



Dave Yost • Auditor of State

VILLAGE OF VERONA
PREBLE COUNTY

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Dave Yost • Auditor of State

Village of Verona
Preble County
PO Box 676
100 West Main Street
Verona, Ohio 45378

To the Village Council:

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

Columbus, Ohio

May 1, 2014

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Verona
Preble County
PO Box 676
100 West Main Street
Verona, Ohio 45378

To the Village Council:

We have audited the accompanying financial statements of the Village of Verona, Preble County, Ohio, (the Village) as of and for the year ended December 31, 2011. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in paragraph six, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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.

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2011 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, 2011, or its changes in financial position or cash flows, where applicable for the years then ended.

We were unable to obtain sufficient evidence to support the completeness of charges for services receipts for 2011, comprising 99% of total Enterprise Fund cash receipts, nor were we able to satisfy ourselves of the completeness by other auditing procedures.

Also, in our opinion, except for any adjustments, if any, that might have been determined to be necessary had we been able to obtain sufficient evidence supporting Enterprise Fund Charges for Services receipts noted in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Verona, Preble County, as of December 31, 2011, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which account 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.

As described in Note 2, during 2011 the Village of Verona adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Dave Yost
Auditor of State

Columbus, Ohio

May 1, 2014

**VILLAGE OF VERONA
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$28,151	\$37,991		\$66,142
Intergovernmental	67,887	71,122		139,009
Special Assessments	257	1,582		1,839
Charges for Services		67,816		67,816
Fines, Licenses and Permits	2,846			2,846
Earnings on Investments	730			730
Miscellaneous	4,081	301		4,382
<i>Total Cash Receipts</i>	<u>103,952</u>	<u>178,812</u>	<u>0</u>	<u>282,764</u>
Cash Disbursements				
Current:				
Security of Persons and Property	28,359			28,359
Leisure Time Activities	543			543
Community Environment	1,202			1,202
General Government	76,297	94,221		170,518
Capital Outlay		55,179	14,977	70,156
Debt Service:				
Principal Retirement		12,969		12,969
Interest and Fiscal Charges		772		772
<i>Total Cash Disbursements</i>	<u>106,401</u>	<u>163,141</u>	<u>14,977</u>	<u>284,519</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(2,449)</u>	<u>15,671</u>	<u>(14,977)</u>	<u>(1,755)</u>
Other Financing Receipts (Disbursements)				
Transfers In		119		119
Transfers Out	(581)			(581)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(581)</u>	<u>119</u>	<u>0</u>	<u>(462)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(3,030)</u>	<u>15,790</u>	<u>(14,977)</u>	<u>(2,217)</u>
<i>Fund Cash Balances, January 1</i>	<u>16,191</u>	<u>135,921</u>	<u>14,977</u>	<u>167,089</u>
Fund Cash Balances, December 31				
Restricted	0	151,711	0	151,711
Unassigned (Deficit)	13,161	0	0	13,161
<i>Fund Cash Balances, December 31</i>	<u>\$13,161</u>	<u>\$151,711</u>	<u>\$0</u>	<u>\$164,872</u>

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

VILLAGE OF VERONA
PREBLE COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating Cash Receipts	
Charges for Services	\$426,570
Miscellaneous	868
	<hr/>
<i>Total Operating Cash Receipts</i>	427,438
	<hr/>
Operating Cash Disbursements	
Personal Services	38,934
Employee Fringe Benefits	7,871
Contractual Services	202,228
Supplies and Materials	111,217
Other	9,532
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<i>Total Operating Cash Disbursements</i>	369,782
	<hr/>
<i>Operating Income</i>	57,656
	<hr/>
Non-Operating Disbursements	
Capital Outlay	(7,391)
Principal Retirement	(55,700)
Interest and Other Fiscal Charges	(73,217)
Other Financing Uses	(1,460)
	<hr/>
<i>Total Non-Operating Disbursements</i>	(137,768)
	<hr/>
<i>Loss before Capital Contributions, Special Item, Extraordinary Item, Transfers and Advances</i>	(80,112)
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Transfers In	100,782
Transfers Out	(100,320)
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<i>Net Change in Fund Cash Balances</i>	(79,650)
	<hr/>
<i>Fund Cash Balances, January 1</i>	332,154
	<hr/>
<i>Fund Cash Balances, December 31</i>	\$252,504
	<hr/> <hr/>

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

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 Verona, Preble County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water, sewer, refuse, and gas utilities, park operations, and police services.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

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

The Village values certificates of deposit at cost. Investments in STAR Ohio are recorded at share values that STAR Ohio reports.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

VILLAGE OF VERONA
PREBLE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Fire Fund – This fund receives fire levy money and contract monies for providing fire protection services.

3. Capital Project Funds

This fund accounts for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Capital Projects Fund – This fund receives grant revenue for village projects.

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 to cover water service costs.

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

Gas Fund - This fund receives charges for services from residents to cover gas service costs.

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 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. Appropriations lapse at year end.

2. Estimated Resources

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

VILLAGE OF VERONA
PREBLE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not properly encumber all commitments as required.

A summary of 2011 budgetary activity appears in Note 3.

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.

VILLAGE OF VERONA
PREBLE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

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

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.

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.

2. **Change in Accounting Principle**

For fiscal year 2011, the Village implemented Governmental Accounting Standard Board (GASB) Statement No. 54. Implementing GASB Statement No. 54 resulted in no changes in fund structure.

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

The Village maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31, 2011 was as follows:

Demand deposits	\$343,032
Certificates of deposit	9,245
Total deposits	<u>352,277</u>
STAR Ohio	65,099
Total investments	<u>65,099</u>
Total deposits and investments	<u><u>\$417,376</u></u>

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

Investments:

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

4. Budgetary Activity

Budgetary activity for the year ending December 31, 2011 follows:

Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$123,515	\$103,952	(\$19,563)
Special Revenue	221,034	178,931	(42,103)
Capital Projects	0	0	0
Enterprise	563,612	528,220	(35,392)
Total	\$908,161	\$811,103	(\$97,058)

Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$123,455	\$106,982	\$16,473
Special Revenue	187,200	163,141	24,059
Capital Projects	0	14,977	(14,977)
Enterprise	460,482	607,870	(147,388)
Total	\$771,137	\$892,970	(\$121,833)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Capital Projects, Sewer, and Gas Funds the year ended December 31, 2011.

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.

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

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

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

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

6. Debt

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan CK008	247,958	0.00%
Ohio Public Works Commission Loan CK14G	244,560	0.00%
Sewer System Mortgage Revenue Bonds, Series 2008A	1,171,800	4.625%
Sewer System Mortgage Revenue Bonds, Series 2008B	421,600	4.375%
Total	<u><u>\$2,085,918</u></u>	

The Ohio Public Works Commission (OPWC) loan #CK008 was obtained in 2000 in the amount of \$472,300 for water system replacement and improvement. The loan will be repaid in semi-annual installments of \$11,808 over twenty years. The loan is collateralized by water receipts. The Village has agreed to set water rates sufficient to cover bond payment requirements.

The Ohio Public Works Commission (OPWC) loan #CK14G was obtained in 2007 in the amount of \$305,700 for wastewater treatment and collection system. The loan will be repaid in semi-annual installments of \$7,643 over twenty years. The loan is collateralized by sewer receipts. The Village has agreed to set sewer rates sufficient to cover bond payment requirements.

The Sewer System Mortgage Revenue Bonds, Series 2008A and 2008B, were issued in 2008 in the amount of \$1,212,000 and \$437,000, respectively for the purpose of refunding the Temporary Sewer System Mortgage Revenue Bonds used to pay the cost of acquiring, constructing and installing improvements necessary for the construction of a municipal sewer system. The bonds bear interest payable and principal payable semi-annually on May 1 and November 1 (initially November 1, 2008). The bonds have a final maturity date of May 1, 2048. The bonds are secured by an indenture of mortgage upon all property of the Village which constitutes its municipal sewer system.

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

Year ending December 31:	OPWC		Mortgage	Mortgage
	CK14G	OPWC CK008	Revenue Bond A	Revenue Bond B
2012	\$7,643	\$11,803	\$66,997	\$23,243
2013	15,285	23,615	66,750	23,280
2014	15,285	23,615	66,728	23,154
2015	15,285	23,615	66,776	23,322
2016	15,285	23,615	66,935	23,226
2017-2021	76,425	118,075	334,075	116,190
2022-2026	76,425	23,615	333,998	116,256
2027-2031	22,927		334,025	116,205
2032-2036			334,037	116,200
2037-2041			333,922	116,182
2042-2046			333,883	116,131
2047-2048			100,150	34,870
Total	<u><u>\$244,560</u></u>	<u><u>\$247,953</u></u>	<u><u>\$2,438,276</u></u>	<u><u>\$848,259</u></u>

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

6. Debt (Continued)

In addition to the debt described above, the Village has defeased certain debt issues from prior years.

7. Retirement Systems

A. Ohio Public Employee Retirement System

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. 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 2011, OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the OPERS have an option to choose Social Security. As of December 31, 2011, 23 employees of the Village have elected Social Security. The employees' liability is 6.2 percent of wages paid.

8. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

9. Compliance

The Village failed to retain all documents.

The prior Board of Public Affairs Clerk and Fiscal Officer was not properly bonded.

The Village did not maintain proper journals in accordance with the Ohio Revised Code.

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Dave Yost • Auditor of State

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

Village of Verona
Preble County
PO Box 676
100 West Main Street
Verona, Ohio 45378

To the Village Council:

We have audited the financial statements of the Village of Verona, Preble County, Ohio, (the Village) as of and for the year ended December 31, 2011, and have issued our report thereon dated May 1, 2014, wherein we noted we were unable to obtain sufficient evidence to support the completeness of Enterprise Fund Charges for Services receipts. We also noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. The Village adopted the provisions of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions. Except as noted, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-01 and 2011-05 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2011-02 and 2011-04 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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-02 through 2011-04 and 2011-06.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated May 1, 2014.

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



Dave Yost
Auditor of State

Columbus, Ohio

May 1, 2014

VILLAGE OF VERONA
PREBLE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011

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

FINDING NUMBER 2011-01

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village lacks management oversight in the posting of financial activity as illustrated by the following conditions:

- Property tax deductions of \$4,235 were posted as negative receipts in the various funds rather than as expenditures.
- Local government distributions of \$35,985 were posted to General Fund Local Taxes rather than General Fund Intergovernmental Revenue.
- Gasoline excise taxes of \$11,449 were posted to Street Fund Local Taxes rather than Street Fund Intergovernmental Revenue.
- State and local highway distributions of \$5,760 were posted to Street Fund Local Taxes rather than Street Fund Intergovernmental Revenue.
- Permissive taxes of \$2,248 were posted to Local Taxes rather than Intergovernmental Revenue.
- Homestead and Rollback distributions of \$3,552 for the Fire Fund were posted to Local Taxes rather than Intergovernmental Revenue.
- Assessments for unpaid utility bills totaling \$23,708 were posted to Intergovernmental Revenue rather than Charges for Services. The Village was unable to provide sufficient evidential matter to support the allocation between water, sewer, trash, and gas utilities.. No support was maintained to document how the assessments should have been posted into the various utility funds. The lack of support for the utilities contributed to the opinion qualification.
- An assessment of \$1,582 for maintenance was posted to the Sewer Fund Intergovernmental Revenue rather than the Street Fund Special Assessments.
- A General Fund grant totaling \$26,755 received from the Montgomery County Auditor was posted to Miscellaneous Revenue rather than Intergovernmental Revenue.
- A Street Fund grant totaling \$41,132 received from the Montgomery County Auditor was posted to Miscellaneous Revenue rather than Intergovernmental Revenue.
- The Ford Credit loan payment of \$13,741 was posted to Street Fund Capital Outlay rather than Street Fund Debt Service Principal and Interest.
- Debt Service Sinking Fund Interest of \$73,217 was posted to Debt Service Sinking Fund Principal.

**FINDING NUMBER 2011-01
(Continued)**

- OPWC debt payments of \$23,615 were posted to Water Fund Supplies and Materials rather than Water Fund Debt Service Principal.
- OPWC debt payments of \$15,285 were posted to Sewer Fund Supplies and Materials rather than Sewer Fund Debt Service Principal.
- Transfers of \$9,120 to fund the Sewer Reserve Fund were posted as Sewer Fund Supplies and Materials expense and Sewer Reserve Fund Miscellaneous Revenue rather than Transfers In and Transfers Out.
- Street lighting expenditures of \$7,811 were posted to the Street Fund rather than the General Fund.
- The Capital Projects Fund beginning balance and expenditure in the amount of \$14,977 were omitted from the Annual Financial Report.
- General Fund expenditure posting errors and voided checks in the amounts of \$14,977 (General Government), \$129 (Contractual Services) and \$600 (Supplies and Materials) were corrected by posting receipts to Miscellaneous Revenue rather than negative expenditures to the original line items. A Fire Fund voided check in the amount of \$95 was post to Miscellaneous Revenue rather than a negative expenditure to Contractual Services.
- Transfers to the General Fund totaling \$329 were posted as Other Financing Uses rather than Transfers-out.
- Transfers to the Fire Fund totaling \$119 were posted as Interest rather than Transfers-In.
- The following Enterprise Fund line item amounts were erroneously posted to Supplies and Materials and Other rather than the correct line items as follows: Personal Services (\$38,934), Contractual Services (\$202,228), Capital Outlay (\$7,391), Charges for Services and (\$833).

Adjustments were posted to the financial statements and Village ledgers, where appropriate, to correct the above errors.

The lack of proper management oversight could result in material misstatements relating to financial data. To improve record keeping and accountability of receipts and expenditures we recommend that all activity be properly posted. For guidance, the Village should utilize the Village Officer's Handbook available at www.auditor.state.oh.us/publications.

FINDING NUMBER 2011-02

Significant Deficiency/Noncompliance Citation

Ohio Revised Code Section 149.351(A) provides that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Sections 149.38 to 149.42 of the Ohio Revised Code. Contrary to this section, the Village failed to retain the following documents:

- Council minute records for February 2011 through June 2011.
- Board of Public Affairs minutes for January through March 2011 and May through July 2011.

**FINDING NUMBER 2011-02
(Continued)**

- Resolution numbers 1 through 10.
- Ordinance numbers 15 through 49.
- 20 purchase orders.
- July 2011 and November 2011 Utility Billing Balance Journals.

Failure to retain the official Village records and document increases the risk of unauthorized and inaccurate payments, and increases the risk that errors, theft or fraud may occur and not be detected in a timely manner. In addition, the lack of these records could result in financial statement misstatements.

Efforts should be made by the Village to maintain all Village records. We recommend that a written inventory of the records noting the description and location of each record be completed.

FINDING NUMBER 2011-03

Noncompliance Citation

Ohio Revised 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.

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

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

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**FINDING NUMBER 2011-03
(Continued)**

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.

Of 35 expenditures tested, nine or 26% of items tested were not properly certified. Additionally, 20 out of 35 or 57% could not be determined if they were properly encumbered since no purchase order was presented for audit. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

We recommend Village officials obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. The Council should establish a resolution establishing an amount that the fiscal officer cannot issue a blanket certificate exceeding.

FINDING NUMBER 2011-04

Noncompliance Citation / Significant Deficiency

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, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.
- (4) In addition, all local public offices should maintain or provide a report similar to the following accounting records

**FINDING NUMBER 2011-04
(Continued)**

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

The appropriation journal maintained by the Village did not contain purchase order information, encumbered amounts, and the unencumbered balances.

The payroll journal maintained by the Village did not contain dates, hours worked, wage rates, check information, and accounts charged.

Failure to maintain adequate accounting and payroll records can result in an inability to properly monitor village activity. We recommend the Village maintain the accounting and payroll records described above.

FINDING NUMBER 2011-05

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village Board of Public Affairs did not consistently approve utility adjustments. Failure to maintain documentation supporting adjustments posted to the utility system, failure to obtain supervisory approval and reconcile adjustments posted to those authorized, prevents the timely detection of errors, theft and fraud. A finding for recovery over utility receipts was included in the 2009-2010 audit report, see finding number 2010-03. Special procedures performed during the 2009-2010 audit were expanded to include the first half of 2011, and the total amount noted in finding 2010-03 includes the first half of 2011. Also, the lack of evidence supporting the completeness and existence of utility receipts and adjustments led to a qualification of the audit report.

We recommend that the Village develop specific, written procedures for requesting, posting, and approving customer account adjustments. All adjustments should be printed and signed by the Board of Public Affairs showing their approval of the adjustments at monthly meetings. We also recommend that individual adjustment forms be completed and approved for each adjustment posted to the system. The Village should maintain documentation supporting the reason for the adjustment and reflect supervisory approval prior to posting the adjustment to the utility system. Periodically, an individual independent of the adjustment process should reconcile authorized adjustments to those posted to the utility system to verify only authorized adjustments to those posted to the utility system to verify only authorized adjustments were posted to the utility system.

FINDING NUMBER 2011-06

Material Noncompliance

Ohio Revised Code, Section 5705.41(B), states that no subdivision or taxing unit shall make any expenditures of money unless it has been appropriated as provided in such chapter. Expenditures exceeded appropriations as follows:

Fund	Appropriations	Expenditures	Variance
Capital Projects	\$0	\$14,977	(\$14,977)
Sewer	101,405	185,156	83,751
Gas	144,600	214,059	69,459

Failure to limit expenditures to appropriations may result in overspending and negative fund balances.

We recommend that the Village limit expenditures to the appropriated amount. The Fiscal Officer should deny any payments until Council has passed the necessary changes to the appropriation measure.

Officials' Response:

We did not receive a response from Officials regarding the above findings.

**VILLAGE OF VERONA
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	Finding for Recovery: Overpayment to Rhonda Davis	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-02	Finding for Recovery – cash collections Unaccounted For	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-03	Finding for Recovery – Utility Monies Unaccounted For	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-04	Finding for Recovery – Overpayment to Rhonda Davis	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-05	Finding for Recovery – Overpayment to Rhonda Davis	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-06	Ohio Revised Code Section 5705.41(D) – Not Properly Encumbering	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-07	Ohio Revised Code Section 5705.41(B) – Expenditures Exceeded Appropriations	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-08	Budgetary documents not properly posted to accounting system	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-09	Ohio Revised Code 5705.39 – Appropriations Exceeded Estimated Resources	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-10	Ohio Revised Code 5705.36(A)(4) – Appropriations Exceeded Available Resources	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-11	Lack of management oversight in posting of financial activity	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-12	Lack of disaster recovery plan	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-13	Ohio Revised Code 705.27 – Failure to bond individual	No	Not Corrected - 2009-2010 audit was performed concurrently.

Village of Verona
Preble County
Schedule of Prior Audit Findings
Page 2

2010-14	Lack of management oversight over utility receipts cycle	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-15	Lack of documentation supporting utility adjustments	No	Not Corrected - 2009-2010 audit was performed concurrently.
2010-16	Ohio Revised Code Section 149.351 – Destruction of Records	No	Not Corrected - 2009-2010 audit was performed concurrently.



Dave Yost • Auditor of State

VILLAGE OF VERONA

PREBLE 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
MAY 15, 2014