



**VILLAGE OF MIDLAND
CLINTON COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2001-2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF MIDLAND
CLINTON COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Midland
Clinton County
P.O. Box 96
Midland, OH 45148

To the Village Council:

We have audited the accompanying financial statements of the Village of Midland, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2001 and 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As discussed in Note 9 to the financial statements, the Village is experiencing financial difficulties.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2002 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

August 27, 2002

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property Tax and Other Local Taxes	\$6,276	\$905	\$7,181
Intergovernmental Receipts	12,817	13,990	26,807
Charges for Services	12,151	0	12,151
Earnings on Investments	193	63	256
Miscellaneous	1,721	0	1,721
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	33,158	14,958	48,116
Cash Disbursements:			
Current:			
Supplies and Materials	3,495	1,479	4,974
Salaries	7,277	2,618	9,895
Retirement Contributions	902	0	902
Contractual Services	25,018	0	25,018
Basic Utility Services	1,338	1,634	2,972
Insurance and Bonding Services	3,660	0	3,660
Repairs and Maintenance	0	43	43
Taxes	1,025	0	1,025
Other	1,706	35	1,741
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	44,421	5,809	50,230
Total Receipts Over/(Under) Disbursements	<hr/> (11,263)	<hr/> 9,149	<hr/> (2,114)
Fund Cash Balances, January 1	<hr/> (2,193)	<hr/> 13,728	<hr/> 11,535
Fund Cash Balances, December 31	<u>(\$13,456)</u>	<u>\$22,877</u>	<u>\$9,421</u>

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

**VILLAGE OF MIDLAND
CLINTON COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property Tax and Other Local Taxes	\$6,179	\$887	\$7,066
Intergovernmental Receipts	14,192	14,227	28,419
Charges for Services	11,842	0	11,842
Earnings on Investments	356	0	356
Miscellaneous	1,117	0	1,117
	<u>33,686</u>	<u>15,114</u>	<u>48,800</u>
Cash Disbursements:			
Current:			
Supplies and Materials	6,016	1,329	7,345
Salaries	8,680	2,663	11,343
Retirement Contributions	566	0	566
Contractual Services	15,330	2,786	18,116
Basic Utility Services	1,216	2,171	3,387
Insurance and Bonding Services	2,632	435	3,067
Repairs and Maintenance	0	1,433	1,433
Taxes	1,387	0	1,387
Other	3,677	68	3,745
	<u>39,504</u>	<u>10,885</u>	<u>50,389</u>
Total Receipts Over/(Under) Disbursements	<u>(5,818)</u>	<u>4,229</u>	<u>(1,589)</u>
Fund Cash Balances, January 1	<u>3,625</u>	<u>9,499</u>	<u>13,124</u>
Fund Cash Balances, December 31	<u>(\$2,193)</u>	<u>\$13,728</u>	<u>\$11,535</u>

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

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Midland, Clinton County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general government services, including street and highway maintenance and trash pickup. The Village contracts with the Clinton County Sheriff's department to provide security of persons and property. The Village contracts with the Blanchester Community Services Association, Inc to provide emergency medical services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, 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. The Village does not use the encumbrance method of accounting; therefore, budgetary presentations reflect actual disbursements made during the year rather than disbursements plus encumbrances.

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

C. Cash and Investments

Village funds are pooled in a checking account with a local commercial bank. Interest earned is recognized and recorded when received.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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 Funds:

Street Maintenance Fund

This fund receives gasoline tax money for constructing, maintaining and repairing Village streets.

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Highway Fund

This fund receives gasoline tax money for maintenance of the State Highway in the Village.

Motor Vehicle Fund

This fund receives motor vehicle registration fees to provide street lights and also maintain the Village streets.

Police Protection

This fund receives personal property tax money to provide police protection to the residents of the Village.

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 encumber all commitments during the years ended December 31, 2001 and 2000 as required by Ohio law. However, there are no material encumbrances outstanding at December 31, 2001 and 2000.

A summary of 2001 and 2000 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.

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2001	2000
Demand deposits	\$9,421	\$11,535

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$33,158	\$33,158
Special Revenue	0	14,958	14,958
Total	\$0	\$48,116	\$48,116

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$44,421	(\$44,421)
Special Revenue	0	5,809	(5,809)
Total	\$0	\$50,230	(\$50,230)

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$33,686	\$33,686
Special Revenue	0	15,114	15,114
Total	\$0	\$48,800	\$48,800

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$39,504	(\$39,504)
Special Revenue	0	10,885	(10,885)
Total	\$0	\$50,389	(\$50,389)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$44,421 and \$39,504 for the years ended December 31, 2001 and 2000, respectively. In addition, budgetary expenditures exceeded appropriation authority in the Special Revenue Fund by \$5,809 and \$10,885 for the years ended December 31, 2001 and 2000, respectively.

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Also contrary to Ohio law, at December 31, 2001 and 2000, the General Fund had a cash deficit balance of \$13,780 and \$2,193, respectively. Similarly, at December 31, 2001 and 2000, the State Highway Fund had a cash deficit balance of \$5,398 and \$7,541, respectively. The Police Fund also had a cash deficit balance of \$18.22 at December 31, 2000.

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.

5. DEBT

Debt outstanding at December 31, 2001 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$5,000	0.00%

The Village received a loan from the Ohio Water Development Authority (OWDA) for \$20,000 in November 1995. The loan was issued to assist the Village in constructing additional sewer lines for residents of the Village. The loan agreement requires that only the principal of the loan is to be repaid.

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

	OWDA Loan
Year ending December 31:	
2002	\$0
2003	500
2004	1,500
2005	1,500
2006	1,500
Total	\$5,000

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

6. RETIREMENT SYSTEMS

The Village's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is 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 2001 and 2000 PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contribution rate to 8.13%, effective July 1, 2000 through December 31, 2000. The Village has not paid all contributions required through December 31, 2001.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the risks of comprehensive property and general liability.

8. SUBSEQUENT EVENTS

The financial records of the Village are not complete. The Village Clerk and Mayor are currently working to post receipts and appropriations to the appropriate ledgers and reconcile the Village's books to the bank statements.

The Village passed a tax levy which will generate \$44,000 in March 2003.

9. GOING CONCERN

The Village is experiencing financial difficulties. As of December 31, 2001, the General Fund had a deficit fund balance of \$13,456 and the Special Revenue State Highway Fund had a deficit fund balance of \$5,398. These negative cash fund balances were covered by the cash balances in the Special Revenue Street Maintenance Fund.

10. COMPLIANCE

The Village did not comply with Ohio Law as follows:

- The Village did not file the required annual financial reports with the State;
- The Village did not properly post restricted funds;
- The Village did not properly approve tax levies, did not certify available funds, and did not appropriate for expenditures;
- The Village did not maintain certain records as required; and
- The Village did not maintain records properly.

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

Village of Midland
Clinton County
P.O. Box 96
Midland, OH 45148

To the Village Council:

We have audited the accompanying financial statements of the Village of Midland, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated August 27, 2002, wherein we noted the Village is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed several instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-30414-001 through 2001-30141-007. However, we also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated August 27, 2002.

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 design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-30414-001 through 2001-30414-013.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2001-30414-002, 2001-30414-005, 2001-30414-007, 2001-30414-009, 2001-30414-011 and 2001-30414-012 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated August 27, 2002.

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



Jim Petro
Auditor of State

August 27, 2002

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

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

FINDING NUMBER 2001-30414-001

Reportable Condition and Noncompliance Citation

Ohio Rev. Code, Section 117.38, requires that cash basis entities file an annual financial report with the Auditor of State within 60 days of the fiscal year end. These reports must be on forms prescribed by the Auditor of State. Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfilled not to exceed seven hundred and fifty dollars. Also, the public office must publish a notice stating that the financial report is available for public inspection.

The Village did not file its 2001 or 2000 annual financial report with the Auditor of State. This report is the presentation of the Village's financial position and is used by management to make informed decisions concerning operations. It is important that the report fairly and accurately present the Village's true financial position. In order to avoid unnecessary penalties, we recommend the Village Council take measures to insure that the Clerk-Treasurer properly prepares and files the annual financial report.

FINDING NUMBER 2001-30414-002

Material Weakness and Noncompliance Citation

Ohio Rev. Code, Section 5705.10, provides that money paid into a fund must be used only for the purposes for which such fund has been established. The General Fund had a negative fund balance from September 2000 through December 31, 2001, the State Highway Fund had a negative fund balance from January 2000 through December 31, 2001 and the Police Fund had a negative fund balance in December 2000. These deficit balances indicate money from another fund was used to cover the expenditures of these funds. The fund balances in the General and State Highway Fund at December 31, 2001 were negative \$13,780 and negative \$5,398, respectively. This could result in funds not being available in the checking account to pay other fund obligations if already expended to pay General and State Highway expenditures. We recommend the Council members monitor monthly financial reports and if necessary, follow guidance outline in Auditor of State Bulletin 97-003 to temporarily allocate cash from one fund to another.

Additionally, Ohio Rev. Code, Section 5705.10, requires that money paid into any fund shall be used only for the purpose for which such fund is established. The Clerk-Treasurer posted tax settlements incorrectly between the General and Police Funds. The Village also posted tax settlements at net instead of gross. To properly record the tax revenue, the full amount of revenue needs to be recognized and the fees should be reflected as an expenditure. Failure to record tax levies in the proper fund or for the incorrect amount could cause the Village to spend levy money improperly. We recommend the Clerk-Treasurer post the tax settlements at gross and then post the appropriate disbursements for auditor and treasurer fees. In addition, we recommend the Village take due care in the posting of Village tax receipts to ensure proper posting.

FINDING NUMBER 2001-30414-003

Reportable Condition and Noncompliance Citation

Ohio Rev. Code, Section 5735.28, states wherever a municipal corporation is on the line of the state highway system as designated by the director of transportation as an extension or continuance of the state highway system, seven and one-half percent of the amount paid to any municipal corporation pursuant to sections 4501.04, 5735.23 and 5735.27 of the Revised Code shall be used by it only to construct, reconstruct, repave, widen, maintain and repair such highways, to purchase, erect and maintain traffic lights and signals, and to erect and maintain street and traffic signs and markers on such highways. The Village posted twenty-five percent of gasoline tax to the State Highway Fund. Failure to record gasoline tax distributions properly in the State Highway Fund could cause the Village to spend a portion of the gasoline tax improperly. We recommend that the Clerk-Treasurer post the seven and one-half percent to the State Highway Fund and the remaining ninety-two and one-half percent to the Street Maintenance Fund.

FINDING NUMBER 2001-30414-004

Reportable Condition and Noncompliance Citation

Ohio Rev. Code, Chapter 5705, prescribes budgetary laws for the Village. The Village did not comply with the following sections of the code:

- A. Ohio Rev. Code, Section 5705.34, requires each taxing authority to pass an ordinance or resolution to authorize the necessary tax levies and certify the levies to the county auditor before October 1 each year. The Village Council did not approve the rates and certify them to the county auditor for 2001. In addition, the Village Council did not approve the rates and certify them to the county auditor for 2002 until November 13, 2001. Failure to authorize the necessary rates and certify them to the county auditor before the required date could result in a delay in receiving funding from the county. We recommend the Village approve the necessary tax levies and submit them to the County Auditor by the required date.
- B. Ohio Rev. Code, Section 5705.36, requires the Village to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any balances that existed at the end of the preceding year on or about the first day of each fiscal year. The Village failed to complete this certification with the county auditor for 2001 and 2000. Failure to certify the total amount from all sources available for expenditures from each fund in the tax budget along with any balances that existed at the end of the preceding year could result in a delay of funding from the County. We recommend the Village complete and submit to the county auditor on or about the first day of the fiscal year a Certificate of the Total Amount From All Sources Available for Expenditures, and Balances.
- C. Ohio Rev. Code, Section 5705.36, requires that each subdivision to request amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. This Village did not complete and file an official certificate or any amended certificates filed in 2001 or 2000. Failure to properly adopt and amend estimated resources deprives management of a key budgetary control to limit appropriations for expenditures. We recommend the Clerk-Treasurer complete these forms as needed and submit them to the county auditor.

**FINDING NUMBER 2001-30414-004
(Continued)**

- D. Ohio Rev. Code, Section 5705.41(B), states that no taxing authority shall make any expenditures of money unless it has been appropriated. The Village did not appropriate funds for expenditure for 2000 and 2001. Expending money when it has not been appropriated could cause the Village to make illegal expenditures and deprives management of a key control to manage the expenditures of individual funds. We recommend the Village adopt procedures to ensure no expenditures are made unless they have been properly appropriated.

FINDING NUMBER 2001-30414-005

Material Weakness and Noncompliance Citation

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

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

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

The Village did not properly certify the availability of funds for purchase commitments for any of the expenditures tested. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Effort should be made by the Village to properly utilize the encumbrance method of accounting by obtaining proper certification of the available funds on properly approved purchase orders. We recommend the Village obtain approved purchase orders, which contain the proper certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2001-30414-006

Reportable Condition and Noncompliance Citation

Ohio Rev. Code, Section 149.351, states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code. The following records could not be located for the audit:

- supporting documentation for several miscellaneous receipts;
- supporting documentation for sixty-seven disbursements;
- eighteen canceled checks; and
- Sheriff contracts for the period April through December 2001 and January through March 2000.

Failure to maintain the appropriate records could result in problems when documents are needed to support actions taken by the Village. We recommend the Village retain all pertinent information in accordance with a properly approved records retention policy.

FINDING NUMBER 2001-30414-007

Material Weakness and Noncompliance Citation

Ohio Rev. Code, Section 733.28, states that the Village Clerk shall keep the books of the Village, exhibit accurate statements of all monies received and expended of all property owned by the Village and income derived.

The Village did not maintain an accurate record of all moneys received. The accounting records of the Village were incomplete, contained posting errors, were not reconciled to one another or to the bank, lacked classifications of receipts and expenditures, and lacked accurate month-to-date and year-to-date totals. As a result, those records which were maintained by the Clerk-Treasurer were not an accurate reflection of all monies received and expended. All of these conditions exhibit a lack of control over the recording and reporting of Village financial activity and did result in inaccurate and untimely accounting records.

We recommend the Village post all entries in the cash journal in chronological order, reflecting month to date and year to date totals. We also recommend the Village reconcile the cash journal to the bank, the receipt ledger, and the appropriation ledger on a monthly basis. Implementation of these procedures will add a substantial measure of control to the receipt and expenditure process, as well as provide assurance that the activity is properly handled and fairly presented on the Village's ledgers and financial reports.

FINDING NUMBER 2001-30414-008

Reportable Condition and Noncompliance Citation

Ohio Rev. Code, Section 145.03, requires compulsory membership in the Public Employee's Retirement System (PERS) for each employee if no exemption form is filed with PERS within thirty days from the first day of employment. Further, Ohio Rev. Code, Section 145.47, requires employers to withhold contributions for employees. In addition, Ohio Rev. Code, Section 147.483, requires each employer who fails to withhold retirement deductions and who does not have a written exemption on file must pay both the employee and employer's contribution for the period that deductions are omitted. The Village did not withhold PERS from seven employees in 2001 and five employees in 2000. The Village also did not have a written exemption on file for the failure to withhold PERS. Failure to withhold amounts for PERS or have appropriate exemption documentation may subject the Village to penalties and interest for failing to deduct and remit such amounts. We recommend the Village contact PERS to determine any necessary action to correct this situation.

FINDING NUMBER 2001-30414-009

Material Weakness

Trash Receipt Collections

There is no system of internal controls over the trash collection receipts. The current method does not provide any means of assurance that the amount of cash collected corresponds to the correct amount of trash collections billed. In addition, subsidiary ledgers were not maintained to account for the monthly trash collection activity.

To improve accountability over trash collection revenues and lessen the chance of errors occurring and not being detected, the Village should implement the following procedures which will improve control over the trash collection functions:

- A. A subsidiary ledger should be maintained to account for the trash collection receipts. This ledger should include the customer's name, amount billed, date paid, the amount of receipts collected and the amount outstanding for each customer's account;
- B. All entries should be posted in chronological order, reflect a month-to-date and year-to-date totals; and
- C. The subsidiary ledger should be reconciled with deposits on a monthly basis.

Implementation of these procedures will add a substantial measure of control to the utility receipts, as well as provide assurance that the utility activity is properly handled and fairly presented on the Village's ledgers and financial reports.

Delinquent Trash Collections

The Village has a significant amount of outstanding balances for trash collections. The outstanding balances for 2000 and 2001 are \$10,799 and \$13,890. The large delinquent balances show the Village has been paying for services that are received by the citizens. The citizens with outstanding balances are still receiving trash service. Collecting the amount owed to the Village would aid in decreasing the negative fund balance in the General Fund.

The Village and its legal counsel have made attempts to collect these past due accounts. We recommend the Village continue to pursue these collections.

FINDING NUMBER 2001-30414-010

Reportable Condition

The Village did not maintain a receipt ledger or an appropriation ledger for 2000. A receipt ledger and an appropriation ledger were completed for 2001; however, they were incomplete. Without the detailed information of the sources of Village funds and disbursements, Council members can not make informed decisions regarding Village finances.

The receipt and appropriation ledger should include each separate account with a separate page for each account per fund. The name of the fund, the account, and the code prescribed for the account should be included on the ledger sheet. The receipt ledger pages should include a column for amounts received with totals for the month and a year to date column. The appropriation ledger should include a column for disbursements made and a column for the appropriated amount. Any disbursements made should be subtracted from the original appropriated balance producing a declining unencumbered balance.

To provide accurate and complete financial information for management to use in the decision making process and to aid in the accurate classification of receipts and disbursements on the Village's annual financial report, we recommend the Village maintain receipt and appropriation ledgers as described above. Receipts in the cash journal should agree to receipts in the receipts ledger and disbursements in the cash journal should agree to disbursements in the appropriations ledger. Encumbrances and disbursements should be posted to the appropriation ledger resulting in declining unencumbered balances. Receipts should be posted by fund and line item, with a running balance maintained. At year-end, the totals from these ledgers should be carried forward to the annual financial report.

FINDING NUMBER 2001-30414-011

Material Weakness

The Village did not reconcile its bank account during 2000 and 2001. Failure to accurately prepare and reconcile the account records reduces the accountability over Village funds, reduces the Council's ability to monitor financial activity, increases the likelihood that monies will be misappropriated and not detected and increases the likelihood that the Village's financial statements will be misstated. Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well as, ensure that all recorded transactions have been deposited with the financial institution.

We recommend the Village properly reconcile the account on a monthly basis. The Village Clerk should perform reconciliation between the bank balance and fund balances monthly. The reconciled checking account balance (bank balance less outstanding checks plus deposits in transit) plus each certificate of deposit balance should equal the total fund balance. Any variances should be immediately investigated and justified. We also recommend that a council member review and sign off on the reconciliation thereby indicating approval and ensuring timeliness of reconciliations.

FINDING NUMBER 2001-30414-012

Material Weakness

The Village had very few internal controls, record keeping was inaccurate and inconsistent and there were few policies, procedures and account controls instituted by the Village Council to review monthly financial records. This may create an environment which promotes possible fraud or misappropriation of funds.

The following weaknesses were noted:

- Monthly financial reports were not present to Council;
- Entries to the cash journal were not in chronological order;
- Copies of invoices were not always attached to voucher package and no documentation existed to support the purpose of the voucher;
- Invoices contained no indication (e.g., initials) that someone had performed a comparison between the items included on the invoices and the items received; and
- Payments were made from vendor statements and not itemized invoices.

The lack of timely financial reports and accurate fund balances significantly reduces Council's ability to monitor the Village's financial position. In addition, the lack of control over invoices and goods/services received could result in unauthorized payments, over/under payments or duplicate payments, and checks unaccounted for.

To strengthen the Village's internal control structure and reduce the likelihood of undetected errors, we recommend Village officials and management implement the following controls:

- A. Monthly financial reports be prepared and submitted to Council. This submission should occur prior to the regular Council meetings so that Council members have an opportunity to review the information and ask informed questions at the Council meetings. Discussion of the monthly financial reports should be documented in the minutes;
- B. Entries should be made to cash book, receipt ledger, and appropriation ledgers as they occur to insure that all entries are made in a timely period; and
- C. All vouchers should have an invoice attached. The invoice details what the expenditure was for and without the invoice, the Council can not verify that it was proper or that the payment matches what was invoiced.
- D. When invoices are received, a comparison should be made between the goods/services included on the invoice and the goods/services received. The official/department head which received the goods should perform this comparison and indicate his/her review by initializing the invoice. The initials indicate the goods/services were received and the invoice is approved for payments.
- E. All payments should be made from itemized invoices, not monthly statements, so that officials can verify items received and if bills are for a proper public purpose and these invoices should be attached to all vouchers and reviewed by Council members.

FINDING NUMBER 2001-30414-013

Reportable Condition

The Village had to pay large tax liabilities, penalties and interest to the Internal Revenue Service for not making proper employer contributions for Medicare and Social Security withholdings. The Village failed to complete the required quarterly employer's federal tax returns (Form 941). The Village did not have W-2 forms completed for 2000. These errors could result in additional tax liabilities for the Village. We recommend the Village contact the Internal Revenue Service to correct this situation.

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-30414-0001	Illegal expenditures by the previous Clerk Tami Wainscott	Yes	
1999-30414-002	Illegal expenditures by the previous Clerk Tami Wainscott.	Yes	
1999-30414-003	Illegal expenditures by the previous Clerk Tami Wainscott	Yes	
1999-30414-004	ORC 117.38, not filing the Annual Financial Report.	No	Will be issued again as finding number 2001-30414-001.
1999-30414-005	ORC 733.28- maintaing the proper books for the Village.	No	Will be issued again as finding number 2001-30414-007.
	ORC 117.43- uniform system of accounting.	NA	Not a requirement in the audit period.
	Various OAC sections for maintain the proper records.	NA	Not a requirement in the audit period.
1999-30414-006	ORC 5705.10- posting to proper fund.	No	Will be issued again as finding number 2001-30414-002.
1999-30414-007	ORC 5705.41(D)- not properly encumbering	No	Will be issued again as finding number 2001-30414-005.
1999-30414-008	ORC 5705.28- requires a tax budget to be filed.	NA	The Clinton County Auditor waived these requirements; therefore, they are not applicable during this audit period.
	ORC 5705.30- requires a budget hearing.	NA	
1999-30414-009	ORC 5705.34- authorizing of the necessary tax rates.	Partial	Will be issued in the management letter.
	ORC 5705.36- completion of the Total Amount Certificate and amended certificates.	No	Will be issued again as finding number 2001-30414-004.
1999-30414-010	ORC 5705.38- filing appropriations.	No	Will be issued again as finding number 2001-30414-004.
1999-30414-011	ORC 5705.41(B)- disbursements exceeding appropriations.	No	Will be issued again as finding number 2001-30414-004.

Village of Midland
Clinton County
Schedule of Prior Audit Findings
Page 2

1999-30414-012	Requirements when keeping the Village's minute records.	Yes	
1999-30414-013	ORC 731.20- maintaining a resolution/ordinance book.	NA	Not considered necessary for this audit period.
1999-30414-014	ORC 135.21- proper recording of interest.	Partial	We will include this citation in the management letter.
1999-30414-015	ORC 145.03- membership in PERS	No	Will be issued again as finding number 2001-30414-008.
1999-30414-016	USC Section 3402- W-4s on file.	Yes	
1999-30414-017	ORC 5757.06(A)- requires deduction of state income tax.	Yes	
1999-30414-018	The Village did not make payments to the Bureau of Workman's Compensation	Yes	
1999-30414-019	The Village is paying tax penalties due to amounts not being remitted to the IRS.	No	Will be issued again as finding number 2001-30414-013.
1999-30414-020	Large delinquent accounts for trash collection.	No	Will be issued again as finding number 2001-30414-009.
	The Village is paying for more trash units than the Village has.	Yes	
	Village had a net loss for trash collections.	NA	Not considered necessary for the audit period.
	Policy for the Village to only accept checks or money orders for trash collections.	NA	Not considered necessary for the audit period.
1999-30414-021	The Village did not know the status of their debt balance.	Yes	
1999-30414-022	Various Internal Control Weaknesses	Partial	Will be issued again as finding number 2001-30414-012.



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OFFICE OF THE AUDITOR

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VILLAGE OF MIDLAND

CLINTON 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
SEPTEMBER 24, 2002**