

VILLAGE OF SOUTH SALEM

ROSS COUNTY

REGULAR AUDIT

JANUARY 1, 2004 THROUGH DECEMBER 31, 2005

YEARS AUDITED UNDER GAGAS: 2005 AND 2004

CAUDILL & ASSOCIATES CPA's

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725 5<sup>th</sup> Street  
Portsmouth, Ohio 45662





# Mary Taylor, CPA

Auditor of State

Village Council  
Village of South Salem  
P. O. Box 29  
South Salem, Ohio 45681

We have reviewed the *Independent Auditor's Report* of the Village of South Salem, Ross County, prepared by Caudill & Associates, CPA's, for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of South Salem is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

December 17, 2007

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**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

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# Caudill & Associates, CPA's

725 5<sup>th</sup> Street  
Portsmouth, OH 45662

Member American Institute of Certified Public Accountants

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## Independent Auditor's Report

Village of South Salem  
Ross County  
P.O. Box 29  
South Salem, Ohio 45681

To the Village Council:

We have audited the accompanying financial statements of the Village of South Salem (The Village), Ross County, Ohio, as of and for the years ended December 31, 2005 and 2004. 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 stated 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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also presenting its larger (i.e. major) funds separately for 2005 and 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, 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 years ended December 31, 2005 and 2004, do 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, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Village Council  
Village of South Salem  
Independent Auditor's Report  
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Management was unable to provide sufficient evidential matter supporting the amounts reported as sewer revenue for the years ending December 31, 2005 and December 31, 2004. Sewer revenue represented forty-eight percent (48%) and twenty-two percent (22%), respectively, of Village revenues for the years ending December 31, 2005 and December 31, 2004. We were unable to determine the validity of the sewer revenue through alternative procedures.

Also, in our opinion, except for the effect of such adjustment, if any, as might have been determined to be necessary had we been able to determine the validity of the amounts reported as sewer revenue for fiscal years 2005 and 2004, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2005 and 2004, 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 years ended December 31, 2005 and 2004. 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 November 16, 2007, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Caudill & Associates, CPA's*

Caudill & Associates, CPA's

November 16, 2007

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Governmental Funds Types</b>		
	General	Special Revenue	Totals (Memorandum Only)
<b><u>Cash Receipts</u></b>			
Property and Other Taxes	\$ 1,404	\$ -	\$ 1,404
Intergovernmental	32,532	6,458	38,990
Charges for Services	1,450	-	1,450
Licenses, Fines, and Permits	3,058	-	3,058
Earnings on Investments	4,983	604	5,587
Miscellaneous	142	-	142
Total Cash Receipts	43,569	7,062	50,631
<b><u>Disbursements:</u></b>			
General Government	34,140	86	34,226
Security of Persons and Property	12,581	-	12,581
Total Cash Disbursements	46,721	86	46,807
Total Receipts Over (Under) Disbursements	(3,152)	6,976	3,824
Fund Cash Balance, January 1	99,196	51,085	150,281
Fund Cash Balance, December 31	\$ 96,044	\$ 58,061	\$ 154,105

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

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
<b><u>Operating Cash Receipts:</u></b>	
Charges for Services	\$ 40,857
Total Operating Cash Receipts	<u>40,857</u>
<b><u>Operating Cash Disbursements:</u></b>	
Contractual Services	14,026
Other	48
Total Operating Cash Disbursements	<u>14,074</u>
Operating Income/(Loss)	<u>26,783</u>
<b><u>Non-Operating Cash Receipts:</u></b>	
Special Assessments	6,061
Total Non-Operating Cash Receipts	<u>6,061</u>
<b><u>Non-Operating Cash Disbursements:</u></b>	
Debt Service:	
Redemption of Principal	5,200
Interest and Other Fiscal Charges	25,512
Total Non-Operating Cash Disbursements	<u>30,712</u>
Receipts Over Disbursements Before Interfund Transfers	<u>2,132</u>
Transfers-In	35,304
Transfers-Out	<u>(35,304)</u>
Net Receipts Over/(Under) Disbursements	<u>2,132</u>
Fund Cash Balance, January 1	<u>47,342</u>
Fund Cash Balance December 31	<u>\$ 49,474</u>

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

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Funds Types</u>			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<b><u>Cash Receipts</u></b>				
Property and Other Taxes	\$ 1,150	\$ -	\$ -	\$ 1,150
Intergovernmental	114,797	5,527	30,000	150,324
Charges for Services	1,250	-	-	1,250
Licenses, Fines, and Permits	300	-	-	300
Earnings on Investments	3,552	408	-	3,960
Miscellaneous	225	-	-	225
Total Cash Receipts	<u>121,274</u>	<u>5,935</u>	<u>30,000</u>	<u>157,209</u>
<b><u>Disbursements:</u></b>				
General Government	36,290	38	-	36,328
Security of Persons and Property	7,249	-	-	7,249
Capital Outlay	-	-	30,000	30,000
Other	-	21	-	21
Total Cash Disbursements	<u>43,539</u>	<u>59</u>	<u>30,000</u>	<u>73,598</u>
Total Receipts Over (Under) Disbursements	<u>77,735</u>	<u>5,876</u>	<u>-</u>	<u>83,611</u>
Fund Cash Balance, January 1	<u>21,461</u>	<u>45,209</u>	<u>-</u>	<u>66,670</u>
Fund Cash Balance December 31	<u>\$ 99,196</u>	<u>\$ 51,085</u>	<u>\$ -</u>	<u>\$ 150,281</u>

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

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
<b><u>Operating Cash Receipts:</u></b>	
Charges for Services	\$ 41,995
Total Operating Cash Receipts	<u>41,995</u>
<b><u>Operating Cash Disbursements:</u></b>	
Contractual Services	6,995
Other	<u>20</u>
Total Operating Cash Disbursements	<u>7,015</u>
Operating Income/(Loss)	<u>34,980</u>
<b><u>Non-Operating Cash Receipts:</u></b>	
Special Assessments	<u>1,826</u>
Total Non-Operating Cash Receipts	<u>1,826</u>
<b><u>Non-Operating Cash Disbursements:</u></b>	
Debt Service:	
Redemption of Principal	5,100
Interest and Other Fiscal Charges	<u>25,755</u>
Total Non-Operating Cash Disbursements	<u>30,855</u>
Receipts Over Disbursements Before Interfund Transfers	5,951
Transfers-In	35,304
Transfers-Out	<u>(35,304)</u>
Net Receipts Over/(Under) Disbursements	<u>5,951</u>
Fund Cash Balance, January 1	<u>41,391</u>
Fund Cash Balance December 31	<u>\$ 47,342</u>

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

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of South Salem, Ross County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides sewer utilities and street maintenance. The Village contracts with the Ross County Sheriff's department to provide security of persons and property. The Village contracts with the City of Greenfield to provide fire protection services.

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

**B. Basis of Accounting**

These financial statements follow the basis of accounting 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 adequately disclose material matters the Auditor of State prescribes.

**C. Cash and Investments**

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or disbursements for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village maintains all of its funds in an interest bearing checking account and savings account.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Fund**

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

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 SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Enterprise Funds**

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

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

Sewer Sinking Fund – This fund receives transfers in from the Sewer Operating Fund to be used for the sanitary sewer bond repayment.

**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. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 commitments are made. The Village did not use the encumbrance method of accounting.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

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

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2005	2004
Demand deposits	\$203,579	\$197,623

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$31,000	\$43,569	\$12,569
Special Revenue	5,000	7,062	2,062
Enterprise	81,300	82,222	922
Total	\$117,300	\$132,853	\$15,553

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$48,041	\$46,721	\$1,320
Special Revenue	90	86	4
Enterprise	81,404	80,090	1,314
Total	\$129,535	\$126,897	\$2,638

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**3. BUDGETARY ACTIVITY (CONTINUED)**

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$150,180	\$121,274	(\$28,906)
Special Revenue	5,914	5,935	21
Enterprise	81,300	79,125	(2,175)
Capital Projects	0	30,000	30,000
Total	\$237,394	\$236,334	(\$1,060)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$74,000	\$43,539	\$30,461
Special Revenue	50,000	59	49,941
Enterprise	113,740	73,174	40,566
Capital Projects	0	30,000	(30,000)
Total	\$237,740	\$146,772	\$90,968

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

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

**5. DEBT**

Debt outstanding at December 31, 2005 was as follows:

	<b>Principal</b>	<b>Interest Rate</b>
Sanitary Sewer System Mortgage Revenue Bonds	\$531,900	4.75%

The Village issued sanitary sewer system mortgage revenue bonds for \$547,000 in June 2002 to pay the principle on the sanitary sewer revenue note for \$547,000 that matured in June 2002. The bonds will be repaid in annual installments ranging from \$28,922 to \$30,886, including interest, over 40 years. The bonds are collateralized by sanitary sewer receipts. The Village agreed to set utility rates sufficient to cover the debt service requirements.

As required by the mortgage revenue bond covenant, the Village has established a reserve fund, included as an enterprise fund. The balance in the fund at December 31, 2005 is \$10,836.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**5. DEBT (CONTINUED)**

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

	<b>Mortgage Revenue Bonds</b>
Year ending December 31:	
2006	\$30,865
2007	30,799
2008	30,724
2009	30,839
2010	30,735
2011 – 2015	154,025
2016 – 2020	154,002
2021 – 2025	153,877
2026 – 2030	154,055
2031 – 2035	153,957
2036 – 2040	153,921
2041 – 2042	<u>61,628</u>
Total	<u>\$1,139,427</u>

**6. RETIREMENT SYSTEM**

**A. Ohio Public Employees Retirement System (OPERS)**

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2005 and 2004, OPERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

**B. Social Security System**

The Village's elected officials or employees who are not otherwise covered by the Ohio Public Employees Retirement System (OPERS) have an option to choose Social Security or OPERS. As of December 31, 2005, three elected officials have elected Social Security. The liability to the Village is 6.2 percent of wages paid.

**7. RISK MANAGEMENT**

The Village has obtained commercial insurance for the following risks:

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

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**8. COMPLIANCE**

(1.) Contrary to Administrative Code Section 117-2-02 (D) the Village used manual ledgers for fiscal year 2004 and 2005 but did not properly update the receipts ledger to the cash ledger, thus understating revenue.

(2.) Contrary to Ohio Rev. Code Section 117.38 the Village did not file the 2004 financial statements until July 14, 2005 and failed to file the 2005 financial statements.

(3.) Contrary to Ohio Rev. Code Section 135.22B the Village Clerk/Treasurer did not attend any Auditor of State annual continuing education programs in 2004 and 2005 and failed to provide documentation of exemption status.

(4.) Contrary to Ohio Rev. Code Section 5705.28 the Village failed to adopt a tax budget by July 15<sup>th</sup> in each year of the audit period.

(5.) Contrary to Ohio Rev. Code Section 5705.34 the Village didn't document the authorization of the necessary tax levies. Ohio Rev. Code Section 5705.34 states that each taxing authority is to pass an ordinance or resolution to authorize the necessary tax levies. Each such authority is to certify the levies to the county auditor before October 1<sup>st</sup> unless a later date is approved by the tax commissioner.

(6.) Contrary to Ohio Rev. Code Section 5705.36 the Village failed to amend the certificate of estimated resources in 2004. Estimated receipts exceeded actual receipts in the Sewer Operating Fund and General Fund at December 31, 2004.

(7.) Contrary to Ohio Rev. Code Section 5705.39 appropriations exceeded total estimated resources in the Sewer Operating Fund in 2004.

(8.) Contrary to Ohio Rev. Code Section 5705.40 expenditures exceeded appropriations concerning the Capital Projects Fund in 2004 and the General Fund, at the legal level of control, in 2005. The Village did not pass any amended or supplemental appropriation measures either year.

(9.) Contrary to Ohio Rev. Code Section 5705.41(B) expenditures exceeded appropriations concerning the Capital Projects Fund in 2004 and the General Fund, at the legal level of control, in 2005.

(10.) Contrary to Ohio Rev. Code Section 5705.41 (D), the Village did not properly certify funds prior to a commitment being paid during 2004 and 2005. 100% of the expenditures in 2005 and 100% in 2004 tested were not properly certified contrary to Section 5705.41 (D).

(11.) Contrary to Ohio Rev. Code Section 4123.25 there are no records of payments to the Bureau of Workers' Compensation for half of 2004 and all of 2005. Estimated unpaid amount is \$1,333. The records were not retained by the Village.

(12.) U.S.C. 1.6041-1 states that a Village must report any sub-contractor payments totaling \$600 or more in a year to the IRS on Form 1099. In 2004 and 2005, payments made to sub-contractors over \$600 were not reported to the IRS.

(13.) Contrary to Ohio Rev. Code Section 149.351 the Village lacked sufficient documentation of customer account payments, such as payment amount, deposits, dates paid, and balances owed.

(14.) Contrary to Ohio Rev. Code Section 733.28 the Clerk/Treasurer did not account for all transactions on the books of the Village or the financial statements. During our test of debt, disbursements, and receipts it was noted the Clerk/Treasurer posted several receipts, disbursements, and debt payments to the incorrect line item and/or to the incorrect fund. This resulted in many reclassifications. We also noted discrepancies between the receipts/disbursement ledgers and the annual financial statements.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**8. COMPLIANCE (CONTINUED)**

(15.) Contrary to AOS Technical Bulletin 2002-004 it was noted that the Village received Issue II funding from OPWC during 2004 and posted the receipts and disbursements to the General Fund.

**9. RELATED PARTY TRANSACTION**

In 2004 and 2005, Robert Gill, husband of Council member Judith Gill was hired to provide mowing services for the Village. The Village paid Robert Gill \$805 in 2004 and \$1,600 in 2005.

In 2005, Mandy Jones, wife of Mayor, Barry Jones was paid \$300 to clean and rent the Academy building.

In May 2007, Leann Williams resigned from her position as Clerk/Treasurer. Council member, Vicki Smith was appointed by Council to the position of Clerk/Treasurer. Vicki Smith is the wife of Council member, Joe Smith.

**10. SUBSEQUENT EVENT**

In May 2007, Leann Williams resigned from her position as Clerk/Treasurer. Council member, Vicki Smith was appointed by Council to the position of Clerk/Treasurer.

**11. TRANSFERS**

Transfers are used to move revenues from funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; to return money to the fund from which it was originally provided once a project is completed; and to transfer capital assets.

The mortgage revenue bond covenant requires the Village to make deposits to several funds including: a sinking, reserve, and surplus fund. Deposits should be made to the sinking fund to pay the principal and interest of the bonds. Deposits should be made to the reserve fund until there is accumulated in such fund the sum of \$30,886, after which no further deposits need be made into such fund except to replace withdraws. Deposits should be made to the surplus fund to pay the principal and interest on the bonds to the extent the monies in the sinking fund and the reserve fund are insufficient. Therefore, the Village made a transfer from the Sewer Operating Fund in the amount of \$35,304 in both 2004 and 2005. \$31,008 was transferred to the sinking fund, \$3,096 to the reserve fund, and \$1,200 to the surplus fund.

# Caudill & Associates, CPA's

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Kentucky Society of Certified Public Accountants

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Village of South Salem  
P.O. Box 29  
South Salem, Ohio 45681

To the Village Council:

We have audited the accompanying cash-basis financial statements of The Village of South Salem (the Village), Ross County, as of and for the years ended December 31, 2005 and 2004, which collectively comprise the Village's financial statements, and have issued our report thereon dated November 16, 2007, which was qualified for lack of evidential matter regarding sewer revenues for fiscal years 2005 and 2004. We also noted the Village uses a comprehensive basis of accounting other than generally accepted accounting principles. Except for the scope limitation described above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the Village's internal control over financial reporting. Accordingly, we do not express an opinion 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 to be 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 a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting as items 2005-013, 2005-014, 2005-015, 2005-016, 2005-017, 2005-018, 2005-019, 2005-020, 2005-021, 2005-022, 2005-023, and 2005-024.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Village of South Salem

Ross County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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Our consideration of 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 internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal controls over financial reporting as items 2005-013, 2005-014, 2005-015, 2005-023, and 2005-024.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed fifteen instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Responses as items No. 2005-001, 2005-002, 2005-003, 2005-004, 2005-005, 2005-006, 2005-007, 2005-008, 2005-009, 2005-010, 2005-011, 2005-012, 2005-013, 2005-014, and 2005-015.

We noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated November 16, 2007.

The Village's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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

*Caudill & Associates, CPA's*

Caudill & Associates, CPA's  
November 16, 2007

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**Noncompliance Citation – Ohio Administrative Code Section 117-2-02(D)**

Ohio Administrative Code Section 117-2-02(D) states that 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.

The Village used manual ledgers for fiscal year 2004 and 2005 but did not properly update the receipts ledger to the cash ledger, thus understating revenue.

We recommend the Village Clerk/Treasurer implement an accounting system to properly record revenues and expenditures to the cash journal and other required ledgers to prevent a material misstatement.

**Village Response:**

The Village Clerk/Treasurer will implement an accounting system to properly record revenues and expenditures to the cash journal and other required ledgers in order to prevent a material misstatement.

**FINDING NUMBER 2005-002**

**Noncompliance Citation – Ohio Rev. Code Section 117.38**

Ohio Rev. Code Section 117.38 states that cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains not filed, and this is not to exceed \$750. Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

The Village did not file the 2004 financial statement until July 14, 2005 and failed to file the 2005 financial statements.

We recommend the Village file financial reports accurately and consistently within AOS requirements to avoid possible penalties, and subsequently publish notice of availability of the report for inspection.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-002 (CONTINUED)**

**Village Response:**

Village officials will file financial reports accurately and consistently within AOS requirements and publish notice of availability of the report for inspection.

**FINDING NUMBER 2005-003**

**Noncompliance Citation – Ohio Rev. Code Section 135.22B**

Ohio Rev. Code Section 135.22B states to enhance the background and working knowledge of treasurers in investments, cash management and ethics, the treasurer of State shall provide annual continuing education for treasurers. A treasurer annually shall complete the continuing education programs unless the treasurer annually provides a notice of exemption.

The Village Clerk/Treasurer did not attend any Auditor of State annual continuing education programs in 2004 and 2005 and failed to provide documentation of exemption status.

We recommend the Village Clerk/Treasurer attend the annual continuing education programs or provide a notice of exemption annually to the Treasurer of the State of Ohio.

**Village Response:**

The Village Clerk/Treasurer will attend the annual continuing education programs or provide a notice of exemption annually to the Treasurer of the State of Ohio.

**FINDING NUMBER 2005-004**

**Noncompliance Citation – Ohio Rev. Code Section 5705.28**

Ohio Rev. Code Section 5705.28 states, on or before July 15 (January 15 for school districts), in each year, the taxing authority of each subdivision or other taxing unit must adopt a tax budget for the succeeding fiscal year.

The Village failed to adopt a tax budget by July 15<sup>th</sup> in each year of the audit period.

We recommend the Village begin adopting the tax budget on or before July 15<sup>th</sup> and document doing so in the minutes.

**Village Response:**

Village officials will adopt a tax budget by July 15<sup>th</sup> each year and document doing so in the minutes.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-005**

**Noncompliance Citation – Certifying Tax Levies**

Ohio Rev. Code Section 5705.34 states that each taxing authority is to pass an ordinance or resolution to authorize the necessary tax levies. Each such authority is to certify the levies to the county auditor before October 1<sup>st</sup> unless a later date is approved by the tax commissioner.

Due to the lack of documentation in the minutes, we were unable to determine if the taxing authority authorized the necessary rates and certified them to the County Auditor on or before the required date.

We recommend the Village certify all tax levies before October 1<sup>st</sup> as required by 5705.34 and document the certification in the Village minutes.

**Village Response:**

Village officials will certify all tax levies before October 1<sup>st</sup> and document this in the Village minutes.

**FINDING NUMBER 2005-006**

**Noncompliance Citation – Amended Certificate of Estimated Resources**

Ohio Rev. Code Section 5705.36 allows all subdivisions to request increased 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. Ohio Rev. Code Section 5705.36 provides that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code Section 5705.36 provides that a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

The Village failed to amend the certificate of estimated resources in 2004. Estimated receipts exceeded actual receipts in the Sewer Operating Fund and General Fund at December 31, 2004.

We recommend the Village Clerk obtain a reduced certificate of estimated resources when it is determined that estimated receipts will be less than actual receipts.

**Village Response:**

The Clerk/Treasurer will secure an amended certificate of estimated resources when it is determined that estimated receipts will be less than actual receipts.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-007**

**Noncompliance Citation – Appropriations Exceeding Estimated Resources**

Ohio Rev. Code Section 5705.39 states that the total appropriations from each fund shall not exceed the total estimated revenue.

Appropriations exceeded total estimated resources in the Sewer Operating Fund in 2004.

We recommend the Clerk/Treasurer monitor the Village's estimated resources versus appropriations. The Village should develop sound budgetary procedures as to prevent appropriations to exceed the total estimated resources as certified by the county auditor.

**Village Response:**

The Clerk/Treasurer will monitor the Village's estimated resources versus appropriations on a regular basis.

**FINDING NUMBER 2005-008**

**Noncompliance Citation – Ohio Rev. Code Section 5705.40**

The Ohio Rev. Code Section 5705.40 states any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation.

Expenditures exceeded appropriations concerning the Capital Projects Fund in 2004 and the General Fund, at the legal level of control, in 2005.

The Village did not pass any amended or supplemental appropriation measures either year.

The Village should pass amendments in order to avoid expenditures exceeding appropriations.

**Village Response:**

Village officials will pass appropriation amendments in order to avoid expenditures exceeding appropriations.

**FINDING NUMBER 2005-009**

**Noncompliance Citation – Expenditures Exceeding Appropriations**

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been appropriated.

Expenditures exceeded appropriations concerning the Capital Projects Fund in 2004 and the General Fund, at the legal level of control, in 2005.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-009 (CONTINUED)**

The Village Clerk should deny payment requests and not certify the availability of funds exceeding appropriations. The Village Clerk may request Council to approved increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**Village Response:**

The Village Clerk will deny payment requests and not certify the availability of funds exceeding appropriations.

**FINDING NUMBER 2005-010**

**Noncompliance Citation – Certification of Funds**

Ohio Rev. Code Section 5705.41 (D)(1) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by Ohio Rev. Code Section 5705.41 (D)(1):

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, 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 taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

100% of the expenditures tested were not properly certified in 2005 and 100% in 2004.

We recommend the Village implement policies to ensure that all purchases first have monies certified by the Fiscal Officer before purchasing or ordering an item. We also recommend the use of a "then and now" certificate in instances of emergency or absence of proper authority.

**Village Response:**

Village officials will monitor the proper certifying of expenditures more closely.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-011**

**Noncompliance Citation – Ohio Rev. Code Section 4123.25**

Ohio Rev. Code Section 4123.25 states that no employer shall knowingly misrepresent to the bureau of workers' compensation the amount or classification of payroll upon which the premium under this chapter is based. Whoever violates this division shall be liable to the state in an amount determined by the administrator of worker's compensation for not more than ten times the amount of the difference between the premium paid and the amount the employer should have been paid. The liability to the state under this division may be enforced in a civil action in the name of the state, and all sums collected under this division shall be paid into the state insurance fund.

There are no records of payments to the Bureau of Workers' Compensation for half of 2004 and all of 2005. Estimated unpaid amount is \$1,333.22. The records were not retained by the Village.

The Village should ensure that all Bureau of Workers' Compensation reports be performed in an accurate and timely manner based upon the payroll expenditures and proper job classification.

**Village Response:**

Village officials will ensure that all Bureau of Workers' Compensation reports are performed accurately and timely based upon the payroll expenditures and proper job classification. The Village should retain all payments and reports concerning the Bureau of Workers' Compensation.

**FINDING NUMBER 2005-012**

**Noncompliance Citation – Form 1099**

U.S.C. 1.6041-1 states that a Village must report any sub-contractor payments totaling \$600 or more in a year to the IRS on Form 1099. In 2004 and 2005, payments made to sub-contractors over \$600 were not reported to the IRS.

In 2004, \$16,446 was not reported and in 2005, \$1,600 was not reported.

We recommend that the Village obtain copies of employer identification numbers or social security numbers of every service vendor or sub-contractor and report it on a 1099s-Misc form if amounts equal \$600 or more within a calendar year.

**Village Response:**

Village officials will file Form 1099 for any sub-contractor payments totaling \$600 or more within a calendar year.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-013**

**Noncompliance Citation/Significant Deficiency/Material Weakness – Ohio Rev. Code Section 149.351**

Ohio Rev. Code Section 149.351 establishes guidelines against the destruction or damage of records. All records are property of the Village and shall not be removed, destroyed, mutilated, or otherwise damaged or disposed of, in whole or part, except as provided by law or under rules adopted by the records commissions provided under Ohio Rev. Code Sections 149.38 to 149.42.

During the audit period, the Village lacked sufficient documentation of customer account payments, such as payment amount, deposits, dates paid, and balances owed.

Lack of supporting documentation could result in the Village making inappropriate entries for receipts not actually received, or for payments received but not booked, and could allow errors and irregularities or fraud to occur and go unnoticed for an extended period of time.

We recommend receipts have supporting documentation, such as deposit slips and a customer subsidiary ledger. We also recommend a monthly reconciliation be approved by Council of all charges for services receipts.

**Village Response:**

The Village Clerk/Treasurer will maintain supporting documentation such as deposit slips and a customer subsidiary ledger. Village Council will approve all monthly reconciliations performed by the Clerk/Treasurer.

**FINDING NUMBER 2005-014**

**Noncompliance Citation/Significant Deficiency/Material Weakness – Ohio Rev. Code Section 733.28**

Ohio Rev. Code Section 733.28 states, in part, that the village clerk shall keep the books of the village, exhibit accurate statements of all moneys received and expended, of all the property owned by the village and the income derived there-from, and of all taxes and assessments.

During our test of debt, disbursements, and receipts it was noted the Village Clerk/Treasurer posted several receipts, disbursements and debt payments to the incorrect line item and/or to the incorrect fund. This resulted in many reclassifications.

We also noted discrepancies between the receipts/disbursement ledgers and the annual financial statements.

The Village should properly record all transactions in the books of the Village. We recommend the Clerk/Treasurer review the Village Officer's Handbook chart of accounts to determine the correct coding of receipts and disbursements.

**Village Response:**

Village officials will ensure all transactions are recorded to the Village books. Reference will be made to

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

**FINDING NUMBER 2005-014 (CONTINUED)**

the Village Officer's Handbook chart of accounts.

**FINDING NUMBER 2005-015**

**Noncompliance Citation/Significant Deficiency/Material Weakness – Creation of Capital Projects Fund**

Per AOS Technical Bulletin 2002-004, all local governments participating in Issue II Funds (single or multi-project grant) must, for each project awarded, establish a capital projects fund to account for both the Issue II monies and local matching funds. It is not necessary to obtain authorization from the AOS to establish the funds because authority exists under Section 5705.09 of the Ohio Rev. Code.

During our test of non-payroll disbursements and confirmable revenue, it was noted that the Village received Issue II funding from OPWC during 2004 and posted the receipts and disbursements to the General Fund. This could result in receipts and disbursements being materially misstated.

We recommend the Village post all future Issue II receipts to a capital projects fund.

**Village Response:**

Village officials will post all future Issue II receipts to a capital projects fund.

**FINDING NUMBER 2005-016**

**Significant Deficiency – Timely Deposits**

Currently, all cash receipts are deposited with the Clerk/Treasurer; however, the receipts are not deposited with the Village's financial institution in a timely manner. Failure to deposit receipts with the Village's financial institution could lead to a loss of revenue in the form of interest and an increased risk of theft or loss.

We recommend Village Council adopt a policy regarding deposits, including a time frame in which deposits are to be made and the amount which may be held at the Village office.

**Village Response:**

Village officials will adopt a policy regarding deposits.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-017**

**Significant Deficiency – Posting of Intergovernmental Revenue**

All revenue should be posted in accordance with the Auditor of State Account Codes, and properly reflect the gross amounts reported on the settlement sheets.

There were numerous errors in the posting of intergovernmental and tax revenue to the proper classifications during the audit period.

Failure to post receipts to the correct funds and in accurate amounts could result in a material misstatement of the financial statements.

We recommend procedures be implemented to assure that all receipts are posted to the accurate fund and line item according to the amounts on the settlement sheets received from the State of Ohio or the County Auditor's Office.

**Village Response:**

Village officials will implement procedures to assure that all receipts are posted to the accurate fund and line item according to the amounts on the settlement sheets received from the State of Ohio or the County Auditor's Office.

**FINDING NUMBER 2005-018**

**Significant Deficiency – Time Sheet Supervision**

In 2005 and 2004, timesheets for employees were not signed by a supervisor.

Failure to review and authorize timesheets could lead to errors and discrepancies in hours compensated.

The Council should develop and adopt appropriate procedures to ensure that all time sheets are properly reviewed and authorized.

**Village Response:**

Village Council will develop and adopt appropriate procedures to ensure that all time sheets are properly reviewed and authorized.

**FINDING NUMBER 2005-019**

**Significant Deficiency – Financial Monitoring**

The Village Clerk prepares a monthly spreadsheet that includes the bank reconciliation and month-to-date and year-to-date receipts and disbursements. However, only the month-to-date disbursements are presented to the Village Council for review and approval.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-019 (CONTINUED)**

Pertinent financial information, such as bank reconciliations and revenues and expenditure reports should be monitored by the Village Council on a regular basis.

Due to lack of such monitoring controls, errors and/or irregularities could occur and go undetected for an extended period of time.

We recommend the Village Clerk present Council with the monthly spreadsheet that shows the bank reconciliation and the month-to-date and year-to-date receipts and disbursements. Supporting documentation, such as bank statements and investment confirmations could also be provided. We further recommend the Village Council's review and approval of those items be documented in the minutes.

**Village Response:**

The Village Clerk/Treasurer will present Council with the monthly spreadsheet that shows the bank reconciliation and the month-to-date and year-to-date receipts and disbursements. Council's review and approval will be documented in the minutes.

**FINDING NUMBER 2005-020**

**Significant Deficiency – Delinquent Sewer Accounts**

The Village does not have a formal policy for the monitoring of delinquent sewer accounts and did not monitor any delinquent accounts during the audit period.

By not monitoring delinquent accounts, the Village has an increased risk of not receiving monies owed, or overcharging for sewer utilities.

The Village should adopt a policy detailing the methodology used to distinguish sewer accounts from uncollectible and the procedures for collecting on delinquent accounts. This policy should address the following issues: the monitoring and frequency of review for delinquent accounts, the procedures to be utilized in an attempt to collect a delinquent account, the period of time an account may remain delinquent before being classified as uncollectible, and the procedures for writing off an account as uncollectible.

The Village Council should adopt a policy detailing the methodology used to monitor delinquent sewer accounts.

**Village Response:**

Village Council will adopt a policy detailing the methodology used to monitor delinquent sewer accounts.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-021**

**Significant Deficiency – Reconciliation of Customer Accounts**

Monthly reconciliations of customer accounts should be performed; however no customer payments were reconciled to the customer subsidiary ledger or bank statements in 2004 or 2005.

Failure to perform accurate charges for services reconciliations could lead to unauthorized or inaccurate transactions occurring and going undetected.

We recommend monthly charges for services reconciliations are performed accurately and in a timely manner. Monthly reconciliations and monthly reports should be provided to Village Council by the Clerk at each regular meeting to facilitate effective monitoring of Village financial activity. Village Council's review of the monthly reconciliations and financial reports should be documented in the minutes.

**Village Response:**

Monthly reconciliations will be performed in an accurate and timely manner and presented to Council at each regular meeting.

**FINDING NUMBER 2005-022**

**Significant Deficiency – Segregation of Duties**

In an entity the size of the Village, it is usually not cost effective to employ the basic internal accounting controls necessary to provide management with a reasonable assurance that all related procedures are functioning properly. The Clerk is responsible for all functions relating to the accounting records.

Without the proper separation of duties, there is the possibility that errors or irregularities could occur and not be detected in a timely period.

To strengthen internal accounting and administrative controls, we recommend that a finance committee be appointed, comprised of members of the Council, to periodically review monthly financial statements to determine; whether proper accounting procedures are being followed; and that the bank reconciliations, cash journal and ledgers support the statements submitted.

In addition to performing such a review, officials' signatures or initials should be affixed to the documents reviewed, and a notation of such review and the results thereof should be noted in the Village minutes.

**Village's Response:**

The Village Council will develop internal control procedures that make, to the best extent possible, the segregation of duties for the receipting, expenditure, and cycles, and for the reconciliation of records.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2005 AND 2004**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-023**

**Significant Deficiency/Material Weakness – Budgeted Amounts Not Properly Posted to Ledgers**

Estimated receipts and appropriations posted to the Village’s receipt and expenditure ledgers varied significantly from the estimated receipts per the Amended Official Certificates of Estimated Resources and the Village’s appropriations resolutions in several funds in 2004 and 2005.

Estimated receipts as approved on the Amended Official Certificates of Estimated Resources and appropriations per the appropriations resolutions should be accurately reflected in the Village’s receipt and expenditure ledgers to allow for proper monitoring of budget versus actual activity.

We recommend the Village ensure that approved estimated receipts and appropriations are accurately posted to the receipts and expenditures ledgers and that Council monitor budget versus actual activity for any unusual or unexpected variances.

**Village Response:**

Village officials will ensure that approved estimated receipts and appropriations are accurately posted to the receipts and expenditures ledgers. Council will monitor budget versus actual activity for any unusual or unexpected variances.

**FINDING NUMBER 2005-024**

**Significant Deficiency/Material Weakness – Bank Reconciliations**

In 2005, the Village bank reconciliations were not completed accurately. The Village’s inability to get the books in balance with the bank resulted in an understatement of cash at year end. Furthermore, Village Council did not review and approve monthly reconciliations.

Failure by the Clerk/Treasurer to accurately perform and consistently present bank reconciliations to Village Council compromises the internal control environment of the Village.

The Clerk/Treasurer should perform accurate reconciliations on a monthly basis. Monthly reconciliations and monthly financial reports should be provided to Village Council by the Clerk/Treasurer at each regular meeting to facilitate the effective monitoring of Village financial activity. Furthermore, Village Council’s review of monthly reconciliations and financial reports should be documented in the minutes.

**Village Response:**

The Village Council will review and approve all bank reconciliations and monthly financial reports and the Clerk/Treasurer will document the review in the minutes.

**Village of South Salem**  
**Ross County**  
*Schedule of Prior Audit Findings*  
*For the Fiscal Years Ended December 31, 2005 and 2004*

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Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	ORC Section – 5705.39	No	Repeated as Finding 2005-007
2003-002	ORC Section – 5705.40	No	Repeated as Finding 2005-008
2003-003	ORC Section – 5705.41(B)	No	Repeated as Finding 2005-009
2003-004	ORC Section – 5705.41(D)	No	Repeated as Finding 2005-010



**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF SOUTH SALEM**

**ROSS 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  
JANUARY 3, 2008**