



**VILLAGE OF PHILO
MUSKINGUM COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 1998-1997



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Philo
Muskingum County
565 Water Street
Philo, Ohio 43771

To the Village Council:

We have audited the accompanying financial statements of the Village of Philo, Muskingum County, Ohio, (the Village) as of and for the years ended December 31, 1998 and December 31, 1997. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The basis of accounting prescribed by the Auditor of State requires the Village to report outstanding encumbrances at year end as budgetary expenditures in the budgetary presentation. The Village did not record encumbrances. It was not practical for us to determine the amount of unrecorded encumbrances at year end.

In our opinion, except for the effects such adjustments as may have been necessary had we been able to determine year end encumbrances as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Philo, Muskingum County, as of December 31, 1998 and December 31, 1997, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2000 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

March 9, 2000

Village of Philo

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

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$13,275	\$0	\$0	\$13,275
Intergovernmental Receipts	77,894	16,204	43,695	137,793
Fines, Licenses, and Permits	241	0	0	241
Miscellaneous	923	11	0	934
Total Cash Receipts	<u>92,333</u>	<u>16,215</u>	<u>43,695</u>	<u>152,243</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	8,326	0	0	8,326
Transportation	33,958	16,859	43,695	94,512
General Government	19,472	0	0	19,472
Debt Service:				
Principal Payments	4,700	0	0	4,700
Interest Payments	552	0	0	552
Total Cash Disbursements	<u>67,008</u>	<u>16,859</u>	<u>43,695</u>	<u>127,562</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>25,325</u>	<u>(644)</u>	<u>0</u>	<u>24,681</u>
Other Financing Receipts/(Disbursements):				
Sale of Fixed Assets	5,000	0	0	5,000
Other Sources	6,038	0	0	6,038
Total Other Financing Receipts/(Disbursements)	<u>11,038</u>	<u>0</u>	<u>0</u>	<u>11,038</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>36,363</u>	<u>(644)</u>	<u>0</u>	<u>35,719</u>
Fund Cash Balance, January 1	<u>38,045</u>	<u>850</u>	<u>0</u>	<u>38,895</u>
Fund Cash Balance, December 31	<u>\$74,408</u>	<u>\$206</u>	<u>\$0</u>	<u>\$74,614</u>

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - ENTERPRISE FUND TYPE -
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Enterprise</u>
Operating Cash Rreceipts:	
Charges for Services	\$61,299
Miscellaneous	<u>1,501</u>
Total Operating Cash Receipts	<u>62,800</u>
Operating Cash Disbursements:	
Personal Services	14,139
Fringe Benefits	1,026
Contractual Services	5,660
Supplies and Materials	21,582
Capital Outlay	<u>21,362</u>
Total Operating Cash Disbursements	<u>63,769</u>
Operating Income/(Loss)	<u>(969)</u>
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	<u>753</u>
Total Non-Operating Cash Receipts	<u>753</u>
Non-Operating Cash Disbursements:	
Debt Service:	
Principal Payments	3,625
Interest Payments	1,459
Other Non-Operating Cash Disbursements	<u>335</u>
Total Non-Operating Cash Disbursements	<u>5,419</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	<u>(5,635)</u>
Transfers-In	1,560
Transfers-Out	<u>(1,560)</u>
Net Receipts Over/(Under) Disbursements	(5,635)
Fund Cash Balance, January 1	<u>100,067</u>
Fund Cash Balance, December 31	<u><u>\$94,432</u></u>

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCE - ALL GOVERNMENTAL FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$29,464	\$0	\$29,464
Intergovernmental Receipts	48,752	18,048	66,800
Fines, Licenses, and Permits	23	0	23
Miscellaneous	2,260	22	2,282
Total Cash Receipts	80,499	18,070	98,569
Cash Disbursements:			
Current:			
Security of Persons and Property	7,904	0	7,904
Transportation	24,120	17,544	41,664
General Government	18,734	0	18,734
Debt Service:			
Principal Payments	4,700	0	4,700
Interest Payments	848	0	848
Capital Outlay	36,177	0	36,177
Total Cash Disbursements	92,483	17,544	110,027
Total Cash Receipts Over/(Under) Cash Disbursements	(11,984)	526	(11,458)
Other Financing Receipts/(Disbursements):			
Transfers-In	377	0	377
Total Other Financing Receipts/(Disbursements)	377	0	377
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(11,607)	526	(11,081)
Fund Cash Balance, January 1	49,652	324	49,976
Fund Cash Balance, December 31	\$38,045	\$850	\$38,895

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCE - ENTERPRISE FUND TYPE -
FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges For Services	\$56,517
Miscellaneous	760
	<u>57,277</u>
Total Operating Cash Receipts	<u>57,277</u>
Operating Cash Disbursements:	
Personal Services	13,449
Fringe Benefits	960
Contractual Services	6,232
Supplies and Materials	19,107
Capital Outlay	19,664
	<u>59,412</u>
Total Operating Cash Disbursements	<u>59,412</u>
Operating Income/(Loss)	<u>(2,135)</u>
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	1,448
	<u>1,448</u>
Total Non-Operating Cash Receipts	<u>1,448</u>
Non-Operating Cash Disbursements:	
Debt Service:	
Principal Payments	3,625
Interest Payments	1,683
Other Non-Operating Cash Disbursements	106
	<u>5,414</u>
Total Non-Operating Cash Disbursements	<u>\$5,414</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(6,101)
Transfers-In	1,560
Transfers-Out	<u>(1,937)</u>
Net Receipts Over/(Under) Disbursements	(6,478)
Fund Cash Balance, January 1	<u>106,545</u>
Fund Cash Balance, December 31	<u>\$100,067</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Philo, Muskingum County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities and park operations (leisure time activities). The Village contracts with the Muskingum County Sheriff's department to provide security of persons and property.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

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

C. Cash and Investments

All investments, which include certificates of deposit, savings accounts and checking accounts, are valued at cost.

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

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Issue II Paving Project Fund - This fund receives State Issue II monies for the purpose of a paving project.

4. Enterprise Funds

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

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

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. The Village did not use the encumbrance method of accounting.

A summary of 1998 and 1997 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Unpaid Vacation and Sick Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>1998</u>	<u>1997</u>
Demand deposits	\$ 104,699	\$ 76,116
Certificates of deposit	64,347	62,846
Total deposits	\$ 169,046	\$ 138,962

Deposits: Deposits are either insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 1998 and December 31, 1997 follows:

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 74,000	\$ 103,371	\$ 29,371
Special Revenue	17,000	16,215	(785)
Capital Projects	0	43,695	43,695
Enterprise	56,580	65,113	8,533
Total	\$ 147,580	\$ 228,394	\$ 80,814

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 112,804	\$ 67,008	\$ 45,796
Special Revenue	18,800	16,859	1,941
Capital Projects	0	43,695	(43,695)
Enterprise	94,000	70,748	23,252
Total	\$ 225,604	\$ 198,310	\$ 27,294

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997**

3. BUDGETARY ACTIVITY (Continued)

1997 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 74,000	\$ 80,876	\$ 6,876
Special Revenue	17,000	18,070	1,070
Enterprise	55,580	60,285	4,705
Total	<u>\$ 146,580</u>	<u>\$ 159,231</u>	<u>\$ 12,651</u>

1997 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 121,900	\$ 92,483	\$ 29,417
Special Revenue	18,500	17,544	956
Enterprise	123,000	66,763	56,237
Total	<u>\$ 263,400</u>	<u>\$ 176,790</u>	<u>\$ 86,610</u>

Compliance and Accountability:

Receipts and expenditures of the Issue II Paving Project Fund which were administered by the State of Ohio on behalf of the Village were not budgeted by the Village in accordance with the Ohio Revised Code. As a result, expenditures exceeded appropriations for this fund during 1998.

The availability of unencumbered appropriations for expenditure was not made prior to purchase commitments being incurred. Section 5705.41(D), Revised Code, requires a certificate of the fiscal officer to be attached to any order of expenditure, prior to a commitment being incurred. As a result, there were no encumbrances to report on the financial statements and outstanding purchase commitments are not included in budgetary disbursements shown above in this note.

4. PROPERTY TAX

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997**

5. DEBT

Debt outstanding at December 31, 1998 was as follows:

	Principal	Interest Rate
Promissory Note - Water Main Construction	\$ 18,125	6%
Promissory Note - Property Purchase	4,500	6%
Total	\$ 22,625	

Each of the promissory notes outstanding was issued by First National Bank, Zanesville, and is payable in annual installments. The notes issued September, 1995 were for the purchase of property and are payable from levy monies. The notes issued April, 1996 were for the construction of a water main line and are payable from user charges.

Amortization of the above debt, including interest of \$3,666, is scheduled as follows:

Year ending December 31:	Water Main Construction	Property Acquisition
1999	\$4,667	\$1,770
2000	4,459	1,680
2001	4,250	1,590
2002	4,042	0
2003	3,833	0
Totals	\$21,251	\$5,040

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 1998 and 1997, members of PERS contributed 8.5% of their gross salaries to the PERS. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 1998.

7. RISK MANAGEMENT

The Village is a member of the Ohio Municipal League Joint Self Insurance Pool (the Pool). The Pool assumes the risk of loss up to the limits of the Village's policy. The Pool may assess supplemental premiums. The following risks are covered by the Pool:

- Property and general liability
- Vehicles
- Public officials liability

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

Village of Philo
Muskingum County
565 Water Street
Philo, Ohio 43771

To the Village Council:

We have audited the financial statements of the Village of Philo, Muskingum County, Ohio (the Village), as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated March 9, 2000, wherein we noted that the budgetary presentation excluded year end encumbrances. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 1998-31060-001 through 1998-31060-008. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated March 9, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 1998-31060-001 through 1998-31060-011.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be also considered to be material weaknesses. However, of the

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

March 9, 2000

**SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND 1997**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	1998-31060-001
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Ohio Rev. Code Section 5705.41(D) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

The Village's fiscal officer did not certify funds during the audit period. As a result, any purchase commitments incurred in one fiscal period may be improperly charged against the subsequent fiscal period's appropriations.

We recommend the Village officials implement procedures to gain fiscal control over expenditures. Purchase orders should be utilized to certify availability of funds prior to commitments being incurred. Appropriations should then be encumbered and balances maintained of unencumbered appropriations. Additional purchase orders should be issued only after the fiscal officer determines that sufficient unencumbered appropriations exist in the amount of the requested purchase.

Finding Number	1998-31060-002
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Ohio Rev. Code Section 5705.41(B) prohibits a subdivision from making a disbursement unless it has been properly appropriated.

For the year ended December 31, 1998, actual disbursements exceeded appropriations in the Issue II Capital Projects Fund. In addition, since appropriations and corresponding expenditures were not posted to an appropriation ledger, we could not determine if expenditures made were within line item appropriations as adopted by Village Council.

We recommend that appropriations and corresponding disbursements be posted to an appropriation ledger as prescribed by Ohio Admin. Code Section 117-5-11 in order that the Village may comply with Ohio Rev. Code Section 5705.41(B). The Village can refer to Auditor of State Management Advisory Services Bulletin 89-17 for additional guidance related to accounting for Issue II funds.

Finding Number	1998-31060-003
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Ohio Admin. Code Section 117-5-09 prescribes the method by which the cash journal should be maintained.

The cash journal maintained by the Village Clerk-Treasurer did not include all receipts received by the Village. In addition, dates and other pertinent information, including receipt and appropriation account codes, were absent from certain entries throughout the cash journal. Since pay-in orders were not utilized by the Clerk-Treasurer, pay-in order numbers could not be recorded in the cash journal. As a result, additional audit time was needed to gain assurances on the activity of the Village. Numerous adjustments and reclassifications were needed to properly reflect Village financial activity.

We recommend the Village follow the Ohio Administrative Code to properly maintain the cash journal.

**SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND 1997
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	1998-31060-004
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Ohio Admin. Code Section 117-5-10 prescribes the method by which the receipts journal should be maintained.

Estimated receipts were not posted to the receipts journal so that a comparison of actual to estimated receipts could be made. As a result, the receipts journal had very limited usefulness as a budgetary tool.

We recommend estimated and actual receipts be posted to the receipts ledger to comply with the aforementioned Ohio Administrative Code section and in order that useful monthly budget vs. actual comparisons can be made and presented to management.

Finding Number	1998-31060-005
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Ohio Admin. Code Section 117-5-11 prescribes the method by which the appropriation ledger should be maintained.

The amounts appropriated for the various line item accounts in the annual appropriation measure adopted by Village Council were not posted to an appropriation ledger. As a result, expenditures were not charged against specific line item appropriations to assure compliance with Ohio Rev. Code Section 5705.41(B) and the appropriations ledger had very limited usefulness as a budgetary tool.

We recommend the Clerk-Treasurer post appropriations to the appropriations ledger so that budget vs. actual comparisons can be made and so that the Village can comply with budgetary law.

Finding Number	1998-31060-006
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Ohio Admin. Code Section 117-5-12 prescribes that when money is received by a Village, a pay-in-order shall be executed. The pay-in-order shall be made in duplicate with the original given to the person making payment after all information has been entered in the spaces provided. The duplicate shall remain in the binding and be used as a posting source to the cash journal.

Pay-in-orders were not issued by the Clerk-Treasurer. In addition, certain moneys received were not posted in a timely manner, such as a tax settlement in the approximate amount of \$14,000 made by the Muskingum County Auditor during 1998 which was not deposited and posted until a year later. As a result, receipts were misstated since certain receipts were not posted in the proper period. Additional time was spent to gain assurances that moneys paid to the Village were posted to the credit of the Village.

We recommend the Village Clerk-Treasurer utilize pay-in orders as prescribed by the Ohio Administrative Code. We also recommend that amounts on pay-in orders be posted to both the cash journal and receipts journal in a timely manner.

SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND 1997
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	1998-31060-007
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Ohio Rev. Code Section 731.20 states, in part, ordinances, resolutions, and bylaws shall be authenticated by the signature of the presiding officer and clerk of the legislative authority of the municipal corporation. As soon as a bylaw, resolution, or ordinance is passed and signed, it shall be recorded by the clerk in a book furnished by the legislative authority for that purpose.

The Clerk-Treasurer did not provide any Village ordinances setting pay rates for employees or elected officials other than one for the street foreman and laborer for 1997. In addition, there was no evidence presented to indicate that water rates were authorized in ordinance or resolution form.

We recommend Village legislation be properly adopted in ordinance or resolution form, that the Village Clerk-Treasurer and Mayor sign Village legislation as required, and that legislation be recorded in a book provided for that purpose.

Finding Number	1998-31060-008
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Ohio Rev. Code Section 731.24 states, in part, that proof of publication of ordinances or summaries of ordinances be maintained by the Village. This certification shall state which newspaper and what dates such publication was made. Ohio Rev. Code Section 731.25 states, in part, that in municipal corporations where no newspaper is published, publication of ordinances, resolutions, reports, notices, and proclamations shall be accomplished in the following methods:

- a. By posting copies in not less than five of the most public places in the municipal corporation, as determined by the legislative authority, for a period of not less than fifteen days prior to the effective date thereof;
- b. By publication in any newspaper printed in the state and of general circulation in such municipal corporation.

The Village Clerk-Treasurer did not provide any documentation stating that ordinances were published in a local newspaper or advertised in at least five public places.

We recommend that the Village Clerk-Treasurer advertise any ordinances established and maintain documentation of that advertisement.

Finding Number	1998-31060-009
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The Clerk-Treasurer did not prepare monthly bank reconciliations that included total fund balances being reconciled to total deposits and investments, detailing outstanding checks and any other reconciling items. As a result, we performed detailed reconciliations in order to gain assurances over the Village's financial activity. Without a detailed reconciliation, errors could occur without being detected in a timely manner and the governing board may not be aware of total cash and investment balances.

We recommend the Clerk-Treasurer prepare detailed bank reconciliations that include all deposits and investments being reconciled to total fund balance. Copies of bank reconciliations should be presented to the Village Council for Council's review and use in managing the Village affairs. For example, a timely reconciliation would have detected deposits that were not posted, as cited in finding 1998-31060-006.

SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND 1997
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	1998-31060-010
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During our review of the Village's payroll system, we noted the following conditions:

1. Personnel files were not established for any employees;
2. Four elected officials were underpaid \$15 each while one was overpaid \$30;
3. The Clerk-Treasurer did not provide ordinances authorizing pay rates and raises in salaries;
4. In certain instances, amounts paid to employees according to timesheets was less than amounts reported on W-2 forms;
5. A payroll ledger was not maintained by the Clerk-Treasurer;
6. PERS exemption forms were not on file for Council members who did not contribute to PERS. For those employees that did have PERS withholdings, PERS remittance forms were not kept by the Clerk-Treasurer for future reference;
7. State income taxes were not withheld from compensation of elected officials and Village employees who earned in excess of \$300 per quarter, although required by Ohio Rev. Code Section 5747.06
8. The Clerk-Treasurer did not deduct and withhold federal income tax from any official's wages; and
9. Medicare tax was not deducted and withheld for employees and officials hired after April 1, 1986.

As a result of the aforementioned items, errors occurred in the payroll system which went undetected by management and the Village could be held liable for any payments due other agencies as a result of noncompliance with payroll related regulations. The poor condition of the payroll records also resulted in additional audit time to gain needed assurances in this area.

We recommend the following:

1. Personnel files should be established for each employee and all files should contain pertinent payroll information including, but not limited to, documentation of employee's hire date, position and/or classification of employment, tax withholding forms, retirement forms, voluntary deduction forms, approved pay rate information, approved employee contracts, policy acknowledgment forms, and evaluations;
2. Payments to employees should be supported by an employee time sheet and time sheets should be reviewed and approved by supervisory personnel. Payments to officials should be made in accordance with properly adopted pay ordinances;
3. The Clerk-Treasurer and Village Council should document in ordinance form the pay rates and any changes in those rates as required by Ohio Rev. Code Section 731.13 and file the ordinances in a permanent bound book provided for that purpose as required by Ohio Rev. Code Section 731.20. Village Council should involve legal counsel in the execution of these ordinances;
4. Care should be taken to assure that amounts actually paid to employees and officials are properly reflected on the Village's W-2 forms;
5. The Clerk-Treasurer should utilize a payroll ledger;
6. PERS exemption forms should be on file for each elected employee not participating in PERS. PERS remittance forms should be kept on file for future reference;
7. State income taxes should be withheld as required by the Ohio Revised Code;
8. Exemption forms should be on file to support no deduction and withholding of federal income taxes or taxes should be deducted and withheld in accordance with 26 U.S.C. Section 3402; and
9. Medicare should be deducted and withheld in accordance with 26 U.S.C. Section 3102(a).

**SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND 1997
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	1998-31060-011
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The small size of the Village's staff did not allow for an adequate segregation of duties and the Clerk-Treasurer performed all accounting functions. For processing disbursements, Council members approved only a listing of bills and checks were subsequently signed by the Clerk-Treasurer and issued to various vendors. Individual vouchers with invoices attached were not presented for Council's review and approval. This procedure could allow improper expenditures to be made without being detected by Village Council.

We recommend the Village Clerk-Treasurer prepare a voucher for each invoice to be paid. The original invoice and purchase order should be attached to the voucher. Once Council (or its designated committee) has reviewed the voucher contents, Council members should sign the voucher indicating their approval for payment. Voucher numbers should correspond to check numbers for future reference purposes. Council should also consider requiring dual signatures on checks, since the segregation of duties obtained with separate Clerk and Treasurer positions is not present with a combined Clerk-Treasurer's position.



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VILLAGE OF PHILO
MUSKINGUM 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
APRIL 11, 2000