



**Auditor of State
Betty Montgomery**

VILLAGE OF PORT WILLIAM
CLINTON COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Port William
Clinton County
227 Main Street
Port William, Ohio 45164

To the Village Council:

We have audited the accompanying financial statements of the Village of Port William, Clinton County, Ohio (the Village), as of and for the year ended December 31, 2003. 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2003, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2004 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 management, 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 13, 2004

**VILLAGE OF PORT WILLIAM
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property Tax and Other Local Taxes	\$10,728	\$0	\$10,728
Intergovernmental Receipts	12,171	65,356	77,527
Charges for Services	0	119,005	119,005
Miscellaneous	5,407	0	5,407
	<u>28,306</u>	<u>184,361</u>	<u>212,667</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	13,493	183,942	197,435
General Government	19,324	0	19,324
	<u>32,817</u>	<u>183,942</u>	<u>216,759</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>(4,511)</u>	<u>419</u>	<u>(4,092)</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements	(4,511)	419	(4,092)
Fund Cash Balances, January 1	<u>5,486</u>	<u>49,671</u>	<u>55,157</u>
Fund Cash Balances, December 31	<u><u>\$975</u></u>	<u><u>\$50,090</u></u>	<u><u>\$51,065</u></u>

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

VILLAGE OF PORT WILLIAM
CLINTON COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

Operating Cash Receipts:	<u>\$0</u>
Total Operating Cash Receipts	<u>0</u>
Operating Cash Disbursements:	<u>\$0</u>
Total Operating Cash Disbursements	<u>0</u>
Operating Income	<u>0</u>
Non-Operating Cash Disbursements:	
Debt Service	<u>2,500</u>
Total Non-Operating Cash Disbursements	<u>2,500</u>
Net Receipts Under Disbursements	(2,500)
Fund Cash Balances, January 1	<u>2,534</u>
Fund Cash Balances, December 31	<u><u>\$34</u></u>

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

**VILLAGE OF PORT WILLIAM
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Port William, Clinton County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides street maintenance and police and fire protection.

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 and certificates of deposit with a local commercial bank. Interest earned is recognized and recorded when received. Certificates of deposit are valued at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash and deposits 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 Funds

These funds are used to account for proceeds from specific sources that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

Fire Fund - This fund receives contract money from other governments to provide fire services.

**VILLAGE OF PORT WILLIAM
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Enterprise Fund

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:

Sewer Fund - This fund receives the loan proceeds for the future wastewater treatment system.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function and 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. Encumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2003 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

**VILLAGE OF PORT WILLIAM
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

2. EQUITY IN POOLED CASH AND DEPOSITS

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

	2003
Demand deposits	\$41,099
Certificates of deposit	10,000
Total deposits	\$51,099

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$28,000	\$28,306	\$306
Special Revenue	58,500	184,361	125,861
Enterprise	0	0	0
Total	\$86,500	\$212,667	\$126,167

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$42,693	\$32,817	\$9,876
Special Revenue	114,370	183,942	(69,572)
Enterprise	8,481	2,500	5,981
Total	\$165,544	\$219,259	(\$53,715)

The Village did not certify the availability of funds for certain commitments as required by Ohio Law. Budgetary expenditures exceeded appropriations in the Fire Fund by \$79,530.

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 February 14. If the property owner elects to make semiannual payments, the first half is due February 14. The second half payment is due the following July 20.

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

**VILLAGE OF PORT WILLIAM
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

4. PROPERTY TAX (Continued)

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$12,500	0.00%

The Village received a loan from the Ohio Water Development Authority (OWDA) to be used to assist with the costs of completing the general plan and preparation of a Rural Development application for a new wastewater treatment system. The eligible loan amount for planning is \$25,000. During 2000, the Village drew \$10,000 of the eligible amount. In 2001, the Village drew another \$10,000 of the eligible amount. Three annual payments of \$2,500 have been made.

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

	OWDA Loan
Year ending December 31:	
2004	\$2,500
2005	2,500
2006	2,500
2007	2,500
2008	2,500
Total	\$12,500

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. During 2003, the Clerk did not make timely or routine payments to PERS and incurred charges for interest and penalties. The Village should contact PERS to determine the status of the Village's remittances and to confirm that all officials and employees are correctly enrolled in PERS.

**VILLAGE OF PORT WILLIAM
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles.

8. RELATED PARTY TRANSACTIONS

The Village purchased fire equipment and general supplies from M&J Trustworthy Hardware totaling \$21,850 during 2003. M&J Trustworthy Hardware is operated by the former Village Clerk. The Hardware Store is owned by the Village Fire Chief and his wife. They are parents of the Clerk's wife. The Village did not obtain quotes for items purchased at M&J Hardware.

9. AMOUNT DUE TO OTHER GOVERNMENT

On December 3, 2003, Michele Ellis, the Liberty Township Clerk, made a \$25,000 account transfer from the bank account of Liberty Township to the bank account of The Village of Port William without the Liberty Township Trustees' approval or knowledge. The \$25,000 was credited to the Township's Fire Fund for \$20,000 and the Road & Bridge Fund for \$5,000. The \$25,000 was receipted into the Village's Fire Fund.

Liberty Township contracts with the Village to provide fire and emergency services. In January 1998 the Township agreed to pay the Village the \$40,000 estimated to be generated from the fire levy in equal quarterly payments to provide fire and emergency services. In January 1999 a new contract was approved for the Township to pay the Village the money generated through the fire levy for fire and emergency services. The contract did not specify the amounts and timing of the payments. Because of new growth in the Township, the amount generated from the fire levy increased to \$63,877 by 2003. The Township continued the practice of making \$10,000 quarterly payments and made sporadic payments to the Village for the overages that accumulated in the Township Fire fund. Therefore, the \$20,000 received from the Township's Fire Fund was an acceptable use of the Township's Fire Fund under the contract and the levy. The \$5,000 received from the Township's Road and Bridge fund was not an acceptable use of the fund.

The Village is liable to Liberty Township for the \$5,000 that was improperly received from the Township's Road and Bridge Fund by the Village during the audit period. The *Independent Accountants' Report on Compliance and on Internal Control Required by Government Auditing Standards* for Liberty Township for years ended December 31, 2003 and 2002 included a Finding for Recovery against the Village of Port William in favor of the Liberty Township Road and Bridge Fund in the amount of \$5,000.

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Auditor of State Betty Montgomery

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

Village of Port William
Clinton County
227 Main Street
Port William, Ohio 45164

To the Village Council:

We have audited the accompanying financial statements of the Village of Port William Clinton County, Ohio (the Village), as of and for the years ended December 31, 2003, and have issued our report thereon dated December 13, 2004. 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 2003-001, 2003-003, and 2003-005 through 2003-009. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated December 13, 2004.

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 condition. Reportable conditions involve matter 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 Township'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 2003-002 through 2003-012.

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 over financial reporting 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 item 2003-002 to be a material weakness. 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 December 13, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 13, 2004

**VILLAGE OF PORT WILLIAM
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003**

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

FINDING NUMBER 2003-001

Finding for Recovery – Illegal Expenditure

The accounting records of the Village were maintained by Michele Ellis, the wife of the elected clerk. Michele had been Clerk of the Village until 2000. In the November 1999 election Michele Ellis was elected clerk of Liberty Township, and Rick Ellis was elected Clerk of the Village. Michele maintained the records of both entities. Unauthorized disbursements were made as follows:

Date	Check #	Payee	Amount	Fund
10/29/01	10030	First Premier	\$603.79	General
11/30/01	10050	Sally John	1,970.00	Fire
10/31/01	10046	Advanta Services	1,758.22	General
10/31/01	10043	M&J Trustworthy Hardware	1,923.18	General
10/31/01	10047	AT&T	1,257.82	General
10/29/01	10029	AT&T	1,413.00	General
10/31/01	10045	Get Smart Inc.	1,500.00	General
3/21/03	10357	M&J Trustworthy Hardware	2,973.36	Fire
5/29/03	10395	Wilmington Savings Bank	3,297.47	Fire
5/27/03	10396	M&J Trustworthy Hardware	3,483.74	Fire
8/8/03	10408	Michele Ellis	1,150.00	General
9/5/03	10438	Wilmington Savings Bank	2,178.15	Street
7/8/03	10458	National Bank & Trust	2,400.00	Fire
7/21/03	10461	M&J Trustworthy Hardware	4,278.00	Fire
8/15/003	10409	M&J Trustworthy Hardware	2,321.84	Fire
8/20/03	10414	Ellis Accounting	3,845.00	Fire
9/24/03	10437	Michele Ellis	4,275.00	Fire
12/1/03	139	M&J Trustworthy Hardware	6,650.00	Fire
2/2/04	10512	M&J Trustworthy Hardware	8,627.00	Fire
Total			<u>\$55,905.57</u>	

The 2003 and 2004 payments were made in the form of reimbursements for items that were claimed to have been purchased on behalf of the Village, or checks written to a bank. Ms. Ellis admitted that the items for which the reimbursement checks were issued were never actually purchased for the Village. Also, copies of the Ellis' personal checks and M&J Trustworthy Hardware checks and photo copies of invoices were submitted by Rick and Michele Ellis as supporting documentation for reimbursements; however, the checks did not clear the bank for the same amount as the supporting documentation that was submitted for reimbursement.

A description of the 2003 and 2004 payments follows:

- Nine checks totaling \$37,604 were issued in 2003 and 2004 to Michele Ellis, Ellis Accounting, or M&J Hardware as reimbursement for items that were claimed to have been purchased on behalf of the Village.
- Three checks totaling \$7,875.62 were issued in 2003 to Wilmington Savings and National Bank and Trust: one of the checks was cashed; one check was deposited into the account of Rick and Michele Ellis; and one check was used to purchase money orders that were later deposited into the account of Rick and Michele Ellis.

**FINDING NUMBER 2003-001
(Continued)**

Seven unauthorized payments totaling \$10,426 were made during 2001. The Village officials did not recognize the goods and services invoiced for these seven payments. The invoices provided by Michele Ellis as supporting documentation for the payments were actually invoices produced by Michele Ellis. Ms. Ellis admitted that the items for which the payments were issued were never received by the Village. The payments were made directly to vendors by Michele Ellis to satisfy personal credit card debt, one to pay charges for a psychic advisor, and one to M&J Trustworthy Hardware.

Other evidence of unauthorized and illegal payments by the Village includes:

- M&J Trustworthy Hardware is operated by Rick Ellis and owned by Michele Ellis' parents. From January 1, 2003 through March 31, 2004, payments totaling \$28,333.94 were made to M&J Trustworthy Hardware. M&J Trustworthy Hardware then issued checks totaling \$15,557.67 to Michele Ellis and checks totaling \$13,849.03 to Wilmington Savings Bank. Four of these checks were cashed, and the remainder was deposited into the account of Rick and Michele Ellis.
- Village policy required only the Clerk's signature on checks in 2001 through September 2002, while the signature of both the Mayor and the Clerk was required after October 2002. The Mayor indicated that his signature on eight of the checks in 2003 and 2004 appeared to be forged.
- Monthly financial statements provided by the Clerk to the Council in 2003 omitted the expenditures in question. The December 31, 2003 fund balances on the financial statements provided by the Clerk were overstated by \$52,827.
- Two versions of the Village's official minutes exist. The version of the 2003 minutes that was submitted by the former Clerk for audit includes several sections that documented the Village Council's approval of the expenditures noted above. A second version of the minutes submitted by the new Clerk (former Village Council member) does not include Council's approval of the expenditures noted above. The Mayor and President of Council indicated that they signed the version of the minutes submitted by the former clerk at year-end without reviewing the contents.
- In April 2004, after Rick Ellis' departure from office, the Village officials were initially unable to locate 2004 bank statements for the Village. A request for December 2003 through March 2004 bank statements was made to the bank. The address on file at the bank for the Village was that of Rick and Michele Ellis, instead of the Village's mailing address. Ms. Ellis admitted the bank statements were mailed to her P.O. box, and then she photocopied and altered them before she mailed them to the Village's P.O. box. The alteration to the bank statements included: changing the address on the bank statement to the Village P.O. box number, and the removal of two of the above noted checks from the bank statements.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Michele Ellis in favor of The Village of Port William in the amount of fifty-five thousand nine hundred six dollars (\$55,906). (To the Village's General Fund for \$9,607, to the Street Fund for \$2,178, and to the Fire Fund for \$44,121.)

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such an illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State ex. rel. Village of Masten, 18 Ohio St. 3D 228 (1985). Public officials who have control over public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost, or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty Gen. 80-074.

**FINDING NUMBER 2003-001
(Continued)**

Accordingly, a Finding for Recovery is hereby issued against Rick Ellis, Clerk of the Village of Port William jointly and severally, in the amount of \$55,906 and in favor of The Village of Port William. Rick Ellis shall be secondarily liable for such illegal expenditure to the extent that recovery or restitution is not obtained from Michele Ellis.

FINDING NUMBER 2003-002

Material Weakness

The Village did not have adequate control procedures over the disbursement process. The following conditions were noted concerning disbursements:

- \$1,931.61 of expenditures tested did not include supporting documentation, such as detailed invoices, packing slips, etc. (we used other methods to verify existence and as allowable);
- Five invoices showed credits for previous duplicate payments or overpayments;
- Three disbursements were noted as overpaying the invoiced amount. Proper credits were later applied by the vendors;
- Nine disbursements were for late payments or past due amounts;
- The expenditures tested did not show indication they were reviewed by the appropriate Village employee or official, such as indication on the invoices that goods and/or services were received;
- \$37.28 of invoices billed to the Village from M&J Hardware was signed for by an individual that is not an employee or official of the Village;
- Checks were signed prior to having vendor and amount information completed.

By not retaining and/or reviewing the above documents, the risk of fraud, theft, and inaccurate payments is increased and the financial statements could be overstated or understated. In order to strengthen internal controls over the disbursement process and ensure all disbursements are properly paid, we recommend the Village:

- Have the Clerk retain all invoices and other supporting documentation with vouchers to support the payment;
- The Clerk should insure that original detailed invoices are obtained for all disbursements;
- The Clerk should review all invoices and sign them to indicate the review. A review of invoices includes recalculating payments; ensuring sales tax is not assessed; and ensuring discounts are taken when applicable;
- The Village should ensure all goods and services have been received before payment. Individuals should sign off on the invoice or packing slip that it is acceptable to pay the bill when they receive any goods and/or services. If the bill comes directly to the Clerk, the Clerk should verify the packing slip is in agreement with the invoice. If a packing slip does not accompany the shipment, the Clerk should contact the individual receiving the goods and/or services to ensure the goods and/or service were received prior to payment and indicate it on the invoice;

**FINDING NUMBER 2003-002
(Continued)**

- Checks should only be signed after the vendor and amount information has been completed, and adequate supporting documentation has been provided.

FINDING NUMBER 2003-003

Noncompliance/Reportable Condition

Ohio Rev. Code, Section 733.28 requires that:

The Clerk keep the books of the Village, exhibit accurate statements of all monies received and expended, and maintain records of all property owned by the Village and the income derived. The Village's Clerk did not maintain an accurate receipt ledger or appropriation ledger.

Ohio Admin. Code, Section 117-2-02(A), sets forth the accounting and reporting records that all local public offices must maintain. All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record, and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements, and prepare financial statements. The accounting records that all public offices should maintain include the following:

1. Cash journal, which contains the following information: the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses.
3. Appropriation ledger, which may assemble and classify disbursements or expenditures/expenses into separate accounts, for, at a minimum, each account listed in the appropriation resolution.

The following inaccuracies were noted in the Village Ledgers:

- Two variances were noted between the Village's Annual Report and the appropriation ledger.
- Three outstanding checks were incorrectly voided by adding back into beginning fund balance. Appropriate adjustments were proposed to allow the 2003 beginning balances tie to the prior year report.
- We noted Trailer Taxes and Personal Property Taxes were posted to Intergovernmental rather than taxes.
- A rent check from the US Post Office was posted to taxes rather than Miscellaneous receipts.
- While testing Taxes for 2003 we noted that all Tax Settlements were posted at net rather than at gross.
- An Emergency Medical grant for \$2,471 was posted to the General Fund instead of the Fire Fund which paid for the equipment to be purchased with the grant. The appropriate adjustments were made to the 2003 financial statements.
- \$3,980 in EMS and Fire Grants were posted to Charges for Services rather than Intergovernmental. The appropriate reclassifications were made to the 2003 financial statements.

**FINDING NUMBER 2003-003
(Continued)**

- A Gas tax receipt totaling \$350 was posted to the General Fund Miscellaneous Revenue rather than to the Street Fund Intergovernmental. A gas tax receipt for \$171 was posted to General Fund Taxes rather than to the Street Fund Intergovernmental. The appropriate adjustments were made to the 2003 financial statements.
- A rent check from the US Post Office was posted to taxes rather than Miscellaneous receipts.
- On April 4, 2003 a receipt was posted for \$250 to the General Fund Miscellaneous Revenue. The receipted item was a check from Ohio Casualty Group for Ambulance Service, and should have been posted to the Fire Fund.

As a result, the records maintained by the Clerk were not an accurate reflection of all moneys received and expended. The audited 2003 financial statements included audit adjustments and reclassifications which are reflected in the accompanying financial statements. Village management has approved and posted appropriate adjustments.

Failure to use these ledgers to monitor activity could result in budgetary law violations. Budgetary variances should be monitored through the year, and amended certificates and appropriation modifications should be obtained when necessary.

Properly maintaining the ledgers will help to provide accurate and complete financial information for management to use in the decision making process. It will also assist in the preparation of the Village's annual financial report. Appropriate adjustments were posted to the Village's Financial Statements.

FINDING NUMBER 2003-004

Reportable Condition

The Clerk did not deposit receipts on a timely basis. Of the receipts tested, 96% were not deposited by the next business day. The Clerk delayed posting receipts to avoid the appearance of not depositing timely. In these instances receipts were posted the day before or the day of deposit. By holding unreceipted deposit items, the Village minimizes safeguards over deposit items that are not posted as receipts. In cases of loss by theft or disaster, there would be little to no means for the Village to recover missing funds. The legislative authority should adopt a policy regarding deposits of receipts. The policy must include provisions and procedures to safeguard the money during the intervening period.

FINDING NUMBER 2003-005

Noncompliance Citation/Reportable Condition

Ohio Rev. Code Section 149.351 states that all records of the public office concerned should not be removed, destroyed, mutilated or otherwise damaged or disposed of except as provided by law under the rules adopted by the records commission. Adequate supporting documentation was not provided for \$1,931.61 of the Village's expenditures. Three of the Village's cancelled checks were not on file. We determined that these were actual and allowable disbursements of the Village. We recommend the Village maintain all documentation to support expenditures in accordance with its record retention policy.

FINDING NUMBER 2003-006

Noncompliance/Reportable Condition

The Village had the following budgetary violations and weaknesses during 2003:

- Ohio Rev. Code, Section 5705.36, states that on or about the first day of each year the fiscal officer is to certify to the County Auditor a 'Certificate of the Total Amounts from all Sources Available for Expenditures, and Balances' and a 'Certificate of Estimated Resources.' The certificates were filed timely with the County Auditor, but both overstated the December 31, 2002 unencumbered balance of \$81,441 by \$23,750. The actual reconciled balance at December 31, 2002 was \$57,691.
- Ohio Rev. Code, Section 5705.41(B), provides that no subdivision shall make any expenditures of money unless it has been properly appropriated. During 2003, expenditures exceeded appropriations in the Fire Fund by \$79,530.
- Ohio Rev. Code, Section 5705.10, requires that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purposes.

In 2003 the following receipts were posted to an improper fund:

- Two Gas tax receipt, totaling \$521 were posted to the General Fund rather than to the Street Fund Intergovernmental Revenue.
- An Emergency Medical grant for \$2,471 was posted to the General Fund instead of the Fire Fund which paid for the equipment to be purchased with the grant.
- A receipt was posted for \$250 to the General Fund Miscellaneous Revenue. The receipted item was a check from Ohio Casualty Group for Ambulance Service, and should have been posted to the Fire Fund.

Fund balance adjustments were made to the Village Ledgers, and these adjustments are reflected in the accompanying financial statements.

Lack of budgetary oversight and compliance with budgetary laws significantly increases the risk that the Village will incur negative fund balances, expend more than is available, or appropriate more funds than are available. Management of the Village should monitor the Villages budgetary receipt and expenditure positions by having the clerk provide Comparison of Budget and Actual Receipts Report and Appropriation Status reports at least quarterly to be reviewed and approved by Council. By regularly monitoring its budgetary position throughout the year, the Village will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which effect the overall cash position of the Village.

FINDING NUMBER 2003-007

Noncompliance/Reportable Condition

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

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

- A. Then and Now Certificates – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees 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 \$3,000 (effective 4/7/03), the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

16 percent of the expenditures were executed without first obtaining the fiscal officer's certification and did not meet the exceptions provided for in the Code. Every effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in overspending of the Village funds.

FINDING NUMBER 2003-008

Noncompliance/Reportable Condition

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

The Village did not file its 2003 annual financial report until March 17, 2003. In addition, the Village did not publish notice in a local newspaper as required for 2003. In order to avoid unnecessary penalties, we recommend the Village Council take measures to insure that the Clerk-Treasurer properly prepares and files the annual financial report. Also, we recommend the Village provide notice to inform the public of the availability of the financial report.

FINDING NUMBER 2003-009

Noncompliance/Reportable Condition

ORC 5747.06 requires in part that each employer, including political subdivisions, is to withhold from an employee's compensation a reasonable estimate of the taxes due from the employee under this chapter and ORC chapter 5748 in regards to school income taxes. Withholdings were not made for State Income Taxes or Wilmington City School income taxes. The tax so required to be deducted and withheld shall not be collected from the employer, but the employer is not relieved for liability for penalties and interest otherwise applicable in respect to the failure to deduct and withhold the tax.

FINDING NUMBER 2003-010

Reportable Condition

During 2003 the clerk did not routinely remit payments to the IRS or PERS. A payment toward the 2003 liabilities to each agency was not remitted until March 2004, and each was made in one lump sum.

The 3/16/04 payment of 2003 PERS for employee and employer contributions was overpaid by \$42.45. The overage was probably applied to penalties for delinquent remittance. A PERS form was copied for each of the 12 months and edited by hand to be used for the 2003 payment.

The 3/16/04 payment for 2003 Medicare and federal income tax withholdings was overpaid by \$58.02. The variance was due to gross wage values being overstated by \$2,000 on the 941 forms. The sum of the 941 quarterly reports is \$15,060, but the total wages per the payroll journal and the W-2's equals \$13,060. The overage was probably applied to penalties for delinquent remittance.

By not routinely remitting withholdings to the proper agencies and accurately completing remittance forms the Village greatly increases the chances of over or underpaying payroll remittances. We recommend that the Village remit taxes and accurately completed forms on a routine basis prescribed by the remitting agencies. The Village should contact each of the reporting agencies to determine that the status of the Village's remittances. The Village should contact PERS to confirm that all officials and employees are correctly enrolled in PERS.

FINDING NUMBER 2003-011

Reportable Condition

The Council was not always aware of their appropriate administrative responsibilities such as reviewing monthly financial records, reviewing monthly reconciliations, reviewing minutes and reviewing payroll and bills. This creates an environment which promotes future fraud or misappropriation of funds.

The following weaknesses were noted:

- Monthly financial reports presented to Council overstated December 31, 2003 fund balance by \$52,828. This is a result of illegal expenditures being omitted from the reports;
- The minutes did not include a complete list of bills approved for payment;
- Few invoices contained indication (e.g. , initials) that someone had performed a comparison between the items included on the invoices and the items received;
- Checks were written and signed without review of invoices and other supporting documentation;
- The minutes did not include all significant actions taken by Council;
- The minute records were not read for review at the subsequent council meeting;
- The minute records were signed as approved at year end with out review of content;
- Receipts were posted to improper funds;
- Bank statements and reconciliations were not viewed by the mayor or council during 2003;
- The Village had a Uniform Accounting Network (UAN) computer system, but continued to maintain manual accounting records.

**FINDING NUMBER 2003-011
(Continued)**

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

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

- All checks should be prepared using the UAN system. If the occasion arises that requires a manual check then the check should be entered into the UAN system immediately; Monthly financial reports be prepared and submitted to Council. This submission should occur prior to the regular Council meetings so that Council members have an opportunity to review the information and ask informed questions at the Council meetings. Discussion of the monthly financial reports should be documented in the minutes;
- Monthly bank reconciliations should be reviewed and approved by the Village Council. The Council should compare the bank reconciliation with the bank statement and other reconciling items.
- When invoices are received, a comparison should be made between the goods/services included on the invoice and the goods/services received. The official/department head which received the goods should perform this comparison and indicate his/her review by initializing the invoice. The initials indicate the goods/services were received and the invoice is approved for payment. Invoices should be attached to all voucher packets;
- Once invoices have been approved for payment, the Clerk/Treasurer should issue the corresponding check and stamp the invoice "Paid."
- Village checks should be signed by the Clerk/Treasurer and the Mayor. Prior to signing the checks, the Mayor should agree the vendor name and amount on the check to the invoice.

FINDING NUMBER 2003-012

Reportable Condition

The Village purchased fire equipment and general supplies from M&J Hardware during 2003. M&J Hardware is operated by the former Village Clerk. The Hardware is owned by the Village Fire Chief and his wife. They are parents of the Clerk's wife. The Village did not obtain quotes for items purchased at M&J Hardware. The Village appeared to pay higher prices for some items purchased at M&J Hardware than it would have paid at another hardware store. Failure to obtain at least two quotes for items purchased at M&J Hardware could cause the Village to pay more for items than it needs to pay. We recommend the Village Council determine a dollar threshold where quotes will be required prior to making a purchase. When items are greater than that threshold, quotes from more than one vendor should be obtained, especially when considering purchasing items from a store owned by any Village officials. Obtaining more than one quote will help the Village to ensure it is receiving the lowest and best price available for the items.

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**VILLAGE OF PORT WILLIAM
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	ORC 135.21 for not allocating interest to Street Fund.	Not Corrected	Reissued in Management Letter
2002-002	ORC 5705.41(D) for not properly encumbering	Not Corrected	Reissued in finding 2003-007
2002-003	ORC 9.38 for not depositing timely	Not Corrected	Reissued in finding 2003-004
2002-004	ORC 117.38 for not filing an annual financial report by the required date	Not Corrected	Reissued in finding 2003-008
2002-005	ORC 5705.10 for having negative fund balances and posting errors	Partially Corrected	Reissued in finding 2003-006
2002-006	ORC 733.28 for not maintaining accurate ledgers.	Not Corrected	Reissued in finding 2003-003
2002-007	Receipt and Appropriation Ledgers were incomplete	Partially Corrected	Reissued in finding 2003-003
2002-008	Failure to accurately prepare bank reconciliations	Yes	
2002-009	Lack of controls over disbursements.	Not Corrected	Reissued in finding 2003-002
2002-010	Failure to timely remit withholdings	Not Corrected	Reissued in finding 2003-010



**Auditor of State
Betty Montgomery**

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 PORT WILLIAM
CLINTON COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2004**