



**VILLAGE OF HARVEYSBURG
WARREN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2001-2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF HARVEYSBURG
WARREN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2001	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Enterprise and Agency Funds – For the Year Ended December 31, 2001	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2000	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Enterprise and Agency Funds – For the Year Ended December 31, 2000	6
Notes to the Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17
Schedule of Prior Audit Findings	23

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Harveysburg
Warren County
79 W. Main Street
P.O. Box 189
Harveysburg, Ohio 45032

To the Village Council:

We have audited the accompanying financial statements of the Village of Harveysburg, Warren 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.

Except as discussed in the following paragraph, 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.

The Village did not provide sufficient documentation supporting the gym rental receipts recorded as miscellaneous receipts in the General Fund and the Mayor's Court receipts as recorded in the Agency Fund. Without this evidential matter, we were unable to obtain sufficient information regarding the receipts recorded for the General Fund and the Agency Fund, or to satisfy ourselves regarding the validity of the underlying transactions through other auditing procedures. Gym rental receipts represent 16% in 2000 and 15% in 2001 of miscellaneous receipts recorded in the General Fund and Mayor's Court receipts represent 100% of receipts recorded in the Agency Fund.

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, except for such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient documentation supporting the Village's gym rental receipts recorded as miscellaneous receipts in the General Fund and the mayor's court receipts of the Agency Fund, 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.

The accompanying financial statements have been prepared assuming the Village will continue as a going concern. As discussed in Note 8 to the financial statements, the Village has been unable to pay obligations when due and has suffered recurring losses in the Street and Capital Projects Funds which raise substantial doubt about its ability to continue as a going concern. Also, the Auditor of State has determined, under the criteria of Ohio Rev. Code, Section 118.03, that the Village is in a state of Emergency Fiscal Condition. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 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, the management, the Village Council and other officials authorized to receive this report under Section 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

June 17, 2002

**VILLAGE OF HARVEYSBURG
WARREN 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**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$27,294	\$5,034	\$0	\$32,328
Intergovernmental Receipts	26,415	20,050	0	46,465
Charges for Services	8,316	0	0	8,316
Fines, Licenses, and Permits	54,224	0	0	54,224
Earnings on Investments	507	0	55	562
Miscellaneous	45,244	0	0	45,244
	<u>162,000</u>	<u>25,084</u>	<u>55</u>	<u>187,139</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	63,896	9,061	0	72,957
Public Health Services	37	0	0	37
Community Environment	140	0	0	140
Transportation	0	28,166	0	28,166
General Government	88,272	0	96	88,368
Debt Service:				
Principal Payments	10,300	1,300	0	11,600
Interest Payments	641	0	0	641
	<u>163,286</u>	<u>38,527</u>	<u>96</u>	<u>201,909</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(1,286)</u>	<u>(13,443)</u>	<u>(41)</u>	<u>(14,770)</u>
Other Financing Receipts/(Disbursements):				
Sale of Bonds or Notes	9,641	0	0	9,641
	<u>9,641</u>	<u>0</u>	<u>0</u>	<u>9,641</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	8,355	(13,443)	(41)	(5,129)
Fund Cash Balances, January 1	<u>3,031</u>	<u>(3,028)</u>	<u>(41,204)</u>	<u>(41,201)</u>
Fund Cash Balances, December 31	<u>\$11,386</u>	<u>(\$16,471)</u>	<u>(\$41,245)</u>	<u>(\$46,330)</u>

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

**VILLAGE OF HARVEYSBURG
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE AND AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Enterprise	Agency	Totals (Memorandum Only)
Operating Cash Receipts:			
Charges for Services	\$0	\$0	\$0
Total Operating Cash Receipts	0	0	0
Operating Cash Disbursements:			
Contractual Services	8,000	0	8,000
Total Operating Cash Disbursements	8,000	0	8,000
Operating Income/(Loss)	(8,000)	0	(8,000)
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	0	56,494	56,494
Total Non-Operating Cash Receipts	0	56,494	56,494
Non-Operating Cash Disbursements:			
Other Non-Operating Cash Disbursements	0	57,513	57,513
Total Non-Operating Cash Disbursements	0	57,513	57,513
Net Receipts Over/(Under) Disbursements	(8,000)	(1,019)	(9,019)
Fund Cash Balances, January 1	68,726	3,866	72,592
Fund Cash Balances, December 31	\$60,726	\$2,847	\$63,573

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

**VILLAGE OF HARVEYSBURG
WARREN 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**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$22,800	\$4,644	\$0	\$27,444
Intergovernmental Receipts	29,635	15,483	0	45,118
Charges for Services	6,513	0	0	6,513
Fines, Licenses, and Permits	54,800	0	0	54,800
Miscellaneous	37,333	240	78	37,651
 Total Cash Receipts	151,081	20,367	78	171,526
 Cash Disbursements:				
Current:				
Security of Persons and Property	45,778	1,643	0	47,421
Public Health Services	39	0	0	39
Transportation	0	19,263	0	19,263
General Government	79,518	0	0	79,518
Debt Service:				
Principal Payments	19,000	0	0	19,000
Interest Payments	1,794	0	0	1,794
Capital Outlay	0	0	26,912	26,912
 Total Cash Disbursements	146,129	20,906	26,912	193,947
 Total Receipts Over/(Under) Disbursements	4,952	(539)	(26,834)	(22,421)
 Other Financing Receipts/(Disbursements):				
Sale of Bonds or Notes	11,600	0	0	11,600
 Total Other Financing Receipts/(Disbursement)	11,600	0	0	11,600
 Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	16,552	(539)	(26,834)	(10,821)
 Fund Cash Balances January 1	(13,521)	(2,489)	(14,370)	(30,380)
 Fund Cash Balances, December 31	\$3,031	(\$3,028)	(\$41,204)	(\$41,201)

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

**VILLAGE OF HARVEYSBURG
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE AND AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2000**

	Enterprise	Agency	Totals (Memorandum Only)
Operating Cash Receipts:			
Charges for Services	\$17,108	0	17,108
Total Operating Cash Receipts	17,108	0	17,108
Operating Cash Disbursements:			
Personal Services	2,530	0	2,530
Contractual Services	16,478	0	16,478
Supplies and Materials	526	0	526
Total Operating Cash Disbursements	19,534	0	19,534
Operating Income/(Loss)	(2,426)	0	(2,426)
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	0	55,012	55,012
Total Non-Operating Cash Receipts	0	55,012	55,012
Non-Operating Cash Disbursements:			
Other Non-Operating Cash Disbursements	0	53,122	53,122
Total Non-Operating Cash Disbursements	0	53,122	53,122
Net Receipts Over/(Under) Disbursements	(2,426)	1,890	(536)
Fund Cash Balances, January 1	71,151	1,976	73,127
Fund Cash Balances, December 31	\$68,725	\$3,866	\$72,591

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

**VILLAGE OF HARVEYSBURG
WARREN 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 Harveysburg, Warren 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 governments services including police services. The Village contracts with Massie Township to provide fire protection 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. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Deposits

Village funds are pooled in a checking account with a local commercial bank.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Fund

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

Street Construction, Maintenance and Repair Fund

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

Police Levy Fund

This fund receives tax levy proceeds to provide police protection for the Village.

**VILLAGE OF HARVEYSBURG
WARREN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permissive Tax Fund

This fund receives tax monies for road repairs.

3. Capital Projects Fund

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

Permanent Improvement Fund

This fund accounts for funds used to construct a new municipal garage.

4. Enterprise Funds

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

Water Fund

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

5. Fiduciary Fund (Agency Fund)

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

Mayor's Court Agency Fund

The Village acts in an agency capacity and accounts for fines collected by the Mayor's Court and distributed to the Village and State agencies.

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, 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.

**VILLAGE OF HARVEYSBURG
WARREN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law during the years ended 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.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND DEPOSITS

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

	2001	2000
Mayor's Court demand deposits	\$ 2,847	\$ 3,866
Demand deposits	14,396	27,525
Total deposits	\$17,243	\$31,391

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) or collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF HARVEYSBURG
WARREN COUNTY**

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

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	\$119,481	\$171,641	\$52,160
Special Revenue	17,750	25,084	7,334
Capital Projects	0	55	55
Enterprise	0	0	0
Total	<u>\$137,231</u>	<u>\$196,780</u>	<u>\$59,549</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$133,599	\$163,286	(\$29,687)
Special Revenue	20,300	38,527	(18,227)
Capital Projects	0	96	(96)
Enterprise	0	8,000	(8,000)
Total	<u>\$153,899</u>	<u>\$209,909</u>	<u>(\$56,010)</u>

2000 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$112,793	\$162,681	\$49,888
Special Revenue	44,200	20,367	(23,833)
Capital Projects	0	78	78
Enterprise	88,430	17,108	(71,322)
Total	<u>\$245,423</u>	<u>\$200,234</u>	<u>(\$45,189)</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$146,129	(\$146,129)
Special Revenue	0	20,906	(20,906)
Capital Projects	0	26,912	(26,912)
Enterprise	0	19,534	(19,534)
Total	<u>\$0</u>	<u>\$213,481</u>	<u>(\$213,481)</u>

**VILLAGE OF HARVEYSBURG
WARREN COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Budgetary expenditures exceeded appropriation authority in the following funds :

2000 - All funds
2001 - General, Permissive Tax, Police Levy, Water

Estimated resources exceeded actual receipts in the following funds:

2000 - State Highway, Permissive Tax, Law Enforcement, Water, Water Bond and Water Reserve

The following funds had negative fund balances in the following amounts:

2000 - Street (\$36,822), Capital Projects (\$41,204)
2001 - Street (\$44,561), Capital Projects (\$41,245)

Appropriations exceeded estimated resources in the general and street funds for the year ended December 31, 2001.

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 payment, the first half is due December 31. The second half payment is due the following June 20.

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, 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
Motor Vehicle Bond Anticipation Note	\$9,641	6%
Warren County Water Debt	55,522	0%
Police Cruiser Lease	22,465	9%
Total	\$87,628	

The Motor Vehicle Bond Anticipation Note was renewed in 2000 and 2001. The original proceeds from these notes were used by the Village to purchase a police cruiser and various other Village owned motor vehicles. These renewals and payments should have been paid from the bond retirement fund established but never used by the Village. The debt was rolled over each year and the difference was paid each year from the general and special revenue funds. This Note is due for renewal in May 2002.

**VILLAGE OF HARVEYSBURG
WARREN COUNTY**

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

5. DEBT (Continued)

USDA Rural Development Loans (reflected above as the Warren County Water Debt) were acquired by the Village in July 1989. These loans were acquired by the Village for improvements to their water tower and system. The Village did not comply with the debt covenants related to these loans as follows: The Village did not maintain rates to collect revenues sufficient to pay all expenses incident to the operation of the system; the Village also did not maintain complete books and records relating to the operation of the system and its financial affairs; and disbursements were made from the reserve fund without the required permission of the FMHA. These loans were assumed by Warren County in January 2000 when the County assumed the water operations of the Village. As part of the agreement with Warren County, the Village was to transfer all monies within the water funds to the County and transfer unpaid amounts to the County. Any unpaid amounts would be certified to the County Auditor for collection. Contrary to the covenants noted above, the Village did not transfer all water fund monies to Warren County and unpaid balances were not identified for certification to the County Auditor for collection in 2001 or 2000. The Village agreed to pay \$68,368, to the County, at a rate of \$8,000 per year until paid in full. At December 31, 2001, the Village had paid \$12,846 of the obligation.

The Village entered into a Police Cruiser Lease in July 2001. Payments will be made from the general fund. The Village will own the vehicle at the end of the lease.

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

<u>Year ending December 31:</u>	<u>Police Cruise Lease</u>	<u>Warren County Water Debt</u>	<u>Bond Anticipation Note</u>
2002	\$6,204	\$8,000	\$9,641
2003	6,204	8,000	0
2004	6,204	8,000	0
2005	6,204	8,000	0
2006	6,204	8,000	0
2006 – 2010	2,585	15,522	0
Total	<u>\$33,605</u>	<u>\$55,522</u>	<u>\$9,641</u>

6. 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 Ohio Revised Code. For 2001 and 2000, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of PERS 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. We are unable to determine if the Village has paid all contributions required through December 31, 2001.

**VILLAGE OF HARVEYSBURG
WARREN COUNTY**

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

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

8. FISCAL EMERGENCY DETERMINATION/GOING CONCERN

The Auditor of State, Local Government Services Division (LGS) was contacted by the Village regarding their financial difficulties and LGS is currently assisting the Clerk in posting their financial transaction and reconciled the 2000 and 2001 accounts. Additionally, LGS performed fiscal analysis' under the criteria established in Ohio Revised Code, Chapter 118.

On December 19, 2000, the Local Government Services Division of the Auditor of State's Office issued a report to officials of the Village, which details the criteria and results of the fiscal watch review. The conclusion of this report was that fiscal watch condition existed under Sections 118.022(A)(2) and 118.022 (A)(3). The Village of Harveysburg was declared under fiscal watch on December 19, 2000.

On September 20, 2001, the Local Government Services Division of the Auditor of State's Office issued a report to officials of the Village, which details the criteria and results of the fiscal emergency review. The conclusion of this report was that fiscal emergency condition existed under Sections 118.03(A)(5), 118.03(A)(6) and 118.03 (B). The Village of Harveysburg was declared under fiscal emergency on September 20, 2001.

The Village was unable to pay its debts and obligations at December 31, 2001. The Village also incurred operating losses and negative fund balances. A summary follows:

- The amount of the Village's current debt is \$87,628 (see Footnote 5);
- The Village had negative fund balances at December 31, 2001 in the Street Fund (\$44,561) and Capital Projects Fund (\$41,245);
- The Village had deficiencies of disbursements and other financing disbursements over receipts and other financing sources of \$41 in the Capital Projects Fund, \$7,738 in the Street Fund, \$3,058 in the Police Levy Fund, \$3,450 in the Permissive Fund, and \$175 in the Law Enforcement Fund for 2001, and \$26,834 in the Capital Projects Fund and \$8,151 in the Street Fund in 2000.

Management has made no plans to address the above mentioned areas of concern.

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

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

Village of Harveysburg
Warren County
79 W. Main Street
P.O. Box 189
Harveysburg, Ohio 45032

To the Village Council:

We have audited the accompanying financial statements of the Village of Harveysburg, Warren County, Ohio (the Village), as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated June 17, 2002, which was qualified for lack of supporting documentation for gym rental receipts as recorded as miscellaneous receipts in the General Fund and Mayor's Court receipts as recorded in the Agency Fund and had an emphasis of the matter that the Village was experiencing significant fiscal difficulties. Except for the items described above, we conducted our audits 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 2001-30483-001 through 2001-30483-007 and 2001-30483-009.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 17, 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 or operation of the internal control over financial reporting that, in our judgement, could adversely effect 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 2001-30483-008 through 2001-30483-011.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe two of the reportable conditions described above are material weaknesses as described in the accompanying schedule of findings as items 2001-30483-008 and 2001-30483-011. 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 June 17, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

June 17, 2002

**VILLAGE OF HARVEYSBURG
WARREN 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 2001-30483-001

Material Noncompliance

Ohio Rev. Code, Section 9.38, states public money must be deposited with the clerk of the public office or to a designated depository on the business day of the receipt, if the total amount of such moneys received exceeds \$1,000. If the total amount does not exceed \$1,000, the public official has the option of either depositing the money on the next business day following the day of receipt or adopting a policy permitting a different time period. The alternate time period, however, shall not exceed three business days following the day of receipt. Further, the policy must include procedures to safeguard the money until the time of deposit. Gym rental receipts were deposited once a month, not as money was received. The Mayor's Court Clerk did not deposit timely in 5% of items tested.

FINDING NUMBER 2001-30483-002

Material Noncompliance

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

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

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Village Council 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 one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Village Council, if such expenditure is otherwise valid.

The Village did not certify the availability of funds for 100% of the commitments tested.

FINDING NUMBER 2001-30483-003

Material Noncompliance

USDA Rural Development Loans were acquired by the Village in July 1989. These loans were acquired by the Village for improvements to their water tower and system. The Village did not comply with the debt covenants related to these loans as follows: the Village did not maintain rates to collect revenues sufficient to pay all expenses incident to the operation of the system; the Village also did not maintain complete books and records relating to the operation of the system and its financial affairs; disbursements were made from the reserve fund without the required permission of the FMHA. These loans were assumed by Warren County in January 2000 when the County assumed the water operations of the Village.

**FINDING NUMBER 2001-30483-003
 (Continued)**

As part of the agreement with Warren County, the Village was to transfer all monies within the water funds to the County and transfer unpaid amounts to the County. Any unpaid amounts would be certified to the County Auditor for collection. Contrary to the covenants noted above, the Village did not transfer all water fund monies to Warren County and unpaid balances were not identified for certification to the County Auditor for collection in 2001 or 2000. The Village agreed to pay \$68,368, to the County, at a rate of \$8,000 per year until paid in full. At December 31, 2001, the Village had paid \$12,846 of the obligation.

FINDING NUMBER 2001-30483-004

Material Noncompliance

Ohio Rev. Code, Section 5705.10, provides that money paid into any fund shall be used only for purposes for which such fund is established.

As of December 31, 2000, the Village had a deficit cash balance of \$36,822 in the Street Fund and \$41,204 in the Capital Projects Fund. As of December 31, 2001, the Village had a deficit cash balance of \$44,561 in the Street Fund and \$41,245 in the Capital Projects Fund. A deficit cash balance indicates that money from another fund(s) has been used to pay the obligations of the aforementioned funds.

FINDING NUMBER 2001-30483-005

Material Noncompliance

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. In violation of this section, expenditures exceeded appropriations in the following funds:

Fund	Expenditure	Appropriation	Variance
2000			
General	\$146,129	\$0	(\$146,129)
Street	19,263	0	(19,263)
Police Levy	1,643	0	(1,643)
Permanent Improvement	26,912	0	(26,912)
Water	11,534	0	(11,534)
Water Reserve	8,000	0	(8,000)
2001			
General	163,286	133,599	(29,687)
Permissive Tax	9,667	0	(9,667)
Police Levy	8,886	0	(8,886)
Water	8,000	0	(8,000)

FINDING NUMBER 2001-30483-006

Material Noncompliance

Ohio Rev. Code, Section 5705.39, states that the total appropriations from each fund should not exceed the total estimated revenue. During 2001, the Village had appropriations that exceeded the total estimated revenue in the following funds:

Fund	Estimated Resources	Appropriations	Variance
General	\$119,481	\$133,599	(\$14,118)
Street	11,000	20,300	(9,300)

FINDING NUMBER 2001-30483-007

Material Noncompliance

Ohio Rev. Code, Section 733.40, states that all such fines and forfeitures collected shall be paid into the Village Treasury on the first Monday of each month. Contrary to this section, the Mayor's Court fines and forfeitures were not paid into the Village Treasury on the first Monday of each month in 13 of the 24 months during the audit period. We recommend that the Mayor's Court Clerk remit the required fines collected within the required time frame.

FINDING NUMBER 2001-30483-008

Material Weakness

To improve accountability over mayor's court revenues and reduce the chance of errors occurring and not being detected, the Village should implement the following procedures which should improve control over the mayor's court functions:

- Reconciliations should be performed each month. This reconciliations should be reviewed and initialed by the mayor.
- An open items list should be maintained. An open items list would support the Mayor's Court ending balances and would facilitate the Court's monthly bank reconciliations.
- An outstanding check list should be maintained. Outstanding check lists would help reconcile the Court's bank account monthly.
- The docket should always be completed and signed off by the mayor indicating his review.
- Case files could not always be located. Cases could not always be traced to the cashbook.
- The cashbook should also be completed for all monies received by the mayor's court. There was one item during testing that was deposited into the mayor's court checking account that was not posted to the cashbook and therefore was not properly disbursed to the Village and state.
- White out should not be used in the cashbook and check register in 2000 and 2001. This could create the appearance of falsifying records.

**FINDING NUMBER 2001-30483-008
(Continued)**

- Deposits should be made within 24 hours of receipt or within the Village's approved time frame.
- Payments to the Village and State should be remitted in a timely fashion.
- Unless management can reconcile the Mayor's Court cash account, it should be closed, funds remitted to the Village and a new account opened.

FINDING NUMBER 2001-30483-009

Material Noncompliance/Reportable Condition

The Village did not follow proper budgetary procedures which helps to control receipting and expending of monies.

- Ohio Rev. Code, Section 5705.36, requires the fiscal officers to certify to the county auditor that total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year. The Village did not certify to the County Auditor the total amount from all sources available for expenditures for the preceding year. This is to be certified on or about the first day of the fiscal year.
- The Village did not use purchase orders. Purchase orders are used to ensure that the funds are available and not already "set aside" to be spent and aids in helping to prevent negative fund balances. Purchase orders should be completed before an expenditure is made. By not using purchase orders and certifying funds prior to commitment the Village does not have the information available to monitor whether expenditures exceeded appropriations.
- The Village had deficit cash balances in the Street and Permanent Improvement Funds.
- Ohio Rev. Code, Section 5705.28, requires each taxing authority to adopt a tax budget for the next fiscal year on or before July 15 in each year. The 2001 tax budget was approved July 17, 2000 and no indication of approval for the 2002 tax budget could be found in the Village minutes. The 2002 budget was received by the County Auditor on July 17, 2001.
- The Village did not always post its official certified budgetary documents to the books. We recommend that these documents be posted to the books in a timely manner. This would help the Village monitor its budgetary activity.
- Ohio Rev. Code, Section 5705.38, requires an appropriation measure to be passed on or about the first day of each fiscal year. Appropriations were not approved or submitted to the County Auditor for 2000 and only temporary appropriations were approved and submitted for 2001.
- Ohio Rev. Code, Section 5705.34, states that the board shall by resolution authorize the necessary tax levies and certify them to the county auditor before the first day of October in each year. The Village did not approve the tax rates in the 2001 minutes, nor could a copy of the resolution be located.

Effort should be made for the Village Officials to become familiar with applicable budgetary laws and to institute procedures to follow. Failure to follow these procedures could result in overspending and negative cash balances.

FINDING NUMBER 2001-30483-010

Reportable Condition

The small size of the Village staff does not allow for an adequate segregation of duties. The Clerk processes all the financial record keeping including receipting, posting and reconciling to the depository. Bookkeeping errors may occur without the detection of management. Therefore, it is important that the Village Council monitor financial activity.

We believe the following conditions indicate a need for increased oversight of management by the Village:

- Required budgetary forms not completed.
- Proper funds were not established.
- Monthly reconciliations of all Village accounts, including mayor's court, were not performed. The general account was reconciled at a later date by LGS.
- There were footing errors in the payroll records, resulting in incorrect payments to some employees.
- Withholdings in payroll records were calculated incorrectly, resulting in incorrect payments to some employees.
- The petty cash drawer is short approximately \$30.
- Supporting documentation was not maintained for all expenditures.
- One payment was made to the lease on a computer by the former administrator. This payment was not addressed in the finding for recovery in the previous audit. The Village may have overpaid on their lease for computers.
- No pay scales were approved for employees. Employees were given a 10% increase effective January 1, 2000 by the former Clerk-Treasurer without Council's approval. A retroactive resolution was approved by Council on March 26, 2002.
- The Magistrate and Mayor were each paid more than approved by Council. Retroactive resolutions were approved by Council on March 26, 2002 and March 28, 2002.
- This report contains many material noncompliance issues and internal control deficiencies indicating a lack of oversight by Village Council.

To maintain continuing accountability and to strengthen internal accounting controls, officials should periodically review the records to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer. For each regular Council meeting, the Clerk should provide Council members with detailed budget and actual financial statements, cash balances, checks paid, outstanding encumbrances and bank reconciliations. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

FINDING NUMBER 2001-30483-011

Material Weakness

The Building Supervisor for the Village could not provide documentation to support the receipting of gym rentals. The Building Supervisor does not maintain ledgers or accounts receivable listings so therefore is not aware if all monies have been received. No controls were in place to ensure completeness of receipts.

The following conditions indicate a need for increased oversight :

- Deposits were only made once a month, not as received.
- The gym rental supervisor/building supervisor and her family would borrow cash from the amounts collected and then write personal checks to the Village to cover the cash borrowed.
- The two gym rental supervisors were to receive a commission equal to 1/3 of monthly receipts. Each were overpaid.
- Documentation did not always indicate the number of hours rented by an individual, how much a renter paid, or no documentation was maintained at all.
- Duplicate receipts were not written for all money received.
- Various rates are charged to customers.

To provide accountability over gym rental receipts and reduce the chance of errors occurring and not being detected, the Village should implement the following procedures:

- Officials should periodically review the records to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer.
- Supporting documentation should be maintained for all monies collected.
- Duplicate receipts should be written for all money received and detail the renter, hours rented, and amount received.
- Forms should be created for renters to fill out and document the renter's information, hours rented and amount received.
- Monies should be collected by the Clerk-Treasurer and deposited at the bank in a timely manner.
- The customers should be charged rates that are consistent and meet Council policy. These rates should be detailed in a Council approved policy.

**VILLAGE OF HARVEYSBURG
WARREN 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; Explain:
1999-30483-001	Finding for Recovery - Water Fund Balances to Warren County	No	Partially Corrected; Village signed agreement with Warren County to repay and started paying on debt
1999-30483-002	Finding for Recovery - Computer Leases	Yes	Former Administrator was convicted and restitution was received
1999-30483-003	Finding for Recovery - Village Administrator Payroll	Yes	Former Administrator was convicted and restitution was received
1999-30483-004	Finding for Recovery - Mileage Reimbursement	Yes	Former Administrator was convicted and restitution was received
1999-30483-005	Finding for Recovery - Lowes Credit Card	Yes	Former Administrator was convicted and restitution was received
1999-30483-006	Finding for Recovery - Sams Club Account	Yes	Former Administrator was convicted and restitution was received
1999-30483-007	Finding for Recovery - Staples Account	Yes	Former Administrator was convicted and restitution was received
1999-30483-008	Finding for Recovery - Former Clerk Payroll	Yes	Bonding Company paid Village, no action taken against the former clerk.
1999-30483-009	Finding for Recovery - Building Permit	Yes	Bonding Company paid Village, no action taken against the former clerk.
1999-30483-010	Finding for Recovery - Petty Cash	Yes	Bonding Company paid Village, no action taken against the former clerk.
1999-30483-011	Compliance 5705.09 and 5705.10 - Audit Adjustments Posted to Village Records	No	Partially Corrected; management letter comment issued for this audit.
1999-30483-012	Compliance 5705.41(D) - Proper Certification of Funds/Encumbering	No	Not Corrected; Village officials did not use purchase orders, reissued as Finding 2001-30483-004.
1999-30483-013	Compliance - Debt - Water Bonds	No	Partially Corrected; Village debt was paid off by Warren County when the water system was transferred in 2000. Reissued as Finding 2001-30483-005.
1999-30483-014	Compliance 149.351 - Destruction of Records	No	Not Corrected; Some documents could not be located for the audit period. Management letter comment for this audit.

Village of Harveysburg
Warren County
Schedule of Prior Audit Findings
Page 2

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
1999-30483-015	Compliance 5705.10 - Negative Fund Balance	No	Partially Corrected; Street and Capital Projects funds still have negative fund balance. Reissued as Finding 2001-30483-006.
1999-30483-016	Compliance 5705.14, 5705.15, 5705.16 - Transfers	Yes	No transfers occurred during the audit period
1999-30483-017	Compliance 5705.41(B) - Expenditures exceeding Appropriations	No	Partially Corrected; No permanent appropriations approved during audit period. Reissued as Finding 2001-30483-007.
1999-30483-018	Compliance 5705.36 - Certification of Excesses	No	Partially Corrected for 2001. Reissued as Finding 2001-30483-008.
1999-30483-019	Compliance 5705.39 - Appropriations Exceeding Estimated Revenue	No	Partially Corrected; Village did not approve appropriations for 2000; will Reissue for 2001 as Finding 2001-30483-009.
1999-30483-020	Compliance - Ohio Administrative Code 117-5-07, 09, 10, 11, 13	No	Partially Corrected; OAC sections changed. Village maintained receipt ledger, appropriation ledger and cash book. Village did not use purchase orders. Reissued as Finding 2001-30483-011.
1999-30483-021	Compliance 733.40 - Mayor's Court Fines	No	Not Corrected; Reissued as Finding 2001-30483-010
1999-30483-022	Material Weakness - Mayor's Court	No	Partially Corrected; Reissued as Finding 2001-30483-012.
1999-30483-023	Material Weakness - Utility Records	Yes	Water operations were transferred to Warren County in January 2000
1999-30483-024	Material Weakness - Budgetary	No	Partially Corrected; Reissued as Finding 2001-30483-013.
1999-30483-025	Material Weakness - Segregation of Duties/Oversight	No	Partially Corrected; Reissued as Finding 2001-30483-014.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

VILLAGE OF HARVEYSBURG

WARREN 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**