



Dave Yost • Auditor of State

VILLAGE OF SMITHFIELD
JEFFERSON COUNTY

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Dave Yost • Auditor of State

ACCOUNTANT'S REPORT ON FINANCIAL STATEMENTS, INTERNAL CONTROL AND COMPLIANCE

Village of Smithfield
Jefferson County
P. O. Box 454
Smithfield, Ohio 43948

To the Village Council

We have selectively tested accounts, financial records, files and reports and other documentation of the Village of Smithfield, Jefferson County, (the Village) as of and for the years ended December 31, 2015 and 2014. These procedures were designed to satisfy the audit requirements of Section 117.11, Ohio Rev. Code, and Section 117-4-02, Ohio Admin. Code. Our engagement was not designed as a basis to opine on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinions on these matters.

Internal Control Over Financial Reporting

Certain of the aforementioned tests relate to internal control over financial reporting. The results of those tests may allow us to identify internal control deficiencies. An internal control deficiency 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, whether caused by error or fraud.

Our internal control tests were not designed to identify all internal control deficiencies that might exist. Therefore, unidentified weaknesses may exist. However, we consider findings 2015-002 through 2015-004, 2015-010, and 2015-012 through 2015-016 reported in the Schedule of Findings to be internal control deficiencies management and those charged with governance should address.

Compliance and Other Matters

We also tested compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to the Government, noncompliance with which could directly and materially affect the determination of financial statement amounts. The results of our tests disclosed instances of noncompliance we believe could directly and materially affect the determination of financial statement amounts that we reported in the Schedule of Findings as items 2015-001 through 2015-014.

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Dave Yost
Auditor of State

April 18, 2017

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Village of Smithfield, Ohio
Jefferson County
**Combined Statement of Cash Receipts, Cash Disbursements,
and Changes in Fund Cash Balances**
All Governmental Fund Types
For the Year Ended December 31, 2015

	General	Special Revenue	Permanent	Totals (Memorandum Only)
Cash Receipts				
Unclassified	\$170,469	\$120,144	\$0	\$290,613
Cash Disbursements				
Unclassified	139,160	171,314	0	310,474
<i>Excess of Receipts Over (Under) Disbursements</i>	31,309	(51,170)	0	(19,861)
<i>Fund Cash Balances (Deficit), January 1</i>	123,201	(424,741)	28,739	(272,801)
<i>Fund Cash Balances (Deficit), December 31</i>	<u>\$154,510</u>	<u>(\$475,911)</u>	<u>\$28,739</u>	<u>(\$292,662)</u>

Village of Smithfield
Jefferson County
Combined Statement of Cash Receipts, Cash Disbursements,
and Changes in Fund Cash Balances
Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2015

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Unclassified	\$214,430	\$32,101	\$246,531
Operating Cash Disbursements			
Unclassified	103,310	36,526	139,836
<i>Net Change in Fund Cash Balances</i>	111,120	(4,425)	106,695
<i>Fund Cash Balances, January 1</i>	201,997	52,165	254,162
<i>Fund Cash Balances, December 31</i>	\$313,117	\$47,740	\$360,857

Village of Smithfield, Ohio
Jefferson County
**Combined Statement of Cash Receipts, Cash Disbursements,
and Changes in Fund Cash Balances**
All Governmental Fund Types
For the Year Ended December 31, 2014

	General	Special Revenue	Permanent	Totals (Memorandum Only)
Cash Receipts				
Unclassified	\$143,012	\$122,154	\$0	\$265,166
Cash Disbursements				
Unclassified	109,716	247,175	0	356,891
<i>Excess of Receipts Over (Under) Disbursements</i>	33,296	(125,021)	0	(91,725)
<i>Fund Cash Balances (Deficit), January 1</i>	89,905	(299,720)	28,739	(181,076)
<i>Fund Cash Balances (Deficit), December 31</i>	<u>\$123,201</u>	<u>(\$424,741)</u>	<u>\$28,739</u>	<u>(\$272,801)</u>

Village of Smithfield
Jefferson County
Combined Statement of Cash Receipts, Cash Disbursements,
and Changes in Fund Cash Balances
Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2014

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Unclassified	\$253,904	\$44,656	\$298,560
Operating Cash Disbursements			
Unclassified	187,412	48,560	235,972
<i>Net Change in Fund Cash Balances</i>	66,492	(3,904)	62,588
<i>Fund Cash Balances, January 1</i>	135,505	56,069	191,574
<i>Fund Cash Balances, December 31</i>	\$201,997	\$52,165	\$254,162

**VILLAGE OF SMITHFIELD
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

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 Smithfield, Jefferson County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides street maintenance and repair, water and sewer utilities, park operations, and police services. The Village contracts with Smithfield Volunteer Fire Department for fire protection and emergency medical services.

On October 2, 2014 the Village was placed in Fiscal Caution by the Auditor of State. The Village of Smithfield was subsequently declared to be in a state of fiscal emergency as defined in Sections 118.03(A)(1) of the Ohio Revised Code on February 19, 2015. Please see Note 8 for additional information.

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.

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 SMITHFIELD
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Police Salary Fund – This fund receives money from a levy to pay for the cost of police services.

3. Permanent Funds

These funds account for assets, held under a trust agreement, that are legally restricted to the extent that only earnings, not principal, are available to support the Village's programs. The Village had the following significant permanent fund:

Perpetual Care Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Village's cemetery.

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 fund:

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

5. Fiduciary Funds

Fiduciary fund reporting focuses on net positions and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Private-purpose trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

**VILLAGE OF SMITHFIELD
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(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 canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting.

A summary of 2015 and 2014 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2015	2014
Deposits	\$68,195	(\$18,639)

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$170,469	\$170,469
Special Revenue	0	120,144	120,144
Enterprise	0	214,430	214,430
Total	\$0	\$505,043	\$505,043

**VILLAGE OF SMITHFIELD
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$139,160	(\$139,160)
Special Revenue	0	171,314	(171,314)
Enterprise	0	103,310	(103,310)
Total	\$0	\$413,784	(\$413,784)

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$143,012	\$143,012
Special Revenue	0	122,154	122,154
Enterprise	0	253,904	253,904
Total	\$0	\$519,070	\$519,070

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$109,716	(\$109,716)
Special Revenue	0	247,175	(247,175)
Enterprise	0	187,412	(187,412)
Total	\$0	\$544,303	(\$544,303)

Contrary to **Ohio Revised Code Sections 5705.41(B) 5705.38**, all budgetary expenditures in all funds exceeded appropriation authority.

Also contrary to **Ohio Revised Code Section 5705.10(I)**, the following funds had deficit cash balances as scheduled below for the year ended December 31.

Fund	2015	2014
Street Maintenance	(\$157,674)	(\$144,203)
Police Salary	(358,480)	(306,670)
Police Protection	(172,001)	(164,237)
Recreation	(4,444)	(2,984)
Canine	(3,429)	(3,429)
Cemetery	(11,731)	(23,418)
Debt Reserve	(94,870)	(94,870)
Water Revenue	(129,580)	(129,580)

Contrary to **Ohio Revised Code Section 5705.36**, the Village failed to certify available revenue to the County Auditor.

**VILLAGE OF SMITHFIELD
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

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.

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

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

5. DEBT

Debt outstanding at December 31, 2015 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Rural Development Bonds	\$710,000	5.75%
Police Cruiser Loan	\$10,536	11.40%
Total	<u>\$720,536</u>	

The United States Department of Agriculture issued a mortgage revenue bond to the Village for the construction of a sanitary sewer system. The amount of the bond was \$1,000,000 and it is to be repaid in annual installments through 2032. The bond is collateralized by future sewer receipts.

The Village was not able to make the January 1, 2015 payment due to the United States Department of Agriculture and Rural Development (USDA) in the amount of \$63,825. This resulted in the acceleration of the debt and the entire indebtedness due on the Sanitary Sewage System First Mortgage Revenue Bonds was declared immediately due and payable. As of December 31, 2015 the amount due was \$710,000 in principal and \$76,538.15 in accrued interest.

The Village and Jefferson County have entered into an Asset Transfer Agreement. Pursuant to the Agreement the Village will transfer the sewer operations and all real estate and other assets to Jefferson County, as outlined in the agreement. During the process of preparing all legal documents related to the Transfer, the Village and County have entered into a Management Agreement. The Village has turned over all day-to-day operations of the Sewer System to the Jefferson County Water and Sewer Department.

Chrysler Capital issued a loan to the Village for the purchase of a new police cruiser. The amount of the loan was \$19,066 and is to be repaid in monthly installments through April 2018. The loan is collateralized by the police cruiser that was purchased with said debt.

**VILLAGE OF SMITHFIELD
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

5. DEBT – (Continued)

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

Year Ending December 31st:	<u>Cruiser Loan</u>
2016	\$5,020
2017	5,020
2018	<u>1,673</u>
Total	<u>\$11,713</u>

6. RETIREMENT SYSTEM

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 2014-2015 OPERS members contributed an amount equaling 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. Due to the omission of payroll records, no determination could be made if the Village has paid all contributions required through December 31, 2015.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

8. FISCAL CAUTION AND FISCAL EMERGENCY

On October 14, 2014, the Auditor of State declared the Village of Smithfield to be in a state of fiscal caution in accordance with Section 118.025(A) of the Ohio Revised Code.

On February 19, 2015, the Auditor of State declared the Village of Smithfield to be in a state of fiscal emergency in accordance with Section 188.03(A) of the Ohio Revised Code. Based upon the Village's population, the Auditor of State will serve as the financial supervisor and has all of the powers and responsibilities of a financial planning and supervision commission.

**VILLAGE OF SMITHFIELD
JEFFERSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)**

8. FISCAL CAUTION AND FISCAL EMERGENCY – (Continued)

In accordance with Section 118.06 of the Ohio Revised Code, the Village is required to submit the financial supervisor a financial recovery plan for the Village which outlines the measures to be taken to eliminate the fiscal emergency conditions. The Village is in the process of developing its financial recovery plan as of the date of these financial statements. A draft recovery plan developed includes staff reductions, the implementation of a one percent municipal income tax, and the transfer of the Village's sewer assets and operations to Jefferson County. Once the recovery plan is completed and submitted to the financial supervisor, the recovery plan will be reviewed to determine if the steps outlined will eliminate all fiscal emergency conditions.

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**VILLAGE OF SMITHFIELD
JEFFERSON COUNTY
SCHEDULE OF FINDINGS**

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2015 AND 2014

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING NUMBER 2015-001

Finding for Recovery – Salary Overpayment

Village Resolution 10-3 Section 2: indicates the salary of the Village Clerk/Treasurer shall be \$2,176, to be paid monthly. The Clerk/Treasurer is to work a 40 hour week and the said salary is to be split for performing duties of the Clerk/Treasurer, Mayor's Court Clerk, and Police Department Clerk.

Deborah Coconougher performed the duties of Clerk/Treasurer as stated above for all of 2014 and 2015. Her annual compensation for performing these duties in 2014 should be \$26,112. Deborah Coconougher wrote checks on her behalf that resulted in a total compensation of \$35,250 in 2014, which is an overpayment of \$9,138. Her annual compensation for performing these duties in 2015 should be \$26,112. Deborah Coconougher was compensated \$35,100 in 2015, which is an overpayment of \$8,988. The total over payment of compensation for both 2014 and 2015 was \$18,126.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Deborah Coconougher and her bonding company, Selective Insurance Company of America, jointly and severally, in the amount of \$18,126 and in favor of the General Fund.

FINDING NUMBER 2015-002

Noncompliance Citation/ Internal Control Deficiency

Ohio Rev. Code § 733.28 provides that the village clerk/treasurer 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 income derived there from, and of all the taxes and assessments. **Ohio Rev. Code § 733.43** states that the treasurer of a municipal corporation shall keep an accurate account of: all moneys received by him, showing the amount thereof, the time received, from whom, and on what account received; and all disbursements made by him, showing the amount thereof, the time thereof, the time made, to whom, and on what account paid.

The Village Clerk/Treasurer did not keep the books of the Village, and failed to exhibit accurate statements of moneys received and expended, and of all the property owned by the Village or income derived there from and of all taxes and assessments. The Village Clerk/Treasurer did not prepare monthly bank to book reconciliations.

The Village Clerk/Treasurer should record all the financial activity of the Village in the receipts ledger, appropriation ledger, and cash journal as appropriate, so that accurate statements of all monies received and expended can be prepared.

The Village Clerk/Treasurer should perform monthly bank reconciliations. Periodically, financial statements and monthly bank reconciliations should be presented to Council for review. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

FINDING NUMBER 2015-003

Noncompliance Citation / Material Weakness

Ohio Admin Code § 117-2-00 (A) requires that all local 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 required by rule 117-2-03 of the Administrative Code.

Additionally, **Ohio Admin. Code § 117-2-02 (D)** requires all local public offices to 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 transaction should be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditures/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:
 - (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, hours worked, wage rates, pay date, withholdings by type, net pay and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments.
 - (iii) Check register that includes, in numerical sequence, the check number, payee, net amount, and the date.
 - (iv) Information regarding nonmonetary benefits such as car usage and life insurance.
 - (v) Information, by employee, regarding leave balances and usage.
 - (b) Utilities billing records including:
 - (i) Master file of service address, account numbers, billing address, type of services provided, and billing rates.

**FINDING NUMBER 2015-003
(Continued)**

- (ii) Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and noncash adjustments, each maintained by date and amount.
- (iii) Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above.

The Village did not maintain an accounting system sufficient to accurately record and report the Village's financial activity as follows:

- (1) The cash journal had to be constructed by Local Government Services for 2014 and 2015. Additionally, neither a receipt ledger nor an appropriation ledger was maintained for 2014-2015. A complete and accurate payroll ledger was not maintained for 2014-2015. The payroll ledgers for 2014-2015 did not include the Check number, check date, or the fund the employee was paid from.
- (2) The Village could not provide sufficient payroll documentation for 2014-2015, such as salary and pay rates, to support whether employees of the Village were being properly paid. The village also did not retain any supporting documentation for the 2014-2015 withholding remittances such as the Quarterly 941's, State Tax Remittances, and OPERS monthly remittances. The Village could not provide adequate vacation and sick leave records for any employee entitled to leave for 2014-2015.
- (3) The Village could not provide sufficient disbursement documentation for 16 purchases in 2014-2015, such as invoices, to support the amount and purpose of the disbursement being made.
- (4) The Village was unable to provide complete sewer ledgers, including a billing register, or posted payments ledger for 2014-2015.

The condition of accounting records prohibited us from obtaining sufficient evidential matter in our procedures to express any opinion on the financial statements.

The Village lacked procedures to ensure the preparation of complete and accurate cash journal, receipts ledger, and appropriation ledger.

The Village should also establish specific procedures to effectively control each payroll disbursement transaction, including but not limited to the following:

- (1) Complete and accurate payroll ledgers should be maintained and should include the check number, check date, payee, wage rate, hours worked, gross pay, withholdings, and net pay;
- (2) The payroll ledger should include month-to-date, quarter-to-date, and year-to-date totals for each employee for each year;
- (3) Time sheets (when applicable) should be utilized and should be signed by the employee and an immediate supervisor attesting to their validity; and
- (4) All wage rates, new hires, and appointments should be formally approved by the Board and noted in the minute record.

**FINDING NUMBER 2015-003
(Continued)**

- (5) All withholding remittances should be maintained and on file including the Federal 941 reports, State Income Tax remittances, and monthly OPERS reports and remittances.

The Village should retain all invoices to help substantiate the amount and purpose of the purchase.

The Village should prepare and maintain water and sewer ledgers including a usage report, billing register, or posted payments ledger.

Village officials should review the guidelines contained in the Ohio Administrative Code to guide them in maintaining the necessary accounting records. Implementation of the suggested procedures may help provide the means to determine that the financial activity of the Village is properly reported and accounted for.

FINDING NUMBER 2015-004

Noncompliance Citation / Material Weakness

Ohio Admin. Code § 117-2-01 (A) provides that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. "Internal Control" is defined as a process affected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting;
- Effectiveness and efficiency of operations;
- Compliance with applicable laws and regulations; and
- Safeguarding of assets.

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual fluctuations;
- Identification of un unusual fluctuations;

**FINDING NUMBER 2015-004
(Continued)**

- Comparison of financial statement position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non-payroll transactions);
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

Lack of effective monitoring controls could lead to theft of entity funds, expenditure of funds contrary to the directives of the governing body, undetected errors affecting the monthly bank versus book reconciliations.

During our review of the records we noted the following:

- There was no evidence in 2014 and 2015 the Council approved disbursements prior to being made, nor did they review disbursements after they were made to ensure they were accurately recorded, necessary and for a proper public purpose; Council authorized the Clerk/Treasurer to pay certain bills without needing Council approval;
- No one independent of the purchasing process reviewed the activity to ensure the accuracy, appropriateness, or allowability of the disbursements. In 2014 and 2015 checks were typically only signed by one authorized signatory. The checks only being signed by one person in conjunction with the lack of council monitoring and segregation of duties which could lead to unallowable disbursements and increase the risk of theft/fraud.
- Council authorized paying monthly and quarterly employees at the beginning of December rather than at the end of the month after services were rendered, essentially paying them in advance;
- Council voted to have the former Mayor, Patricia Freeland removed as an authorized signatory on the Village accounts on January 10, 2012. Mrs. Freeland was still listed as an authorized signatory at December 31, 2015.
- No Evidence of the Council members or management's monitoring controls over the monthly and annual financial statements; the revenue and expenditures cycles nor ensuring that an adequate segregation of duties exists;
- No evidence of the Council review of the monthly bank reconciliations; and
- The Village did not provide any minutes of the Council meetings for June and October 2015.

The Village lacked procedures to help ensure required records are maintained. The lack of record keeping greatly increases the risk of misstatement, fraud and abuse related to non-payroll and payroll disbursements and receipt transactions. These weaknesses significantly reduce management's ability to effectively monitor the finances and make appropriate operating decisions.

The Village should improve internal controls over reporting. All payments should be approved by the Council before being made. Receipts and disbursements should be reconciled to the bank deposits, customer ledgers, and financial ledgers on a monthly basis. Supporting documentation should be available to document the reconciliation. Bank reconciliations should be monitored by the Board and initialed to indicate their review.

FINDING NUMBER 2015-005

Noncompliance Citation

Ohio Rev. Code § 145.47 requires public employees who are members of the Public Employees Retirement System (OPERS) to contribute 10% in 2014-2015 of their salary to the OPERS employees' fund. The fiscal officer of each local authority shall deduct from the compensation of each member on every payroll period subsequent to the date such employee became a member, an amount equal to the applicable percent of such member's earnable salary or compensation.

The Village Clerk/Treasurer did not maintain adequate payroll records to determine if the proper rates of retirement contributions were being withheld from all enrolled employees. OPERS was not properly withheld from all checks issued to the Village Officials and employees for duties performed.

A referral will be made the Ohio Public Employees Retirement System.

The Village Clerk/Treasurer should ensure that the proper OPERS contributions are deducted from the employee's gross wages and should maintain adequate supporting documentation to help substantiate the wages and deductions.

FINDING NUMBER 2015-006

Noncompliance Citation

26 USC Sections 3102 and 3402 require the employing government to withhold federal and employment related taxes (such as Medicare and Social Security) from each employee. Furthermore, these chapters hold employers liable for reporting and payment of these taxes.

The Village failed to remit the following Federal Income Taxes withheld from employees and elected officials for all quarters in 2014 through 2015. No evidence was presented to indicate payment has been made.

YEAR	AMOUNT
2014	\$28,641
2015	\$22,107

The Village also withheld Medicare withholdings based on gross wages less retirement rather than gross wages.

A referral will be made to the Internal Revenue Service.

The Village should withhold and remit all necessary federal income taxes to the Internal Revenue Service in a timely manner.

FINDING NUMBER 2015-007

Noncompliance Citation

Ohio Rev. Code § 5747.06 provides that every employer, including political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to any employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in the employee's adjusted gross income during the calendar year.

The Village failed to remit the following Ohio Income Taxes withheld for all quarters in 2014 through 2015:

YEAR	AMOUNT
2014	\$4,814
2015	\$3,887

No evidence was presented that payments have been made. A referral will be made to the State of Ohio Treasurer.

The Village should take the necessary steps to help ensure that state taxes are properly withheld and remitted for all Village employees.

FINDING NUMBER 2015-008

Noncompliance Citation

Ohio Rev. Code § 5705.38 requires, in part, that on or about the first day of the fiscal year, an appropriation measure be passed. **Ohio Rev. Code § 5705.41(B)** states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The Village Council did not adopt an appropriation measure and since disbursements should be limited by the appropriations established for each fund; all disbursements made by the Village (\$592,863) and (\$450,310) in 2014, and 2015, respectively, were not in compliance with the Ohio Revised Code.

Failure to pass an appropriation measure, which serves as a tool by which disbursements can be monitored, could result in overspending. The Village should pass an appropriation measure as required to help ensure disbursements can be monitored and compliance with the Ohio Revised Code provisions can be attained. Disbursements should be limited to Council approved appropriations for each fund.

FINDING NUMBER 2015-009

Noncompliance Citation

Ohio Rev. Code § 5705.36 states that on or about the first day of each fiscal year, the fiscal officer of each subdivision shall certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

**FINDING NUMBER 2015-009
(Continued)**

The Clerk/Treasurer did not file a certificate showing the total amount from all sources available for expenditures and the balances existing at the end of the year with the county auditor for 2014-2015. Failure to file the certificate could result in appropriations exceeding the amounts of available resources. The Village Clerk/Treasurer should certify to the county auditor the total amount from all sources to establish limits for Council approved appropriations.

FINDING NUMBER 2015-010

Noncompliance Citation / Material Weakness

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

The Village Clerk/Treasurer did not retain records in accordance with the aforementioned provisions. Various items such as vouchers, invoices, purchase orders, reconciliations, mayor's court records, water department ledgers, and minutes had been lost or destroyed and were not available for inspection.

The elected officials and employees should maintain all records as required by the Ohio Revised Code.

FINDING NUMBER 2015-011

Noncompliance Citation

On January 6, 1992 the Village passed Ordinance 92.01 stating the Village would (1) impose and collect such rates and charges to ensure gross revenue would be sufficient at all times to provide for the payment of the operating and maintenance thereof and the installment payments on the bond; (2) establish and maintain required funds; (3) to adhere to covenant stating that the pledge of those revenue shall be from the date of the ordinance and shall be valid and binding; (4) to provide evidence of current and adequate insurance coverage; and (5) to maintain complete books and records, herein created as set forth in Sections 4,5,6,7,8,10,11 and 18.

In addition, Section 8 of this Ordinance requires \$536 per month to be set aside and deposited into the Sanitary Sewer System Reserve fund until there is accumulated in such fund the sum of \$64,320 after which no further deposits will need to be made except to replace withdrawals. In addition, the loan agreement requires that the Clerk/Treasurer be bonded in the amount of \$130,000.

The Village did not make the required deposits into the Sanitary Sewer Debt Reserve account for 2014 or 2015. In addition, the ending balance in this fund for each year was (\$94,870).

In addition, the Village Clerk/Treasurers were not adequately bonded. They were bonded for \$100,000 rather than the \$130,000 required by the debt agreement.

The Village failed to make the payment due in January 2015 and defaulted on the debt. They also have failed to maintain complete books and records. As a result, the loan has been accelerated and the entire portion was deemed due by the United States Department of Agriculture on September 1, 2015. The Village does not have sufficient funds to repay the debt.

The Village lacked procedures to ensure the preparation accounting records and monitoring of fund cash balances.

**FINDING NUMBER 2015-011
(Continued)**

The Village should review the current procedure in place to help ensure required amounts are deposited into the Sanitary Sewer Debt Reserve Account and to formulate a plan to help eliminate the deficit balance in this fund. In addition, the Village should take the necessary steps to help ensure the Clerk/Treasurer is adequately bonded.

Village officials should review the guidelines contained in the Ohio Administrative Code to guide them in maintaining the necessary accounting records. Implementation of the suggested procedures may help provide the means to determine that the financial activity of the Village is properly reported and accounted for.

FINDING NUMBER 2015-012

Noncompliance Citation / Material Weakness

Ohio Rev. Code § 733.40 provides that except as otherwise provided in section [4511.193](#) of the Revised Code, all fines, forfeitures, and costs in ordinance cases and all fees that are collected by the mayor, that in any manner come into the mayor's hands, or that are due the mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses that have been advanced out of the treasury of the municipal corporation, and all money received by the mayor for the use of the municipal corporation shall be paid by the mayor into the treasury of the municipal corporation on the first Monday of each month. At the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all money received, from whom and for what purposes received, and when paid into the treasury. Except as otherwise provided by section [307.515](#) or [4511.19](#) of the Revised Code, all fines, and forfeitures collected by the mayor in state cases, together with all fees and expenses collected that have been advanced out of the county treasury, shall be paid by the mayor to the county treasury on the first business day of each month. Except as otherwise provided by section [307.515](#) or [4511.19](#) of the Revised Code, the mayor shall pay all court costs and fees collected by the mayor in state cases into the municipal treasury on the first business day of each month.

Monies collected for fines, forfeitures, and cost in ordinances cases were deposited into the Village Mayor's Court checking account as collected. Monthly reports to Council were not prepared and presented to show the total collected, the amount due to Village general fund and the amount due the State Treasury. Although the Village was paying fines into the Village accounts, at December 31, 2015, the Mayor's Court Agency fund had a balance of \$47,740. This is the result of several years of fines being collected and not paid out to the appropriate authorities. The balance in this fund is due to the Village General fund and the Ohio Treasurer of State.

The Village should take the steps necessary to determine what portion of the balance of the Mayor's Court agency fund is due to the Village General Fund and what portion is due to the Treasurer of State. The amounts should then be remitted to the appropriate entities.

FINDING NUMBER 2015-013

Noncompliance Citation / Material Weakness

Ohio Rev. Code § 2949.091(A)(1) states that the court, in which any person is convicted of or pleads guilty to any offense other than a traffic offense that is not a moving violation, shall impose the sum of thirty dollars if the offense is a felony, twenty dollars if the offense is a misdemeanor, other than a traffic offense that is not a moving violation, and ten dollars if the offense is a traffic offense that is not a moving violation, as costs in the case in addition to any other court costs that the court is required by law to impose upon the offender. Ohio Rev. Code Sections 2949.091(A)(1)(b) and 2743.70 require that monies collected for state cost be remitted to the state by the 20th day of the month.

**FINDING NUMBER 2015-013
(Continued)**

Ohio Rev. Code Section 2949.094(A) states that the court in which any person is convicted of or pleads guilty to any moving violation shall impose an additional court cost of ten dollars upon the offender. The Court shall not waive the payment of ten dollars unless the court determines the offender indigent and waives all court costs imposed upon the indigent offender. The section further states that the clerk of the court shall transmit thirty-five percent of all additional court costs collected pursuant to this division during a month on or before the twenty-third day of the following month to the state treasury of which ninety-seven per cent shall be credited to the drug law enforcement fund and the remaining three per cent shall be credited to the justice program services fund. The clerk shall transmit fifteen per cent of all additional court costs so collected during a month on or before the twenty-third day of the following month to the county or municipal indigent drivers alcohol treatment fund under the control of that court, as created by the county or municipal corporation under division (H) of section 4511.191 of the Revised Code. The clerk shall transmit fifty per cent of all additional court costs so collected during a month on or before the twenty-third day of the following month to the state treasury to be credited to the indigent defense support fund created pursuant to section 120.08 of the Revised Code.

Ohio Rev. Code Section 2949.111 states that, unless another assigning method is established, the court should assign offender payments on offenses toward the satisfaction of the court costs until they have been entirely paid.

The Court collected costs in the amount of \$44,656 in 2014, and \$32,101 in 2015. None of the collected costs were remitted to the State Treasury. In addition, the Mayor's Court Agency fund had an ending fund balance of \$52,165 in 2014, and \$47,740 in 2015 which may be the cumulative effect of costs being collected and not remitted for several years.

The court should implement procedures to help ensure collection and remittance of the proper costs. The payments should be assigned to court costs until they have been entirely paid, and then to additional fines and fees. The clerk should remit payment to the proper entities, including the Village and the State Treasurer. To aid in the remittance, the most recent form should be obtained from the Treasurer of State, completed, and remitted to the state with the costs collected in a timely manner. By following these procedures, the court may help ensure proper reporting and compliance.

FINDING NUMBER 2015-014

Noncompliance Citation / Material Weakness

Ohio Rev. Code § 5705.10(I) states that all money paid into a fund must be used for the purpose for which such fund has been established. A negative balance indicates that money from another fund(s) has been used to pay the obligations of the funds with deficit cash balances.

As of December 31, 2014, the following funds had deficit cash balances:

Fund	Deficit Balance
Street Construction, Maintenance and Repair	\$144,203
Police Salary	\$306,670
Police Protection	\$164,237
Water Revenue	\$129,580
Recreation	\$2,984
Cemetery Operating	\$23,418
Canine	\$3,429
Debt Reserve	\$94,870

As of December 31, 2015, the following funds had deficit cash balances:

Fund	Deficit Balance
Street Construction, Maintenance and Repair	\$157,674
Police Salary	\$358,480
Police Protection	\$172,001
Water Revenue	\$129,580
Recreation	\$4,444
Cemetery Operating	\$11,731
Canine	\$3,429
Debt Reserve	\$94,870

The Clerk/Treasurer should monitor all fund balances closely and should notify Council immediately if a fund is getting near a deficit level. The deficit balances should be examined by Village management and options should be considered to help prevent deficit spending.

FINDING NUMBER 2015-015

Posting Receipts - Material Weakness

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

The Village did not post intergovernmental receipts, taxes, and charges for services to the correct funds. Errors included improper posting of real estate and mobile home tax receipts, homestead and rollback, and sewer revenue. The following adjustments were made and are reflected in the accompanying financial statements.

**FINDING NUMBER 2015-015
 (Continued)**

Revenue Type:	Amount:	Actual Posting:	Corrected Posting:
2014			
Real Estate Taxes	\$18,456	Police Protection	Police Salary
Homestead/Rollback	\$1,043	Police Protection	Police Salary
Sewer Revenue	\$96,582	Water	Sewer
2015			
Sewer Revenue	\$55,743	Water	Sewer

The Clerk Treasurer should maintain the accounting system to enable the village to identify, assemble, analyze, classify, record, and report all transactions and to maintain accountability. All transactions should be properly coded and classified according to a chart of accounts to help ensure the financial activity of the Village is accurately recorded and reported.

FINDING NUMBER 2015-016

Cash Reconciliations - Material Weakness

The reconciliation of the accounting records to the cash (bank) balances is the most basic and primary control process performed by the Treasurer of an organization. Lack of completing an accurate and timely reconciliation allows for accounting errors, theft and fraud to occur without timely detection. The Treasurer is responsible for reconciling the Village's book (fund) balance to the total bank balance on a monthly basis.

The Village lacked procedures to help ensure reconciliations were performed accurately and timely. During our examination of the Village's cash reconciliation process, we noted during 2014 and 2015 monthly cash reconciliations were not completed, which required a reconstruction of monthly reconciliations by Local Government Services (LGS).

The lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle.

The Clerk/Treasurer should maintain all bank statements and supporting documentation used to prepare the monthly cash reconciliations.

**VILLAGE OF SMITHFIELD
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR FINDINGS
FROM THE FISCAL YEAR ENDED DECEMBER 31, 2015 AND 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Village Resolution 10-3 Section 2	No	No evidence that this was repaid.
2013-002	Village Resolution 10-3 Section 2	No	No evidence that this was repaid.
2013-003	Village Resolution 10-3 Section 2	No	No evidence that this was repaid.
2013-004	Ohio Revised Code § 9.39	No	No evidence that this was repaid.
2013-005	Ohio Revised Code § 2921.42(A(1))	No	No evidence that this was repaid.
2013-006	Ohio Revised Code § 733.28	No	Reissued as finding 2015-002
2013-007	Ohio Admin. Code § 117-2-00 (A) and § 117-2-02 (D)	No	Reissued as finding 2015-003
2013-008	Ohio Admin. Code § 117-2-01 (A)	No	Reissued as finding 2015-004
2013-009	Ohio Revised Code § 145.47	No	Reissued as finding 2015-005
2013-010	26 USC Sections 3102 and 3402	No	Reissued as finding 2015-006
2013-011	Ohio Revised Code § 5747.06	No	Reissued as finding 2015-007
2013-012	Ohio Revised Code § 5705.38 and 5705.41(B)	No	Reissued as finding 2015-008
2013-013	Ohio Revised Code § 5705.41(D)	No	Reissued in Management Letter
2013-014	Ohio Revised Code § 5705.36	No	Reissued as finding 2015-009
2013-015	Ohio Revised Code § 149.351	No	Reissued as finding 2015-010
2013-016	Debt Covenant -Noncompliance	No	Reissued as finding 2015-011
2013-017	Ohio Revised Code § 733.40	No	Reissued as finding 2015-012
2013-018	Ohio Revised Code § 2949.09(A)(1)	No	Reissued as finding 2015-013
2013-019	Ohio Revised Code § 5705.10(D)	Yes	Corrected
2013-020	Ohio Revised Code § 5705.10(I)	No	Reissued as finding 2015-014
2013-021	Posting Receipts – Material Weakness	No	Reissued as finding 2015-015
2013-022	Cash Reconciliation – Material Weakness	No	Reissued as finding 2015-016

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Dave Yost • Auditor of State

VILLAGE OF SMITHFIELD

JEFFERSON 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 16, 2017