



Dave Yost • Auditor of State



VILLAGE OF NEW MADISON  
DARKE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Village of New Madison  
Darke County  
124 South Harrison Street, PO Box 15  
New Madison, Ohio 45346

To the Village Council:

### ***Report on the Financial Statements***

We were engaged to audit the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of New Madison, Darke County, (the Village) as of and for the years ended December 31, 2014 and 2013.

### ***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 Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; 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.

Because of the matter described in the Basis for Disclaimer of Opinion paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

***Basis for Disclaimer of Opinion***

The Village's adjusted bank reconciliation had unsupported variances of \$1,332 and \$23,434 as of December 31, 2014 and 2013, respectively. Due to inadequacies related to the Village's income tax records, we could not verify or determine completeness of the Village's general fund income tax revenues in the amounts of \$128,126 and \$117,462 as of December 31, 2014 and 2013, respectively. The Village's adjusted financial statements include an unexplained variance of \$7,633 between the amount reported as general fund property tax revenue and the amount that should be reported as of December 31, 2014. The Village's adjusted financial statements include unexplained variances of \$4,625 and \$10,444 between the amount reported as general fund intergovernmental revenue and the amount that should be reported as of December 31, 2014 and 2013, respectively. Within a sample of non-payroll and payroll expenditures examined, numerous items were identified as posted to an incorrect expense line item and/or incorrect fund. Additionally, the Village's management did not provide written representations regarding the financial statements and Village activity for the audit period. We were unable to satisfy ourselves by other auditing procedures the adjustments necessary in respect to the elements making up the Combined Statements of Receipts, Disbursements, and Changes in Fund Balances as of December 31, 2014 and 2013.

***Disclaimer of Opinion***

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2017, 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.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 16, 2017

**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$38,274	\$53,336	\$20,973	\$112,583
Municipal Income Tax	128,126			128,126
Intergovernmental	39,783	53,155	3,870	96,808
Charges for Services	65,378			65,378
Fines, Licenses, and Permits	123	50		173
Earnings on Investments	2,522	172		2,694
Miscellaneous	7,005	1,136		8,141
Total Cash Receipts	<u>281,211</u>	<u>107,849</u>	<u>24,843</u>	<u>413,903</u>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
Security of Persons & Property	93,736	83,664		177,400
Public Health Services	2,786			2,786
Community Environment	4,391			4,391
Basic Utility Services	143,739			143,739
Transportation	46,500	44,301		90,801
General Government	52,150	1,579	624	54,353
<b>Debt Service:</b>				
Principal Retirement		13,216	6,000	19,216
Interest and Fiscal Charges			19,109	19,109
Total Cash Disbursements	<u>343,302</u>	<u>142,760</u>	<u>25,733</u>	<u>511,795</u>
Net Change in Fund Cash Balances	(62,091)	(34,911)	(890)	(97,892)
Fund Cash Balances, January 1	<u>174,330</u>	<u>177,132</u>	<u>49,431</u>	<u>400,893</u>
<b>Fund Cash Balances, December 31:</b>				
Restricted		154,278	48,541	202,819
Assigned	112,239			112,239
Unassigned (Deficit)		(12,057)		(12,057)
Fund Cash Balances, December 31	<u>\$112,239</u>	<u>\$142,221</u>	<u>\$48,541</u>	<u>\$303,001</u>

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

**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Proprietary Fund Types</u>
	<u>Enterprise</u>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$420,548
Total Operating Cash Receipts	<u>420,548</u>
<b>Operating Cash Disbursements:</b>	
Personal Services	113,698
Contractual Services	18,918
Supplies and Materials	119,576
Total Operating Cash Disbursements	<u>252,192</u>
Operating Income (Loss)	<u>168,356</u>
<b>Non-Operating Receipts (Disbursements):</b>	
Intergovernmental	72,326
Capital Outlay	(94,484)
Principal Retirement	(51,000)
Interest and Other Fiscal Charges	(83,306)
Total Non-Operating Receipts (Disbursements)	<u>(156,464)</u>
Net Change in Fund Cash Balance	11,892
Fund Cash Balance, January 1	<u>947,033</u>
Fund Cash Balance, December 31	<u><u>\$958,925</u></u>

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



**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Totals (Memorandum Only)</b>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$31,109	\$51,521	\$20,220	\$102,850
Municipal Income Tax	117,462			117,462
Intergovernmental	48,033	52,626	3,911	104,570
Special Assessments		23		23
Charges for Services	65,939			65,939
Fines, Licenses, and Permits	25			25
Earnings on Investments	3,321			3,321
Miscellaneous	7,322	4,783		12,105
Total Cash Receipts	<u>273,211</u>	<u>108,953</u>	<u>24,131</u>	<u>406,295</u>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
Security of Persons & Property	64,452	50,326		114,778
Leisure Time Activities		2,100		2,100
Community Environment	54,392			54,392
Basic Utility Services	52,356	1,350		53,706
Transportation	75,313	36,362		111,675
General Government	41,748	1,427	562	43,737
Capital Outlay		35,863		35,863
<b>Debt Service:</b>				
Principal Retirement			5,700	5,700
Interest and Fiscal Charges			19,380	19,380
Total Cash Disbursements	<u>288,261</u>	<u>127,428</u>	<u>25,642</u>	<u>441,331</u>
Net Change in Fund Cash Balances	(15,050)	(18,475)	(1,511)	(35,036)
Fund Cash Balances, January 1	<u>189,380</u>	<u>195,607</u>	<u>50,942</u>	<u>435,929</u>
<b>Fund Cash Balances, December 31:</b>				
Restricted		178,245	49,431	227,676
Assigned	174,330			174,330
Unassigned (Deficit)		(1,113)		(1,113)
Fund Cash Balances, December 31	<u>\$174,330</u>	<u>\$177,132</u>	<u>\$49,431</u>	<u>\$400,893</u>

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

**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Proprietary Fund Types</b>
	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$405,447
Total Operating Cash Receipts	405,447
<b>Operating Cash Disbursements:</b>	
Personal Services	38,783
Fringe Benefits	2,200
Contractual Services	20,540
Supplies and Materials	209,267
Total Operating Cash Disbursements	270,790
Operating Income (Loss)	134,657
<b>Non-Operating Receipts (Disbursements):</b>	
Intergovernmental	77,866
Special Assessments	2,548
Capital Outlay	(42,003)
Principal Retirement	(49,700)
Interest and Other Fiscal Charges	(84,681)
Other Financing Sources	6,630
Total Non-Operating Receipts (Disbursements)	(89,340)
Net Change in Fund Cash Balance	45,317
Fund Cash Balance, January 1	901,716
Fund Cash Balance, December 31	\$947,033

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

**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**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 New Madison, Darke County, (the Village) as a body corporate and politic. The Village is directed by a publicly elected six-member Council. The Village provides water, sewer, and trash utilities, street maintenance and repair, park operations, and police services. The Village contracts with New Madison Fire Department Association for fire protection services and with Tri-Village Joint Ambulance District for rescue 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 permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**C. Deposits**

The Village's certificates of deposit are valued at cost.

**D. Fund Accounting**

The Village uses fund accounting to segregate cash that is 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 Construction, Maintenance and Repair Fund** - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

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

**Road Levy Fund** – This fund receives property tax levy proceeds for improving Village roads.

**Fire Levy Fund** – This fund receives property tax levy proceeds to provide funding for fire protection services for the Village.

**Police Levy Fund** – This fund receives property tax levy proceeds that are used to help operate the Village's police department.

**3. Debt Service Funds**

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Fund:

**Debt Service Fund** – This fund receives property tax levy proceeds to pay for debt and interest on General Obligation bonds.

**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 Operating Fund** - This fund receives charges for services from residents to cover water service costs.

**Sewer Operating Fund** - This fund receives charges for services from residents to cover sewer 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 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.

**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(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 re-appropriated.

A summary of 2014 and 2013 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. Non-spendable**

The Village classifies assets as *non-spendable* 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 NEW MADISON  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(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.

**2. EQUITY IN POOLED DEPOSITS**

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

	<b>2014</b>	<b>2013</b>
Demand deposits	\$1,170,281	\$1,256,406
Certificates of deposit	91,645	91,520
Total deposits	\$1,261,926	\$1,347,926

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

**2014 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$246,030	\$281,211	\$35,181
Special Revenue	188,270	107,849	(80,421)
Debt Service	203,000	24,843	(178,157)
Enterprise	385,000	492,874	107,874
Total	\$1,022,300	\$906,777	(\$115,523)

**2014 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$510,501	\$359,436	\$151,065
Special Revenue	172,857	165,075	7,782
Debt Service	203,000	25,733	177,267
Enterprise	1,040,000	492,992	547,008
Total	\$1,926,358	\$1,043,236	\$883,122

**2013 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$259,224	\$273,211	\$13,987
Special Revenue	127,672	108,953	(18,719)
Debt Service	203,000	24,131	(178,869)
Enterprise	361,200	492,491	131,291
Total	\$951,096	\$898,786	(\$52,310)

**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

<b>2013 Budgeted vs. Actual Budgetary Basis Expenditures</b>			
<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$509,519	\$296,707	\$212,812
Special Revenue	213,289	129,329	83,960
Debt Service	263,746	25,642	238,104
Enterprise	1,040,000	452,268	587,732
Total	\$2,026,554	\$903,946	\$1,122,608

**4. PROPERTY TAX**

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

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

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

**5. 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.

**6. DEBT**

Debt outstanding at December 31, 2014 was as follows:

	<b>Principal</b>	<b>Interest Rate</b>
USDA Mortgage Revenue Bond 92-01	\$1,425,000	4.75%
USDA Mortgage Revenue Bond 92-03	\$302,800	4.75%
USDA General Obligation Bond 92-05	\$396,300	4.75%
Ohio Public Works Commission Loan	212,500	0.00%
Police Vehicle Lease	34,058	8.00%
Total	\$2,370,658	

The United States Department of Agriculture (USDA) mortgage revenue bonds relate to a water and sewer plant construction project the Ohio Environmental Protection Agency mandated. The Village will repay the bonds in annual installments including interest, over 40 years. Water and sewer receipts collateralize the bonds. The Village has agreed to set utility rates sufficient to cover USDA debt service requirements.

**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**6. DEBT (Continued)**

The Village issued general obligation bonds to assist in financing of a water and sewer plant construction project. This is being repaid with property tax receipts, and the Village will repay this bond in annual installments with interest over 40 years. The Village's taxing authority collateralized the bonds.

The Ohio Public Works Commission loan is an interest-free loan, which was obtained to aid in construction of the water and sewer project. This loan is being repaid in semi-annual installments of \$12,500. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Village entered into a lease-purchase agreement during 2014 with Statewide Emergency Products, LLC for a police vehicle. The total lease amount, including interest is \$52,864, being paid in annual principal and interest payments of \$13,216, with the final lease payment being due in 2017.

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

<b>Year ending December 31:</b>	<b>USDA Mortgage Revenue</b>	<b>USDA General Obligation</b>	<b>OPWC Loan</b>	<b>Police Vehicle Lease</b>
2015	\$109,171	\$25,024	\$12,500	\$13,216
2016	109,183	25,030	25,000	13,216
2017	109,234	25,021	25,000	13,216
2018	109,219	25,098	25,000	
2019	109,237	25,056	25,000	
2020-2024	546,070	125,285	100,000	
2025-2029	546,112	125,213		
2030-2034	546,015	125,296		
2035-2039	546,149	125,265		
2040-2044	546,049	125,241		
Total	<u>\$3,276,439</u>	<u>\$751,529</u>	<u>\$212,500</u>	<u>\$39,648</u>

**7. RETIREMENT SYSTEMS**

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 this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries.

**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.



**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**9. 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.

**10. SUBSEQUENT EVENT**

During 2016, the Village completed a water plant project with various funding sources, including \$20,000 paid by the Village. The total cost of the project was \$306,613.

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# 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 New Madison  
Darke County  
124 South Harrison Street, PO Box 15  
New Madison, Ohio 45346

To the Village Council:

We were engaged to audit the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of New Madison, Darke County, (the Village) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated February 16, 2017. We disclaimed our opinion for the following reasons: the Village's adjusted bank reconciliation had unsupported variances of \$1,332 and \$23,434 as of December 31, 2014 and 2013, respectively; due to inadequacies related to the Village's income tax records, we could not verify or determine completeness of the Village's general fund income tax revenues in the amounts of \$128,126 and \$117,462 as of December 31, 2014 and 2013, respectively; the Village's adjusted financial statements include an unexplained variance of \$7,633 between the amount reported as general fund property tax revenue and the amount that should be reported as of December 31, 2014; the Village's adjusted financial statements include unexplained variances of \$4,625 and \$10,444 between the amount reported as general fund intergovernmental revenue and the amount that should be reported as of December 31, 2014 and 2013, respectively; within a sample of non-payroll and payroll expenditures examined, numerous items were identified as posted to an incorrect expense line item and/or incorrect fund. Additionally, management failed to provide the Auditor of State certain representations as required by auditing standards generally accepted in the United States of America. We also noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

As part of our engagement, 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 and a significant deficiency.

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 2014-001, 2014-002 and 2014-005 through 2014-008 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 finding 2014-009 described in the accompanying schedule of findings to be a significant deficiency.

### ***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 2014-001 through 2014-004.

### ***Village'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

February 16, 2017

**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2014-001**

**Noncompliance and Material Weakness**

**Ohio Rev. Code § 733.28** states, in part, that the Village Clerk shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all the property owned by the Village and the income derived there from, and of all taxes and assessments. Additionally, **Ohio Admin. Code § 117-2-02(A)**, states, in part, that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record, and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements. The Village's financial reports for 2013 and 2014 contained numerous errors which resulted in reclassifications and adjustments as follows:

- Water Fund charges for services were improperly posted as special assessments in the amounts of \$128,497 for 2013 and \$137,802 for 2014.
- Sewer Fund charges for services were improperly posted as special assessments in the amounts of \$260,488 for 2013 and \$259,004 for 2014.
- Debt payments for the USDA general obligation bond were improperly posted to the Enterprise Fund rather than the Debt Service Fund in the amounts of \$25,080 and \$25,109 for 2013 and 2014, respectively. These payments were also incorrectly posted as operating supplies and materials and other - personal services instead of principal and interest for 2013 and 2014, respectively.
- Debt payments for the USDA mortgage revenue bonds and the Ohio Public Works Commission (OPWC) loan were improperly posted as operating supplies and materials expenditures instead of principal and interest in the amount of \$134,179 for the Enterprise Fund for 2013.
- Debt payments for the USDA mortgage revenue bonds and the OPWC loan were improperly posted as other - personal services expenditures instead of principal and interest in the amount of \$134,306 for 2014. Additionally, one OPWC payment in 2014 in the amount of \$12,500 was from the Water Operating Fund, but should have been made from the Sewer Operating Fund.
- In 2014, a debt principal payment for a police vehicle lease paid from the Police Levy Fund was improperly posted as security of persons and property in the amount of \$13,216. Additionally, the related check was mailed to the wrong entity, which redeemed the check. Upon reimbursement to the Village for this error, the Village posted the receipt as miscellaneous revenue and issued another check. Therefore, the Policy Levy Fund revenues and expenditures were overstated by \$13,216.
- During 2013 and 2014, a portion of the Fiscal Officer's salary was improperly classified as basic utility services rather than general government in the amount of \$11,195 and \$13,630, respectively.
- During 2013 and 2014, a portion of Village Council salaries were improperly classified as security of persons and property rather than general government in the amount of \$1,680 and \$5,780, respectively.
- In 2013 and 2014, permissive motor vehicle license tax receipts were posted to incorrect funds (General Fund, Street Construction Maintenance and Repair Fund) and were improperly classified as property and other taxes rather than intergovernmental revenue in the total amounts of \$4,378 for 2013 and \$4,216 for 2014.
- In 2013, estate tax receipts in the amount of \$1,533 were classified as property and other taxes rather than intergovernmental revenue in the General Fund.
- During 2013 and 2014, local governmental distribution receipts in the amount of \$13,331 and \$11,689, respectively, were classified as property and other taxes rather than intergovernmental revenue in the General Fund.
- In 2014, personal property reimbursement receipts in the amount of \$1,900 were classified as property and other taxes rather than intergovernmental revenue in the General Fund.

**FINDING NUMBER 2014-001**  
**(Continued)**

- During 2013 and 2014, all property tax receipts were posted at the net amount rather than the gross amount.
- In 2013, special assessments received for delinquent utilities in the amount of \$2,548 were posted to the General Fund rather than to the Enterprise Fund. The amount was also posted at net rather than gross.
- During 2013, first half property tax receipts for road maintenance (Road Levy Fund) in the amount of \$5,538 were improperly posted to the Parks and Recreation Fund as special assessments revenue.
- During 2013, second half property tax receipts in the total amount of \$38,742 were posted entirely to the General Fund rather than being allocated appropriately to the various funds according to the County Auditor's tax settlement sheet.
- During 2014, all property tax receipts in the amount of \$104,950 were posted entirely to the General Fund rather than allocated appropriately to the various funds according to the County Auditor's tax settlement sheets. In addition, all 2014 property tax receipts were incorrectly classified as intergovernmental revenue rather than property and other taxes revenue.
- At year-end 2014, the Village's adjusted financial statements include an unexplained variance of \$7,633 between the amount reported as general fund property tax revenue and the amount that should have been reported.
- During 2013 and 2014, pass-through funding received from the Ohio Public Works Commission [OPWC] in the amount of \$77,866 and \$72,326, respectively, was not posted to the Village's books in the Enterprise Fund (intergovernmental revenue and capital outlay expenditure).
- During 2013 and 2014, all homestead and rollback receipts were incorrectly posted entirely to the General Fund rather than allocated appropriately to the various funds according to the County Auditor's tax settlement sheets. In addition, all such receipts were incorrectly classified as property taxes rather than intergovernmental revenue and were posted at net rather than gross. The total amounts were \$19,318 for 2013 and \$19,102 for 2014.
- At year-end 2014 and 2013, respectively, the Village's adjusted financial statements include unexplained variances of \$4,625 and \$10,444 between the amount reported as general fund intergovernmental revenue and the amount that should have been reported.
- Activity related to the Wastewater Bond Construction Fund was incorrectly classified as a governmental fund type rather than rolled up into the Enterprise Fund. For 2013, there was no revenue or expenditure activity and the beginning and ending fund balance was \$59,693. For 2014, there was originally (prior to adjustments) beginning fund balance of \$59,693, expenditure activity of \$21,658 and ending fund balance of \$38,035.
- During 2013, the following financial statement errors were identified in testing non-payroll disbursements due to numerous disbursements posted to the incorrect line item or fund:
  - **General Fund** - Fund balance was understated by \$7,129, basic utility expenditures were understated by \$12,984, general government expenditures were understated by \$20,807, security of persons and property expenditures were understated by \$16,748, community environment expenditures were overstated by \$19,950, and transportation expenditures were overstated by \$37,718.
  - **Enterprise Fund** - Fund balance was understated and capital outlay expenditures overstated by \$35,863.
  - **Special Revenue Fund** - Fund balance was overstated by \$34,595, security of persons and property expenditures were overstated by \$1,268, capital outlay expenditures were understated by \$35,863, basic utility services expenditures were understated by \$1,350, and transportation expenditures were overstated by \$1,350.

**FINDING NUMBER 2014-001**  
**(Continued)**

- During 2014, the following financial statement errors were identified in testing non-payroll disbursements due to numerous disbursements posted to the incorrect line item or fund.
  - **General Fund** - Fund balance was understated by \$11,616, basic utility expenditures were understated by \$12,538, general government expenditures were understated by \$23,770, transportation expenditures were understated by \$46,500, security of persons and property expenditures were overstated by \$11,616, and community environment expenditures were overstated by \$82,808.
  - **Enterprise Fund** - Fund balance was overstated and capital outlay expenditures were understated by \$22,158.
  - **Special Revenue Fund** - Fund balance was overstated by \$11,116, security of persons and property expenditures were understated by \$28,364, and transportation expenditures were overstated by \$17,248.

Adjustments and reclassifications to correct the errors above are reflected in the accompanying financial statements. Additionally, the Village has recorded all applicable fund balance adjustments in its accounting system.

Failure to maintain a complete and accurate accountability of public monies could lead to errors and irregularities occurring and not being detected in a timely manner. Inaccurate financial information could make it difficult for the Village Council to make important financial decisions and could also make it difficult to compare financial information from year to year.

The Village should develop and implement procedures to improve the accuracy and completeness of the Village's financial statements. The posting of receipts and disbursements should be performed consistently with the instructions contained in the Ohio Village Officers Handbook and the Uniform Accounting Network (UAN) Chart of Accounts. Additionally, independent detailed reviews should be performed over the Village's accounting records as a means of providing for their completeness and accuracy.

**Officials' Response:** Issues are being addressed.

**FINDING NUMBER 2014-002**

**Noncompliance and Material Weakness**

**Ohio Rev. Code § 5705.10(D)**, states, in part, that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

Additionally, **Ohio Rev. Code § 5735.28** states that wherever a municipal corporation is on the line of the state highway system as designated by the director of transportation as an extension or continuance of the state highway system, seven and one-half per cent of the amount paid to any municipal corporation pursuant to sections 4501.04, 5735.23, and 5735.27 of the Revised Code shall be used by it only to construct, reconstruct, repave, widen, maintain, and repair such highways, to purchase, erect, and maintain traffic lights and signals, and to erect and maintain street and traffic signs and markers on such highways, or to pay principal, interest, and charges on bonds and other obligations issued pursuant to Chapter 133 of the Revised Code or incurred pursuant to section 5531.09 of the Revised Code for such purposes.

**FINDING NUMBER 2014-002**  
**(Continued)**

The Village did not properly allocate gas tax receipts, motor vehicle license tax receipts, and state and local government highway distribution receipts between the State Highway Fund and the Street Construction, Maintenance and Repair (SCM&R) Fund during 2013 or 2014 amounting to \$10,203 and \$11,393, respectively. As stated above, the State Highway Fund was to receive seven and one-half percent and the remaining amount of ninety-two and one-half percent was to be received by the SCM&R fund. Additionally, this revenue should be recorded as intergovernmental revenue. This revenue was recorded to the incorrect line item and incorrect fund for nearly all applicable receipts that were received during 2013 and 2014. Adjustments to correct the errors above have been posted to the Village's accounting system and to the accompanying financial statements.

Failure to post revenues to the correct funds could result in incorrect fund balances being maintained and expenditures being paid with funds that do not really exist in a particular fund and are not allowable in the other fund.

The Village should implement procedures to verify that all receipts are posted to the accounting system in accordance with the above code section. These receipts should also be recorded to the intergovernmental revenue line item. Due care should be used when posting transactions to the accounting system.

**Officials' Response:** Issue has been resolved.

**FINDING NUMBER 2014-003**

**Noncompliance**

**26 U.S.C. § 3403** states that the employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter, and shall not be liable to any person for the amount of any such payment.

Additionally, **Ohio Rev. Code § 5747.07(B)(3)** states, in part, that if an employer's actual or required payments were more than two thousand dollars during the twelve-month period ending on the thirtieth day of June of the preceding calendar year, the employer shall make the payment of un-deposited taxes for each month during which they were required to be withheld no later than fifteen days following the last day of that month. The employer shall file the return prescribed by the tax commissioner with the payment.

The Village was consistently late in remitting federal, state, and school district income taxes and filing the quarterly tax reports during 2013 and 2014. The third and fourth quarter federal remittances of 2013 and the federal remittances for the entire 2014 year were not paid until July 2015 and included penalty and interest amounts of \$8,166 assessed by the Internal Revenue Service (IRS) and paid by the Village for failure to remit taxes and file required reports. At December 31, 2014, the Village owed the IRS \$23,894 for unpaid taxes for quarters ending September 30, 2013 through December 31, 2014. This balance was paid in July 2015. Additionally, at December 31, 2014 the Village had \$2,228 in state income taxes that were withheld from employee wages related to 2013 and 2014 wages, but had not been remitted to the Ohio Department of Taxation. The Village also had an additional \$1,134 that was withheld from employee wages for school district income taxes related to 2013 and 2014 wages, but had not been remitted to the Ohio Department of Taxation at December 31, 2014.

Policies and procedures should be established and implemented to verify that income taxes are properly and timely remitted to the IRS and Ohio Department of Taxation and required returns filed in a timely manner. Failure to do so could result in assessment of fines and penalties against the Village as well as possible findings for recovery being issued in future audits.



**FINDING NUMBER 2014-003  
(Continued)**

See finding number 2014-004 for finding of recovery related to late fees and penalties paid by the Village to the IRS.

We have referred this issue to the IRS and Ohio Department of Taxation.

**Officials' Response:** Issue has been resolved.

**FINDING NUMBER 2014-004**

**Noncompliance/Finding for Recovery**

***State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951)***, provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Further, **Auditor of State Bulletin 2003-005** states that the Auditor of State's Office will only question expenditures where the legislative determination of a proper public purpose is manifestly arbitrary and incorrect. The law requires that employers withhold taxes from employees' paychecks and remit those taxes to the government. The United States Internal Revenue Code requires employers to deduct from wages paid to employees the employees' share of FICA taxes and individual income taxes. See 26 U.S.C. §3102(a) and §3402(a). Those withholdings are considered to be held in "a special fund in trust for the United States." See 26 U.S.C. §7501(a). The employer is liable for the withheld portion of the employee's wages and must pay over the full amount to the government each quarter. See *United States v. Farr*, 536 F.3d 1174, 1176 (10<sup>th</sup> Circ. 2008).

As Fiscal Officer, Wanda Lacey was the official responsible for withholding and remitting the required income taxes from Village employee earnings. Wanda Lacey withheld, as required, various taxes during 2013 and 2014. However, at various points during 2013 and 2014, Wanda Lacey failed to remit federal tax withholdings of the Village's employees to the federal government in a timely manner, which resulted in gross neglect of duty amounting to reckless disregard for the Village. No supporting documentation could be provided to support that any federal remittances were made for the third or fourth quarters of 2013, or for any quarter of 2014, until July 2015. As a result, the Village incurred penalties and late charges from the federal government. These penalties and late charges totaled \$8,166 and were paid by the Village from July 7, 2015 through July 9, 2015. The payment of penalties and late charges is not considered to serve a proper public purpose and would have been avoided had the funds been remitted as required by law.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code § 117.28, a finding for recovery for public monies illegally expended is hereby issued against Wanda Lacey, former Fiscal Officer, in the amount of \$8,166, and in favor of the Village of New Madison. Wanda Lacey's bonding company is the Cincinnati Insurance Company.

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 was made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code §9.39; *State ex rel. Village of Linndale v. Masten*, 18 Ohio St.-3d 228 (1985). 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.

The Village should implement policies and procedures to verify that all payroll withholdings and remittances are paid in a timely manner as to avoid any penalties and late charges. Failure to do so could result in waste of Village resources and findings for recovery.

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

## FINDING NUMBER 2014-005

### Material Weakness – Income Tax System, Records and Controls

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

The following weaknesses were identified related to income tax administration:

- The only income tax records available for review were the income tax forms on file (i.e. individual, business and withholding). However, available returns were often not complete because many of the individual files had no tax return information or supporting documentation related to the 2012, 2013, or 2014 tax year.
- For the Village's subsidiary computer system, CMI, which was to be used for income tax accounting, no system reports were generated related to 2013 or 2014, and no reports were printed at any time during the audit period or during the period subsequent to the audit period.
- There was limited or no documentation supporting when income tax returns or payments were received by the Village.
- There was no apparent documentation to support the review, recalculation, or verification of income tax returns filed.
- There was no evidence to support that those who filed inaccurate returns or late returns were notified.
- There was no evidence to support that the Village took steps to verify that those who should be paying income taxes and/or filing a tax return were actually paying income taxes and/or filing a tax return.
- There was no evidence to support that the Village took steps to collect unpaid taxes due.
- For 2014, the Village's Fiscal Officer was paid a total salary of \$24,202. The Village income tax rate of one percent (1%) of these wages would be \$242. According to the annual payroll summary from the accounting system, the Fiscal Officer's local income taxes withheld were \$26, which was 0.11% of salaries and an underpayment of \$216. For 2013, the Village's Fiscal Officer was paid a total salary of \$22,391. The Village income tax rate of 1% would be \$224. According to the annual payroll summary from the accounting system, the Fiscal Officer's local income taxes withheld were \$9, which was less than .1% and an underpayment of \$215. There was no individual file in the income tax files for the Fiscal Officer, nor any related returns or supporting documentation for the 2013 audit year (2012 income tax year). An income tax return for the Fiscal Officer was provided for the 2014 audit year (2013 income tax year); however, the return was not completed correctly and was not accurate based on inadequate supporting documentation and the calculation of income tax due could not be supported.

The failure to maintain complete, accurate, and supported income tax forms and income tax accounting system reports could lead to a loss of revenue for the Village as well as the inability to detect errors and irregularities promptly.

The Village should implement and strengthen procedures in relation to its income tax accounting system and consider the following:

- Ensure that the Village's personnel have been adequately trained to use any information technology systems and the applicable system is appropriately utilized, and reports generated, for income tax accounting.
- Rely on manual application controls (e.g., comparison of system data to non-system data) to assess whether the computer applications are functioning as intended, and keep records of such controls being performed.
- Obtain software support agreements with their application or hardware system vendor.
- Ensure that operators/users back-up programs on a regular basis and store the back-ups in a secure off-site location.

**FINDING NUMBER 2014-005  
(Continued)**

Additionally, the Village should review the adopted ordinances related to the 1% income tax and the municipal income tax rules and regulations and the contents within. Furthermore, the Village should develop and implement procedures to verify that all the income tax ordinances are followed, and that all required income tax returns are filed and maintained. This might include matching applicable street names or area codes from other computer files (such as IRS or State files), making periodic inquiries to local employers for lists of employees, obtaining notices of utility hookups for new residents, etc.

**Officials' Response:** SSI Income Tax Program is being utilized.

**FINDING NUMBER 2014-006**

**Material Weakness – Bank Reconciliations**

The Village completed bank to book reconciliations for each month during 2013 and 2014 on the UAN accounting system. The Village's monthly bank reconciliations from the period of January 2013 through February 2014 contained undetermined reconciling items that were listed as "payments not in UAN" or "deflating bank errors" in order to reconcile each month and the variances ranged in total from a low of \$62,300 in January 2014 to a high of \$116,747 in September 2013. These items resulted in inaccurate bank reconciliations and financial information (i.e. UAN reports) provided to the Village Council for the applicable months.

Additionally, the Village maintained 4 checking accounts which were funded from the main checking account. These accounts were not included on the Village's monthly bank reconciliations throughout 2013. At December 31, 2014, the Village's certificate of deposit amount on the reconciliation did not agree to the actual value of the certificate of deposit. The bank reconciliations at December 31, 2013 and at December 31, 2014 did not agree to the calculation of total bank and certificate of deposit balances plus reconciling items. The variances were \$31,831 and \$13,049 at year-end 2013 and 2014, respectively. After audit adjustments were made for transactions not entered into the accounting system, the variances were \$23,434 and \$1,332 bank balance greater than book balance at year-end 2013 and 2014.

Failure to input all transactions into the UAN system in a timely manner could lead to errors in the reconciliation, inaccurate information being presented to the Council, and inaccurate financial reporting. Failure to identify, investigate, and correct reconciling errors could also lead to errors and irregularities occurring and not being detected in a timely manner.

The Village should implement procedures to verify that monthly bank reconciliations are prepared timely and correctly with little to no undocumented adjusting factors. The reconciliation should include all Village accounts at the correct bank amount. Additionally, financial transactions should be entered into the Village's accounting system accurately and timely and Village Council members should review and sign the bank reconciliation each month as verification that there are no errors.

**Officials' Response:** Reconciliations prepared and posted monthly.

#### **FINDING NUMBER 2014-007**

##### **Material Weakness – Fund Balance Classifications**

The Village prepared its annual financial statements in accordance with the accounting practices the Auditor of State prescribes or permits. The Village's 2014 and 2013 annual financial statements were adjusted for the following errors related to fund balance reporting:

- Governmental Accounting Standards Board (GASB) Statement 54, paragraph 16 states, in part, that an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance. The Village failed to properly classify the amount by which appropriations exceeded estimated receipts for the subsequent year on the 2014 and 2013 financial statements. The full balance should have been classified as assigned fund balance rather than unassigned fund balance in the General Fund.
- GASB Statement 54, paragraph 10 states, in part, that amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority should be reported as committed fund balance. The Village failed to properly classify the original unaudited 2014 and 2013 fund balances of the Parks and Recreation Fund as committed fund balance. Instead, it was originally classified incorrectly as assigned fund balance.
- GASB Statement 54, paragraph 8 states, in part, that fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Village failed to properly report the balance of the Fire Levy Fund as restricted fund balance for 2014 and 2013. Instead, it was originally classified incorrectly as committed fund balance.

Failure to classify fund balances in accordance with GASB 54 and Auditor of State Bulletin 2011-004 could lead to fund balance errors, misstated financial statements, and misleading financial statement information.

The Village should implement procedures to review GASB 54 requirements, including Auditor of State Bulletin 2011-004, and apply these requirements to all financial statement and footnote disclosures.

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

#### **FINDING NUMBER 2014-008**

##### **Material Weakness – Disbursement Process**

There were various weaknesses in the Village's disbursement process related to 2013 and 2014 non-payroll, debt, and payroll expenditures as follows:

- As described in Finding 2014-001, there were various financial statement errors due to numerous non-payroll, debt, and payroll disbursements that were posted to the wrong line item and/or fund in the Village's accounting system.
- For 2013, 3 out of 41 (7.3%) non-payroll expenditures tested were not properly supported with the appropriate underlying invoice. For 2014, 22 out of 42 (52.4%) non-payroll expenditures tested were not properly supported with the appropriate underlying invoice. Amongst these items, there were instances in which the Village's payment support was a statement from the vendor rather than an invoice.
- The December 31, 2014 outstanding check list included two payments that did not have proper supporting invoices.

**FINDING NUMBER 2014-008  
(Continued)**

- Of the non-payroll expenditures tested for the audit period, three included late fees paid because the vendor had been paid after the required due date.
- The check number according to the accounting system was different than the check number on the actual canceled check in two 2014 non-payroll expenditures tested, two 2014 payroll expenditures tested, and one 2013 payroll expenditure tested.
- A canceled check could not be provided for one 2014 non-payroll expenditure tested.
- An OPWC debt payment due in July 2014 was not paid until October 2014.

Failure to correct the above issues could lead to unreliable financial information, unsupported financial statements, and possible findings for recovery being issued in future audits. Failure to identify, investigate, and correct disbursement process issues could also lead to errors and irregularities occurring and not being detected in a timely manner.

The Village should develop and implement procedures to improve its disbursement process, including: 1) utilize the the UAN chart of accounts when posting transactions to its accounting system, 2) attach any and all supporting documentation (invoices) to the UAN check stub (voucher) for each disbursement, 3) maintain all vouchers in an organized manner, 4) pay all bills in a timely manner to avoid possible late charges/fees, 5) verify that the actual check issued agrees to the check information (check number, date, payee, amount) as recorded in the accounting system, and 6) maintain and compare canceled checks to the accounting system to verify necessary information.

**Officials' Response:** Issue has been resolved.

**FINDING NUMBER 2014-009**

**Significant Deficiency – Review of Financial Information**

To assist in the management of financial resources, a governing body should periodically review and approve financial information. In addition, to help ensure accountability over recorded activity and depository balances, the governing body should review and approve monthly bank-to-book reconciliations and bank statements. There were several months during 2013 and 2014 in which bank reconciliations and financial reports were not reviewed by Village Council or were not reviewed in a timely manner.

It is imperative for Village Council to provide an oversight function in an entity that lacks segregation of duties as all accounting functions are controlled by one individual, the Fiscal Officer. The failure of the Council to monitor the financial activity of the Village could result in financial objectives not being achieved; violation of Ohio Rev. Code or grant requirements; or errors and/or irregularities occurring and not being detected in a timely manner.

The Village should implement procedures to verify that the monthly financial reports such as budget versus actual revenue and expenditure reports and fund balance reports, along with review of monthly bank-to-book reconciliations accompanied with bank statements are timely reviewed and approved by the Village Council. Evidence of the review and approval of financial reports should be indicated by signatures or initials on the documents reviewed and/or approval in the minutes.

**Officials' Response:** Council receiving financial reports and reconciliations monthly.

**VILLAGE OF NEW MADISON  
DARKE COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Status	Additional Information
2012-001	Noncompliance – <b>Ohio Rev. Code § 5705.41(D)(1)</b> - Improper Use of Super Blanket Certificates	Not Corrected	Repeated as management letter citation
2012-002	Noncompliance/Material Weakness – <b>Ohio Rev. Code § 733.28 and Ohio Admin. Code § 117-2-02 (A)</b> Various Financial Statement Errors	Not Corrected	Repeated as Finding 2014-001
2012-003	Material Weakness – Bank Reconciliation Deficiencies	Not Corrected	Repeated as Finding 2014-006
2012-004	Material Weakness – Deficiency of Income Tax Records	Not Corrected	Repeated as Finding 2014-005



# Dave Yost • Auditor of State

VILLAGE OF NEW MADISON

DARKE 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  
NOVEMBER 9, 2017