



Mary Taylor, CPA
Auditor of State

VILLAGE OF MIDLAND
CLINTON COUNTY

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Mary Taylor, CPA

Auditor of State

Village of Midland
Clinton County
111 S. Broadway
P.O. Box 96
Midland, Ohio 45148

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Mary Taylor, CPA
Auditor of State

March 11, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Midland
Clinton County
111 S. Broadway
P.O. Box 96
Midland, Ohio 45148

To the Village Council:

We have audited the accompanying financial statements of the Village of Midland, Clinton County, Ohio (the Village), as of and for the year ended December 31, 2006. 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 described in the following paragraphs, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. The Auditor of State served during the year ended December 31, 2006 as the Government's financial supervisor under Ohio Rev. Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to the audit the Government because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

The Village did not provide sufficient documentation supporting the Charges for Services receipts as recorded in the General Fund. Without this evidential matter, we were unable to obtain sufficient information regarding the receipts recorded as Charges for Services for the General Fund, or to satisfy ourselves regarding the validity of the underlying transactions through other auditing procedures. Charges for Services receipts represent 31% of receipts recorded in the General Fund for the year ended December 31, 2006.

The Village advanced \$30,000 from the Street Construction, Maintenance and Repair (SCMR) Fund to the General Fund in 2005 in violation of Auditor of State Bulletin 1997-003 and Ohio Revised Code Sections 5705.09 (F) and 5705.10. Had this amount not been illegally advanced from the SCMR Fund, the effect would have been to increase the cash balance and decrease disbursements of the SCMR Fund by \$30,000 to \$46,944 and to decrease the cash balance and receipts of the General Fund by \$30,000 to (\$27,672) as of and for the year ended December 31, 2006.

As discussed in Note 9, to the financial statements, the Village is experiencing significant financial difficulties. The Village was placed in fiscal emergency on November 30, 2006.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2006 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006, or its changes in financial position for the year then ended.

Also, in our opinion, except for the effects of adjustments, if any, as might have been determined to be necessary had we been able to examine documentation supporting General Fund Charges for Services receipts, and the effects of adjustments to eliminate the \$30,000 advance from SCMR Fund to General Fund, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Midland, Clinton County, as of December 31, 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2006. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2008, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Mary Taylor, CPA
Auditor of State

March 11, 2008

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**VILLAGE OF MIDLAND
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Local Taxes	\$14,539	\$2,217	\$16,756
Intergovernmental	13,076	14,587	27,663
Charges for Services	15,552	0	15,552
Fines, Licenses and Permits	200	0	200
Earnings on Investments	0	212	212
Restitution	994	0	994
Miscellaneous	6,234	0	6,234
	<u>50,595</u>	<u>17,016</u>	<u>67,611</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons & Property	7,674	1,000	8,674
Public Health Services	2,162	0	2,162
Basic Utility Service	19,708	2,500	22,208
Transportation	0	8,003	8,003
General Government	40,248	27	40,275
Debt Service:			
Redemption of Principal	1,500	0	1,500
	<u>71,292</u>	<u>11,530</u>	<u>82,822</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>(20,697)</u>	<u>5,486</u>	<u>(15,211)</u>
Fund Cash Balances, January 1	<u>23,025</u>	<u>16,590</u>	<u>39,615</u>
Fund Cash Balances, December 31	<u>\$2,328</u>	<u>\$22,076</u>	<u>\$24,404</u>
Reserve for Encumbrances, December 31	<u>\$497</u>	<u>\$260</u>	<u>\$757</u>

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

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**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Midland, Clinton County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides street and highway maintenance and trash pickup. The Village contracts with the Clinton County Sheriff's department to provide security of persons and property. The Village contracts with Clinton South Joint Fire District to receive fire protection and ambulance services.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements 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 the Auditor of State prescribes or permits.

C. Cash Deposits

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

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

VILLAGE OF MIDLAND
CLINTON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

E. Budgetary Process

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

1. **Appropriations**

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

2. **Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered 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 individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2006 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. **Equity in Pooled Cash and Investments**

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

Demand deposits	<u>2006</u> <u>\$24,404</u>
-----------------	--------------------------------

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

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

3. Budgetary Activity

Budgetary activity for the year ending December 31, 2006 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$45,064	\$50,595	\$5,531
Special Revenue	45,964	17,016	(28,948)
Total	\$91,028	\$67,611	(\$23,417)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$71,789	(\$71,789)
Special Revenue	0	11,790	(11,790)
Total	\$0	\$83,579	(\$83,579)

Contrary to Ohio law, no annual appropriations were approved by the Village, therefore all budgetary expenditures exceeded appropriation authority in all funds.

Also contrary to Ohio law, the State Highway fund had a cash deficit balance of (\$1,426)

Contrary to Ohio law, estimated receipts exceeded actual receipts in the following funds: Street Maintenance, Construction and Repair \$25,417, Permissive MVL \$2,661 and Police \$981

4. Property Tax

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

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

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

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

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

5. Retirement Systems

Some Village officials contribute to Social Security. Contribution rates were 6.2% for employee and employer. The Village's other employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006, OPERS members contributed 9% of their gross salaries and the Village contributed an amount equaling 13.7% of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

6. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

7. Related Organizations

The Village appoints one member of the two-member Board of Trustees for the Clinton South Joint Fire District. The other member is appointed by Jefferson Township. The Fire District is a separate political organization.

8. Compliance

An advance of \$30,000 was made in 2005 from the Street Construction, Maintenance and Repair Fund to the General Fund without the documented approval of Village Council in the Village Council minutes. In addition, the advance was illegal since Street Funds are restricted to street-related disbursements.

Village did not post tax and intergovernmental receipts as required by ORC Sections 5705.09 (F), 4501.04, 5735.28 and 5735.23, resulting in many audit adjustments.

The Village failed to accurately maintain the Village's books as required by Ohio Revised Code Section 733.28 and Ohio Administrative Code Section 117-2-02(D).

The Village failed to file the 2006 annual report as required by Ohio Revised Code Section 117.38.

The Village failed to maintain a full and accurate record of the Village Council's proceedings as required by Ohio Revised Code Sections 121.22, 731.20 and 149.43.

The Village failed to maintain records as required by Ohio Revised Code Section 149.351.

The Village failed to deposit public monies with the Fiscal Officer or designated depository within the required time frame as required by Ohio Revised Code Section 9.38.

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

9. Subsequent Events/Fiscal Emergency Determination

The Village is experiencing financial difficulties. As of December 31, 2006 the State Highway Fund had a deficit balance of \$1,426. These negative cash fund balances were covered primarily by the \$16,944 cash balance in the Street Construction Maintenance and Repair Fund which included the effects of the illegal advance of \$30,000 from the Street Construction Maintenance and Repair Fund to the General Fund.

The Auditor of State, Local Government Services Division (LGS) was contacted by the Village regarding their financial difficulties and LGS is currently assisting the Fiscal Officer in posting their financial transactions and reconciling their accounts for 2006 and 2007. Additionally, LGS performed a fiscal analysis under the criteria established in Ohio Revised Code, Chapter 118.

On November 30, 2006, 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 a fiscal emergency existed under Sections 118.03(A)(5) and 118.03(B). The Village of Midland was declared under fiscal emergency on November 30, 2006.

On November 3, 2007, the Village Council adopted a Financial Recovery Plan. To increase revenues, the Village plans to hold a bake sale, place a new 3 mill current expense levy on the ballot (which failed in November 2007 and again in March 2008), and discontinuance of refuse collection and disposal services. To decrease expenses, the Village will discontinue the former Fiscal Officer's cell phone, discontinue use of the VISA card and a reduction in materials and supplies expenditures.

As of December 31, 2007, the Village's unaudited combined fund balance is \$33,538. The State Highway Fund is the only fund with a negative fund balance, however, these balances do not reflect the audit adjustments detailed in this report or the 2005-2004 audit report. The Village did adopt a balanced budget for 2008.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Midland
Clinton County
111 S. Broadway
P.O. Box 96
Midland, Ohio 45148

To the Village Council:

We have audited the financial statements of the Village of Midland, Clinton County, Ohio (the Village), as of and for the year ended December 31, 2006, and have issued our report thereon dated March 11, 2008, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We qualified our report on the Charges for Services line item for a lack of supporting documentation for trash collection receipts as recorded in the General Fund and on the advance from SCMR Fund to General Fund. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. In addition, the Auditor of State served during the year ended December 31, 2006 as the Government's financial supervisor under Ohio Rev. Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to the audit the Government because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Except as discussed in the preceding sentences, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-006 through 2006-020.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings number 2006-006 through 2006-008, 2006-011, 2006-012, 2006-014 through 2006-016, 2006-018 and 2006-020 are also material weaknesses.

We noted certain matters that we reported to the Village's management in a separate letter dated March 11, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-013 and 2006-015 through 2006-017.

We did note certain noncompliance or other matters that we reported to the Village's management in a separate letter dated March 11, 2008.

We intend this report solely for the information and use of the management and Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 11, 2008

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

Finding for Recovery – Vivian Dearth

Related to fiscal year 2006:

The employees of the Village of Midland were paid on a monthly basis. Ms. Vivian Dearth was hired as Village Fiscal Officer by the Village Council in July 2003 at a salary of \$6,600 per year paid in monthly installments of \$550. On January 10, 2006, Council approved the Fiscal Officer's salary to not exceed 129 hours or \$845 per month with Ms. Dearth working 30 hours per week. Based on a 30 hours work-week at a salary of \$845 per month, the hourly rate paid to Ms. Dearth should have been \$6.50 per hour**. Based on the salary and hourly rate calculations below, it appears the resolution authorizing Ms. Dearth's pay should have set number of hours to be worked by Ms. Dearth at 130 hours per month rather than 129 hours per month. We performed a comparison of the gross salary paid to Ms. Dearth to the gross salary authorized by the Village Council for fiscal year 2006. The following table indicates her approved salary, payments to Ms. Dearth and any differences:

Check Date	Check Signors	Amount of Gross Payroll Paid to Ms. Dearth	Authorized Salary to Ms. Dearth	Difference (Overpayment)
2/3/06	VD / CS	\$474.50	**	
2/11/06	VD / CS	432.00	**	
2/18/06	VD / CS	331.50	**	
2/24/06	VD / CS	351.00	**	
3/1/06	VD / CS	484.25	**	
3/11/06	VD / CS	445.25	**	
3/17/06	VD / CS	425.75	**	
3/22/06	VD / CS	396.50	**	
3/31/06	VD / CS	503.75	**	
4/7/06	VD / CS	503.75	**	
4/13/06	VD / CS	386.75	**	
4/21/06	VD / CS	474.00	**	
4/28/06	VD / CS	444.75	**	
5/5/06	VD / CS	474.00	**	
5/15/06	VD / CS	337.50	**	
5/19/06	VD / CS	503.75	**	
5/26/06	VD / CS	260.00	**	
6/1/06	VD / CS	308.75	**	
6/5/06	VD / CS	440.00	**	
6/9/06	VD / CS	260.00	**	
6/16/06	VD / CS	503.75	**	
6/23/06	VD / CS	308.75	**	
7/7/06	VD / CS	386.75	**	
7/14/06	VD / CS	416.00	**	
7/28/06	VD / CS	347.75	**	
8/7/06	VD / CS	386.75	**	
8/14/06	VD / CS	338.00	**	
8/18/06	VD / CS	542.75	**	
8/26/06	VD / CS	455.00	**	
9/1/06	VD / CS	503.75	**	

**FINDING NUMBER 2006-001
(Continued)**

Check Date	Check Signors	Amount of Gross Payroll Paid to Ms. Dearth	Authorized Salary to Ms. Dearth	Difference (Overpayment)
9/8/06	VD / CS	260.00	**	
9/15/06	VD / CS	260.00	**	
9/25/06	VD / CS	386.75	**	
9/29/06	VD / CS	357.50	**	
10/7/06	VD / CS	562.25	**	
10/23/06	VD / CS	260.00	**	
10/23/06	VD / CS	513.50	**	
10/27/06	VD / CS	260.00	**	
11/3/06	VD / CS	533.00	**	
12/2/06	VD / MK	1,391.00	**	
12/29/06	VD / MK	260.00	**	
12/29/06	VD / MK	<u>728.00</u>	**	
		<u>\$18,199</u>	<u>\$10,140</u>	<u>(\$8,059.00)</u>

** 2006 Salary Calculations:
\$845/month / \$6.50/hour = 130 hours/month
\$845/month at 12 months/year = \$10,140 annual salary

Related to fiscal year 2007:

We performed a comparison of the gross salary paid to Ms. Dearth to the gross salary authorized by the Village Council for fiscal year 2007. On March 17, 2007 Ms. Dearth issued herself check # 2468, noting that "On January 1, 2007 the minimum wage was raised to \$6.85 per hour". There was no indication that Council approved this increase, and no evidence of a determination on their part that such an increase was required. Ms. Dearth continued to pay herself this higher \$6.85 per hour rate, until she was terminated. Ms. Dearth was terminated by the Village Council on July 14, 2007. The following table indicates her approved salary, payments to Ms. Dearth and any differences:

Check Number	Check Date	Check Signors	Amount of Gross Payroll Paid to Ms. Dearth	Authorized Salary to Ms. Dearth	Difference (Overpayment)
2413	1/17/07	VD / MK	\$533.00		
2414	1/17/07	VD / MK	313.63		
2429	1/28/07	VD / MK	455.00		
2430	1/29/07	VD / MK	377.00	\$845.00	
2438	2/3/07	VD / MK	396.50		
2444	2/9/07	VD / JS	260.00		
2447	2/17/07	VD / JS	676.00	845.00	
2454	3/10/07	VD / JS	1,185.00	845.00	
2468	3/17/07	VD / MK	367.74		
2470	3/30/07	VD / MK	1,185.00	845.00	
1001	5/4/07	VD / JS	1,185.00	845.00	
1002	6/8/07	MK / JS	1,185.00	845.00	
1046 *	7/16/07	MK / JS	<u>845.00</u>	<u>422.50</u>	
			<u>\$8,963.87</u>	<u>\$5,492.50</u>	<u>(\$3,471.37)</u>

**FINDING NUMBER 2006-001
(Continued)**

* Ms. Dearth was terminated on 7/14/07. The time sheet for this paycheck included hours on 7/17 and 7/18/07. Gave her credit for 0.5 of month ($\$845.00 * \frac{1}{2} = \422.50)

2007 Salary Calculations:

$\$845/\text{month} / \$6.50/\text{hour} = 130 \text{ hours/month}$

$\$845/\text{month} * 6.5 \text{ months worked} = \$5,492.50$

NOTE to Salary Calculations – The Council minutes specifically mention 129 hours, however, 130 hours are necessary for the calculation to work. ($\$845 \text{ per month}/6.50 \text{ per hour} = 130 \text{ hours}$)

Former Village Council Members Carl Sexton (CS) and Mindi Kuntz (MK), and Village Mayor Joyce Schaeffer (JS), each signed a portion of the 2006 and 2007 overpayments, as detailed above.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Ms. Vivian Dearth, former Village Fiscal Officer, and the Cincinnati Insurance Company, her bonding company, jointly and severally, in the amount of \$11,530.37 and in favor of the Village of Midland's General Fund. Vivian Dearth is primarily liable for the amounts she received in overpayment.

Additionally, 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 illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling 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. Att'y Gen. No. 80-074.

Therefore, because former Village Council Member Carl Sexton signed a portion of the overpayments, he is jointly and severally liable in the amount of \$6,525 and in favor of the Village of Midland's General Fund. Additionally, because former Village Council Member Mindi Kuntz signed a portion of the overpayments, she is jointly and severally liable in the amounts corresponding amounts listed above and in favor of the Village of Midland's General Fund. Finally, because Village Mayor Joyce Schaeffer signed the remaining portion of the overpayments, she and her bonding company, the Cincinnati Insurance Company, are jointly and severally liable in the corresponding amounts listed above and in favor the favor of the Village of Midland's General Fund.

Carl Sexton, Mindi Kuntz, and Joyce Schaeffer will only be liable to the extent that payment is not received from Vivian Dearth.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-002

Finding for Recovery – Vivian Dearth

During testing, we identified the following expenditures to the Vivian Dearth, former Village Fiscal Officer:

Check Number	Date	Description	Amount
2735	10/23/06	20 oz Pepsi and banana nut loaf for \$2.53, \$1.96 for sugar babies, \$1.42 for Austin crackers, \$2.18 for Payday, \$1.97 for 36 cutlery, \$2.23 for water, \$3.98 for Pepsi, \$2.00 for Smarties, and Post-it note for "Pepsi at training" \$16, \$31.07 at Meijer for gas, \$27.81 at Getgo for gas	93.15
2483	4/14/07	\$0.79 Sugar wafer, \$1.39 Pepsi, \$38.59 for gas reimbursement (she also claimed mileage reimbursement for the same trip to a conference on 4/2/07)	40.77
			<u>\$133.92</u>

We also identified the following expenditures to Staples during the audit period:

Check Number	Date	Description	Amount
2575	4/7/06	\$47.99 for HP 4x6 photo paper,	\$47.99
2606	5/18/06	\$14.99 for HP premium gloss 4x6	14.99
2649	7/7/06	\$5.56 for 2 pre-school tablets (\$2.78/each), \$3.67 for bucket of chalk, \$3.45 for 64 ct crayons	<u>12.68</u>
			<u>\$75.66</u>

We provided a description of these expenditures to the former Fiscal Officer, Vivian Dearth in July 2007; she was unable to provide a reasonable explanation or additional supporting documentation to support the expenditures identified. Former Village Council Members Carl Sexton and Mindi Kuntz, each signed a portion of these warrants, as detailed below.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Ms. Vivian Dearth, former Village Fiscal Officer, and the Cincinnati Insurance Company, her bonding company, jointly and severally, in the amount of \$209.58 and in favor of the Village of Midland's General Fund. Vivian Dearth is primarily liable for the amount of these expenditures.

Additionally, 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 illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling 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. Att'y Gen. No. 80-074.

Therefore, because former Village Council Member Carl Sexton signed a portion of the warrants resulting in the illegal expenditures, he is jointly and severally liable in the amount of \$168.81 and in favor of the Village of Midland's General Fund. Additionally, because former Village Council Member Mindi Kuntz signed the remaining portion of the warrants resulting in the illegal expenditures, she is jointly and severally liable in the amount of \$40.77 and in favor of the Village of Midland's General Fund.

**FINDING NUMBER 2006-002
 (Continued)**

Carl Sexton and Mindi Kuntz will only be liable to the extent that payment is not received from Vivian Dearth

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-003

Finding for Recovery – VISA Credit Card

The Village Council approved to apply for a VISA credit card from First National Bank of Blanchester on March 8, 2005. The bank issued 2 credit cards in the Village of Midland's name on February 24, 2005 and re-issued these cards on February 8, 2007. The credit cards were either in the physical custody of the former Fiscal Officer, Vivian Dearth or in the Village safe. The cards had the signatures of Vivian Dearth and former Village Council member, Dwayne Dearth. We observed all VISA payments and any supporting documentation available during the audit period.

We identified the following credit card expenditures during the audit period:

Check Number	Date	Description	Amount
2499	1/31/06	\$227.68 to Fairfield Inn in Columbus(no documentation of training at this site), \$21.27 to Home Depot in Milford, \$78.24 to Walmart in Wilmington, \$42.52 to Target in Cincinnati, \$27.35 to Speedway in Wilmington, \$31.42 to Kmart in Milford, \$1.00 to MFI Ancestry Software, \$136.29 to Walmart in Lebanon. No detailed receipts of items purchased.	\$565.77
2518	2/1/06	Verizon Wireless (no detailed receipt)	256.76
2547	3/6/06	\$5.99 to CVS for Peep Squee, \$2.58 to CVS for Just Born (2 at \$1.29/each), \$2.38 to Speedway for 2 Pepsis, \$31.58 to Speedway for gas and 2 Pepsis.	42.53
2571	4/7/06	\$16.99 to Kmart in Milford (binder & theme books), \$37.56 to BP in Goshen, \$38.14 (swiffer, swiffer refill, soda) to Kmart in Springboro	92.69
2594	5/5/06	\$27.22 to Photorefect (no detailed receipt of purchase)	27.22
2628	6/5/06	\$25.09 to Walmart in Grove City (Cheetos, gum, Pepsi, band-aids, NB Snackwell)	25.09
2660	7/28/06	\$149.78 to Dell Catalog Sales. No detailed receipts of items purchased.	149.78
2687	8/18/06	\$1.95 PayPal. No receipt to support purchase	1.95
2710	9/15/06	\$38.82 to Speedway in Sidney (gas & Pepsi)	38.82
2718	10/7/06	\$37.55 to Speedway (no detailed receipt to support)	37.55
			\$1,238.16

We provided a description of these expenditures to the former Fiscal Officer, Vivian Dearth in July 2007; she was unable to provide a reasonable explanation of Village use or additional supporting documentation to support the credit card expenditures identified. The warrants for all such credit card expenditures were signed by former Village Council member Carl Sexton.

**FINDING NUMBER 2006-003
(Continued)**

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Ms. Vivian Dearth, former Village Fiscal Officer, and the Cincinnati Insurance Company, her bonding company, jointly and severally, in the amount of \$1,238.16 and in favor of the Village of Midland's General Fund. Vivian Dearth is primarily liable for the amount of these expenditures.

Additionally, 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 illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling 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. Att'y Gen. No. 80-074

Therefore, because former Village Council Member Carl Sexton signed a portion of the warrants relating to the illegal expenditures, he is jointly and severally liable in the amount of \$1,238.16 and in favor of the Village of Midland's General Fund. Carl Sexton will only be liable to the extent that payment is not received from Vivian Dearth.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-004

Finding for Recovery – Marathon Gas Card

The Village had a Marathon gas card during the audit period. On September 5, 2002, Village Council approved the Clerk to use the gas card to fill her car one time a month. We reviewed all gas card payments and any supporting documentation available during the audit period. We provided a list of these items to the former Fiscal Officer, Vivian Dearth and the Mayor, Joyce Schaeffer in July 2007. Ms. Dearth did identify that in 2007 card #171 was used by her, and card #172 was used for street operations during the audit period. The only exception to this is for the first check on 1/31/06, card # 172 was used by Vivian Dearth and card #171 was used for street operations.

We identified the following gas card (card #171) expenditures during the audit period:

**FINDING NUMBER 2006-004
(Continued)**

Check Number	Check Date	Number of Fill-Ups	Fund Paid From	Amount Associated with Card 171	Amount (First Fill-Up) Allowed/Approved by Village Council	Unapproved Amount
2502*	1/12/06	3	Street	\$88.50	\$22.86	\$65.64
2521	2/7/06	2	Street	70.54	34.05	36.49
2551	3/11/06	2	Street	70.84	32.72	38.12
2568	4/7/06	2	Street	77.79	37.94	39.85
2593	5/5/06	4	General	150.90	36.66	114.24
2639	6/23/06	3	General	122.85	45.26	77.59
2664**	7/28/06	5	Street	257.56	216.50	41.06
2674	8/11/06	1	Street	71.24	71.24	0.00
2704	9/9/06	3	Street	135.46	47.11	88.35
2760	12/2/06	3	Street	92.87	32.10	60.77
2766	12/14/06	2	Street	74.74	37.73	37.01
2417***	1/17/07	2	Street	67.15	30.20	36.95
2440****	2/9/07	1	Street	43.31	35.24	8.07
2471	4/14/07	3	Street	95.79	33.37	62.42
1025	6/8/07	1	Street	47.64	47.64	0.00
				<u>\$1,467.18</u>	<u>\$760.62</u>	<u>\$706.56</u>

NOTE: Allowed the first fill-up each month.

* this amount is for card #172

** the first three fill-ups were by Fire District employees. The Fiscal Officer gave permission to the first person to get gas for the mower. Two other unauthorized employees used the card as well. These fill-ups were reimbursed by the Fire District to the Village. This leaves two fill-ups associated with the Fiscal Officer.

*** this amount includes a purchase of grocery items totaling \$8.52

**** this amount includes a purchase of grocery items (3 @ \$2.60/each plus tax)

The warrants for all such gas card expenditures were signed by either former Village Council members Carl Sexton or Mindi Kuntz, or Village Mayor Joyce Schaeffer, as detailed below.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against Ms. Vivian Dearth, former Village Fiscal Officer, and the Cincinnati Insurance Company, her bonding company, jointly and severally, in the amount of \$514.73 in favor of the Village of Midland's Street Fund and \$191.83 in favor of the Village of Midland's General Fund. Vivian Dearth is primarily liable for the amount of these expenditures.

Additionally, 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 illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling 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. Att'y Gen. No. 80-074.

**FINDING NUMBER 2006-004
(Continued)**

Therefore, because former Village Council Member Carl Sexton signed a portion of the warrants relating to the illegal expenditures, he is jointly and severally liable in the amount of \$309.51 and in favor of the Village of Midland's Street Fund and \$191.83 in favor of the Village of Midland's General Fund. Additionally, because former Village Council Member Mindi Kuntz signed a portion of the warrants relating to the illegal expenditures, she is jointly and severally liable in the amount of \$197.15 and in favor of the Village of Midland's Street Fund. Finally, because Village Mayor Joyce Scaeffler signed the remaining portion of the warrants relating to the illegal expenditures, she and her bonding company, the Cincinnati Insurance Company, are jointly and severally liable in the amount of \$8.07 and in favor of the Village of Midland's Street Fund

Carl Sexton, Mindi Kuntz, and Joyce Schaeffer will only be liable to the extent that payment is not received from Vivian Dearth.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-005

Finding for Recovery – Council Members

The Ohio Supreme Court has considered the extent of non-charter municipality's authority to provide by ordinance for the compensation of its employee where such an ordinance is at variance with a statute concerning the same subject. *Northern Ohio Patrolmen's Benevolent Assoc. v. City of Parma* (1980), 61 Ohio St 2d 375. In short, the Court states that Ohio Constitution art. XVIII, § 3 is a direct grant of power to all municipalities to exercise local self government, and a non-charter municipality may enact an ordinance governing the salary paid to its employees.

However, in Advisory Opinion 93-006, the Ohio Ethics Commission held, in part, that Ohio Rev. Code Section 102.03(D) prohibits members of village council from enacting an ordinance granting in in-term increase in compensation for current members of council. Additionally, the Commission held that Ohio Rev. Code Section 102.03(E) prohibits a member of a village council from accepting, for the duration of his present term, an increase in compensation enacted by village council while he was a member thereof.

The Council members of the Village of Midland were paid on a quarterly basis. On January 13, 2004, Village Council approved each Council member's salary to be \$30 per month, regardless of their meeting attendance. This calculates to \$360 per year. Council members would receive their pay regardless of whether they attended meetings or not. The only requirement was that if a Council member missed three unexcused meeting absences in a row, they were to be removed from Council. On December 5, 2005, Council approved each Council Member's salary to \$720 per year.

As stated in the previous paragraphs Council members are not entitled to in-term increases. The following table represents the amounts that each Council member should have been paid and the in-term increase amount each Council member was paid:

**FINDING NUMBER 2006-005
 (Continued)**

Council Member	Year	Months on Council	Amount Due	Amount Paid	Amount Overpaid
Carl Sexton *	2006	11	\$330.00	\$660.00	<u>\$330.00</u>
Dwayne Dearth	2006	12	360.00	720.00	360.00
	2007**	6.5	195.00	360.00	<u>165.00</u>
Total Overpayment					<u>525.00</u>
Paul Ledford	2006	12	360.00	720.00	360.00
	2007***	6	180.00	360.00	<u>180.00</u>
Total Overpayment					<u>540.00</u>
Mindi Kuntz	2006	12	360.00	720.00	360.00
	2007#	6	180.00	360.00	<u>180.00</u>
Total Overpayment					<u>540.00</u>
David Hoffman	2006	12	360.00	720.00	360.00
	2007##	3	90.00	180.00	<u>90.00</u>
Total Overpayment					<u>450.00</u>
Herman Schaeffer	2007###	6	180.00	360.00	<u>180.00</u>

* Carl Sexton resigned at the November 4, 2006 Village Council meeting.

**Dwayne Dearth resigned at the July 2007 Village Council meeting.

*** Only includes the payments through the Second Quarter of 2007. Mr. Ledford is still on Village Council.

Only includes the payments through the Second Quarter 2007. Ms. Kuntz is now the Village Fiscal Officer.

Only includes the payments through the Second Quarter 2007. Mr. Hoffman resigned from Village Council on June 8, 2007. He did not receive a second quarter paycheck.

###Only includes the payments through the Second Quarter 2007. Mr. Schaeffer was appointed to Council on 1/6/07 and is still on council.

In addition, check # 2673 was written to Mindi Kuntz on 8/8/06 in the amount of \$60.84. The receipts attached to this expenditure totaled \$49.90 for various printer/computer supplies. This leaves \$10.94 unsupported.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Carl Sexton, former Village Council Member, Dwayne Dearth, former Village Council Member, Paul Ledford, Village Council Member, Mindi Kuntz, former Village Council Member, David Hoffman, former Village Council Member, and Herman Schaeffer, Village Council Member, in the corresponding amounts listed above and in favor of the General Fund of the Village of Midland. Each is primarily liable for the amount he or she received in overpayment.

Additionally, 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 illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling 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. Att'y Gen. No. 80-074.

**FINDING NUMBER 2006-005
(Continued)**

Therefore, because Vivian Dearth, former Village Fiscal Officer, signed all the warrants resulting in improper payments, she and the Cincinnati Insurance Company, her bonding company, are jointly and severally liable for the entire amount of \$2,575.94 and in favor of the Village of Midland General Fund. Additionally, because they signed a portion of the warrants resulting in improper payments to council members other than themselves, the following individuals are jointly and severally liable: Mindi Kuntz, former Village Council Member, in the amount of \$845, and Carl Sexton, former Village Council Member, in the amount of \$1,090.94, and in favor of the Village of Midland's General Fund.

Vivian Dearth, Mindi Kuntz, and Carl Sexton will only be secondarily liable to the extent that payment is not received from those council members with primary liability.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-006

Finding for Adjustment/Noncompliance Citation/ Material Weakness

Auditor of State Bulletin 1997-003 states that advances must be approved by a formal resolution of the taxing authority of the subdivision. This resolution must include a specific statement that the transaction is an advance of cash, and an indication of the money (fund) from which it is expected that repayment will be made. **Auditor of State Bulletin 1997-003** also states that in order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established.

In 2005, the Village Council authorized the movement of \$30,000 from the Street Construction Maintenance and Repair fund to the General fund. Although a resolution was located approving this movement of monies, the resolution labeled the transaction as a transfer and its approval was not documented in the written minute record of the Village Council. Upon further inquiry, the Auditor of State Local Governmental Services Division determined that the Village Council intended for this to be an advance. The resolution approving this transaction did not meet the requirements listed above by indicating it was an advance nor did it indicate when repayment would be made. In addition, Street Construction Maintenance and Repair fund monies are restricted for street related disbursements, and therefore the movement of \$30,000 from the Street Construction Maintenance and Repair fund to the General fund was not allowed. This Finding was reported in the 2005-2004 audit report as Finding 2005-005 and has yet to be repaid as of March 11, 2008.

Ohio Rev. Code, Sections 5705.09(F) and 5705.10, restrict the use of Street Construction Maintenance and Repair Fund to street related disbursements. Had this amount been properly returned from the General Fund to the Street Construction Maintenance and Repair Fund, the effect would have been to increase the cash balance of the Street Construction Maintenance and Repair Fund by \$30,000 to \$46,944 and to decrease the cash balance of the General Fund by \$30,000 to (\$27,672) as of and for the year ended December 31, 2006.

In accordance with the foregoing facts, we hereby re-issue a finding for adjustment against the General Funds and in the amount of \$30,000 in favor of the Village of Midland's Street Construction Maintenance and Repair Fund.

**FINDING NUMBER 2006-006
(Continued)**

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-007

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 5705.09(F), provides that each subdivision shall establish a special fund for each source of revenue derived from a source other than the general property tax which the law requires to be used for a particular purpose. Monies were not always posted to the particular fund specified by their purpose. Ohio Rev. Code Section 5705.10(H) provides that monies paid into any fund shall be used only for the purpose for which such fund is established.

Ohio Rev. Code, Section 4501.04, provides that auto registration fees distributed by the County Auditor per Ohio Rev. Code Section 4501.03 be paid into the municipal treasury to be used for purposes related to municipal streets. The fund established by the Village for these receipts and expenditures is the Street Construction, Maintenance, and Repair Fund.

Ohio Rev. Code, Section 5735.28, provides that whenever a municipal corporation is on the line of a state highway, that seven and one-half percent of the amount paid to a municipal corporation pursuant to sections 4501.04, 5735.23, and 5735.27 of the Revised Code be credited to the State Highway Fund for purposes related to state highways within the municipal corporation. The fund established by the Village for these receipts and expenditures is the State Highway Fund.

Ohio Rev. Code, Section 5735.23(C)(2)(a), provides that gasoline excise tax distributed from the State and Local Government Highway Distribution Fund pursuant to Ohio Rev. Code, Section 5735.27(A)(1) be used pursuant to that section. Ohio Rev. Code Section 5735.27 provides that gasoline excise tax distributed from the Gasoline Excise Tax Fund be used for municipal street expenditures. The fund established by the Village for these receipts and expenditures is the Street Construction, Maintenance, and Repair Fund.

Article XII, Section 5a, of the Ohio Constitution and the Ohio Attorney General Opinion No. 82-031, and Ohio Rev. Code, Sections 135.21 and 5705.10, states that as a general rule all interest must be credited to the general fund of the subdivision, with the exception of interest earned on money derived from a motor vehicle license or fuel tax must follow the principal. For 2006, some interest earned was posted to the General and Police Funds, however, allocations did not agree to the corresponding fund balances.

According to above laws, the monthly distributions from the County designated as "MV Reg Fees," "Gasoline Tax to Municipalities" and "Gasoline Cents Per Gallon" must be posted to the Village funds at the rate of ninety two and one half percent (92 ½%) to the Street Construction, Maintenance, and Repair Fund and seven and one half percent (7 ½%) to the above funds. The Village also posted property taxes, homestead and rollback, to the wrong funds and at the net amount instead of the gross amount. In addition, interest received and checks written were never posted to the cashbook.

The following table reflects the net effect of the adjustments, including the amounts reported in the 2005-2004 audit report, the Village needs to make to their financial records to properly reflect receipts and expenditures in the proper funds:

**FINDING NUMBER 2006-007
 (Continued)**

	Net Effect of Adjustments on Fund Balance Increase/(Decrease)
General Fund	(\$4,410)
Street Construction & Maintenance Fund	3,077
State Highway Fund	346
Permissive MVL Fund	(1,194)
Police Fund	(1,237)

The audit adjustments listed above are reflected in the accompanying financial statements to properly reflect receipts, disbursements and fund balances of the Village as of December 31, 2006. The Village has posted these adjustments to their financial records. Prior to this, the records maintained by the Fiscal Officer were not an accurate reflection of all moneys received and expended by the Village. Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated.

We recommend the Fiscal Officer accurately maintain the accounting records in accordance with the uniform accounting system prescribe by the Auditor of State. The Village should adopt procedures to properly monitor the Village's financial activity.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-008

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 733.28, states that the village fiscal officer must keep the books of the village, exhibit accurate statements of all moneys received and expended, all property owned by the Village and income derived thereof, and all taxes and assessments.

Ohio Admin. Code, Section 117-2-02(D), states all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

- (1) Cash journal, which typically 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. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

FINDING NUMBER 2006-008
(Continued)

- (4) In addition, all local public offices should maintain or provide a report similar to the following accounting records:
- a. Payroll records including:
 - i. W-2's, W-4's and other withholding records and authorizations;
 - ii. Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments;
 - iii. Check register that includes, in numerical sequence, the check number, payee, net amount, and the date;
 - iv. Information regarding non-monetary benefits such as car usage and life insurance
 - v. Information, by employee, regarding leave balances and usage
 - b. Utilities billing records including:
 - i. Master file of service address, account numbers, billing address, type of services provided, and billing rates;
 - ii. Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and non-cash adjustments, each maintained by date and amount;
 - iii. Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above

Although the Village fiscal officer maintained some accounting records, the records contained numerous posting errors resulting audit adjustments and reclassifications to the 2006 financial statements. As a result, the records maintained by the Fiscal Officer were not an accurate reflection of all moneys received and expended. In addition, we were unable to audit the General Fund's Charges for Services receipts or to perform alternative auditing procedures to ensure accountability over the applicable receipts.

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Councils' ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the Village's financial statements will be misstated.

We recommend the Village Fiscal Officer accurately maintain the Village's accounting records in accordance with the uniform accounting system prescribe by the Auditor of State. The Village should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records should be maintained in a secure central location, such as locked file cabinets or in a locked office, with access limited to specific officials and/or personnel. Disposal of records should only be made in accordance with an approved records retention schedule. In addition, all supporting documentation of receipts, expenditures, and bank reconciliations should be maintained. For added accountability, we recommend Council review all bank reconciliations for accuracy and ensure that all reconciling items are justified.

**FINDING NUMBER 2006-008
(Continued)**

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-009

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code, Section 117.38, requires each public office to file an annual financial report made in accordance with forms prescribed by the Auditor of State within sixty days after the close of the fiscal year. The Village did not file the 2006 report within the required sixty days. The Village discontinued using the UAN system at the beginning of 2007 and sent back the computer. The 2006 annual financial report had not been completed prior to that. The UAN system was able to download the Village's information and prepare the 2006 annual report for audit purposes in May 2007.

If the annual financial reports are not completely and accurately presented, the reports can not be relied upon by management or others using these reports. The statements and columns of the report that are applicable to the Village should be completed and someone should review the reports to check that they are properly completed before they are filed with the Auditor of State. The reports should be filed within sixty days after the close of the fiscal year. The Village should maintain proof of mailing of the report by the required date.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-010

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code, Section 5705.10(H), provides that money paid into a fund must be used only for the purposes for which such fund was established. The State Highway Fund had a negative fund balance for all of fiscal year 2006. The fund balance in the State Highway Fund at December 31, 2006 was (\$1,426). This deficit balance indicates money from other funds was used to cover the expenditures of this fund, contrary to Ohio law.

Failure to monitor budgetary activity can result in overspending and negative fund balances. The management of the Village should monitor the Village's budgetary receipts and expenditures by having the clerk provide budgetary 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.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-011

Noncompliance Citation/Material Weakness

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

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The availability of funds was not certified prior to the time of commitment in 80% of expenditures tested in 2006, nor did the Village use the aforementioned exceptions. 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 encumber could result in overspending funds and negative cash fund balances.

Unless the Village uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

**FINDING NUMBER 2006-011
 (Continued)**

We recommend the officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Village should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-012

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 5705.38(A), requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1. The Village did not approve in the minutes or file with the County Auditor appropriations for the fiscal year ending December 31, 2006. Failure of the Village to approve and file appropriations does not allow for the Village officials to monitor its budgetary position.

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. The following funds had expenditures which exceeded appropriations:

	Appropriations	Expenditures + Outstanding Encumbrances	Variance
General Fund	\$0	\$71,789	(\$71,789)
Street Maintenance, Construction & Repair Fund	0	10,763	(10,763)
Police Fund	0	1,027	(1,027)

Failure to monitor budgetary activity can result in overspending and negative fund balances. We recommend the Clerk deny any payments until the legislative authority has passed the necessary changes to the appropriation measure. The management of the Village should monitor the Village's budgetary receipts and expenditures by having the clerk provide budgetary 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.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-013

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code, Section 5705.36(A)(2), allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. 5705.36(A)(3) requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. 5705.36(A) (4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. In 2006, the following funds had estimated receipts exceeding actual receipts.

	Estimated Receipts	Actual Receipts	Variance
Street Construction Maintenance Repair Fund	\$38,983	\$13,566	(\$25,417)
Permissive MVL Fund	3,844	1,183	(2,661)
Police Fund	2,164	1,183	(981)

Failure of the Village to monitor budgetary activity can result in overspending and negative fund balances. We recommend the Village use due care in monitoring their budgetary documents since these documents are an integral part of the budgetary control process. The Village should integrate the budgetary documents into their budgetary system. We recommend that the Village monitor budgetary activity on a regular basis and obtain amended certificates as needed.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-014

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that accounting records are properly designed.
- Ensure adequate security of assets and records.
- Plan for adequate segregation of duties or compensating controls.
- Verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.

**FINDING NUMBER 2006-014
(Continued)**

The small size of the Village does not allow for an adequate segregation of duties. The Fiscal Officer processes all the financial record keeping including receipting, posting, and reconciling to the depository. Bookkeeping errors occurred without the detection of management. It is, therefore, important that Council monitor financial activity. In addition, the Clerk performs all the financial recordkeeping on the Uniform Accounting Network System (UAN) including receipting, posting and reconciling to the depository. In the event that the Clerk is absent from her job there is no person assigned to perform her duties. The Village's other personnel must prepare manual receipts which are entered into the system at a later date. The weakness of this system is that it allows for diversion of funds through possible alteration of source documents. Also, bookkeeping errors occurred without detection in a timely manner nor is an accurate account maintained of the Village's funds.

Council did not always perform their appropriate administrative responsibilities such as reviewing monthly financial records, reviewing minutes and reviewing bills, as a result, the following weaknesses were noted:

- No monthly financial reports, as well as no budget and actual activity or bank reconciliations were presented to Council during 2006;
- Cash was not always reconciled accurately and in a timely manner (12/12 months = 100%);
- Invoices were not always attached to the voucher packet:
 - 44/179 (25%) of non-payroll expenditures tested;
- The minutes did not include all significant actions taken by Council (detailed in Finding 2006-020);
- Bills were not listed in the minutes: 10/10 months (100%);
- Expenditures may have been posted to improper funds due to the lack of documentation to determine proper fund: 10/179 (6%) of non-payroll expenditures;
- Receipts were not posted to the UAN system until well after the receipt date and/or deposit. For some months, all transactions were entered into the system at the end of the month (3/12 (25%) months on UAN);
- Receipts and expenditures were never posted to the accounting system:
 - Expenditures: 2 checks totaling \$529.54
 - Receipts: 2 receipts totaling \$162.60;
- Late payment fees were paid on bills: IRS, Ohio Department of Taxation, Time Warner Cable, Verizon Wireless, and VISA

The lack of timely financial reports and accurate fund balances significantly reduces Council's ability to monitor Village's financial position. In addition, the lack of control over invoices and goods/services received resulted in late payments to the various vendors. This may create an environment which promotes future fraud or inaccurate financial reporting.

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

**FINDING NUMBER 2006-014
(Continued)**

- Monthly financial reports, including budget and actual activity and monthly bank reconciliations, 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 and approval of the monthly financial reports should be documented in the minutes;
- 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 Fiscal Officer should issue the corresponding check and stamp the invoice "Paid." The invoice should be filed with the voucher packet;
- Receipts should be posted to the UAN system upon receipt of the monies and/or deposit to ensure that monies are posted to the proper funds;
- Duplicate receipts should be prepared for every receipt and signed by the clerk;
- Vouchers packets should be maintained in numerical sequence and should include detailed invoices to support the expenditure;
- Council should ensure that bills be paid on a timely basis to avoid late charges;
- Minutes of Council meetings should be prepared, approved, and available for public inspection in a timely manner. The minutes should also include all actions taken by Council during those meetings. For each regular meeting, the Fiscal Officer should provide Council members with detailed budget and actual financial statements, cash balances, checks paid, outstanding encumbrances, receipts and bank reconciliations. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer;
- Council members should develop a policy manual for the Village;
- Officials should periodically review the records to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer.

To help ensure continuing accountability and to strengthen internal accounting controls, we recommend the Village designate one other employee to handle the Clerk's duties in her absence. Continuing education and new fiscal officer training should be provided to the designated personnel.. This will help maintain records more efficiently and keep the ledgers up to date. In addition, officials should periodically review the records, i.e. reconciliations, withholding and retirement settlements, cashbooks, etc., to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-015

Noncompliance Citation/Material Weakness

Pursuant to White v. Clinton Cty. Bd. of Comm'rs (1996), 76 Ohio St.3d 416, Ohio Rev. Code Sections 121.22, and 149.43 and, when read together impose a duty on the Village to maintain a full and accurate record of their proceedings. Minutes of meetings must be promptly recorded and open for public inspection per State, ex rel. Fairfield Leader v. Ricketts (1990), 56 Ohio St.3d 97.

Ohio Rev. Code, Section 121.22(C), states that all meetings of any public body are to be open to the public at all times. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection.

Ohio Rev. Code, Section 731.20, states ordinances, resolutions, and bylaws shall be authenticated by the signature of the presiding officer and clerk of the legislative authority of the municipal corporation. Ordinances of a general nature or providing for improvements shall be published as provided by sections 731.21 and 731.22 of the Revised Code before going into operation. No ordinance shall take effect until the expiration of ten days after the first publication of such notice. As soon as a bylaw, resolution, or ordinance is passed and signed, it shall be recorded by the clerk in a book furnished by the legislative authority for that purpose.

Ohio Rev. Code, Section 121.22(G), provides that members of a public body may hold an executive session only after a majority of a quorum of the public body determines, by a roll call vote, to hold such a session and only at a regular or special meeting for the sole purpose of the consideration of any of the following matters:

- a) The appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or officials, or the investigation of charges or complaints against a public employee, official, licensee, or regulated individual, unless the public employee, official licensee, or regulated individual requests a public hearing;
- b) The purchase of property for public purposes, or for the sale of property at competitive bidding, if premature disclosure of information would give an unfair competitive or bargaining advantage to a person whose personal private interest is adverse to the general public interest;
- c) Conducting conferences with an attorney for the public body, concerning disputes involving the public body that are the subject of pending or imminent court action;
- d) Preparing for, conducting, or reviewing negotiations or bargaining sessions with public employees concerning their compensation or other terms and conditions of their employment;
- e) Matters required to be kept confidential by federal laws or rules or state statutes;
- f) Specialized details of security arrangements where disclosure of the matters discussed might reveal information that could be used for the purpose of committing or avoiding prosecution for a violation of the law.

The Auditor of State's Open Government Resource Manual indicates that gatherings of public body members outside the traditional meeting context are difficult to safely characterize. Standing alone, one-on-one conversations between individual members do not violate the Open Meetings Act. However, a conference call between a majority of the members where public business is discussed is prohibited. A public body must not, however, circumvent the act by scheduling back-to-back discussions of public business which, taken together, are attended by a majority of the members. Such "round robin" or "serial" meetings appear to violate the Open Meetings Act.

**FINDING NUMBER 2006-015
(Continued)**

While reading the minutes, we noted the following items:

- Minutes records could not be located for the meetings held in March and May 2006.
- The Council President/Mayor did not sign 8 of 16 minutes.
- The Fiscal Officer did not sign 3 of 16 minutes.
- Other financial information, including appropriations, transfers and other required reports were not recorded as part of the minutes.
- Minutes were not recorded and maintained in a pre-numbered permanent bound book.
- Decisions and Village Council business was discussed and decided upon outside of the monthly Council meetings. Checks were signed throughout the month without Council approval and the Fire District representative was changed outside of Council. Council members discussed on October 4, 2006 that meetings could not be held outside of regular Council meetings.
- On October 9, 2006, one executive session was held that did not note the reason.

As the Council speaks only through its record of proceedings (minutes), the following recommendations were made to help ensure that the minutes properly reflect parliamentary procedures and the actions of the council.

- Minutes should be prepared on a timely basis and presented at the subsequent council meeting and approved by Council. All resolutions and ordinances should be numbered and made a part of a permanent record of proceedings;
- All council actions should be indexed under proper headings to provide easy access to all Village resolutions;
- Minutes should be signed by the Village officials affirming their accuracy;
- Each topic, resolution, motion, etc. should be sub-headed or identified either in the margin or at the head of each paragraph for easier reading and referencing;
- Review of the annual financial data, including budgets, appropriations, transfers, required reports, and any advertisements for the same, should be documented as a permanent part of the minute records.

The Village did not sufficiently and consistently document decisions concerning bill payments and approval of budgetary documents. Prompt review of the minutes allows Council the ability to make any necessary changes in a timely fashion. Holding executive sessions with no reason given or making Village decisions outside of a public meeting may exclude the public from meetings that may otherwise be allowed to hear. In as much as the Village Council speaks through its minutes, all actions of the Village should be documented in the minute records with as much detail as possible, and with proper and accurate reference to supporting documentation. Without proper authorization, illegal transactions or payments could occur without the knowledge of the Village officials. Also, these records will provide Management with the needed future references for informed decision making, and be available for the public inspection of legislative decisions of the Village Council.

**FINDING NUMBER 2006-015
(Continued)**

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-016

Noncompliance Citation/Material Weakness

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

During the audit period, the Village did not provide complete documentation of the following items:

- Minutes for March and May 2006;
- Bank statements from April 2006;
- Deposit Slips for 8 of 12 (67%) months in 2006;
- Vouchers and supporting documentation for 44/179 (25%) of expenditures tested including the following:
 - Check # 2567 on 4/3/06 to the Hyatt in the amount of \$13.79 for Darby
 - Check # 2659 on 7/22/06 to Vivian Dearth in the amount of \$70 for grant writing CD's
 - Check # 2495 on 1/31/06 to Staples for \$326.06
 - Check # 2660 VISA charge to Verizon Wireless paid on 7/28/06 for \$57.74
 - Check # 2710 VISA charge to Lowe's paid on 9/15/06 for \$38.97
 - Check # 2439 VISA charges to Lowe's paid on 2/3/07 for \$5.86 and to Dell Marketing for \$966.99
- Supporting documentation for receipts; and
 - Restitution: (2/4 = 50%) of receipts tested
 - Miscellaneous: (17/26 = 65%) of receipts tested
 - Charges for Services (252/252 = 100%) of receipts tested
- Timecards for 14/41 paychecks (34%).

**FINDING NUMBER 2006-016
(Continued)**

We were unable to audit the General Fund's Charges for Services receipts or to perform alternative auditing procedures to ensure accountability over the applicable receipts. The Village should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records should be maintained in a secure central location, such as locked file cabinets or in a locked office, with access limited to specific officials and/or personnel. Disposal of records should only be made in accordance with an approved records retention schedule.

Proper documentation was not always attached to the vouchers to support the validity or proper posting of the expenditure; no documentation was presented that disbursements were authorized before payment; and no prior approval of bill payment was noted in the minutes. During our testing of non-payroll disbursements 25% of the expenditures tested did not have sufficient detail on the supporting documentation to evaluate whether it was for a proper public purpose. The lack of a system of approvals and documentation significantly increases the probability of expenditures being made that are not for a proper public purpose. Alternative auditing methods were used to determine the legitimacy of the expenditures and findings for recovery were issued for those items not supported by proper documentation.

We recommend the Clerk should attach vendor invoices and supporting documentation including, but not limited to, original itemized invoices of goods and services received and mileage logs, to the vouchers to support the validity of the expenditure and Village Council should institute procedures for the approval of the payment of bills. Vouchers should be signed by at least two Council members. No check should be signed, unless it is supported by detailed receipt or invoice. By having the voucher signed by two Council members and requiring a detailed receipt before the check is cut, the Village would ensure that the expenditures are properly approved.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-017

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code, Section 9.38, provides that public money must be deposited with the Fiscal Officer or with the designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited. During testing we noted the following items not deposited timely:

- Miscellaneous receipts: 11 of 26 (66%) receipts tested.
- Restitution receipts: 1 of 2 (50%) receipts tested.

Failing to deposit monies within the required time period could cause receipts to be susceptible to loss or theft.

We recommend the Village implement procedures to ensure deposits are made within one business day of receipt. As an alternative, the Village may adopt a policy permitting a different time period. Auditor of State Bulletin 99-020 provides further guidance on this issue.

**FINDING NUMBER 2006-017
(Continued)**

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-018

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that charges for services records are properly designed and maintained.
- Ensure adequate security of records.
- Plan for adequate segregation of duties or compensating controls.
- Verify the existence and valuation of charges for services receipts and periodically reconcile them to the accounting records.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.

Very few internal controls were noted to be in operation for the Village's trash collections, record keeping was inaccurate and inconsistent, and there appeared to be little progress on the part of either the Village Council or Management to develop appropriate administrative functions. Lack of controls and poor recordkeeping increases the risk that theft, fraud or errors could occur and not be detected in a timely manner.

The Village did not have adequate control procedures over the operation of the trash collections. The following conditions were noted:

- An accurate detailed accounting system for trash receipts was not maintained.
- Duplicate receipts were not issued for all monies received.
 - 252/252 (100%) of receipts
- Duplicate receipts issued by the Village could not always be traced to the corresponding bank deposit.
 - 252/252 (100%) of receipts
- Pay-ins were not issued for all monies received.
 - 252/252 (100%) of receipts

**FINDING NUMBER 2006-018
 (Continued)**

- There were many outstanding trash accounts with the Village (Per the Village spreadsheet at 12/31/06, 43 accounts totaling \$6,363.21 in outstanding fees).
- Village is paying Waste Management for 109 pick-ups. Village is not collecting enough from Village residents to pay the Village trash bill as detailed in the following table:

2006	
Amount to Bill @ 109 pick-ups	\$19,620
Amount collected per financial statements	<u>15,552</u>
Collection Shortage	<u>(\$4,068)</u>

109 pick-ups * \$15/month = \$1,635
 \$1,635 * 12 months/year = \$19,620

A subsidiary ledger should be maintained to account for daily trash receipts. This ledger should include the customer's name, amount paid, date paid, and the receipt number. The ledger should be totaled daily. Daily collections should be counted, agreed with the ledger total and duplicate receipts written, deposited in the Village bank depository, and a pay-in to the Village prepared. Monthly and year to date totals should be made and checked with the postings made in the Village cash journal. Establishing this subsidiary ledger for trash collection receipts would lessen the risk that errors or theft could occur and remain undetected.

The Village should monitor the number of customers monthly to assure the Village is not paying for more trash pickups than are necessary. The Village accounts receivable balances for trash collections are not accurate. The list of outstanding account balances at December 31, 2006 provided for audit showed a total of \$6,363.21. We calculated the outstanding account balance to be approximately \$15,609 solely based on uncollected, outstanding balances from 2004 through 2006. While the Village's outstanding accounts list presented for audit included many customers that had moved and had outstanding balances from prior years, the Village was still paying Waste Management for trash collection for these customers. In the prior audit, it was noted that the Village and its legal counsel have attempted to collect some past due accounts and have established a policy effective January 1, 2004 to cut off service if bills are not paid within 6 months. Regardless of whether this occurred, Waste Management continued to bill the Village for the same number of pick-ups throughout the current audit period.

We recommend that the Village review the customer accounts that still have large outstanding balances, and include them on the outstanding account balance list for collection. Once collection efforts fail, BPA and Council should contact Village Solicitor and approve writing off uncollectible accounts. In addition, we recommend the Village arrange to meet with Waste Management to re-evaluate the number of trash pick-ups the Village actually have. Collecting the amounts owed to the Village would aid in decreasing the Village's negative fund balances and potentially improve their financial situation.

Without accurate documentation as to who trash collections has been made from and from whom trash collections are owed, the Village is not meeting any of the controls criteria in regards to the Charges for Services in the General Fund. The outstanding trash account balances have been evident since prior to 2004, therefore the existence and/or occurrence of the amount is unable to be identified by the Village. The trash collections are intended to create revenue each month for the Village as evidenced by Waste Management billing \$10/pick-up and the Village billing each customer \$15/pick-up. Therefore having no source documentation for collections and not maintaining adequate records of outstanding accounts prohibits the assurance of completeness. With no documentation regarding who monies from been collected from and from whom monies are still owed to the Village, valuation and/or allocation is unable to be determined. The financial statements presentation and disclosure of the Charges for Services line item in the General Fund includes a revenues unable to be identified, which resulted in a qualified audit opinion.

**FINDING NUMBER 2006-018
(Continued)**

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-019

Significant Deficiency

A policies and procedures manual governing the activities of the Village outlines the specific authority level and responsibilities of individual employees, thus providing the essential foundation needed for establishing employee accountability. It also serves as a reference tool for employees seeking guidance on the less frequently encountered transactions and situations. A policies and procedures manual also serve to lessen the threat to continuity posed by employee turnover.

The Village also does not have formal policies which establish guidelines and requirements for usage of government credit cards, vehicles and cell phones. The Village should adopt a resolution that clearly establishes formal policies governing the usage of these items. The policies should, at a minimum, identify authorized users; guidelines for allowable use/purchases; method of reimbursement (if personal use is allowed); specific unallowable uses; reporting; monitoring of use by appropriate levels of management; and other guidelines deemed appropriate by the legislative body. Adoption of such policies will assist the Village in reducing the risk of fraud and theft inherent with usage of credit cards, government vehicles and cell phones.

In addition, the Village does not have a formal policy which establishes guidelines and requirements for reimbursement of travel expenses while on village business. The Village Council should adopt a resolution that clearly establishes a formal policy governing travel expense reimbursements. This policy should, at a minimum, identify the types of travel authorized; guidelines for allowable and unallowable expenses; limitations on amount of reimbursement; types of supporting documentation required for reimbursement requests; reporting; monitoring of use by appropriate levels of management; and other guidelines the legislative body deems appropriate. Adoption of such policy will assist the Village in reducing the risk of fraud and theft inherent with travel expense reimbursements. We noted the following travel allowance: Check #2566 paid on 3/31/06 to Vivian Dearth for \$100 for meals at OML spring conference. This allowance did not meet the accountable plan rules as defined by the IRS (no documentation was provided to substantiate the expense and was not included in her W-2. We recommend that and travel allowances, if required by the IRS, be included on the employees' W-2's as a taxable fringe benefit.

We recommend that the Village adopt a policies and procedures manual which addresses areas such as disbursements, awarding of contracts, hiring, promoting, evaluation and termination of employees, travel reimbursements, nondiscrimination, prohibiting the use of public funds for political purposes, drug free workplace, sick leave, overtime, compensatory time, and conflict of interest/ethics. The manual should be distributed to all Village officials and employees.

We also recommend the minutes clearly document the approval and details of these policies. Employees should sign a copy of the policy prior to its usage in order to ensure they understand what is expected of them and what is allowable. In addition, personal usage of a cell phone constitutes a taxable fringe benefit. We recommend that in addition to a cell phone policy, bills are reviewed for calls of a personal nature and if necessary, included on the employees' W-2's as a taxable fringe benefit.

Officials' Response:

We did not receive a response from the Officials to this finding.

FINDING NUMBER 2006-020

Material Weakness

All local public offices should maintain or provide a report similar to the following accounting records:

- (a) Payroll records including:
- i. W-2's, W-4's and other withholding records and authorizations.
 - ii. Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments.
 - iii. Check register that includes, in numerical sequence, the check number, payee, net amount, and the date.
 - iv. Information regarding nonmonetary benefits such as car usage and life insurance.
 - v. Information, by employee, regarding leave balances and usage.

Very few internal controls were noted to be in operation for the payroll disbursements process, record keeping was inaccurate and inconsistent, and there appeared to be little progress on the part of either the Village Council or Management to develop appropriate administrative functions. This causes significant concern and may create an environment which promotes future fraud.

The Village did not have adequate control procedures over the operation of the payroll disbursements process. The following conditions were noted:

- Village Council personnel files did not contain all necessary information regarding OPERS withholdings or exemptions.
- Medicare was not withheld at the correct rates.
- State and Federal withholdings were not remitted in proper amounts.

2006: Federal was under-remitted by \$331.16
State was under-remitted by \$434.83
- Timesheets were not used on a regular basis; could not be located for 14 of 41 (34%) pays
- Timesheets were not approved or reviewed for 27 of 27 (100%) pays. An appropriate supervisor or elected official should review and sign off on all time cards to verify the worked. By not reviewing timecards the Village significantly increases the probability of compensating employees for hours not worked.
- Village paid various penalties and fees to OPERS and IRS for late reporting and remittance of withholdings.
- Council members approved an in-term increase

**FINDING NUMBER 2006-020
(Continued)**

To assure payroll records are accurate, complete and to avoid unnecessary fines and penalties, Council should assure that individual payroll records are maintained, salaries are specifically set in the minutes records, all required forms are completed and submitted on a timely basis, and that all earnings are properly remitted. Creation of a policy manual which dictates payroll procedures could help alleviate future problem. Any pay raises should agree to the approved Policy Manual, the Ohio Revised Code and be documented in the Village Council minute records. As a result of not reviewing or requiring timesheets, the fiscal officer was paid at amounts in excess of Village Council minutes records. The overpayment of the Village Council and fiscal officer's pay resulted in findings for recovery. All of these items resulted in and are detailed in Findings 2006-001 and 2006-005. We recommend that the fiscal officer and Village Council establish a Policy Manual in accordance with the Ohio Revised Code and follow it when paying employee salaries. We also recommend that the Village contact the IRS to determine the status of their account to ensure filings are up to date.

Officials' Response:

We did not receive a response from the Officials to this finding.

**VILLAGE OF MIDLAND
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Finding for Recovery – Vivian Dearth	No	
2005-002	Finding for Recovery – Vivian Dearth Petty Cash & Staples Expenditures	No	
2005-003	Finding for Recovery – Vivian Dearth VISA Card Expenditures	No	
2005-004	Finding for Recovery – Vivian Dearth Marathon Gas Card Expenditures	No	
2005-005	Finding for Adjustment - \$30,000 Advance	No	Repeat as Finding 2006-006
2005-006	Ohio Rev. Code, Sections 5705.09(F), 4501.04, 5735.28 & 5735.23, failure to establish required funds & distribute funds as required.	No	Repeat as Finding 2006-007
2005-007	Ohio Rev. Code, Section 733.28 & Ohio Admin. Code, Section 117-2-02(D), failure to accurately prepare and maintain the financial records	No	Repeat as Finding 2006-008
2005-008	Ohio Rev. Code, Section 5705.10, negative fund balances	No	Included in Finding 2006-010
2005-009	Ohio Rev. Code, Section 5705.41 (D), failure to encumber funds	No	Repeat as Finding 2006-011
2005-010	Ohio Rev. Code, Sections 5705.38(A) & 5705.41 (B), failure to approve/submit annual appropriations & expenditures exceeding appropriations	No	Repeat as Finding 2006-012
2005-011	Ohio Rev. Code, Sections 5705.36(A)(2), failure to request an increased amended certificate and estimated receipts exceeding actual receipts	No	Repeat as Finding 2006-013

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

2005-012	Material Weakness – failure to create adequate control environment	No	Repeat as Finding 2006-014
2005-013	Noncompliance Citation/ Material Weakness – failure to maintain adequate minutes documentation	No	Repeat as Finding 2006-015
2005-014	Noncompliance Citation /Material Weakness – Destruction of Records	No	Repeat as Finding 2006-016
2005-015	Ohio Rev. Code, Section 9.38, failure to deposit timely	No	Repeat as Finding 2006-017
2005-016	Material Weakness - failure to maintain adequate controls over trash collections	No	Repeat as Finding 2006-018
2005-017	Reportable Condition – failure to establish policies	No	Included as Finding 2006-019
2005-018	Material Weakness – failure to maintain adequate controls over payroll disbursements	No	Included as Finding 2006-020



Mary Taylor, CPA
Auditor of State

VILLAGE OF MIDLAND

CLINTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 8, 2008**