



Dave Yost • Auditor of State

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Coal Grove
Lawrence County
513 Carlton Davidson Lane
Coal Grove, Ohio 45638

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Coal Grove, Lawrence County, Ohio (the Village), as of and for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012, or changes in financial position thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Coal Grove, Lawrence County, Ohio as of December 31, 2012, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

Emphasis of Matter

As discussed in Note 2 to the financial statements, for 2011, the Village of Coal Grove reported using the other cash basis of accounting (OCBOA) which reported fund financial statements which presented each major fund in a separate column with nonmajor funds aggregated and presented in a single column. For 2012, the Village reported fund financial statements by fund type using the regulatory basis of accounting prescribed by the State Auditor's Office. The fund financial statements now present a column for each fund type. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

December 12, 2013

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**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$48,419			\$48,419
Municipal Income Tax	257,035			257,035
Intergovernmental	23,521	\$175,579		199,100
Special Assessments			\$89,093	89,093
Charges for Services	1,575	4		1,579
Fines, Licenses and Permits	221,075	1,868		222,943
Miscellaneous	22,002	4,231		26,233
<i>Total Cash Receipts</i>	<u>573,627</u>	<u>181,682</u>	<u>89,093</u>	<u>844,402</u>
Cash Disbursements				
Current:				
Security of Persons and Property	356,464	2,421		358,885
Leisure Time Activities	10,001			10,001
Community Environment	445			445
Transportation		68,492		68,492
General Government	203,911			203,911
Capital Outlay		139,073	70,912	209,985
Debt Service:				
Principal Retirement	40,000			40,000
Interest and Fiscal Charges	985			985
<i>Total Cash Disbursements</i>	<u>611,806</u>	<u>209,986</u>	<u>70,912</u>	<u>892,704</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(38,179)</u>	<u>(28,304)</u>	<u>18,181</u>	<u>(48,302)</u>
Other Financing Receipts (Disbursements)				
Sale of Notes	30,000			30,000
Other Debt Proceeds		60,055		60,055
Sale of Capital Assets	7,100			7,100
Advances In	32,259	5,470		37,729
Advances Out	(50,228)		(29,675)	(79,903)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>19,131</u>	<u>65,525</u>	<u>(29,675)</u>	<u>54,981</u>
<i>Net Change in Fund Cash Balances</i>	<u>(19,048)</u>	<u>37,221</u>	<u>(11,494)</u>	<u>6,679</u>
<i>Fund Cash Balances, January 1 (Restated - See Note 2)</i>	<u>36,974</u>	<u>13,008</u>	<u>73,955</u>	<u>123,937</u>
Fund Cash Balances, December 31				
Restricted		49,700		49,700
Committed			62,461	62,461
Assigned		529		529
Unassigned (Deficit)	17,926			17,926
<i>Fund Cash Balances, December 31</i>	<u>\$17,926</u>	<u>\$50,229</u>	<u>\$62,461</u>	<u>\$130,616</u>

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

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$859,723		\$859,723
<i>Total Operating Cash Receipts</i>	<u>859,723</u>	<u>\$0</u>	<u>859,723</u>
Operating Cash Disbursements			
Personal Services	344,490		344,490
Employee Fringe Benefits	198,933		198,933
Contractual Services	199,126		199,126
Supplies and Materials	101,507		101,507
Other	10,081		10,081
<i>Total Operating Cash Disbursements</i>	<u>854,137</u>	<u>0</u>	<u>854,137</u>
<i>Operating Income (Loss)</i>	<u>5,586</u>	<u>0</u>	<u>5,586</u>
Non-Operating Receipts (Disbursements)			
Special Assessments	44,372		44,372
Miscellaneous Receipts	6,266		6,266
Principal Retirement	(54,000)		(54,000)
Interest and Other Fiscal Charges	(17,474)		(17,474)
Other Financing Sources		247,572	247,572
Other Financing Uses		(236,486)	(236,486)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(20,836)</u>	<u>11,086</u>	<u>(9,750)</u>
<i>Income (Loss) before Advances</i>	(15,250)	11,086	(4,164)
Advances In	74,433		74,433
Advances Out	(32,259)		(32,259)
<i>Net Change in Fund Cash Balances</i>	26,924	11,086	38,010
<i>Fund Cash Balances, January 1</i>	<u>65,716</u>	<u>9,494</u>	<u>75,210</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$92,640</u></u>	<u><u>\$20,580</u></u>	<u><u>\$113,220</u></u>

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

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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 Coal Grove, Lawrence County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, water and sewer utilities, maintenance of Village roads and bridges, park operations, and police services. The Village appropriates general fund money to support a volunteer fire department.

The Village participates in a public entity risk pool. Note 9 to the financial statements provides additional information for this entity. This organization is the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

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. Deposits and Investments

The Village has no investments.

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

Federal Fund - This fund receives grant monies utilized to upgrade the utility system.

Federal Emergency Management Agency (e.g. FEMA) Fund - This fund receives FEMA grant monies for natural disasters.

3. Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant Capital Project Fund:

Capital Improvement Fund – This fund receives a user fee that residents pay through utility billings which is used for any capital improvements needed for the Village.

4. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents and commercial users to cover water service costs.

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

4. Enterprise Funds (Continued)

Sewer Fund - This fund receives charges for services from residents and commercial users to cover sewer service costs.

5. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs. The Village does not have any private purpose trust funds.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for the Mayor's Court.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The 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.

A summary of 2012 budgetary activity appears in Note 4.

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. **Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. **Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. **Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. **Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. **Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

G. 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.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Change in Accounting Principle, Change in Basis of Accounting and Restatement of Fund Balances

For 2011, the Village reported using the other cash basis of accounting (OCBOA) which reported fund financial statements which presented each major fund in a separate column with nonmajor funds aggregated and presented in a single column. The Federal Fund and Capital Improvement Fund were major funds with December 31, 2011 balances of \$194 and \$73,955, respectively. Other Governmental Funds were comprised of the Street Fund (\$6,293), State Highway Fund (\$3,390), Federal Emergency Management Agency Fund (\$180), Ohio Public Works Commission Fund (\$529), Drug Law Enforcement Fund (\$50), Drug Enforcement and Education Fund (\$184), Special Assessment – Fire Truck Fee Fund (\$21), and Street Light Levy Fund (\$2,167) for a total of \$12,814 at December 31, 2011. For 2012, the Village reported fund financial statements by fund type using the regulatory basis of accounting prescribed by the State Auditor’s Office. The fund financial statements now present a column for each fund type. The Federal Fund, Street Fund, State Highway Fund, Federal Emergency Management Agency Fund, Ohio Public Works Commission Fund, Drug Law Enforcement Fund, Drug Enforcement and Education Fund, Special Assessment – Fire Truck Fee Fund, and Street Light Levy Fund make up the Special Revenue Funds with a restated January 1, 2012 balance of \$13,008 while the Capital Improvement Fund is the only Capital Projects Fund with a restated January 1, 2012 balance of \$73,955.

3. Equity in Pooled Deposits

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

	<u>2012</u>
Demand deposits	\$243,836

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

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

4. Budgetary Activity

Budgetary activity for the year ending 2012 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$579,454	\$642,986	\$63,532
Special Revenue	271,226	247,207	(24,019)
Capital Projects	89,050	89,093	43
Enterprise	939,695	984,794	45,099
Total	\$1,879,425	\$1,964,080	\$84,655

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$603,297	\$668,223	(\$64,926)
Special Revenue	278,151	212,027	66,124
Capital Projects	129,675	100,587	29,088
Enterprise	964,211	970,039	(5,828)
Total	\$1,975,334	\$1,950,876	\$24,458

Contrary to Ohio law, the Village did not properly encumber. Also, contrary to Ohio law, at December 31, 2012, budgetary expenditures exceeded appropriation authority in the General Fund and Water Fund.

5. 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.

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 COAL GROVE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

6. Local Income Tax

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

7. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
1988 OWDA Loan #2642 (\$707,721)	\$16,279	8.26%
1990 Special Assessment Bonds (\$495,000)	293,200	5.00%
2008 Water Well Loan (\$30,000)	1,073	4.62%
2010 OWDA Loan #5252 (\$90,956)	81,536	0.00%
2012 OWDA Loan #5824 (\$273,432)	270,084	2.00%
2012 Bond Anticipation Note	30,000	2.25%
Total	\$692,172	

The 1988 Ohio Water Development Authority (OWDA) loan relates to a sewer system expansion project that was mandated by the Ohio Environmental Protection Agency. The loan is secured by sewer receipts. The Village has agreed to set utility rates to cover OWDA debt service requirements.

The special assessment bonds were obtained for the purpose of paying the costs of constructing improvement to the Village's wastewater system. Special assessments are being levied for the repayment of this issuance. The full faith, credit and revenue of the Village are pledged for the payment of this issue.

The water well loan was obtained for the purpose of paying for emergency repairs to a water well. The full faith, credit and revenue of the Village are pledged for the payment of the loan.

In 2009, the Village began a water system improvement project which included an OWDA loan, totaling \$90,596, and American Recovery Reinvestment Act (ARRA) OWDA principal forgiveness (e.g. grant) monies, totaling \$361,124. In 2009, \$41,866 of loan proceeds were received and posted to the accounting system; however, since the loan was not complete it was not included in the schedule of debt outstanding. In 2010, \$48,730 of loan proceeds were received and posted to the accounting system. This project was completed during 2010 and is, therefore, included in the schedule above. The loan has a 0% interest rate for 30 years. The Village has agreed to set utility rates to cover OWDA debt service requirements.

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

7. Debt (Continued)

In 2011, the Village began a water system improvement project which included an OWDA loan, totaling \$452,121. As of January 1, 2012, only \$213,377 of the loan monies had been disbursed by OWDA on behalf of the Village. An additional \$60,055 of the loan monies was disbursed by OWDA on behalf of the Village in 2012 for a total of \$273,432. Due to the fact that not all loan monies were disbursed by OWDA on behalf of the Village by December 31, 2012, a loan amortization schedule has not been finalized by OWDA. However, the Village made a payment totaling \$3,348.02 during 2012. The loan has a 2.0% interest rate for 30 years. The Village has agreed to set utility rates to cover OWDA debt service requirements.

The bond anticipation note originated for \$150,000 for the purchase of a wood chipper, a tractor, and to pave streets in disrepair. All note proceeds have been spent at December 31, 2012. A \$10,000 payment to principal plus the interest is paid each year and a new note issued for the balance. The bond anticipation note is backed by the full faith and credit of the Village and matures in 2013.

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

Year ending December 31:	OWDA Loans	Special Assessment Bonds	Water Well Loan
2013	\$21,144	\$29,660	\$1,077
2014	3,020	29,610	
2015	3,020	29,625	
2016	3,020	29,600	
2017	3,020	148,020	
2018-2022	15,099	177,765	
2023-2027	15,099		
2028-2032	15,099		
2033-2037	15,099		
2038-2040	6,041		
Total	<u>\$99,661</u>	<u>\$444,280</u>	<u>\$1,077</u>

8. Retirement Systems

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012, OP&F participants contributed 10% of their wages. For 2012, the Village contributed 19.5% of full-time police members' wages. For 2012, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village underpaid OP&F in 2012 in the amount of \$841.40 due to the voiding of a check to OP&F on December 31, 2012 that was never submitted to the agency. The Village has paid all OPERS contributions required through December 31, 2012. However, as of October 2, 2013, the Village owed \$1,800.64 to OPERS in delinquent fees, penalties and interest on reports which were filed through June 2013.

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

9. Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets	\$13,100,381	\$12,501,280
Liabilities	(6,687,193)	(5,328,761)
Members' Equity	<u>\$6,413,188</u>	<u>\$7,172,519</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)

10. Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

11. Significant Commitments

The Village utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the Village's commitments for encumbrances were as follows:

<u>Fund</u>	<u>2012 Amount</u>
General	\$6,189
Special Revenue	2,041
Enterprise	12,169
Total	<u><u>\$20,399</u></u>



Dave Yost • Auditor of State

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

Village of Coal Grove
Lawrence County
513 Carlton Davidson Lane
Coal Grove, Ohio 45638

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Coal Grove, Lawrence County, Ohio (the Village), as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2013 wherein we noted that Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying Schedule of Findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider Findings 2012-001 and 2012-004 described in the accompanying Schedule of Findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Findings 2012-005 through 2012-007 described in the accompanying Schedule of Findings to be significant deficiencies.

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, opining 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 we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2012-001 through 2012-003 and 2012-008.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 12, 2013

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 733.28 requires the Village Clerk to maintain the books of the Village and exhibit accurate statements of all monies received and expended.

Ohio Admin. Code Section 117-2-02(A) requires public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements. Per Ohio Admin. Code Section 117-2-02(D), accounting records that can help achieve these objectives include:

1. Cash journal, which typically includes 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 payor, purpose, receipt number, and other information required for such transactions to be recorded on this ledger.
3. Appropriation ledger, which assembles and classifies disbursements 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.

Using these accounting records will provide the Village with information required to monitor compliance with the budget and prepare annual reports in the format required by the Auditor of State.

The Village utilized the UAN accounting system which provided all of the required journals and ledgers. The UAN software also includes a monthly reconciliation process to assist the Clerk/Treasurer in the monthly book to bank reconciliation. Although the monthly reconciliations were included in the accounting records, some were not prepared until several months after the month end. In addition, several items were noted during testing which indicated the underlying accounting records were inaccurate. These inaccuracies also resulted in significant adjustments to the financial statements as follows:

- Misposted and unposted Municipal Income Tax receipts resulted in an adjustment in the amount of \$199 in the General Fund.
- Unposted ACH bank deposits and unposted deposits from the County Auditor resulted in an adjustment in the amount of \$6,499 in the General Fund.
- Unposted Municipal Court receipts resulted in an adjustment in the amount of \$12,971 in the General Fund.
- Unposted Insurance proceeds resulted in an adjustment in the amount of \$5,000 in the General Fund.
- A misposted payroll check resulted in an adjustment in the amount of (\$195) in the General Fund.
- Unposted bank fees resulted in an adjustment in the amount of (\$1,858) in the General Fund.
- Unposted ACH bank deposits resulted in an adjustment in the amount of \$15,055 in the Street Construction, Maintenance, and Repair Fund.

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012
(Continued)**

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

FINDING NUMBER 2012-001 (Continued)

Noncompliance Citation and Material Weakness (Continued)

- Unposted ACH bank deposits resulted in an adjustment in the amount of \$1,220 in the State Highway Fund.
- Unposted Insurance proceeds resulted in an adjustment in the amount of \$3,136 in the Water Fund.

In addition to the above adjustments that were made to the financial statements, the outstanding check list at year end was carrying checks totaling \$587 which had already cleared the bank. Those checks were check #37498 and check #37564. The outstanding check list at year end was also carrying checks totaling \$14,212 which were voided manually and still reported as outstanding on the UAN system. Those checks are as follows:

<u>Check #</u>	<u>Date</u>	<u>Amount</u>	<u>Check #</u>	<u>Date</u>	<u>Amount</u>
36887	April 23, 2012	\$59.95	38104	December 26, 2012	\$1,229.37
37249	June 25, 2012	\$468.15	38105	December 26, 2012	\$87.57
37266	June 25, 2012	\$586.07	38129	December 31, 2012	\$389.36
37304	July 11, 2012	\$553.84	38130	December 31, 2012	\$88.85
37379	July 25, 2012	\$1,208.02	38131	December 31, 2012	\$150.00
37458	August 11, 2012	\$50.00	38132	December 31, 2012	\$38.55
37494	August 21, 2012	\$357.64	38133	December 31, 2012	\$60.00
37559	September 5, 2012	\$122.50	38134	December 31, 2012	\$29.20
37801	October 30, 2012	\$740.74	38135	December 31, 2012	\$53.96
37802	October 30, 2012	\$688.25	38136	December 31, 2012	\$0.45
37803	October 30, 2012	\$824.11	38137	December 31, 2012	\$0.78
37804	October 30, 2012	\$1,382.87	38138	December 31, 2012	\$550.00
37806	October 30, 2012	\$823.77	38139	December 31, 2012	\$229.44
37808	October 30, 2012	\$738.11	38140	December 31, 2012	\$841.46
37840	November 1, 2012	\$337.15	38141	December 31, 2012	\$490.12
37960	November 28, 2012	\$170.29	38200	December 31, 2012	\$310.50
37965	November 28, 2012	\$12.27	38204	December 31, 2012	\$518.03
38012	December 11, 2012	\$21.23			
				Total	<u>\$14,212.60</u>

Due to these types of errors, the financial statements provided to the Village Council did not represent a true picture of the financial position of the Village.

We recommend the Clerk/Treasurer prepare the monthly book-to-bank reconciliation in a timely manner. We also recommend the Clerk/Treasurer immediately follow-up on any discrepancies noted in the reconciliation process. This will allow the Village to maintain accurate records which the Village Council can rely on for budgeting and planning purposes. Lastly, we recommend the Clerk/Treasurer void the above listed outstanding checks in the UAN system so that the outstanding check listing will only include those checks that have not actually cleared the bank.

Officials' Response: We did not receive a response from Officials to this finding.

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012
(Continued)

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

FINDING NUMBER 2012-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it is appropriated.

At December 31, 2012, expenditures plus encumbrances exceeded appropriations as follows:

Fund	Appropriations	Expenditures plus Encumbrances	Dollar Variance
General Fund	\$603,297	\$668,223	(\$64,926)
Water Fund	\$550,805	\$581,054	(\$30,249)

This could result in overspending if not properly monitored.

We recommend the Clerk/Treasurer not approve expenditures unless temporary or permanent appropriations have been approved by the Village Council and filed with the County Auditor.

Officials' Response: At no time was Council notified by the Clerk/Treasurer that expenditures were exceeding appropriations, and all documents provided by the Clerk/Treasurer showed remaining appropriations available.

FINDING NUMBER 2012-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The Fiscal Officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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.

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012
(Continued)

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

FINDING NUMBER 2012-003 (Continued)

Noncompliance Citation (Continued)

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. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

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.

Fifty-five percent (55%) of disbursements tested in 2012 had obligation/invoice dates preceding the encumbrance date. Additionally, fourteen instances were noted when scanning January and February 2013 for obligation/invoice dates that were not properly encumbered before December 31, 2012. Failure to certify the availability of funds properly can 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 is also 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 the Clerk/Treasurer certify that funds are or will be available prior to an obligation being incurred by the Village. When prior certification is not possible, “then and now” certification should be used.

We recommend the Village officials and employees obtain the Clerk/Treasurer’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 certificate language of Ohio Rev. Code Section 5705.41(D) requires to authorize disbursements. The Clerk/Treasurer should sign the certification at the time the Village incurs the commitment, and only when the requirements of Ohio Rev. Code Section 5705.41(D) are satisfied. The Clerk/Treasurer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

Officials’ Response: At no time was Council notified by the Clerk/Treasurer that expenditures were made without appropriate pre-authorizations.

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-004

Material Weakness

Sound financial reporting is the responsibility of the Clerk/Treasurer and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, the financial statements had the following errors that required audit adjustment or reclassification:

- General Fund Intergovernmental Revenue was increased by \$4,355 due to unrecorded receipts from County Auditor.
- General Fund Municipal Income Tax was increased by \$199 due to posting errors.
- General Fund Fines, Licenses and Permits were increased by \$12,971 due to Mayor's Court receipts being deposited into the Village but not posted to the accounting system.
- General Fund Miscellaneous Receipts were increased by \$4,995 due to insurance reimbursements not being posted to the accounting system.
- General Fund Security of Persons and Property disbursements were increased by \$195 due to a payroll check that was issued and cleared the bank for more than what was posted in the accounting system.
- General Fund General Government disbursements were increased by \$1,858
- General Fund Sale of Notes was increased by \$30,000 to record new bond anticipation note. The payment on the old note of \$40,000 in Principal and \$985 in Interest was also posted to the General Fund.
- General Fund Security of Persons and Property was decreased by \$83 in order to decrease the beginning balance on the financial statements to account for a check written prior to 2012 that was voided in 2012.
- Street Fund Intergovernmental Revenue was increased by \$17,038 to account for an unrecorded receipt.
- State Highway Fund Intergovernmental Revenue was increased by \$1,381 to account for an unrecorded receipt.
- Federal Fund Debt Proceeds of \$60,055 was reclassified from Special Assessments.
- Federal Fund Capital Outlay totaling \$60,005 was reclassified from Basic Utility Services.
- FEMA Fund Capital Outlay totaling \$47,278 was reclassified from Transportation.
- Clean Ohio Fund Capital Outlay totaling \$30,340 was reclassified from General Government.
- Capital Improvement Fund Capital Outlay totaling \$10,985 was adjusted to the General Fund in order to proper record the payoff of the old bond anticipation note.
- Capital Improvement Fund ending balance was reclassified to Committed.
- Water Fund Miscellaneous Revenue was increased by \$3,136 due to unrecorded receipts.
- Water Fund Other Operating Disbursements was increased by \$100 due to a stale check having been voided in UAN system three times.
- Water Fund Other Operating Disbursements were decreased by \$459 in order to decrease the beginning balance on the financial statements to account for a check written prior to 2012 that was voided in 2012.
- Mayor's Court activity for 2012 was adjusted onto financial statements as an Agency Fund.
- Sewer Fund receipts totaling \$44,372 were reclassified from Taxes to Special Assessments.

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012
(Continued)

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

FINDING NUMBER 2012-004 (Continued)

Material Weakness (Continued)

The Clerk/Treasurer did not follow the UAN established account codes for all postings. This resulted in audit adjustments and reclassifications to the financial statements as noted above.

To ensure the Village's financial statements and notes to the financial statements are complete and accurate, the Village Council should adopt policies and procedures, including a final review of the statements and footnotes by the Clerk/Treasurer and Village Council to identify and correct errors or omissions.

Officials' Response: Council, on multiple occasions, requested management reports and financial statements, as evidenced in written minutes of Council meetings, which were then not provided in a timely fashion by the Clerk/Treasurer.

FINDING NUMBER 2012-005

Significant Deficiency

Sound internal control policies require management and the Village Council to monitor the financial activity and condition of the Village. Actual revenues and expenses should be compared to budgeted amounts each month and reported to and reviewed by the Village Council. The Village Council should determine the reasons why actual expenditures exceeded or were less than budgeted expenditures by making inquiries of management about the reasons. Additionally, the Village Council should compare their actual cash balances to budgeted cash balances at the end of each month. When actual cash balances are below budgeted cash balances, the Village Council should look for ways to increase revenues and/or decrease expenditures budgeted in the upcoming months so as to achieve the budgeted cash balance and to avoid negative financial trends.

The Clerk/Treasurer provided Village Council with the bills to be paid and the following financial monitoring items: Bank Reconciliation, Fund Status, Appropriation Summary, Fund Summary, Revenue Summary, Payment Summary, and Payroll Register detail report. However, the April, May, and June reports were not provided to Village Council until September 2012. The July, August, September, and October monthly reports were provided to Council in November 2012. The Village Council passed a resolution to review the management reports on a monthly basis on November 12, 2012.

This could result in errors and/or irregularities occurring and remaining undetected for an extended period of time. For each regular Village Council meeting, the Clerk/Treasurer should follow the resolution approved by Village Council to provide monthly financial reports for Council to review and approve. The Village Council should carefully review this information and make appropriate inquiries to help determine the continued integrity of financial information. This information also provides important data necessary to manage and monitor the Village's financial position. In addition, this information can help answer questions such as the following:

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012
(Continued)

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

FINDING NUMBER 2012-005 (Continued)

Significant Deficiency (Continued)

Inquiries Relevant to Overall Village Operations:

- Are current receipts sufficient to cover expenditures?
- Are expenditures in line with prior year costs?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted?
- Are anticipated receipts being timely received?
- Is the Village maximizing its return on invested cash balances?
- Is the Village able to achieve the financial goals as set by the original or amended budgets?
- Are expenditures being spent in accordance with the approved appropriations?
- Is there evidence the Village should amend their appropriations and / or estimated resources?

In order to effectively monitor the financial activity and condition of the Village, we recommend the Clerk/Treasurer follow the approved resolution and provide individual financial reports to Village Council prior to the meeting for their review on a monthly basis.

Officials' Response: Council, on multiple occasions, requested management reports and financial statements, as evidenced in written minutes of Council meetings, which were then not provided in a timely fashion by the Clerk/Treasurer. Council was then forced to adopt a resolution requiring the Clerk/Treasurer to submit the reports on a monthly basis. The Clerk/Treasurer, to date, has not complied with the resolution adopted in November 2012.

FINDING NUMBER 2012-006

Significant Deficiency

Sound payroll controls are the responsibility of the Clerk/Treasurer and the Village Council and are essential to ensure the accuracy of payments made to employees and to Federal, State and Local agencies as well as to ensure accurate and timely reporting to Federal, State and Local agencies.

As a result of the audit procedures performed, the following payroll process deficiencies were identified:

- Several employees were not paid the proper hourly rate according to the Union Agreement.
- Holiday pay rates were not always entered correctly in the UAN system.
- Hourly overtime rates were not properly calculated for several employees.
- An employee's net amount on the computerized payroll check did not agree to the UAN system.
- There were multiple manually voided payroll checks that were never properly voided in the UAN system which resulted in overstatements to the 2012 W-2s for several employees as well as overstated wages reported and overpayments made to the Federal and State agencies, retirement agencies, etc. In addition, the leave accrued or taken that was reported on the voided checks was not adjusted in the UAN system since the voids were not actually done in UAN.
- Sick and vacation leave balances were not monitored within the UAN system to ensure that all leave earned and taken was properly calculated.
- Timesheets for supervisors were not approved by anyone.
- Timesheets for employees working in several departments did not identify the fund allocation.

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012
(Continued)

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

FINDING NUMBER 2012-006 (Continued)

Significant Deficiency (Continued)

- Withholding reports were not submitted timely for Federal and State taxes withheld.
- Retirement reports and withholdings were not timely paid into Ohio Public Employees Retirement System and Ohio Police and Fire Pension Fund which resulted in penalties and interest charges.
- W-2s issued for 2012 were not compared back to the UAN system to ensure that wages reported on the W-2s were accurate. By not doing this, there were W-2s that included both overstated and understated gross wages.

The above deficiencies could have resulted in Findings for Recovery for several employees. In addition, inaccurate and untimely reporting of Federal and State taxes, retirement withholdings and inaccurate W-2s could result in fines/penalties and interest not only being assessed to the Village but to employees as well.

We recommend the Village Council adopt policies and procedures, including timely reviews of the UAN payroll accounting system, payroll reports, and payroll checks to identify and correct errors or omissions. We further recommend the Village Council adopt policies and procedures to ensure that withholdings payments and withholding reports are remitted timely.

Officials' Response: Council, on multiple occasions, requested management reports and financial statements, as evidenced in written minutes of Council meetings, which were then not provided in a timely fashion by the Clerk/Treasurer. Council was then forced to adopt a resolution requiring the Clerk/Treasurer to submit the reports on a monthly basis. The Clerk/Treasurer, to date, has not complied with the resolution adopted in November 2012.

FINDING NUMBER 2012-007

Significant Deficiency

Inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans and to provide the necessary "seed" for grants that are allocated on a reimbursement basis. The intent for cash advances is to require repayment within the current or succeeding year. Inter-fund cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer. Transfers are intended to reallocate money permanently from one fund to another and may be made only as authorized in Sections 5705.14 to 5705.16 of the Ohio Rev. Code. Advances, on the other hand, *temporarily* reallocate cash from one fund to another and involve an expectation of repayment;
- 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;
- The debtor fund may repay advances from the creditor fund. That is, the AOS would not deem repaying advances to violate restrictions on use of the debtor's fund resources; and

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012
(Continued)

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

FINDING NUMBER 2012-007 (Continued)

Significant Deficiency (Continued)

- Advances must be approved by a formal resolution of the taxing authority of the subdivision which 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.
- When a fund ends the year with negative cash, it is not appropriate to present an *advance* on the budgetary statement to eliminate the negative cash fund balance. Even though, in substance, the government has made an advance, it is not acceptable to “hide” noncompliance by creating an advance not properly authorized by the government. However, the government should post an interfund receivable and payable to eliminate the negative cash balance on the GAAP financial statements. The government should select the fund to report the receivable.

If, after an advance is made, the taxing authority determines that the transaction should, in fact, be treated as a transfer (repayment is no longer expected) the following procedures should be followed retroactively:

- The necessary formal procedures for approval of the transfer should be completed including, if necessary, approval of the commissioner of tax equalization and of the court of common pleas (see ORC 5705.14, 5705.15 and 5705.16);
- The transfer should be formally recorded on the records of the subdivision; and
- The entries recording the cash advance should be reversed.

The Village had the following advances out that remained unpaid through 2012 from the following funds for 2012:

- Sewer Fund in the amount of \$29,675 will be payable to the Other Capital Projects fund;
- Sanitation Fund in the amount of \$758 will be payable to the General fund;
- Water Fund in the amount of \$18,500 will be payable to the General fund; and
- Street Fund in the amount of \$5,470 will be payable to the General fund.

The Village had the following advances out that remained unpaid through 2012 from 2011:

- Sanitation Fund in the amount of \$758 will be payable to the General fund; and
- Federal Fund in the amount of \$483 will be payable to the Water fund.

The Village had the following advance out that remained unpaid through 2012 from 2010:

- Water Fund in the amount of \$2,400 will be payable to the General fund.

The Village had the following advances out that remained unpaid through 2012 from 2009:

- Sanitation Fund in the amount of \$1,364 will be payable to the General fund; and
- Water Fund in the amount of \$17,800 will be payable to the General fund.

However, the Village still maintains that they do intend to repay these if monies become available. Failure to repay these monies will result that the repayment will not occur to the intended funds listed above.

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012
(Continued)

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

FINDING NUMBER 2012-007 (Continued)

Significant Deficiency (Continued)

We recommend the Village track all outstanding advances and ensure that if they are not repaid that they take the necessary steps to convert them to transfers if it becomes apparent that repayment will not occur.

Officials' Response: Inquiries were made to review the propriety of transferring these advances; however, due to lack of confidence in the reports offered by the Clerk/Treasurer, no such transfers were ordered to be made.

FINDING NUMBER 2012-008

Finding for Recovery

There were checks issued to the Police Chief in excess of his stated salary without proper documentation which resulted in an overpayment of his total approved salary as follows:

Date	Check Number	Amount	Approved Salary	Variance
June 25, 2012	37257	\$2,345.42	\$1,384.62	\$ 960.80
July 11, 2012	37333	\$2,345.42	\$1,384.62	\$ 960.80
October 2, 2012	37697	\$1,401.92	\$1,384.62	\$ 17.30
			total	\$1,938.90

Testing also noted the check number 37445 issued on August 7, 2012 to the Police Chief was properly processed through the payroll system at his gross amount of \$1,384.62 and noted in the payroll system as \$1,012.58, net of deductions. However, the check cleared the bank as \$1,208.02. This resulted in an additional overpayment of \$195.44.

These errors have resulted in a total overpayment to Police Chief, William Eric Spurlock, of \$2,134.34 (\$1,938.90 + \$195.44).

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended may be hereby issued against William Eric Spurlock in the amount of \$2,134, and in favor of the Village of Coal Grove Fund General Fund, in the amount of \$2,134.

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 strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (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 liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen 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.

VILLAGE OF COAL GROVE
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012
(Continued)

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

FINDING NUMBER 2012-008 (Continued)

Finding for Recovery (Continued)

The Clerk/Treasurer signed the warrants resulting in improper payments. The Clerk/Treasurer, Diana Wise and her bonding company, Ohio Plan Risk Management, will be jointly and severally liable in the amount of \$2,134 and in favor of the General Fund to the extent that recovery is not obtained from William Eric Spurlock.

Officials' Response: Upon each occurrence, the Police Chief notified the Clerk/Treasurer immediately upon receiving each overpayment. The Chief was told by the Clerk/Treasurer that it would be easier for her if she could deduct an equivalent amount of sick leave instead of voiding and reissuing his payroll. The Chief agreed and was informed by the Clerk/Treasurer that it was then resolved. These occurrences were not brought to the attention of the Mayor or Council prior to the voluntary audit requested by the Council.

**VILLAGE OF COAL GROVE
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Noncompliance Citation – Ohio Rev. Code Section 2949.091(A)(1)(a)(b)	Yes	
2011-02	Noncompliance Citation – Ohio Rev. Code Section 5705.36(A)(2)	Yes	
2011-03	Noncompliance Citation – Ohio Rev. Code Section 5705.39	Yes	
2011-04	Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1)	No	Reissued as Finding Number 2012-003.
2011-05	Material Weakness – Financial Reporting`	No	Reissued as Finding Number 2012-004



Dave Yost • Auditor of State

VILLAGE OF COAL GROVE

LAWRENCE 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 7, 2014**