The Village values certificates of deposit at cost

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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Fund:

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

E. Budgetary Process

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

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

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 approve estimated resources.

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 did not encumber all commitments required by Ohio law, contrary to Ohio Rev. Code § 5705.41(D).

A summary of 2015, 2014 and 2013 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 DEPOSITS

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

	2015	2014	2013
Demand deposits	\$6,240	\$8,653	\$9,154
Certificate of deposit	2,500	2,500	2,500
Total deposits	\$8,740	\$11,153	\$11,654

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation;

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2015, 2014 and 2013 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$7,726	\$7,726
Special Revenue	0	1,159	1,159
Total	\$0	\$8,885	\$8,885

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$8,944	(\$8,944)
Special Revenue	0	2,354	(2,354)
Total	\$0	\$11,298	(\$11,298)

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$8,081	\$8,081
Special Revenue	0	4,289	4,289
Total	\$0	\$12,370	\$12,370

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$8,532	(\$8,532)
Special Revenue	0	4,339	(4,339)
Total	\$0	\$12,871	(\$12,871)

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$6,618	\$6,618
Special Revenue	0	5,191	5,191
Total	\$0	\$11,809	\$11,809

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$9,772	(\$9,772)
Special Revenue	0	4,995	(4,995)
Total	\$0	\$14,767	(\$14,767)

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio law, including Ohio Rev. Code §§ 5705.36, 5705.38, 5705.40 and 5705.41(B), the Village failed to comply with the applicable budgetary procedures required which resulted in no legally adopted appropriations being approved.

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 to the Village. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

5. RETIREMENT SYSTEM

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2015, 2014 and 2013, members of PERS contributed 10% of their gross salaries, respectively. The Village contributed an amount equal to 14% of participant's gross salaries. The Village had paid all employer contributions required through December 31, 2015.

6. RISK MANAGEMENT

Commercial Insurance

The Village is uninsured for the following risks:

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

7. COMPLIANCE

Contrary to Ohio Admin. Code §§ 117-2-01(D)(3) and (5) the Village failed to design an adequate system of internal control including the preparation of monthly bank reconciliations. In addition, the Village failed to comply with the provisions of Ohio Rev. Code § 117.38 as the Village did not file an annual financial report with the Auditor of State for the fiscal years ending December 31, 2015, 2014 and 2013. Also, the Village failed to comply with the provisions of Ohio Rev. Code § 149.351 and Ohio Admin. Code § 117-2-02, which require the Village to maintain certain accounting records and public records. Additionally, the Village failed to comply with the provisions of Ohio Rev. Code § 9.38 regarding the timely depositing of public funds.



Dave Yost • Auditor of State

AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Village of Hemlock
Perry County
8434 High Street
Hemlock, Ohio 43730

To the Village Council:

We have selectively tested certain accounts, financial records, files, and reports of the Village of Hemlock, Perry County, Ohio (the Village), as of and for the years ended December 31, 2015, 2014 and 2013, and the related notes to the financial statements following Ohio Admin. Code § 117-4-02. We noted the Village did not classify receipts and disbursements in its financial statements. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, internal control over financial reporting or compliance. We therefore express no opinion on these matters.

Internal Control Over Financial Reporting

During our procedures related to internal control over financial reporting we noted matters that, in our judgment, could adversely affect the Village's ability to initiate, authorize record, process or report financial data consistent with management's assertions in the financial statements. In addition, these matters could result in the occurrence of misstatements that are caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are described in the accompanying Schedule of Findings as items 2015-001 through 2015-004, 2015-006 through 2015-007, and 2015-017.

Compliance and Other Matters

We tested compliance with certain provisions of laws, regulations, contracts, and grant agreements applicable to the Village. Noncompliance with these requirements could impact the Village's ability to determine financial statement amounts. The results of our tests disclosed instances of noncompliance or other matters which are described in the accompanying Schedule of Findings as items 2015-001 through 2015-006 and 2015-008 through 2015-016.

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

December 7, 2016

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015, 2014 AND 2013**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING NUMBER 2015-001

Noncompliance and Internal Control

Ohio Admin. Code §§ 117-2-01(D)(3) and (5) state that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The Fiscal Officer did not prepare monthly reconciliations of bank balances to book balances for the period of January 1, 2013 through December 31, 2015. The lack of a monthly reconciliation between the Village's bank balances and records could result in numerous errors or irregularities to occur and remain undetected and/or uncorrected. For example, during our testing of the Village's payroll, we noted multiple checks having unusual delays between the date of the check and the date the check cleared the Village's bank. One check was noted to take almost three months to clear the bank. The proper monthly reconciliations being performed by the Fiscal Officer and monitoring of the reconciliation process by the Village Council could have resulted in these delays being investigated timely and resolved.

For the current period, the Fiscal Officer's failure to perform a periodic reconciliation resulted in unsupported differences between the Village's bank balances and accounting records. This condition contributed to the Village being declared unauditible on March 30, 2016. The Village's continued inability to substantiate differences with sufficient audit evidence resulted in the Auditor of State's Office compiling unclassified financial statements for the years ending December 31, 2015, 2014 and 2013 and preparing monthly reconciliations comparing the Village's bank balances to book balances.

We noted the following adjustments which were required to be posted to the Village's financial records:

<u>Fund</u>	<u>12/31/2012 Balance</u>	<u>2013 Adjustments</u>	<u>2014 Adjustments</u>	<u>2015 Adjustments</u>	<u>Adjusted 12/31/2015 Balance</u>
General	\$6,510	(\$3,154)	(\$451)	(\$1,218)	\$1,687
Special Revenue					
Street	7,237	87	(155)	(1,201)	5,968
State Highway	865	109	105	6	1,085
Total Special Revenue	<u>8,102</u>	<u>196</u>	<u>(50)</u>	<u>(1,195)</u>	<u>7,053</u>
Grand Total	<u>\$14,612</u>	<u>(\$2,958)</u>	<u>(\$501)</u>	<u>(\$2,413)</u>	<u>\$8,740</u>

The Fiscal Officer should post all receipts and disbursements to Village's ledgers. In addition, the Fiscal Officer should prepare monthly bank reconciliations in a timely manner so that reconciling items can be easily identified and corrections promptly made, when applicable. Unusual or unidentified reconciling items should also be promptly investigated and resolved. Additionally, the monthly bank reconciliation should be reviewed and approved by the Village Council at each monthly meeting.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS(Continued)

FINDING NUMBER 2015-002

Noncompliance and Internal Control

Ohio Rev. Code § 117.38 states that entities filing on a cash-basis must file annual reports with the Auditor of State within 60 days of the fiscal year-end. The Auditor of State may prescribe by rule or guidelines the forms for these reports. However, if the Auditor of State has not prescribed a reporting form, the public office shall submit its report on the form used by the public office. Any public office not filing the report by the required date shall pay a penalty of \$25 for each day the report remains unfiled, not to exceed \$750. The AOS may waive these penalties, upon the filing of the past due financial report.

The report shall contain the amount of: (A) receipts, and amounts due from each source; (B) expenditures for each purpose; (C) income of any public service industry the entity owns or operates, as well as the costs of ownership or operation; and (D) public debt of each taxing district, the purpose of the debt, and how the debt will be repaid.

The Village did not file its 2015, 2014 or 2013 annual reports with the Auditor of State. Failure to file the annual financial report within 60 days of the fiscal year-end can result in fines and penalties. Further, failing to file an annual report could be symptom of an inadequate accounting system, inadequate training of personnel in understanding the accounting and reporting process, unposted or unreconciled records or other significant issues. The lack of financial reports makes it difficult for management to monitor financial performance and impossible for the Village to be transparent to the public regarding its financial activity.

The Fiscal Officer should file the Village's annual financial reports within the 60 days of the fiscal year end. Also, the Village should establish an accounting system capable of accurate financial reporting. Furthermore, the Village officials should obtain the necessary training needed to obtain an understanding in accounting information and reporting.

FINDING NUMBER 2015-003

Noncompliance and Internal Control

Ohio Admin. Code § 117-2-02(A) requires public offices to 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.

Ohio Admin. Code § 117-2-02(C)(1) states that all local public offices should integrate the budgetary accounts, at the legal of control or lower, into the financial accounting system. This means providing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

In addition, Ohio Admin. Code § 117-2-02(D) outlines accounting records that can help achieve these objectives, including the following:

- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund.
- Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS(Continued)

FINDING NUMBER 2015-003 (Continued)

Noncompliance and Internal Control – Ohio Admin. Code § 117-2-02(A) (Continued)

In addition, all local public offices should maintain or provide payroll records including:

- W-2 forms, W-4 forms and other withholding records and authorizations;
- Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked or meetings attended, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments;
- Check register that includes, in numerical sequence, the check number, payee, net amount, and the date;

During the period January 2013 through June 30, 2013, the Village maintained a manual receipts ledger, but did not maintain a manual cash journal, appropriation ledger or payroll journal. During 2015, 2014, and 2013 no other accounting ledgers were maintained or provided for audit. As a result, the Village was unable to accurately classify receipts by source or disbursements by purpose for the period. These factors contributed to the Village being declared unauditible, increased time in completion of our procedures, and increased audit fees. In addition, failure to maintain sufficient accounting records does not allow Village management to adequately monitor the Village's finances.

The Village should properly maintain the accounting records and reconcile the cash journal to the bank balances and to the receipts ledger and appropriation ledger on a monthly basis. Using these accounting records will provide the Village Council with information required to monitor compliance with the budget and prepare annual reports in the format required by the Auditor of State.

FINDING NUMBER 2015-004

Noncompliance and Internal Control

Ohio Rev. Code § 5705.36 states on or about the first day of each fiscal year, the Fiscal Officer is to prepare and present to the budget commission the total amount from all sources available for expenditure from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year.

In addition, Ohio Rev. Code § 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

Additionally, Ohio Rev. Code § 5705.40 states, any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation.

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

The Village failed to provide evidence that it complied with the applicable budgetary procedures outlined in the Ohio Rev. Code. The Village failed to submit the Total Amount from All Sources Available for Expenditures form to the County Budget Commission at the beginning of the year for 2015, 2014 and 2013.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS(Continued)

FINDING NUMBER 2015-004 (Continued)

Noncompliance and Internal Control – Ohio Rev. Code § 5705.36 (Continued)

Therefore, the County Budget Commission never certified the Official Amended Certificate of Estimated Resources, which is the basis for the appropriation measure. The Village did not provide evidence that appropriations were adopted for the period. Therefore all expenditures made by the Village were made without legally adopted appropriations in place.

Failure to properly follow the applicable budgetary laws and regulations could result in deficit spending by the Village.

The Village should refer to the Village Officer's Handbook in regards to the guidelines established for preparing budgets and the budgetary procedures for a Village.

FINDING NUMBER 2015-005

Noncompliance

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing authority 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. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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 §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Rev. 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 the 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 expenditures is otherwise lawful. This does not eliminate any otherwise applicable requirement for the approval of expenditures by the Village.

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. 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.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS(Continued)

FINDING NUMBER 2015-005 (Continued)

Noncompliance – Ohio Rev. Code § 5705.41(D)(1) (Continued)

3. Super Blanket Certificate – The entity 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, fuel 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 Fiscal Officer did not certify all commitments required by law. During our testing of unrecorded encumbrances, we noted prior certification was not obtained for five of eight (63%) items tested for 2013, seven of nine (78%) items tested for 2014 and five of eight (63%) items tested for 2015. There was no evidence the Village followed the aforementioned exceptions.

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. Failure to follow Ohio Rev. Code § 5705.41(D)(1) could result in the Village exceeding its budgetary resources. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify that funds are or will be available prior to obligations being incurred by the Village. When prior certification is not possible, "then and now" certificates should be used.

FINDING NUMBER 2015-006

Noncompliance and Internal Control

Ohio Rev. Code § 149.351 prohibits the destruction or damage of public records. This section states that all records are the property of the public office concerned 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 §§ 149.38 to 149.42 of the Revised Code. Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, destroyed, mutilated, or transferred unlawfully.

We noted the Village did not maintain a voucher packet for 8% checks issued in 2014 and 14% issued in 2015. In our testing of unrecorded encumbrances, we also noted 13% of the checks tested in both 2015 and 2013 had no invoice attached. Additionally we noted 25% of the checks written in 2014, in the amounts of \$277, \$261 and \$104, did not agree to the invoices attached of \$157, \$141, and \$202, respectively, resulting in a net total of \$142 of unsupported expenditures.

Furthermore, during our testing of receipts, we noted one receipt in each year for which no supporting documentation was available. These receipts totaled \$245.

The Village was not able to provide the following documents requested for audit:

- Three months of minutes in 2013.
- Four months of minutes in 2015, including one special meeting.
- Insurance policy.
- Withholding authorization forms for the Fiscal Officer, Mayor and Council members.
- Any documentation associated with check number 4470.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS(Continued)

FINDING NUMBER 2015-006 (Continued)

Noncompliance and Internal Control – Ohio Rev. Code § 149.351 (Continued)

Failure to maintain invoices to support payments, minutes, insurance files, withholdings forms and salary resolutions could result in errors or irregularities occurring and remaining undetected.

The Village should maintain supporting documentation for all expenditures (including payroll) and receipts. Additionally, we recommend that records of all legislative activity (minutes and resolutions) be maintained as required.

FINDING NUMBER 2015-007

Internal Control

The size of the Village's staff and operations did not allow for an adequate segregation of duties; was responsible for all accounting functions, including receipting, depositing, disbursing, and reconciling. It is therefore important that the Village Council monitor financial activity and records very closely.

As previously noted in Finding Number 2015-001, proper bank reconciliations were not completed by the Fiscal Officer. In addition, as noted in Finding Numbers, 2015-002, 2015-003, and 2015-005, appropriate financial records and reports were not maintained for Village activity and the Village failed to file the required annual financial reports. Furthermore, the Village failed to follow the required budgetary procedures. These conditions resulted in the Village being declared unauditable and evidence that the Village's finances and records need to be monitored more closely by Village Council.

The Village Council should review detailed financial reports, budget vs. actual information and bank reconciliations on a monthly basis. This should be documented in the minute record and/or initialed and dated as reviewed. The Village Council should also periodically review the Village's financial records in order to ensure the required records are being maintained. Furthermore, Village Council should make appropriate inquiries to help determine the continued integrity of financial information. Appropriate inquiries would include:

- Are current receipts sufficient to cover expenditures?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood?
- Are anticipated receipts being received in a timely manner?

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Village.

FINDING NUMBER 2015-008

Noncompliance

Ohio Rev. Code § 9.38 states that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, the Village Council may adopt a policy permitting officials who receive this money to hold it past the next business day, but the deposit must be made no later than three business days following receipt. The policy must include provisions and procedures to safeguard the money during the intervening period.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS(Continued)

FINDING NUMBER 2015-008 (Continued)

Noncompliance – Ohio Rev. Code § 9.38 (Continued)

If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the first business day following the date of receipt.

We noted 17 payments for 2015, totaling \$3,407 and six payments for 2014, totaling \$1,277, for gasoline taxes which were never deposited by the Village and therefore the payments were subsequently voided by the State of Ohio. Failure to deposit receipts in a timely manner could result in subsequent loss or theft of monies collected.

The Fiscal Officer should deposit receipts of the Village to a designated depository on the business day next following the day of receipt or in accordance with a policy adopted by Village Council meeting the aforementioned requirements.

FINDING NUMBER 2015-009

Noncompliance

Ohio Rev. Code § 145.47 requires each employer to withhold an amount, as determined by the public employees' retirement board, not to exceed ten percent from each employee's earnable salary that is a contributor to the retirement system. The required rate was ten percent for 2015, 2014, and 2013. Ohio Rev. Code § 145.48 states, in part, each employer shall pay to the public employees' retirement system an amount that shall have a certain per cent of the earnable salary of all contributors to be known as the "employer contribution." The required rate was 14% for 2015, 2014, and 2013.

We noted for 2015, 2014 and 2013 that amounts withheld from the employees or officials for retirement differed by \$79, \$66 and \$126, respectively, from the amounts remitted to Ohio Public Employees Retirement System (OPERS). We were unable to determine the cause of the differences. Failure to properly withhold and remit withholdings and contributions could result in errors and/or irregularities occurring and remaining undetected and subject the Village to penalties and interest charges.

The Village should remit employee withholdings and employer contributions in a timely fashion to the Ohio Public Employee Retirement System as required. The Village Council should monitor these payments to ensure payments are made timely and in the appropriate amounts.

FINDING NUMBER 2015-010

Noncompliance

Ohio Rev. Code § 5747.06 states that except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such a manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee. The employer shall deduct and withhold the tax on the date that the employer directly, indirectly, or constructively pays the compensation to, or credits the compensation to the benefit of, the employee. The method of determining the amount to be withheld shall be prescribed by rule of the tax commissioner.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS(Continued)

FINDING NUMBER 2015-010 (Continued)

Noncompliance – Ohio Rev. Code § 5747.06 (Continued)

We noted the Village only remitted two payments in 2013, two payments in 2014 and no payments in 2015 for state taxes withheld. Those payments remitted were not always submitted timely or in the proper amounts. We were unable to determine the reasons for any such variances.

The Village should take the necessary action to correct any discrepancies between the amounts withheld and remitted for state taxes. In addition, the Village should ensure that the transmittal of state income taxes is made timely to avoid possible late penalties and interest.

FINDING NUMBER 2015-011

Noncompliance

26 U.S.C. § 3102(a)(1) requires every employer making payment of wages to deduct and withhold a tax determined in accordance with tables or computational procedures prescribed by the Secretary of the Treasury.

We noted no Federal income taxes were being withheld for any Village employee. In addition, the Village could not provide any documentation to support employees having enough exemptions for which no withholding would be required. Furthermore, we noted Medicare taxes of \$43, \$39, and \$23 were withheld for 2015, 2014 and 2013, respectively, but noted no evidence of a corresponding payment being made to the Internal Revenue Service for these withholdings or the corresponding employer's share. Failure to withhold and remit Federal taxes in a timely fashion, as required could subject the Village to significant penalties and interest.

The Fiscal Officer should withhold and remit the required Federal taxes to the Internal Revenue Service each period.

FINDING NUMBER 2015-012

Noncompliance

Ohio Rev. Code § 3.06(B) permits any department or instrumentality of the state or any county, township, municipal corporation, or other subdivision or board of education or department or instrumentality thereof, may procure a blanket bond from any duly authorized corporate surety covering officers, clerks and employees, other than treasurers or tax collectors and any officer, clerk or employee required by law to execute or file an individual official bond to qualify for office or employment.

The Village did not provide evidence that any personnel, including the Fiscal Officer, were bonded.

Failure to bond officers with access to Village funds could results in the Village being able to recover monies of the Village in the event of loss or theft.

The Village should consider bonding Village officers and employees with access to Village funds.

VILLAGE OF HEMLOCK
PERRY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS(Continued)

FINDING NUMBER 2015-013

Noncompliance

Ohio Rev. Code § 117.103(B)(1) states a public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment.

The Village did not provide evidence that signed confirmations for notification of the fraud-reporting system to new employees were obtained.

The Village should provide information on the Ohio fraud-reporting system to new employees and obtain a signed confirmation the information was provided.

FINDING NUMBER 2015-014

Noncompliance

Ohio Rev. Code § 149.43(E)(1) requires all public offices to adopt a public records policy. In addition, this section also states that all state and local elected officials, or their designees, must attend at least three hours of training on public records during each term of office. The training received must be certified by the Ohio Attorney General. Proof that training has been completed must include documentation that either the Attorney General's Office or another entity certified by the Attorney General provided the training to the elected official, or his/her designee. Attendees who successfully complete the training will receive a certificate to serve as proof of training. Furthermore, Ohio Rev. Code § 149.43(B)(2) requires each public office to have available a copy of its current records retention schedule at a location readily available to the public.

The Village did not have a public records policy nor did they have copies on file to support the attendance of Village officials at a required public records training. In addition, the Village did not have the required records retention policies or schedules. The absence of these policies could result in inconsistencies in the treatment of public records requests and the improper destruction of Village records.

The Village Council should adopt the required public records and records retention policies. In addition, Village officials should attend the required public records training or appoint a designee to attend this required. Certificates of attendance should be maintained as evidence that the required trainings are attended.

FINDING NUMBER 2015-015

Noncompliance

Ohio Rev. Code § 733.27 requires village fiscal officers to attend annual training programs for new village fiscal officers and annual continuing education programs provided by the Auditor of State. The Auditor of State interprets this section as requiring a newly-elected fiscal officer to attend the new fiscal officer's training offered by the Auditor of State between December 1 and the following February 15, and any other annual training offered by the Auditor of State. Continuing fiscal officers must attend the annual update sessions only.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015, 2014 AND 2013
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS(Continued)

FINDING NUMBER 2015-015 (Continued)

Noncompliance – Ohio Rev. Code § 733.27 (Continued)

In addition, Ohio Rev. Code § 733.81 requires a newly elected or appointed fiscal officer to complete at least six hours of initial education programs before commencing, or during the first year of office. An additional eighteen hours of continuing education must be completed within the fiscal officer's first term. Twelve hours of training shall be completed for each subsequent term.

We noted a new Fiscal Officer was appointed to fill the position on April 23, 2013; however, no evidence was noted of the Fiscal Officer completing the required continuing education training.

The Fiscal Officer should attend the required training programs. In addition, Village Council should monitor the operations of the Village including ensuring Village officials have attended the appropriate training programs.

FINDING NUMBER 2015-016

Noncompliance

26 C.F.R. § 1.6041-1 requires the Village to issue Form 1099 to independent contractors the Village made payments aggregating \$600 or more during a calendar year.

We noted one contractor in 2013 and one contractor in 2014 that were paid in excess of \$600. The Village did not provide evidence that a Form 1099 was issued to these vendors.

The Fiscal Officer should complete and issue Form 1099 where applicable.

FINDING NUMBER 2015-017

Internal Control

Property tax receipts should be posted at gross amounts with deductions posted as memorandum disbursements in order to reflect the complete financial activity of the Village.

During our testing we noted tax settlements were posted at the net amount received, rather than at the gross settlement amount. This resulted in receipts and disbursements being understated.

The Fiscal Officer should record all tax settlements at the gross amount received. The corresponding fees charged to the Village should be posted as memorandum disbursements.

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



Dave Yost • Auditor of State

VILLAGE OF HEMLOCK

PERRY 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
DECEMBER 20, 2016