



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Frazeytsburg
Muskingum County
7 Second Street, P.O. Box 160
Frazeytsburg, Ohio 43822

To the Village Council:

We have audited the accompanying financial statements of the Village of Frazeytsburg, Muskingum 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.

The basis of accounting prescribed by the Auditor of State requires the Village to report outstanding encumbrances at year-end as budgetary expenditures. 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 such adjustments, if any, that would have been necessary to reflect year-end outstanding 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 Frazeytsburg, Muskingum County, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 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 audit committee, 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", written in a cursive style.

Jim Petro
Auditor of State

May 30, 2002

**VILLAGE OF FRAZEYSBURG
MUSKINGUM 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>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$24,174	\$40,442	\$	\$64,616
Income Taxes	163,482			163,482
Special Assessments		27,258		27,258
Intergovernmental Receipts	56,658	30,020	54,304	140,982
Charges for Services	2,441			2,441
Fines, Licenses, and Permits	6,526			6,526
Earnings on Investments	1,244			1,244
Miscellaneous	4,134	3,126		7,260
	<u>258,659</u>	<u>100,846</u>	<u>54,304</u>	<u>413,809</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	155,998	63,762		219,760
Leisure Time Activities	46,896	8,607		55,503
Community Environment	1,113			1,113
Basic Utility Services	1,145			1,145
Transportation		39,433		39,433
General Government	57,596	1,129		58,725
Capital Outlay	812		54,304	55,116
	<u>263,560</u>	<u>112,931</u>	<u>54,304</u>	<u>430,795</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(4,901)</u>	<u>(12,085)</u>	<u>0</u>	<u>(16,986)</u>
Other Financing Receipts/(Disbursements):				
Other Financing Sources	6,943	103		7,046
Other Financing Uses	(31)			(31)
Transfers-In	38,568	16,300		54,868
Advances-In	4,143			4,143
Transfers-Out	(58,987)	(38,568)		(97,555)
Advances-Out	(7,843)			(7,843)
	<u>(17,207)</u>	<u>(22,165)</u>	<u>0</u>	<u>(39,372)</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(22,108)	(34,250)	0	(56,358)
Fund Cash Balances, January 1	<u>37,307</u>	<u>108,879</u>	<u>0</u>	<u>146,186</u>
Fund Cash Balances, December 31	<u>\$15,199</u>	<u>\$74,629</u>	<u>\$0</u>	<u>\$89,828</u>

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

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

	Proprietary Fund Type	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$354,206	\$	\$354,206
Contributions and Donations	552		552
Miscellaneous	976		976
Total Operating Cash Receipts	<u>355,734</u>	<u>0</u>	<u>355,734</u>
Operating Cash Disbursements:			
Personal Services	65,644		65,644
Fringe Benefits	42,862		42,862
Contractual Services	497,504		497,504
Supplies and Materials	63,668		63,668
Miscellaneous	17,190		17,190
Capital Outlay	2,027		2,027
Total Operating Cash Disbursements	<u>688,895</u>	<u>0</u>	<u>688,895</u>
Operating Income/(Loss)	<u>(333,161)</u>	<u>0</u>	<u>(333,161)</u>
Non-Operating Cash Receipts:			
Intergovernmental Receipts	38,900		38,900
Proceeds from Notes and Bonds	321,235		321,235
Other Financing Sources	1,575		1,575
Other Non-Operating Receipts		23,571	23,571
Total Non-Operating Cash Receipts	<u>361,710</u>	<u>23,571</u>	<u>385,281</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Principal	37,623		37,623
Interest	66,284		66,284
Other Debt Service Disbursements	1,087		1,087
Other Non-Operating Cash Disbursements		11,138	11,138
Total Non-Operating Cash Disbursements	<u>104,994</u>	<u>11,138</u>	<u>116,132</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(76,445)	12,433	(64,012)
Transfers-In	42,687		42,687
Advances-In	7,843		7,843
Transfers-Out			0
Advances-Out	(4,143)		(4,143)
Net Receipts Over/(Under) Disbursements	<u>(30,058)</u>	<u>12,433</u>	<u>(17,625)</u>
Fund Cash Balances, January 1	<u>82,598</u>	<u>7,296</u>	<u>89,894</u>
Fund Cash Balances, December 31	<u><u>\$52,540</u></u>	<u><u>\$19,729</u></u>	<u><u>\$72,269</u></u>

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

**VILLAGE OF FRAZEYSBURG
MUSKINGUM 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**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property Tax and Other Local Taxes	\$18,224	\$14,431	\$	\$32,655
Income Taxes	153,548			153,548
Special Assessments		28,377		28,377
Intergovernmental Receipts	46,017	74,750	90,038	210,805
Charges for Services	149			149
Fines, Licenses, and Permits	10,176			10,176
Earnings on Investments	26			26
Miscellaneous	12,629	24,715		37,344
Total Cash Receipts	240,769	142,273	90,038	473,080
Cash Disbursements:				
Current:				
Security of Persons and Property	97,121	65,636		162,757
Leisure Time Activities	81,306	38,908		120,214
Transportation		28,586		28,586
General Government	48,014	843		48,857
Debt Service:				
Principal Payments	467			467
Financing and Other Debt-Service Related	3,926			3,926
Capital Outlay	78		90,038	90,116
Total Cash Disbursements	230,912	133,973	90,038	454,923
Total Cash Receipts Over/(Under) Cash Disbursements	9,857	8,300	0	18,157
Other Financing Receipts/(Disbursements):				
Transfers-In	45,817	41,969		87,786
Other Financing Sources	26,276			26,276
Transfers-Out	(78,780)	(27,309)		(106,089)
Other Financing Uses	(5,768)	(263)		(6,031)
Total Other Financing Receipts/(Disbursements)	(12,455)	14,397	0	1,942
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(2,598)	22,697	0	20,099
Fund Cash Balances, January 1	39,905	86,182	0	126,087
Fund Cash Balances, December 31	\$37,307	\$108,879	\$0	\$146,186

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

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$336,227	\$	\$336,227
Contributions and Donations	1,542		1,542
Interest	1,058		1,058
Miscellaneous	703		703
Total Operating Cash Receipts	<u>339,530</u>	<u>0</u>	<u>339,530</u>
Operating Cash Disbursements:			
Personal Services	81,784		81,784
Fringe Benefits	32,405		32,405
Contractual Services	227,199		227,199
Supplies and Materials	76,554		76,554
Miscellaneous	11,065		11,065
Capital Outlay	156		156
Total Operating Cash Disbursements	<u>429,163</u>	<u>0</u>	<u>429,163</u>
Operating Income/(Loss)	<u>(89,633)</u>	<u>0</u>	<u>(89,633)</u>
Non-Operating Cash Receipts:			
Special Assessments	57		57
Proceeds from Notes and Bonds	105,409		105,409
Other Non-Operating Receipts		17,038	17,038
Total Non-Operating Cash Receipts	<u>105,466</u>	<u>17,038</u>	<u>122,504</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Principal	34,998		34,998
Interest	68,909		68,909
Other Debt Service Disbursements	1,320		1,320
Other Financing Uses	1,198		1,198
Other Non-Operating Cash Disbursements		13,616	13,616
Total Non-Operating Cash Disbursements	<u>106,425</u>	<u>13,616</u>	<u>120,041</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(90,592)	3,422	(87,170)
Transfers-In	38,810		38,810
Transfers-Out	(20,507)		(20,507)
Net Receipts Over/(Under) Disbursements	(72,289)	3,422	(68,867)
Fund Cash Balances, January 1	<u>154,887</u>	<u>3,874</u>	<u>158,761</u>
Fund Cash Balances, December 31	<u>\$82,598</u>	<u>\$7,296</u>	<u>\$89,894</u>

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

**VILLAGE OF FRAZEYSBURG
MUSKINGUM 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 Frazeytsburg, 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 water and sewer utilities, park operations, and police services. The Village appropriates local property tax money to support a volunteer fire department.

The Village's management believes these financial statements present all activities for which the Village is financially accountable. Debt service transactions relating to the First Mortgage Sewer Revenue Bonds are maintained by a trustee and are not included in these financial statements. Assets held by the trustee are described in Note 9 to the financial statements.

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

The Village maintains interest-bearing checking and savings accounts.

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. The Village maintains an Income Tax Fund to account for local income tax monies as described in Note 5. The activities of this fund are included in the General Fund for reporting purposes. Funds derived from the Village's income tax are utilized for the general operations of the Village and are not restricted as to use.

2. Special Revenue Funds

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

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Cops Fast Grant Fund - This fund receives federal assistance to assist the Village in paying for police protection services.

Street Lighting Fund - This fund receives money from a special assessment levied on property owners to pay for street lighting within the Village.

Fire Protection Fund - This fund receives tax money to support the volunteer fire department and provide fire protection services.

3. 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 Funds:

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

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

Capital Improvement, Debt Retirement Fund - This fund receives utility surcharge for repayment of loans incurred in planning, construction, and operation of the Village's utilities.

4. Fiduciary Funds (Agency Funds)

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

Mayor's Court Fund - This fund receives fine money which is disbursed to state and local entities.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund 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.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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 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.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investment 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:

	2001	2000
Demand deposits	\$162,097	\$236,080

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 ended December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$471,019	\$304,170	(\$166,849)
Special Revenue	99,541	117,249	17,708
Capital Projects	0	54,304	54,304
Enterprise	338,851	760,131	421,280
Total	\$909,411	\$1,235,854	\$326,443

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$322,061	\$322,578	(\$517)
Special Revenue	106,620	151,499	(44,879)
Capital Projects	0	54,304	(54,304)
Enterprise	349,713	793,889	(444,176)
Total	\$778,394	\$1,322,270	(\$543,876)

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$369,834	\$312,862	(\$56,972)
Special Revenue	27,717	184,242	156,525
Capital Projects	0	90,038	90,038
Enterprise	207,697	483,806	276,109
Total	\$605,248	\$1,070,948	\$465,700

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$341,917	\$315,460	\$26,457
Special Revenue	136,007	161,545	(25,538)
Capital Projects	0	90,038	(90,038)
Enterprise	318,269	556,095	(237,826)
Total	\$796,193	\$1,123,138	(\$326,945)

Accountability and Compliance with Budgetary Law:

The certification of availability of unencumbered appropriations for expenditures was not made prior to purchase commitments being incurred.

Contrary to Ohio Revised Code Section 5705.41(B), expenditures were made which had not been properly appropriated. The following tables report amounts by which expenditures exceeded appropriations:

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Accountability and Compliance with Budgetary Law (Continued):

Year ended December 31, 2001

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General Fund	\$322,061	\$322,578	(\$517)
Street Construction, Maintenance, & Repair Fund	43,166	49,092	(5,926)
State Highway Fund	3,748	4,233	(485)
Parks & Recreation Fund	7,500	9,516	(2,016)
State Grants Fund	0	14,291	(14,291)
Cops Grant Fund	0	24,277	(24,277)
Fire Protection Fund	23,988	38,392	(14,404)
Issue II Fund	0	54,304	(54,304)
Water Operating Fund	109,599	490,835	(381,236)
Sewer Operating Fund	99,532	163,706	(64,174)
Swimming Pool Fund	32,200	34,354	(2,154)

Year ended December 31, 2000

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Street Construction, Maintenance, & Repair Fund	\$34,865	\$44,187	(\$9,322)
State Highway Fund	0	3,124	(3,124)
Parks & Recreation Fund	43,000	46,918	(3,918)
Cops Grant Fund	8,742	34,223	(25,481)
Issue II Fund	0	90,038	(90,038)
Water Operating Fund	83,441	291,092	(207,651)
Sewer Operating Fund	96,173	115,881	(19,708)
Swimming Pool Fund	34,655	43,822	(9,167)
Capital Improvement, Debt Retirement Fund	104,000	105,300	(1,300)

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Accountability and Compliance with Budgetary Law (Continued):

Contrary to Ohio Revised Code Section 5705.39, appropriations exceeded estimated resources. The following tables report amounts by which appropriations exceeded estimated resources:

Year ended December 31, 2001

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Parks & Recreation Fund	\$0	\$7,500	(\$7,500)
Mayor's Court Fund	312	18,846	(18,534)

Year ended December 31, 2000

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Parks & Recreation Fund	\$4,105	\$43,000	(\$38,895)
Fire Protection Fund	26,480	29,000	(2,520)
Street Lighting Fund	10,143	20,400	(10,257)
Income Tax Fund	105,046	167,036	(61,990)
Sewer Operating Fund	60,956	96,173	(35,217)

In certain instances, increased amended certificates of estimated resources could have been obtained in accordance with Ohio Revised Code Section 5705.36 which may have eliminated noncompliance with Ohio Revised Code Section 5705.39 and may have permitted additional appropriations to be adopted to eliminate noncompliance with Ohio Revised Code Section 5705.41(B).

During December 2001, the General Fund, Swimming Pool Fund, and Sewer Fund had negative fund cash balances of \$23,581, \$9,555, and \$17,931, respectively, contrary to Ohio Revised Code Section 5705.10. A retroactive resolution was subsequently approved transferring money from the Village's Income Tax Fund to these funds to cover the deficits. The aforementioned funds also had negative fund cash balances at various times during 2000 and 2001.

During 2000 and 2001, transfers among Village funds were made without being authorized by Council resolution, contrary to Ohio Revised Code Section 5705.14. Council subsequently authorized these transfers via a retroactive resolution.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

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. LOCAL INCOME TAX

The Village levied a voted tax of one percent for general operations on the income of residents and/or employees who receive a W-2 form from an employer within the Village and on the net profits of businesses located in the Village. Employers are required to withhold income tax on compensation and remit the tax directly to the Village. Taxpayers over the age of 18 are required to file an annual return. The Village maintains a separate Income Tax Fund and income tax receipts are credited to this fund on the Village's financial records. As discussed in Note 1, the Income Tax Fund activity has been reflected within the General Fund in the accompanying financial statements based upon Frazeytsburg Ordinance No. 2000-039 and due to income tax proceeds being unrestricted as to use.

6. DEBT

Debt outstanding at December 31, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan - Sewer Project	\$713,692	8.09%
Ohio Water Development Authority Loan - Sewer Project	71,699	7.96%
Ohio Water Development Authority Loan - Water System Design	156,976	5.54%
Ohio Water Development Authority Loan - Water Plan	10,500	0.00%
Ohio Water Development Authority Loan - Wastewater Plan	7,000	0.00%
Ohio Water Development Authority Loan - Fresh Water 1998	259,193	6.39%
Ohio Public Works Commission Loan - Storm Sewer Project	34,972	2.00%
Capital Lease - Water Meters	92,710	6.25%
First Mortgage Revenue Bonds	47,000	4.50%
Total	<u><u>\$1,393,742</u></u>	

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

6. DEBT (Continued)

The Ohio Water Development Authority (OWDA) Sewer Project Loans were for the construction, maintenance, and operation of a wastewater treatment plant completed in 1991. The original loans were for \$984,038 and \$91,120, respectively. The loans will be repaid in semiannual installments of \$46,447 and \$4,257, respectively, including interest, over 25 years. The loans are collateralized by revenue generated by the wastewater treatment facility. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The OWDA Water System Design Loan relates to the planning phase of a new water treatment plant and waterlines. The original loan was for the \$142,295 and the schedule above includes interest capitalized on this loan. This loan includes one balloon payment, due January 1, 2004, if not repaid by another loan prior to that date. The loan is collateralized by revenue generated by the water facilities. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The OWDA loans for water, wastewater, and fresh water planning also relate to the planning phase of new waterlines and wastewater treatment plants. The original loans were for \$15,000, \$10,000, and \$250,000, respectively. The water and wastewater loans will be paid in annual installments of \$1,500 and \$1,000, including interest, over 10 years. The fresh water loan includes a balloon payment, due July 1, 2005, if not repaid prior to that date. The schedule above includes interest capitalized on the fresh water loan as of December 31, 2001. The loans are collateralized by revenue generated by the water and wastewater facilities. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) loan relates to a storm sewer project for the Village. The original loan was for \$35,702. The loan will be repaid in semiannual installments of \$1,087, including interest, over 20 years.

The capital lease for the water meters represents a lease purchase agreement, entered into in 2000, between the Village and Century National Bank, Dresden, Ohio for water meters which have been installed within the Village. The original amount of the agreement was for \$92,710 as reflected above. Payments are made in annual installments of \$12,746, including interest, over 10 years. The Village has the option to purchase the equipment by paying the termination value on the due date of each year.

Amortization of the above debt, including interest, is scheduled as follows, except as explained in Note 9 concerning the First Mortgage Sewer Revenue Bonds:

Year ending December 31:	OWDA Loan - Sewer Projects	OWDA Loan - Water Projects	OPWC Loan - Storm Sewer	Capital Lease - Water Meters
2002	\$102,407	\$1,500	\$2,175	\$12,746
2003	102,407	1,500	2,175	12,746
2004	102,407	161,476	2,175	12,746
2005	102,407	260,693	2,175	12,746
2006	102,407	1,500	2,175	12,746
2007 – 2021	779,579	3,000	31,532	50,984
Total	<u>\$1,291,614</u>	<u>\$429,669</u>	<u>\$42,407</u>	<u>\$114,714</u>

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide 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, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for the periods January 1, 2001 through December 31, 2001 and January 1, 2000 through June 30, 2000. For the period July 1, 2000 through December 31, 2000, PERS temporarily reduced the employer's contribution rate to 8.13% of participants' gross salaries. The Village has paid all contributions required through December 31, 2001.

8. RISK MANAGEMENT

Risk Pool Membership

The Government belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Pool provides a program of property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

Casualty excess-of-loss contracts at December 31, 2000 and 1999 generally protect against individual losses over \$150,000 (\$100,000 for policies issued after March 31, 2000).

Property coverage contracts protect against losses, subject to a deductible of \$50,000 per occurrence, limited to an annual aggregate loss of the greater of \$300,000 or 1% of total coverage.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained (deficit) earnings at December 31, 2000 and 1999 (the latest years available):

	ASSETS	LIABILITIES	RETAINED EARNINGS (DEFICIT)
2000	\$2,958,827	\$3,863,373	\$(904,546)
1999	\$4,151,450	\$3,461,914	\$ 689,536

The Village also provides health and dental insurance to full-time employees through private carriers.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

9. DEBT SERVICE TRUSTEED FUNDS

The First Mortgage Sewer Revenue Bond agreement required the Village to establish a debt service fund to make periodic payments from this fund to a trustee. At December 31, 2001, the trustee held Village assets with an approximate fair value of \$67,000. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements. No further payments are required to be made to the trustee from the Village. The bonds have a scheduled final maturity date of April 1, 2005.

10. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

11. CONTRACT COMPLIANCE

The Village failed to maintain documentation of contract and bid files for projects related to the purchase and installation of water meters during 2000 and 2001, contrary to Ohio Rev. Code Section 731.141 which requires all contracts to be made with the best and lowest bidder, in writing, and signed by the Village Administrator and the contractor.

In addition, the Village paid contractors, Neff Paving and Enviro-Excavating, \$6,327 and \$6,504, respectively, in excess of their contracts without executing a change order. This is inconsistent with Ohio Rev. Code Section 731.16 which requires modifications to Village contracts to be made in writing and signed by the Village Administrator and the contractor.

Furthermore, the Village failed to maintain documentation indicating prevailing wage rates were obtained and paid to Enviro-Excavating for installation of the Village's water meters, contrary to Ohio Rev. Code Section 4115.04.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

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

Village of Frazeytsburg
Muskingum County
7 Second Street
P.O. Box 160
Frazeytsburg, Ohio 43822

To the Village Council:

We have audited the financial statements of the Village of Frazeytsburg, Muskingum County, Ohio (the Village), as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated May 30, 2002, wherein we noted the Village did not record encumbrances in its budgetary presentation.

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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2001-31060-001 through 2001-31060-009, 2001-31060-013 and 2001-31060-018. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated May 30, 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 the design and 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 2001-31060-001, and 2001-31060-010 through 2001-31060-018.

Village of Frazeytsburg
Muskingum County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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 in 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 over financial reporting 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 2001-31060-001 and 2001-31060-010 through 2001-31060-018 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 May 30, 2002.

This report is intended solely for the information and use of the audit committee, management and 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

March 30, 2002

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-31060-001

Noncompliance Citation and Material Weakness - Fiscal Officer's Certification

Ohio Rev. Code §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.

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

1. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate stating that there was at the time of the making of such contract or order and at the time of execution of such certificate a sufficient sum appropriated for the purchase of such contract and in the treasury or process of collection to the credit of an appropriate fund free from any previous encumbrances, the Village Council may authorize the drawing of a warrant in payment of amounts due upon such contract or order by resolution, if such expenditure is otherwise valid.
2. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Village Council.

The Village's fiscal officer did not certify the availability of funds either prior to obligations being incurred or at the time of payment. As a result, certain purchase commitments in one fiscal period may have been improperly charged against the subsequent fiscal period's appropriations. Without the fiscal officer's certifications, the management of the Village lost budgetary control over expenditures and, as more fully explained in Note 3 to the financial statements, this condition allowed noncompliance with Ohio Rev. Code § 5705.41(B) to occur.

We recommend the Village's management implement procedures to gain fiscal control over expenditures. Purchase orders containing the required fiscal officer's certification should be utilized to certify the 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. In addition, the Village should review the Ohio Compliance Supplement and consider using "Blanket" purchase orders for recurring transactions when applicable.

FINDING NUMBER 2001-31060-002

Noncompliance Citation - Expenditures Limited by Appropriation Authority

Ohio Rev. Code § 5705.41(B) states that no subdivision or taxing unit shall expend any money unless it has been appropriated.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2001-31060-002 (Continued)

Noncompliance Citation – Ohio Rev. Code §5705.41(B) (Continued)

During the year ended December 31, 2001, expenditures exceeded appropriations in the following funds:

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General Fund	322,061	322,578	(517)
Street Construction, Maintenance, & Repair Fund	43,166	49,092	(5,926)
State Highway Fund	3,748	4,233	(485)
Parks & Recreation Fund	7,500	9,516	(2,016)
State Grants Fund	0	14,291	(14,291)
Cops Grant Fund	0	24,277	(24,277)
Fire Protection Fund	23,988	38,392	(14,404)
Issue II Fund	0	54,304	(54,304)
Water Operating Fund	109,599	490,835	(381,236)
Sewer Operating Fund	99,532	163,706	(64,174)
Swimming Pool Fund	32,200	34,354	(2,154)

During the year ended December 31, 2000, expenditures exceeded appropriations in the following funds:

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Street Construction, Maintenance, & Repair Fund	34,865	44,187	(9,322)
State Highway Fund	0	3,124	(3,124)
Parks & Recreation Fund	43,000	46,918	(3,918)
Cops Grant Fund	8,742	34,223	(25,481)
Issue II Fund	0	90,038	(90,038)
Water Operating Fund	83,441	291,092	(207,651)
Sewer Operating Fund	96,173	115,881	(19,708)
Swimming Pool Fund	34,655	43,822	(9,167)
Capital Improvement, Debt Retirement Fund	104,000	105,300	(1,300)

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31060-002 (Continued)

Noncompliance Citation – Ohio Rev. Code §5705.41(B) (Continued)

Once the permanent appropriations were approved, management did not adopt additional appropriations later in the year and disbursements eventually exceeded appropriations. In certain instances, Village Council could have adopted additional appropriations and avoided negative variances.

We recommend Village Council monitor appropriations balances each month to consider whether appropriation amendments are needed. If invoices for goods or services are received for payment and sufficient appropriation balances are not available, then the Clerk-Treasurer should refuse payment until Village Council adopts sufficient appropriations.

FINDING NUMBER 2001-31060-003

Noncompliance Citation - Negative Fund Balances

Ohio Rev. Code §5705.10 states, in part, that money paid into a fund must be used only for the purposes for which said fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

During December 2001, the General Fund, Swimming Pool Fund, and Sewer Fund had negative fund cash balances of \$23,581, \$9,555, and \$17,931, respectively. The aforementioned funds also had negative fund cash balances at various times during 2000 and 2001.

We recommend the Village use money paid into a fund only for the allowed purposes of that fund. When cash flow problems arise, monies should be advanced as directed in Auditor of State Bulletin 97-003.

FINDING NUMBER 2001-31060-004

Noncompliance Citation - Appropriations Limited by Estimated Resources

Ohio Rev. Code §5705.39 requires appropriations from each fund to be limited to total estimated resources.

During the year ended December 31, 2001, appropriations exceeded estimated resources in the following funds:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Parks & Recreation Fund	\$0	\$7,500	\$(7,500)
Mayor's Court Fund	312	18,846	(18,534)

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31060-004 (Continued)

Noncompliance Citation – Ohio Rev. Code §5705.39 (Continued)

During the year ended December 31, 2000, appropriations exceeded estimated resources in the following funds:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Parks & Recreation Fund	\$4,105	\$43,000	\$(38,895)
Fire Protection Fund	26,480	29,000	(2,520)
Street Lighting Fund	10,143	20,400	(10,257)
Income Tax Fund	105,046	167,036	(61,990)
Sewer Operating Fund	60,956	96,173	(35,217)

Prior to Council authorizing the original appropriations or approving any amendments, we recommend Council compare proposed appropriations with the Certificate of Estimated Resources to ensure that the appropriations will not exceed the Village's estimated resources.

FINDING NUMBER 2001-31060-005

Noncompliance Citation – Amended Certificates of Estimated Resources

Ohio Rev. Code §5705.36 requires that an increased amended certificate be obtained from the budget commission if the legislative authority intends to appropriate and expend excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriations.

The Village expended funds in excess of the Amended Official Amount Available for Expenditure and Balances for 2001 and 2000 as certified by the County Auditor and did not obtain increased amended certificates accordingly.

We recommend the Village obtain increased amended certificates and adopt additional appropriations when the Village intends to expend excess revenue.

FINDING NUMBER 2001-31060-006

Noncompliance Citation - Transfers

Ohio Rev. Code §5705.14 permits transfers from the General Fund to any other fund of the Village by resolution passed with an affirmative vote of a simple majority of the Council Members. Certain other permissible transfers are set forth in this section, but they may only be made by resolution of the Village Council passed with an affirmative vote of two-thirds of the Council Members.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31060-006 (Continued)

Noncompliance Citation – Ohio Rev. Code §5705.14 (Continued)

Although transfers were reported on the Village's annual report, Village Council's minutes did not include any approvals of transfers by Village Council during the audit period.

We recommend the Village only make transfers that are legislatively approved and adopted in resolution form by an affirmative vote of two-thirds of the Council members (or a majority vote of Council for transfers from the General Fund). As of the date of this report, Village Council had retroactively approved those transfers made during 2000 and 2001.

FINDING NUMBER 2001-31060-007

Noncompliance Citation - Contract Expenditures

Ohio Rev. Code §731.141 states, in part, that all contracts made by the legislative authority of a Village shall be executed in the name of the Village and signed on its behalf by the Village Administrator. When any expenditure, other than the compensation of persons employed therein, exceeds fifteen thousand dollars, such contracts shall be in writing and made with the lowest and best bidder after advertising for not less than two and not more than four consecutive weeks in a newspaper of general circulation within the Village.

The Village Administrator could not locate contracts or the corresponding bid information for the purchase and installation of water meters purchased by the Village during the audit period. As a result, we could not determine compliance with the aforementioned Ohio Revised Code section.

We recommend that for every contract for which the Village is a party, the contract be maintained on file along with all other pertinent information such as bids received, change orders, advertisements for bid, and bid tabulation sheets. The Village should take the appropriate action to obtain the contract and bid information for the aforementioned contract. The Mayor and Council should monitor future contracting procedures for compliance with applicable laws as noncompliance in this area was reported in the management letter in the previous audit.

FINDING NUMBER 2001-31060-008

Noncompliance Citation - Change Orders

Ohio Rev. Code §731.16 states that alterations or modifications to Village contracts shall be made only by the Village Administrator in writing and shall have no effect until the price to be paid for the work and material, or both, have been agreed upon in writing and signed by the contractor, and by the Village Administrator.

During 2001, the Village paid a contractor \$6,327 in excess of the amount for which the bid was awarded for the street paving contract. In addition, the Village paid a contractor \$6,504 in excess of the amount for which the bid was awarded for the installation of water meters in the Village. However, no evidence was provided indicating that a change order had been executed in either case.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31060-008 (Continued)

Noncompliance Citation – Ohio Rev. Code §731.16 (Continued)

We recommend the Village execute a change order, signed by both the Village administrator and the contractor, for any future alterations or modifications to the contract awarded. We also recommend the Village Council and the Mayor investigate, and document in the minutes, the reasons for the payments made in excess of bid amounts. The Mayor and Council should monitor future contracting procedures for compliance with applicable laws as noncompliance in this area was reported in the management letter in the previous audit.

FINDING NUMBER 2001-31060-009

Noncompliance Citation - Prevailing Wage Rates

Ohio Rev. Code §4115.04 requires that an area's prevailing wages be obtained during the bidding process and again when the contract is awarded to determine that prevailing wage rates were paid.

The Village Administrator could not locate supporting documentation to indicate that prevailing wage rates were obtained and paid for the installation of water meters within the Village.

We recommend that procedures be implemented to ensure that prevailing wage determinations are obtained and appropriately updated and prevailing wages are paid on all applicable contracts. The Mayor and Council should monitor future contracting procedures for compliance with applicable laws as noncompliance in this area was reported in the management letter in the previous audit.

FINDING NUMBER 2001-31060-010

Material Weakness - Monitoring of Village Financial Activity

The size of the Village's staff did not allow for an adequate segregation of duties; the Village Clerk-Treasurer and assistant performed all accounting functions, including receipting, depositing, disbursing, and reconciling Village monies. It is therefore important that Council function as a finance and audit committee to monitor financial activity closely and to follow up on any audit findings.

While the Council approved bills for payment, there was no documentation of the extent to which the Council reviewed budget versus actual information to monitor the financial activity of the Village. This resulted in the Village expending funds in excess of legislatively established appropriations. This could also result in errors occurring and remaining undetected.

We recommend that, after the Village Clerk-Treasurer has performed the monthly bank reconciliation, Council review the validity of the computations and attest to its accuracy. Also, Council should carefully review and approve pertinent financial information, such as the 1) Receipts Ledger, 2) Appropriations Ledger, 3) Cash Journal, 4) Budget vs. Actual Reports, 5) Payroll Journal and 6) Check Register, on a monthly basis, and make appropriate inquiries to help determine the continued integrity of financial information. Appropriate inquiries would include:

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31060-010 (Continued)

Material Weakness – Monitoring of Village Financial Activity (Continued)

- Are current receipts sufficient to cover expenditures?
- Are budgeted receipts and expenditures posted to the accounting system in line with those approved by Council?
- Are actual receipts and expenditures in line with the budget?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted for?
- Are anticipated receipts being received in a timely manner?

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Village. The Village Clerk-Treasurer, Council and Mayor should become familiar with the Ohio Compliance Supplement, which has been provided to the Village, and use this as a tool to assist them in complying with applicable Ohio laws and regulations. The timely adoption of budgetary measures and the integration of the measures into the Village's accounting system should be made a priority by all Village officials and management.

FINDING NUMBER 2001-31060-011

Material Weakness - Cash Reconciliations

A significant amount of reconciling items was included on the Village's reconciliations as "Other Adjusting Factors." In addition, we noted inaccuracies in the Village's reconciliations, which include, but are not limited to the following:

- Variances were noted between the Village's outstanding checks listing and those checks which were indeed outstanding.
- Not all deposits in transit were included on the cash reconciliation.
- Interest was not posted to the accounting system.
- "Chargeback" and "Debit" and "Credit" memos were not posted to the accounting system.
- Service charges by the Village's financial institution were not recorded by the Village.
- Certain disbursements were recorded twice on the Village's records.
- A significant number of deposits were recorded multiple times on the Village's records.
- A significant number of transactions were not recorded on the Village's records.
- Certain checks were marked "User Skipped Warrant" on the Village's Warrant Register, however, these checks cleared the bank.

These errors resulted in inaccurate information being provided to Village management which contributed to the Village having funds with negative cash balances in certain funds. Our review noted a variance of \$79,174 between the cash balance according to the Village's accounting system and the audited cash balance. These errors also resulted in difficulties in performing audit procedures such as tracing deposits and checks to the Village's cash journal. This could also result in irregularities occurring and remaining undetected. Adjustments with which Village management agree have been made to the books and are reflected in the accompanying financial statements.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31060-011 (Continued)

Material Weakness - Cash Reconciliations (Continued)

We recommend the Clerk-Treasurer perform bank reconciliations on a monthly basis, promptly when bank statements are received from the Village's financial institution. Bank statements should be reviewed for interest, service charges, debit memos, credit memos and any other such miscellaneous items and posted to the accounting system. Any variances noted during reconciling procedures should be immediately investigated and corrected as part of completing the reconciliation process. Reconciliations should be reviewed by the Mayor and Finance Committee once they are completed to ensure such things as bank statement balances agree to bank balances recorded on the reconciliation and that reconciling items are valid, and to ensure the overall accuracy of the reconciliation. Reconciliations should be signed or initialed by the appropriate management who perform these reviews as evidence that these reviews were performed.

FINDING NUMBER 2001-31060-012

Material Weakness - Daily Reconciling Procedures

Our review of the Village's court, income tax, and utility receipts noted that receipts posted to these systems were not reconciled to source documents and deposits on a daily basis. In addition monthly receipts were not reconciled to the Village's separate bank accounts for these departments.

This resulted in variances existing between amounts posted to the Village's accounting system and amounts recorded on departmental records. In addition this resulted in difficulties being encountered in reconciling the Village's cash balance as discrepancies were not found on a prompt basis.

We recommend that each of the aforementioned departments generate daily receipt reports at the close of each day of activity. These reports should be reconciled with the applicable source documents (i.e. income tax returns, bill payment stubs) and should be reconciled to the daily deposit for each individual department. Any variances noted should be promptly corrected. Copies of these reconciled reports should be marked "Reconciled", initialed, and dated by the Village personnel performing this function. Daily reports should be maintained on file for future reference. In addition we recommend, as part of the monthly cash reconciliation process, that each department reconcile monthly receipts to the Village's bank statements for total deposits and promptly investigate any variances.

FINDING NUMBER 2001-31060-013

Noncompliance Citation - Material Weakness - Mayor's Court

Ohio Rev. Code Section 733.40 requires all fines, forfeitures, and cost in ordinance cases and all fees collected by the mayor to be paid by him into the treasury on the first Monday of each month. Our review of the Village's Mayor's Court noted the following for the audit period:

- Although Mayor's Court reports were presented to the Board, remittances were not made monthly from the Mayor's Court Agency Fund to the Village's General Fund.
- Disbursements were posted to the Mayor's Court Agency Fund including, but not limited to, salaries, supplies, and computer software and equipment.
- Mayor's Court records were not being reviewed by someone other than the Clerk.
- Pre-numbered receipts were not always issued for fines collected.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31060-013 (Continued)

Noncompliance Citation - Material Weakness – Ohio Rev. Code §733.40 (Continued)

This resulted in a significant amount of funds, \$12,842, being due to the General Fund as of December 31, 2001. This also resulted in expenditures being made from the Court's checking account for computerization costs which should have been distributed to the Clerk-Treasurer and spent in the same manner as other Village funds. These weaknesses could also allow errors or irregularities to occur and remain undetected. Adjustments to correct the aforementioned items, with which Village management agrees, have been made to the Village's books and are reflected in the accompanying financial statements.

We recommend the Village distribute fines collected by the Village's Mayor's Court to the Village's General Fund by the first Monday of each month as required by Ohio Revised Code Section 733.40. In addition, we recommend that only disbursements for Court costs due to the State of Ohio and fines collected and due to the Village's General Fund be posted to the Mayor's Court Agency Fund. All other disbursements for Court activities should be posted to the General Fund or the Mayor's Court Computer Agency Fund when appropriate. We also recommend the Mayor review Court records periodically to ensure that amounts are being distributed to the applicable agencies by the required dates. Furthermore, the Clerk-Treasurer should issue pre-numbered duplicate receipts for all fines collected by the Village's Mayor's Court.

FINDING NUMBER 2001-31060-014

Material Weakness - Vouchered Disbursements

During our review of the Village's disbursement system, we noted the following conditions:

- 1) Invoices were not always attached to vouchers or on file to support the disbursement made.
- 2) Vouchers were not always signed by the Finance Committee to indicate approval.
- 3) Vouchers were not always present with the voucher package.
- 4) Vouchers were not always completed in regards to payee, check number, date, purpose, and account coding.
- 5) Evidence was not always attached to invoices indicating invoices had been recalculated to ensure accuracy.

These conditions did not allow for proper documentation of all disbursements. In addition, these conditions could also result in unauthorized payments being made, incorrect payment amounts being made, and irregularities occurring and remaining undetected.

We recommend the following:

- 1) Vouchers should not be approved unless invoices are attached.
- 2) Approval of all vouchers should be evidenced by signatures of members of the Finance Committee on the voucher.
- 3) Vouchers should be completed for all non-payroll disbursements.
- 4) Vouchers should include pertinent information such as amount, payee, check number, date, purpose, and account coding.
- 5) Invoices should be recalculated by Village personnel and a calculator tape attached to the voucher package, when multiple invoices are being paid, as evidence that the procedure has been performed.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31060-015

Material Weakness - "On-Behalf-Of" Payments

During the audit period, the Village applied for and was awarded grant and loan funding from the Ohio Public Works Commission and from a Community Development Block Grant administered by Muskingum County. These funds were disbursed directly from the Ohio Public Works Commission and Muskingum County to the applicable contractors. However, these "on-behalf-of" payments were not always recorded by the Village.

This resulted in adjustments being posted to the financial statements in order to reflect this activity. Failure to include "on-behalf-of" payments from programs in which the Village and/or its residents are the recipients of benefits could result in the financial statements not reflecting the true financial activity of the Village.

When the Village has applied for and/or entered into agreements concerning these funds, we recommend the Village record the cash value benefit of these types of programs, as memorandum receipts and disbursements in the year "on-behalf-of" disbursements are made. In addition, the Village Council should approve, by resolution, the grant or project application and establish any fund(s) necessary to meet the grant or program objectives. Once the grant or loan is awarded, the Clerk-Treasurer must obtain an amended certificate of estimated resources for all or part of the program based upon the date when cash disbursements are expected to be made on the Village's behalf. After an amended certificate has been obtained, Village Council should pass a resolution amending its appropriation measure and the appropriations should be recorded in the Village's accounting system. Auditor of State Bulletin 2000-008 provides guidance on this issue.

FINDING NUMBER 2001-31060-016

Material Weakness - Appropriations Ledger

Appropriation amounts adopted by Village Council did not agree to appropriations posted to the accounting system. In addition, monthly reports of budget vs. actual expenses were not provided to management in a timely fashion.

As a result, expenditures exceeded adopted appropriations and there was no method established whereby Village management could accurately and timely monitor the amounts of budgetary expenditures versus appropriations.

We recommend the Clerk-Treasurer post appropriations amounts to the accounting system, once appropriations are adopted by Village Council and certified by the Budget Commission. Comparisons of budgeted (appropriated) expenditures to actual expenditures should then be presented to management, on a monthly basis, as a tool to manage the Village. Furthermore, we recommend that management periodically agree appropriated amounts and subsequent amendments to budget vs. actual expense reports to ensure that appropriations and any amendments are correctly posted in a timely manner.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-31060-017

Material Weakness - Receipts Ledger

During the audit period, we noted budgeted receipts posted to the Village's accounting system did not agree to the Village's Amended Official Certificate of Estimated Resources.

Consequently, there was no method established whereby Village management could compare budgeted receipts to actual receipts and file any subsequent Amended Certificates of Estimated Resources when needed.

We recommend budgeted receipts be accurately posted to the accounting system by the Clerk-Treasurer. Amounts certified by the Budget Commission as "Taxes" and "Other Sources" on the Official Certificate of Estimated Resources should be posted to the accounting system as budgeted receipts. When subsequent amendments are obtained, they should be reviewed for the appropriate changes and these changes should be promptly posted to the accounting system. Periodically, we recommend management agree budgeted amounts according to the latest certificate of estimated resources to amounts posted in the budgeted receipts column according to the accounting system.

FINDING NUMBER 2001-31060-018

Noncompliance Citation - Material Weakness - Revenue and Expenditure Classifications and Adjustments

Ohio Rev. Code Section 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Many revenues and expenditures were posted incorrectly to the Village's accounting system. As a result, numerous adjustments and reclassifications, with which Village management agrees, were made when preparing the Village's annual financial reports in order to present the financial activity of the Village more accurately. These adjustments and reclassifications included, but were not limited to, the following:

- 1) Utility receipts were sometimes posted to account codes for "Special Assessments" rather than account codes for "Charges for Services" in the Sewer Operating Fund and the Capital Improvement, Debt Retirement Fund.
- 2) Motor Vehicle License Tax received from the Muskingum County Auditor's Office was incorrectly posted to the General Fund instead of being distributed between the Street Construction, Maintenance, and Repair Fund and the State Highway Fund. These funds were adjusted to reflect the proper distribution.
- 3) Special assessment receipts for the Village's street lighting were incorrectly posted as "Local Taxes" rather than "Special Assessments."
- 4) Loan proceeds from the Ohio Water Development Authority were posted as "Other Financing Sources" and "Special Assessments" rather than as "Proceeds of Notes."
- 5) Receipts from the operation of the Village's swimming pool were sometimes posted to account codes for "Contributions and Donations" rather than "Charges for Services."

We recommend the Clerk-Treasurer review the UAN account codes as prescribed in the Village Handbook to ensure the correct account codes are used when posting revenue and expenditure activity. When a new source of revenue is received or new type of expenditure is being made the Village Handbook should be consulted to ensure the appropriate account code is being used and, if necessary, the applicable account code should be activated on the system. Revenues should be posted to the proper funds in the future.

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**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-31060-001	Finding For Recovery - Clerk of Courts pay and travel reimbursement to former clerk.	Yes.	Finding No Longer Valid - Finding was repaid by Wendy Wilson, former Clerk-Treasurer in the amount of \$687 on September 24, 2001.
1999-31060-002	Finding For Adjustment - Numerous receipts and disbursements posted to improper funds.	No.	Partially Corrected. - Refer to finding No. 2001-31060-018.
1999-31060-003	Ohio Rev. Code Section 5705.41(D) - Fiscal Officer's Certification.	No.	Not Corrected. - Reissued as finding No. 2001-31060-001.
1999-31060-004	Ohio Rev. Code Section 5705.41(B) - Expenditures Limited by Appropriation Authority.	No.	Not Corrected - Reissued as finding No. 2001-31060-002.
1999-31060-005	Ohio Rev. Code Section 5705.10 - Negative Fund Balances.	No.	Not Corrected. - Reissued as finding No. 2001-31060-003.
1999-31060-006	Ohio Rev. Code Section 5705.39 - Appropriations Limited by Estimated Resources.	No.	Not Corrected. - Reissued as finding No. 2001-31060-004.
1999-31060-007	Ohio Rev. Code Section 5705.36 - Failure to properly amend estimated revenues.	No.	Not Corrected - Reissued as finding No. 2001-31060-005
1999-31060-008	Ohio Rev. Code Section 135.18 - Security of Public Funds.	Yes.	Corrected.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-31060-009	Ohio Admin. Code Section 117-5-11 - Method to maintain an appropriation ledger.	No.	Finding No Longer Valid due to changes in law. However, similar comment has been reissued as finding No. 2001-31060-016.
1999-31060-010	Ohio Admin. Code Section 117-5-09 - Method to maintain the cash journal.	Yes.	Corrected.
1999-31060-011	Ohio Admin. Code Section 117-5-10 - Method to maintain receipts ledger.	No.	Finding No Longer Valid due to changes in law. However, similar comment has been reissued as finding No. 2001-31060-017.
1999-31060-012	Ohio Admin. Code Section 117-5-12 - Method to maintain pay-in orders.	Yes.	Corrected.
1999-31060-013	Timely deposit of Public Funds.	Yes.	Corrected.
1999-31060-014	Management's role in ensuring the establishment and maintenance of effective internal controls and complying with applicable regulations.	No.	Not Corrected. – Modified and included within finding No. 2001-31060-010.
1999-31060-015	Payroll system of the Village and documentation of payroll related records.	Yes.	Corrected.
1999-31060-016	Lack of monitoring of income tax receipts.	Yes.	Corrected.
1999-31060-017	Lack of invoices and other support documentation for certain disbursements.	No.	Partially Corrected. - Reissued as finding No. 2001-31060-014.

**VILLAGE OF FRAZEYSBURG
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-31060-018	Lack of monitoring controls over utility receipts.	Yes.	Corrected.
1999-31060-019	Lack of monitoring of the Village financial activity.	No.	Not Corrected. - Reissued as finding No. 2001-31060-010.



STATE OF OHIO
OFFICE OF THE AUDITOR

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VILLAGE OF FRAZEYSBURG

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
JULY 9, 2002**