

Village of South Webster
Scioto County
Regular Audit
For the Years Ended December 31, 2016 and 2015



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Dave Yost • Auditor of State

Village Council
Village of South Webster
PO Box 38
South Webster, Ohio 45682

We have reviewed the *Independent Auditor's Report* of the Village of South Webster, Scioto County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2015 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of South Webster is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

April 20, 2018

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Village of South Webster
Scioto County
Table of Contents
For the Years Ended December 31, 2016 and 2015

Title	Page
Independent Auditor’s Report.....	1
Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Regulatory Cash Basis) – All Governmental Fund Types – For the Year Ended December 31, 2016.....	4
Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Regulatory Cash Basis) – Proprietary Fund Type – For the Year Ended December 31, 2016	5
Notes to the Financial Statements – For the Year Ended December 31, 2016.....	6
Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Regulatory Cash Basis) – All Governmental Fund Types – For the Year Ended December 31, 2015.....	12
Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Regulatory Cash Basis) – Proprietary Fund Type – For the Year Ended December 31, 2015	13
Notes to the Financial Statements – For the Year Ended December 31, 2015.....	14
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	20
Schedule of Findings and Responses	22
Schedule of Prior Audit Findings.....	32

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Independent Auditor's Report

Village Council
Village of South Webster
P.O. Box 38
South Webster, Ohio 45682

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of South Webster, Scioto County, Ohio (the Village) as of and for the years ended December 31, 2016 and 2015.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Village of South Webster
Scioto County
Independent Auditor's Report

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Additional Opinion Qualification* and *Unmodified Opinion* paragraphs below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2016 and 2015, and the respective changes in financial position or cash flows thereof for the years then ended.

Basis for Additional Opinion Qualification

Non-payroll disbursements are reported as follows: general fund in the amount of \$42,758, or 79% of total general fund disbursements for the year ended December 31, 2016. Non-payroll disbursements are reported as follows: general fund in the amount of \$44,402, or 85% of total general fund disbursements and enterprise funds in the amount of \$2,075, or 100% of total enterprise funds' disbursements for the year ended December 31, 2015. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as non-payroll disbursements for the general fund years ended December 31, 2016 and 2015 and for enterprise funds for the year ended December 31, 2015. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Additional Opinion Qualification

In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements, and related notes of the general fund type of the Village of South Webster, Scioto County, Ohio, as of December 31, 2016 and of the general and enterprise fund types as of December 31, 2015 and for the years then ended in accordance with financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances, receipts and disbursements, and related notes of the special revenue and enterprise fund types of the Village of South Webster, Scioto County, Ohio, as of December 31, 2016 and of the special revenue fund type as of December 31, 2015 and for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the Village has deficit fund balances in the enterprise fund type as of December 31, 2016 and 2015. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Note 11 describes management's actions regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2018 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on the effectiveness of the Village's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

February 2, 2018

**Village of South Webster
Scioto County, Ohio**

*Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016*

	General Fund	Special Revenue Funds	Totals (Memorandum Only)
Cash Receipts:			
Property and Other Local Taxes	\$28,185	\$6,836	\$35,021
Intergovernmental	17,438	30,884	48,322
Charges for Services	0	3,325	3,325
Fines, Licenses and Permits	580	0	580
Earnings on Investments	145	0	145
Miscellaneous	73	0	73
Total Cash Receipts	46,421	41,045	87,466
Cash Disbursements:			
Current:			
Security of Persons and Property	0	1,748	1,748
Public Health Services	31	0	31
Basic Utility Services	10,009	2,218	12,227
Leisure Time Activities	0	18	18
Transportation	0	13,259	13,259
General Government	43,546	283	43,829
Capital Outlay	0	15,001	15,001
Total Cash Disbursements	53,586	32,527	86,113
Total Receipts Over (Under) Disbursements	(7,165)	8,518	1,353
Other Financing Receipts/(Disbursements):			
Transfers In	0	2,649	2,649
Transfers Out	(2,649)	0	(2,649)
Total Other Financing Receipts/(Disbursements)	(2,649)	2,649	0
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(9,814)	11,167	1,353
Fund Cash Balances, January 1	28,133	116,637	144,770
Assigned	167	0	167
Restricted	0	127,804	127,804
Unassigned	18,152	0	18,152
Fund Cash Balances, December 31	\$18,319	\$127,804	\$146,123

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

Village of South Webster
Scioto County, Ohio
Combined Statement of Receipts, Disbursements and
Changes in Fund Balances (Regulatory Cash Basis)
Proprietary Fund Type
For the Year Ended December 31, 2016

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 3,791
Total Operating Cash Receipts	3,791
Operating Cash Disbursements:	
Employee Fringe Benefits	2
Contractual Services	176
Total Operating Cash Disbursements	178
Operating Income	3,613
Fund Cash Balances, January 1	(23,019)
Fund Cash Balances, December 31	(\$19,406)

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

Village of South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 – Summary of Significant Accounting Policies

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of South Webster, Scioto County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services and maintenance of Village roads.

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

Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively. The Village deposits all available funds in interest bearing checking accounts and a certificate of deposit at a local commercial bank.

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:

General Fund

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

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 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 South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Enterprise Funds

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

Sewer Fund – This fund receives charges for services from residents and commercial customers to cover sewer service costs.

Budgetary Process

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

Appropriations

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

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.

Encumbrances

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

A summary of 2016 budgetary activity appears in Note 2.

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.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Village of South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to the commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 2 – Budgetary Activity

Budgetary activity for the year ending December 31, 2016:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$37,371	\$46,421	\$9,050
Special Revenue	38,131	43,694	5,563
Enterprise	12,000	3,791	(8,209)
Total	\$87,502	\$93,906	\$6,404

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$56,402	(\$56,402)
Special Revenue	0	33,548	(33,548)
Enterprise	0	178	(178)
Total	\$0	\$90,128	(\$90,128)

Note 3 – Equity in Pooled Deposits and Investments

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

	2016
Demand deposits	\$121,717
Certificate of deposit	5,000
Total deposits	\$126,717

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

Village of South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 4 – Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village 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.

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

Note 5 – Defined Benefit Pension Plans

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 the plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2016, OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Note 6 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of employer contribution to fund these benefits.

Note 7 – Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the Plan), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (Members). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

Village of South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 – Risk Management (Continued)

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2016.

	<u>2016</u>
Assets	\$14,765,712
Liabilities	<u>(9,531,506)</u>
Members' Equity	<u>\$5,234,206</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

Note 8 – Contingent Liabilities

The Village is not currently party to any legal proceedings.

Note 9 – Deficit Balances

The Village had deficit fund balances in the Enterprise fund of (\$19,406) at December 31, 2016.

Note 10 – Compliance

The elected officials of the Village failed to attend the required public records training, which is contrary to Ohio Revised Code Sections 109.43(B) and 149.43(E)(1).

The Village failed to maintain proper support for various receipts and disbursements, which is contrary to Ohio Revised Code Section 149.351(A).

The Village Clerk failed to attend the required annual clerk training and investment training during 2016, which is contrary to Ohio Revised Code Sections 733.27 and 135.22, respectively.

The Village incurred negative fund cash balances during 2016, which is contrary to Ohio Revised Code Section 5705.10.

The Village had expenditures in excess of appropriations, which is contrary to Ohio Revised Code Section 5705.41(B).

The Village did not properly certify the availability of funds prior to commitment, which is contrary to Ohio Revised Code Section 5705.41(D).

Village of South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 10 – Compliance (Continued)

The Village did not timely report or remit retirement contributions to the Ohio Public Employees Retirement System, which is contrary to Ohio Revised Code Section 145.47(B).

The Village did not submit their annual report in accordance with Ohio Revised Code Section 117.38.

The Village failed to properly maintain its official minute record, which is contrary to Ohio Revised Code Section 121.22.

The Village did not adopt appropriations, which is contrary to Ohio Revised Code Section 5705.38(A).

The Village did not properly perform bank reconciliations, which is contrary to Ohio Administrative Code Sections 117-2-01(D)(3) and (5) and 117-2-02(A).

The Village did not properly file its quarterly Tax Forms 941 with the federal government, which is contrary to Title 26 IRC, Subtitle C, Chapter 24, Sections 3403 and 3404.

The Village did not deposit funds timely in accordance with Ohio Revised Code Section 9.38.

Note 11 – Management’s Plan

For the year ended December 31, 2016, the Village had a negative fund cash balances of \$19,406 in the enterprise funds. The Village Council authorized the complete transfer of the Wastewater Treatment Plant to the Scioto County Board of Commissioners. The Village is also attempting to collect on old outstanding balances that they are still owed.

**Village of South Webster
Scioto County**

*Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2015*

	General Fund	Special Revenue Funds	Totals (Memorandum Only)
Cash Receipts:			
Property and Other Local Taxes	\$28,926	\$6,880	\$35,806
Intergovernmental	10,881	31,233	42,114
Charges for Services	0	4,300	4,300
Fines, Licenses and Permits	844	0	844
Earnings on Investments	249	0	249
Miscellaneous	29	0	29
Total Cash Receipts	40,929	42,413	83,342
Cash Disbursements:			
Current:			
Security of Persons and Property	0	1,961	1,961
Public Health Services	39	0	39
Leisure Time Activities	0	131	131
Basic Utility Services	2,006	1,921	3,927
Transportation	0	24,664	24,664
General Government	50,529	931	51,460
Total Cash Disbursements	52,574	29,608	82,182
Total Receipts Over (Under) Disbursements	(11,645)	12,805	1,160
Fund Cash Balances, January 1	39,778	103,832	143,610
Assigned	687	0	687
Restricted	0	119,548	119,548
Unassigned (Deficit)	27,446	(2,911)	24,535
Fund Cash Balances, December 31	\$28,133	\$116,637	\$144,770

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

Village of South Webster
Scioto County
*Combined Statement of Receipts, Disbursements and
Changes in Fund Balances (Regulatory Cash Basis)*
Proprietary Fund Type
For the Year Ended December 31, 2015

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$24,343
Fines, Licenses and Permits	200
	24,543
Operating Cash Disbursements:	
Personal Services	200
Employee Fringe Benefits	8
Contractual Services	1,817
Other	50
	2,075
Operating Income	22,468
Fund Cash Balances, January 1	(45,487)
Fund Cash Balances, December 31	(\$23,019)

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

Village of South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 – Summary of Significant Accounting Policies

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of South Webster, Scioto County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services sewer utilities, and maintenance of Village roads.

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

Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively. The Village deposits all available funds in interest bearing checking accounts and a certificate of deposit at a local commercial bank.

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:

General Fund

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

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 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 South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Enterprise Funds

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

Sewer Fund – This fund receives charges for services from residents and commercial customers to cover sewer service costs.

Budgetary Process

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

Appropriations

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

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.

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are cancelled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2015 budgetary activity appears in Note 2.

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.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Village of South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to the commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 2 – Budgetary Activity

Budgetary activity for the year ending December 31, 2015:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$35,933	\$40,929	\$4,996
Special Revenue	43,900	42,413	(1,487)
Enterprise	0	24,543	24,543
Total	\$79,833	\$107,885	\$28,052

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$53,261	(\$52,341)
Special Revenue	0	29,841	(29,841)
Enterprise	0	2,075	(2,075)
Total	\$0	\$85,177	\$(85,177)

Note 3 – Equity in Pooled Deposits and Investments

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

	2015
Demand deposits	\$116,751
Certificate of deposit	5,000
Total deposits	\$121,751

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

Village of South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 4 – Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village 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.

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

Note 5 – Defined Benefit Pension Plans

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 the plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2015, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Note 6 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of employer contribution to fund these benefits.

Note 7 – Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the Plan), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (Members). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 772 members as of December 31, 2015.

Village of South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 7 – Risk Management (Continued)

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2015.

	<u>2015</u>
Assets	\$14,643,667
Liabilities	<u>(9,112,030)</u>
Members' Equity	<u>\$5,531,637</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

Note 8 – Contingent Liabilities

The Village is not currently party to any legal proceedings.

Note 9 – Deficit Balances

The Village had deficit fund balances in the following funds at December 31, 2015: Senior Building (\$2,911) and Enterprise (\$23,019).

Note 10 – Compliance

The elected officials of the Village failed to attend the required public records training, which is contrary to Ohio Revised Code Sections 109.43(B) and 149.43(E)(1).

The Village failed to maintain proper support for various receipts and disbursements, which is contrary to Ohio Revised Code Section 149.351(A).

The Village Clerk failed to attend the required annual clerk training and investment training during 2016, which is contrary to Ohio Revised Code Sections 733.27 and 135.22, respectively.

The Village incurred negative fund cash balances during 2015, which is contrary to Ohio Revised Code Section 5705.10.

The Village had expenditures in excess of appropriations, which is contrary to Ohio Revised Code Section 5705.41(B).

The Village did not properly certify the availability of funds prior to commitment, which is contrary to Ohio Revised Code Section 5705.41(D).

The Village did not timely report or remit retirement contributions to the Ohio Public Employees Retirement System, which is contrary to Ohio Revised Code Section 145.47(B).

Village of South Webster
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 10 – Compliance (Continued)

The Village did not submit their annual report in accordance with Ohio Revised Code Section 117.38.

The Village failed to properly maintain its official minute record, which is contrary to Ohio Revised Code Section 121.22.

The Village did not adopt appropriations, which is contrary to Ohio Revised Code Section 5705.38(A).

The Village did not properly perform bank reconciliations, which is contrary to Ohio Administrative Code Sections 117-2-01(D)(3) and (5) and 117-2-02(A).

The Village did not properly file its quarterly Tax Forms 941 with the federal government, which is contrary to Title 26 IRC, Subtitle C, Chapter 24, Sections 3403 and 3404.

The Village did not deposit funds timely in accordance with Ohio Revised Code Section 9.38.

Note 11 – Management’s Plan

For the year ended December 31, 2015, the Village had a negative fund cash balances of \$23,019 in the enterprise funds. The Village Council authorized the complete transfer of the Wastewater Treatment Plant to the Scioto County Board of Commissioners. The Village is also attempting to collect on old outstanding balances that they are still owed.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

Village Council
Village of South Webster
P.O. Box 38
South Webster, Ohio 45682

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Village of South Webster, Scioto County, Ohio (the Village) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated February 2, 2018, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also qualified our opinion due to the lack of sufficient appropriate audit evidence supporting the amounts recorded as non-payroll disbursements for the general fund for the year ended December 31, 2016 and for the general fund and the proprietary funds for the year ended December 31, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2016-003 through 2016-004, 2016-006 through 2016-008, and 2016-010 through 2016-019 that we consider to be material weaknesses.

Village of South Webster
Scioto County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-001 through 2016-010, 2016-017 through 2016-019.

Village's Responses to Findings

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Village's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

February 2, 2018

Village of South Webster
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS

Finding 2016-001 – Noncompliance – Annual Financial Reports

Per Ohio Revised Code Section 117.38, entities filing on a cash-basis must file annual reports with the Auditor of State within 60 days of 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 Auditor of State may waive these penalties, upon the filing of the past due financial report.

Per Auditor of State Bulletin 2015-007, regulatory cash basis entities (AOS Basis) should file annually via the online Hinkle system:

- Statements (or Combined Statements) of Receipts, Disbursements, and Changes in Fund Balances – Governmental, Proprietary, and Fiduciary, as applicable
- Notes to the Basic Financial Statements

The Village's 2016 and 2015 financial statements were filed within 60 days after year-end as required by the Ohio Revised Code. However, the 2016 filing did not contain the required disclosures. The Village should implement additional procedures to ensure that the required annual financial statements and related note disclosures are properly and timely filed.

Client Response:
Officials chose not to respond.

Finding 2016-002 – Noncompliance – Public Records Training

Ohio Revised Code Sections 109.43(B) and 149.43(E)(1) state that all state and local elected officials, or their designees, must attend at least 3 hours of training on Ohio's Public Records Laws 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.

Support was not provided to indicate that any elected official of the Village, or their designee, attended public records training. We recommend elected officials attend public records training or appoint a designee to attend on their behalf. Documentation of attendance should be maintained to support compliance with the requirement.

Client Response:
Officials chose not to respond.

Finding 2016-003 – Noncompliance/Material Weakness – Deficiencies in Maintenance of Minute Record

Ohio Revised Code Section 121.22(C) states that all meetings of any public body are to be open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions.

Village of South Webster
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

Finding 2016-003 – Noncompliance/Material Weakness – Deficiencies in Maintenance of Minute Record (Continued)

Ohio Revised Code Section 121.22(F) states that every public body shall, by rule, establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings. A public body shall not hold a special meeting unless it gives at least twenty-four hours advance notice to the news media that have requested notification, except in the event of any emergency requiring immediate official action. In the event of an emergency, the member or members calling the meeting shall notify the news media that have requested immediate notification.

Ohio Revised Code Section 121.22(H) states that a resolution, rule, or formal action of any kind is invalid unless adopted in an open meeting of the public body. A resolution, rule, or formal action adopted in an open meeting that results from deliberations in a meeting not open to the public is invalid unless the deliberations were for a purpose specifically authorized above.

The minutes were not signed by Village Council. The minutes were not always approved. The Village Clerk's report was approved, however there was no indication that official financial information was approved. This results in the inability to determine whether the minute record is accurate and complete and whether proper monitoring is occurring. We recommend that the Village approve meeting minutes in the following meeting. Once approved, the meeting minutes should be signed by the Village Clerk and the Village Council President. All official financial decisions should be approved in minutes. We further recommend that financial reports be presented to the Village Council for monitoring purposes.

Client Response:

Officials chose not to respond.

Finding 2016-004 – Noncompliance/Material Weakness – Maintenance of Supporting Documentation

Ohio Revised Code Section 149.351(A) 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 commission provided for under Sections 149.38 to 149.42 of the Revised Code.

Several instances were noted where the Village could not provide supporting documentation for non-payroll disbursements. Alternative procedures could not be performed for some missing items to gain assurances and determine the reasonableness of the amounts. This resulted in difficulty testing disbursements. In addition, lack of an invoice makes it difficult to determine whether disbursements are made for a proper public purpose. Without proper supporting documentation for amounts disbursed, findings for recovery could also result. Furthermore, several receipts lacked original source documentation which results in an incomplete audit trail and failure to mitigate risks of fraud/misappropriation of assets and material misstatement. The Village should implement procedures to ensure that all records and documentation are maintained for audit purposes and that no disbursements are made unless supporting documentation is available and maintained for future reference and auditing purposes.

Client Response:

Officials chose not to respond.

Village of South Webster
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

Finding 2016-005 – Noncompliance – Annual Clerk Training and Investment Training/Exemptions

Ohio Revised Code Section 135.22 states that subdivision treasurers must complete annual continuing education programs provided by the Treasurer of State (TOS). The TOS issues certificates indicating that the treasurer has successfully completed the continuing education program.

The continuing education requirement does not apply to a subdivision treasurer who annually provides a notice of exemption to the Auditor of State, certified by the Treasurer of State that the treasurer is not subject to the continuing education requirements because the treasurer invests or deposits public funds in the following investments only:

- (1) Interim deposits pursuant to Section 135.14(B)(3);
- (2) STAR Ohio pursuant to Section 135.14(B)(6);
- (3) No-load money market mutual funds pursuant to Section 135.14(B)(5)

Ohio Revised Code Section 733.27 states that Village Fiscal Officers must attend annual training programs for new village fiscal officer *and* annual continuing education programs provided by the Auditor of State.

The Village Clerk did not attend the appropriate trainings or obtain the appropriate investment training exemptions for both 2016 and 2015. The Village should implement procedures to ensure that the proper training is attended or that the appropriate exemptions are obtained.

Client Response:

Officials chose not to respond.

Finding 2016-006 – Noncompliance/Material Weakness – Negative Fund Balances

Ohio Revised Code Section 5705.10(H) states that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund. During 2015, the sewer fund and the street light fund had negative fund balances throughout the year and during 2016 the sewer fund and the senior building had negative fund balances throughout the year. In addition, the sewer fund and senior building also had a negative fund balance as of December 31, 2015 and the sewer fund had a negative fund balance as of December 31, 2016. The Village should implement proper budgetary procedures to ensure that deficit fund balances do not occur.

Client Response:

Officials chose not to respond.

Finding 2016-007 – Noncompliance/Material Weakness – Adoption of Appropriations

Ohio Revised Code Section 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 1st.

The Council adopted final appropriations for both 2016 and 2015 per the minute record. However, the Village could not provide copies of the formally adopted appropriations for audit. We also noted that they were not filed with the County Auditor. As a result, all expenditures in both 2016 and 2015 lacked legal appropriation authority.

Village of South Webster
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

Finding 2016-007 – Noncompliance/Material Weakness – Adoption of Appropriations (Continued)

The Council should pass an appropriation measure on or about the first day of each fiscal year. If the Village adopts a temporary measure, they must adopt a permanent measure no later than April 1. In addition, approved appropriation measures should be filed with the County Auditor for the approval of the Budget Commission.

Client Response:

Officials chose not to respond.

Finding 2016-008 – Noncompliance/Material Weakness – Expenditures in Excess of Appropriations

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. In both 2015 and 2016 actual disbursements exceeded appropriations in all funds. This could result in overspending and negative fund balances if not monitored. The Village should monitor financial activity to ensure their expenditures do not exceed the amount appropriated.

Client Response:

Officials chose not to respond.

Finding 2016-009 – Noncompliance – Prior Certification of Funds

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 encumbrances. 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 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.

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 South Webster
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

Finding 2015-009 – Noncompliance – Prior Certification of Funds (Continued)

3. Super Blanket Certificate – The Board 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.

Instances were noted where the Village did not certify the availability of funds prior to purchase commitment.

The Village did not have sufficient internal controls in place to ensure the certification of the availability of funds. Failure to certify the availability of funds properly can result in overspending funds and negative cash balances. Unless the Village uses the exceptions noted above, prior certification is not only required by statute but is also 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 Village Clerk certify that funds are or will be available prior to an obligation being incurred by the Village. When prior certification is not possible, "then and now" certification should be used.

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

We recommend the Village obtain the Village Clerk's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language Ohio Revised Code Section 5705.41(D) requires to authorize disbursements. The Village Clerk should sign the certification at the time the Village incurs a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The Village Clerk should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Client Response:

Officials chose not to respond.

Finding 2016-010 – Noncompliance/Material Weakness – Bank Reconciliations

Ohio Administrative Code Sections 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.

Ohio Administrative Code Section 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.

Maintenance of a current outstanding check listing is pertinent for a properly functioning reconciliation process.

Accurate monthly reconciliations of the ending bank account balance to the Village's ending book balance were not performed during 2015. There were payments made that were not posted to UAN. The lack of proper reconciliations amount the bank statements, cashbook and ledgers resulted in several errors which were not corrected until 2016. We also noted several old outstanding checks that were greater than one year old in both 2016 and 2015.

Village of South Webster
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

Finding 2016-010 – Noncompliance/Material Weakness – Bank Reconciliations (Continued)

We recommend that the Village Clerk prepare detailed bank reconciliations that include all bank account balances being reconciled to total accounting system fund balances and to look into variances. We also recommend that the Village Clerk follow up on items which have been outstanding for an extended period of time to ensure that proper credit is given to the Village for outstanding deposits, outstanding deposits are properly supported and outstanding checks are voided and paid into an unclaimed monies fund or reissued. We further recommend copies of bank reconciliations be presented to the Village Council for review, approval, and use in managing and making decisions for the Village.

Client Response:

Officials chose not to respond.

Finding 2016-011 – Material Weakness – Cancelled Check Images

Auditor of State Bulletin 2004-010 states that an auditor can regard electronic imaging of checks as evidence when performing an audit. The Bulletin provides, in part, that a bank may use the electronic image to create a “substitute check” for a bank that chooses to continue receiving paper checks. This substitute check has the same legal effect as the original paper check.

A substitute check is a paper reproduction of the original check that: contains an image of the front and back of the original check; bears a magnetic ink character recognition (MICR) line containing all of the information appearing on the original check’s MICR line, with certain exceptions; conforms, in paper stock, dimension, and otherwise, with generally applicable banking industry standards for substitute checks; and is as suitable for automated processing as the original check. A substitute check that meets these requirements and bears the following legend is considered to be the legal equivalent of the original paper check.

For governments that do not receive their cancelled original or substitute checks, it is suggested these governments request that their banks send images of the front and back of all issued checks. This will enable governments to review and scrutinize the transactions and ensure that the payees as well as the various endorsements are appropriate. As monthly bank statements are received, reconciliations between check numbers and the amounts paid should be conducted promptly. If questionable items are identified, governments should immediately request their bank investigate these items for possible adjustment to the government’s account. Furthermore, a government may want to request a substitute check or the best available source document from the bank (e.g., copy of the front and back of the check) when a questionable item is identified that requires investigation.

During testing of nonpayroll disbursements, it was discovered that although the bank did provide images of the front side of cancelled checks, they did not provide optical images of the reverse sides. By not having the reverse side of the check, it is not possible to ensure that endorsements are appropriate. This could result in the lack of sufficient audit evidence or could relate in the failure to follow records retention laws.

We recommend the Village Clerk consult with the bank to have the bank provide images of the reverse side of each cancelled check for disbursements. As an alternative, the bank could send the original cancelled checks back to the Village or provide this information in electronic form (i.e., CD).

Client Response:

Officials chose not to respond.

Village of South Webster
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

Finding 2016-012 –Material Weakness – Controls Over Disbursements

Sound internal controls over disbursement of funds is pertinent to ensure that disbursements are accurate, complete, in compliance with applicable laws and regulations, and issued for a proper public purpose.

Although the Village utilizes the UAN accounting system to process all disbursements, the Village did not have an adequate system of internal controls as the following deficiencies were noted:

- Numerous payments were not made to vendors in a timely manner, and the Village was assessed late fees/penalties.
- Checks were signed by only one individual, although the established procedure is for both the fiscal officer and a council member to sign.
- Several manual checks were issued in 2015 and 2016

These deficiencies in the process of issuance of checks increases the possibility for unrecorded disbursements, incorrectly recorded disbursements, potential fraud or theft issues, and can lead to difficulties attempting to reconcile. We recommend the Village address each of the deficiencies noted above.

Client Response:

Officials chose not to respond.

Finding 2016-013 – Material Weakness – Controls Over Personnel Files

Personnel files should be maintained for all employees to support information recorded in the payroll records. Personnel files should include the following types of information:

- a. Name,
- b. Hiring authorization,
- c. Position and authorized salary rate,
- d. Department(s)/fund(s) to which salary will be charged,
- e. Deduction authorizations, such as deferred compensation programs or charitable contributions,
- f. Retirement system participation,
- g. Federal withholding authorization Form W-4,
- h. State and local income tax withholding authorization.

During testing of payroll, we noted that the Village was unable to provide personnel files which should include such necessary as salary notices or approved pay rates for employees, state withholding forms, federal tax withholding forms, pension plan forms, and fraud notification forms.

Failure to maintain proper documentation in employee personnel files could result in an inability to support authorized pay rates, amounts disbursed to employees and outside agencies, withholding amounts, and noncompliance with state/federal requirements. We recommend that personnel files be maintained for all employees and include the types of information noted above including salary notices, contracts, tax withholding forms, and the Auditor of State's fraud notification sign off sheets.

Client Response:

Officials chose not to respond.

Village of South Webster
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

Finding 2016-014 – Material Weakness – Financial Reporting

Sound financial reporting is the responsibility of the Village Clerk and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. Receipts and disbursements should be posted to the fund and line item accounts as established by the Ohio Administrative Code.

During the course of testing, we identified several receipts and disbursements that were not properly recorded within the accounting system. This results in the inability to provide accurate financial information to those in charge of decision making. The Auditor of State's Local Government Services Division was procured for reconciliation procedures.

As a result of the above conditions, we suggest the following recommendations:

- We recommend the Village Council and Village Clerk review all receipt and disbursement items to help ensure accuracy and reliability in the financial reporting process. These reviews should include procedures to ensure that all sources of receipts and disbursements are properly identified and classified in the financial statements.
- We recommend the Village Clerk refer to the Ohio Administrative Code and/or the Ohio Village Officer's Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and disbursements.
- We recommend the Village Clerk reconcile bank balances to the Village's book balance at the end of each month and provide the reconciliation as well as financial activity reports to the Village Council to review and approve.
- We recommend the Village Council review the bank reconciliations monthly to make sure all transactions are being recorded and no unexplained differences or long outstanding items exist or are reported on the reconciliations.
- We recommend the Village Council adopt policies and procedures, including a final review of the statements and footnotes by the Village Clerk and Village Council to identify and correct errors or omissions prior to submission to the State through the Hinkle System and as presented for audit.

Client Response:

Officials chose not to respond.

Finding 2016-015 – Material Weakness – Controls over Sewer Receipts

Sound internal control over the collecting process of the sewer receipt cycle is pertinent to ensure that old outstanding balances are accurate and complete. There was no evidence presented for audit that any type of reconciliation was being performed to the old outstanding balances and receipts. In addition, the Village was unable to provide support for the old outstanding balances. Also, there were two instances in which the Village was unable to provide receipts for payments received. We recommend a formal reconciling procedure be established that would check that all old outstanding balances are properly accounted for and deposits are being made on a timely basis.

We noted that in April 2014, the Village discontinued sewer operations by relinquishing control to Scioto County. Payments received during the audit period were outstanding amounts before the County took over.

Client Response:

Officials chose not to respond.

Village of South Webster
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

Finding 2016-016 – Material Weakness – Budgetary Information Within UAN

Accurate budgetary information within the Village’s accounting system is pertinent to ensure that the Village has accurate and complete information for decision-making processes. For both 2016 and 2015, estimated revenue and appropriations recorded in the accounting system did not agree to the certificate of estimated resources or appropriations throughout the year. As a result, budget to actual activity within the accounting system is not reliable for planning and decision-making processes. The Village Clerk should maintain official documents to support appropriations, supplemental appropriations, official certificates of estimated resources, and amended official certificates of estimated resources. We further recommend these amounts be recorded in the UAN system and the Village Clerk reconcile each amended certificate of estimated resource and each amended appropriation to the accounting system periodically to ensure that they are in agreement.

Client Response:

Officials chose not to respond.

Finding 2016-017 – Noncompliance/Material Weakness – Retirement Reporting and Remittances

Ohio Revised Code Section 145.47(B) states that the fiscal officer of each local authority subject to this chapter shall transmit to the system for each contributor subsequent to the date of coverage an amount equal to the applicable per cent of each contributor's earnable salary at such intervals and in such form as the system shall require. The fiscal officer of each local authority subject to this chapter shall transmit promptly to the system a report of contributions at such intervals and in such form as the system shall require, showing thereon all the contributions and earnable salary of each contributor employed, together with warrants, checks, or electronic payments covering the total of such deductions. A penalty shall be added when such report, together with warrants, checks, or electronic payments to cover the total amount due from the earnable salary of all amenable employees of such employer, is filed thirty or more days after the last day of such reporting period. The system, after making a record of all receipts under this division, shall deposit the receipts with the treasurer of state for use as provided by this chapter.

We noted several instances where monthly retirement reports and withholdings were not timely filed or paid, which resulted in penalties and interest charges in both years. We also noted that wages reported on remittances did not reconcile back to the payroll records. This could result in additional and unnecessary disbursements by the Village for fines and penalties in addition to underpayment of retirement contributions. We recommend the Village implement the appropriate procedures to ensure that contributions and reports are remitted timely and that reporting of wages and contributions are accurate and complete. The Village should also consider reviewing remittance reports back to the payroll records to ensure no additional retirement contributions are due to the retirement system.

Client Response:

Officials chose not to respond.

Finding 2016-018 – Noncompliance/Material Weakness – Timely Deposit of Public Funds

Ohio Revised Code Section 9.38 requires 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. Public money collected for other public offices must be deposited by the first business day following the date of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive the money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school districts), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguarded, the public official must then deposit the money on the first business day following the date of receipt.

Village of South Webster
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2016 and 2015

Finding 2016-018 – Noncompliance/Material Weakness – Timely Deposit of Public Funds (Continued)

The Village was holding deposits for lengthy amounts of time. Further, it was noted that money was sent to the Village from Scioto County that was never posted to the system or deposited into the bank. This could lead to the possibility of financial records not being properly reported and increases the chances of monies being lost or stolen. It also may lead to cumbersome reconciliation procedures. We recommend the Village Clerk deposit funds in the Village's financial institution within Ohio Revised Code Section 9.38 guidelines.

Client Response:

Officials chose not to respond.

Finding 2016-019 – Noncompliance/Material Weakness – Tax Forms 941

Title 26: Internal Revenue Code; Subtitle C: Employment Taxes; Chapter 24: Collection of Income Tax at Source on Wages; Sections 3403 and 3404. Section 3403, Liability for Tax, states that the employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter and shall not be liable to any person for the amount of any such payment. Further, the Internal Revenue Service requires the Village to file Form 941 quarterly. The Village has not properly filed its quarterly Forms 941 with the federal government since 2013. Although tax payments were made, some of these tax payments were not appropriately applied due to lack of sufficient reporting. Noncompliance with Internal Revenue Service law could lead to payment of an incorrect amount for the Village's taxes. Further, it could cause penalties and fines for the Village.

Client Response:

Officials chose not to respond.

Village of South Webster
Scioto County
Schedule of Prior Audit Findings
For the Years Ended December 31, 2016 and 2015

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2014-001	Material Weakness – Timely Deposit of Public Funds	No	Reissued as Finding 2016-018
2014-002	Noncompliance Citation – Ohio Revised Code (ORC) Sections 109.43(B) and 149.43(E)(1) – Public Records Training	No	Reissued as Finding 2016-002
2014-003	Noncompliance Citation – ORC 117.103(B)(1) – Fraud Reporting System	Yes	
2014-004	Noncompliance Citation/Material Weakness– ORC 121.22 – Deficiencies in Maintenance of Minute Record	No	Reissued as Finding 2016-003
2014-005	Noncompliance Citation/Material Weakness – ORC 149.351(A) – Maintenance of Supporting Documentation	No	Reissued as Finding 2016-004
2014-006	Noncompliance Citation – ORC 733.27 and 135.22 – Annual Clerk Training and Investment Training/Exemption	No	Reissued as Finding 2016-005
2014-007	Noncompliance Citation/Material Weakness – ORC 5705.09 – Establishment of Required Funds	Yes	
2014-008	Noncompliance Citation/Material Weakness – ORC 5705.10 – Negative Fund Balances	No	Reissued as Finding 2016-006
2014-009	Noncompliance Citation/Material Weakness – ORC 5705.36 – Appropriations in Excess of Available Resources	Yes	
2014-010	Noncompliance Citation/Material Weakness – ORC 5705.41(B) – Expenditures in Excess of Appropriations	No	Reissued as Finding 2016-008
2014-011	Noncompliance Citation – ORC 5705.41(D) – Prior Certification of Funds	No	Reissued as Finding 2016-009
2014-012	Noncompliance Citation/Material Weakness – Ohio Administrative Code Sections 117-2-01(D)(3) and (5) and 117-2-02(A) – Bank Reconciliations	No	Reissued as Finding 2016-010
2014-013	Noncompliance Citation/Material Weakness – 26 CFR Section 1.6041-1 – Forms 1099-MISC to Independent Contractors	No	Reissued in management letter
2014-014	Material Weakness – Cancelled Check Images	No	Reissued as Finding 2016-011
2014-015	Material Weakness – Controls Over Disbursements	No	Reissued as Finding 2016-012
2014-016	Material Weakness – Controls Over Personnel Files	No	Reissued as Finding 2016-013
2014-017	Material Weakness – Financial Reporting	No	Reissued as Finding 2016-014
2014-018	Material Weakness – Controls over Sewer Receipts	No	Reissued as Finding 2016-015
2014-019	Material Weakness – Monitoring of Sewer Revenue Cycle Service Provider	Yes	

Village of South Webster
Scioto County
Schedule of Prior Audit Findings
For the Years Ended December 31, 2016 and 2015

2014-020	Noncompliance/Material Weakness – ORC Section 5705.39 – Appropriations in Excess of Estimated Resources	Yes	
2014-021	Material Weakness – Budgetary Information Within UAN	No	Reissued as Finding 2016-016
2014-022	Noncompliance/Material Weakness – ORC Section 117-2-02(A) - Presentation of Financial Statements	Yes	
2014-023	Noncompliance/Material Weakness – ORC Section 4123.35 and 4123.323 - Workers Compensation Coverage	No	Reissued in management letter
2014-024	Noncompliance/Material Weakness – ORC Section 145.47(B) - Retirement Reporting and Remittances	No	Reissued as Finding 2016-017



Dave Yost • Auditor of State

VILLAGE OF SOUTH WEBSTER

SCIOTO 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
AUGUST 30, 2018