

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

Financial Statements
(Audited)

For the Year Ended
December 31, 2016



Dave Yost • Auditor of State

Members of Council and Mayor
Village of Hemlock
8755 Main Street SE
Hemlock, Ohio 43730

We have reviewed the *Independent Auditor's Report* of the Village of Hemlock, Perry County, prepared by Julian & Grube, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

October 3, 2018

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**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Village of Hemlock
Perry County
8755 Main Street SE
Hemlock, OH 43730

To the Members of Council and Mayor:

Report on the Financial Statement

We have audited the accompanying financial statement of the cash balances, receipts and disbursements by fund type and related notes of the Village of Hemlock, Perry County, Ohio, as of and for the year ended December 31, 2016.

Management's Responsibility for the Financial Statement

Management is responsible for preparing and fairly presenting the financial statement 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 the financial statement 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 statement is free from material misstatement.

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

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

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

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

Although the effects on the financial statement of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village of Hemlock does not intend this statement to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village of Hemlock as of December 31, 2016, or changes in financial position thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of Hemlock, Perry County, Ohio, as of December 31, 2016, for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Emphasis of Matter

As disclosed in Note 10, the Village of Hemlock had a decrease in fund cash balance of \$3,174 in its general fund, which caused a fund deficit of \$1,487. The Village has experienced a decrease in cash balance in the general fund each year since 2013. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2018, on our consideration of the Village of Hemlock'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 of Hemlock's internal control over financial reporting and compliance.



Julian & Grube, Inc.
August 14, 2018

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Governmental Fund Types | | Totals (Memorandum Only) |
|---|-------------------------|--------------------|--------------------------------|
| | General | Special Revenue | |
| Cash Receipts | | | |
| Property and Other Local Taxes | \$ 1,121 | \$ - | \$ 1,121 |
| Intergovernmental | 7,343 | 13,395 | 20,738 |
| Earnings on Investments | 8 | - | 8 |
| Total Cash Receipts | <u>8,472</u> | <u>13,395</u> | <u>21,867</u> |
| Cash Disbursements | | | |
| Current: | | | |
| Security of Persons and Property | 1,237 | - | 1,237 |
| Transportation | - | 8,930 | 8,930 |
| General Government | 10,409 | - | 10,409 |
| Total Cash Disbursements | <u>11,646</u> | <u>8,930</u> | <u>20,576</u> |
| Excess of Receipts Over (Under) Disbursements | <u>(3,174)</u> | <u>4,465</u> | <u>1,291</u> |
| Net Change in Fund Cash Balances | (3,174) | 4,465 | 1,291 |
| Fund Cash Balances, January 1 | <u>1,687</u> | <u>7,053</u> | <u>8,740</u> |
| Fund Cash Balances, December 31 | | | |
| Restricted | - | 11,518 | 11,518 |
| Unassigned (Deficit) | (1,487) | - | (1,487) |
| Fund Cash Balances, December 31 | <u>\$ (1,487)</u> | <u>\$ 11,518</u> | <u>\$ 10,031</u> |

See accompanying notes to the financial statement

Village of Hemlock, Ohio
Perry County
Notes to the Financial Statement
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Village of Hemlock (the "Village"), Perry County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides general government services and street and highway maintenance services.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statement consists of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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 The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

State Highway Fund The state highway fund accounts for and reports that portion of the State gasoline tax and motor vehicle registration fees restricted for construction, maintenance, and repair of streets within the Village.

Basis of Accounting

This financial statement follows 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).

Village of Hemlock, Ohio
Perry County
Notes to the Financial Statement
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

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

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 approve estimated resources.

Encumbrances The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2016 budgetary activity appears in Note 4.

Deposits and Investments

The Village had one primary, interest bearing checking account and one certificate of deposit valued at cost during the audit period.

Capital Assets

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

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:

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

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.

Village of Hemlock, Ohio
Perry County
Notes to the Financial Statement
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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.

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.

Note 3 – Compliance

Contrary to Ohio law, including Ohio Revised Code (ORC) Sections 5705.36, 5705.38, 5705.39, 5705.40 and 5705.41(B), the Village failed to comply with the applicable budgetary procedures required. Contrary to 26 U.S.C. Section 3102(a)(1), the Village failed to withhold and remit Federal taxes. Contrary to ORC Section 5705.41(D), the Village did not timely certify expenditures. Contrary to ORC Section 149.43, the Village did not adopt a public records policy, records retention policy/schedule, or attend public records training. Contrary to ORC Section 117.103(B)(1), the Village did not require employees to sign a form acknowledging the Ohio fraud reporting system. Contrary to ORC Section 3.06(B), the Village did not bond any employees during the year. Contrary to ORC Section 733.27, the Village Fiscal Officer did not attend the required continuing education training. Contrary to ORC Section 9.38, the Village did not timely deposit receipts. Contrary to Ohio Administrative Code Section 117-2-02, the Village did not maintain a proper accounting system and proper accounting records. Contrary to ORC Section 5747.06, the Village did not withhold and remit state taxes. Contrary to ORC Section 5705.10, the Village had a negative fund balance in the general fund. Contrary to 26 C.F.R. Section 1.6041-1, the Village did not properly issue Form 1099 to applicable vendors.

Village of Hemlock, Ohio
Perry County
Notes to the Financial Statement
For the Year Ended December 31, 2016

Note 4 - Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

| 2016 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$ - | \$ 8,472 | \$ 8,472 |
| Special Revenue | - | 13,395 | 13,395 |
| Total | \$ - | \$ 21,867 | \$ 21,867 |

| 2016 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$ - | \$ 12,356 | \$ (12,356) |
| Special Revenue | - | 8,930 | \$ (8,930) |
| Total | \$ - | \$ 21,286 | \$ (21,286) |

Note 5 - Deposits and Investments

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

| | |
|------------------------|-----------|
| | 2016 |
| Demand Deposits | \$ 7,531 |
| Certificate of Deposit | 2,500 |
| Total Deposits | \$ 10,031 |

Deposits

Deposits are insured by the Federal Depository Insurance Corporation. At December 31, 2016, no deposits were uninsured.

Note 6 - Taxes

Property Taxes

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.

Village of Hemlock, Ohio
Perry County
Notes to the Financial Statement
For the Year Ended December 31, 2016

Note 6 - Taxes (Continued)

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

Note 7 - Risk Management

Workers' Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Commercial Insurance

The Village is uninsured for the following risks:

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

Note 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Village's elected officials and 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 postemployment healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Note 9 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 10 - Financial Condition

The Village had a decrease in fund cash balance of \$3,174 in the general fund, which caused a deficit fund balance of \$1,487. The Village has experienced a decrease in cash balance in the general fund each year since 2013.



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Village of Hemlock
Perry County
8755 Main Street SE
Hemlock, OH 43730

To the Members of Council and Mayor:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statement of the cash balances, receipts and disbursements by fund type of the Village of Hemlock, Perry County, Ohio, as of and for the year ended December 31, 2016 and the related notes to the financial statement and have issued our report thereon dated August 14, 2018, wherein we noted the Village of Hemlock followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Further, Note 10 discloses the Village's declining fund cash balance in the general fund.

Internal Control Over Financial Reporting

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

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 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 of Hemlock's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider material weaknesses. We consider findings 2016-001, 2016-009, 2016-010, 2016-014, and 2016-015 to be material weaknesses.

Members of Council and Mayor
Village of Hemlock

Compliance and Other Matters

As part of reasonably assuring whether the Village of Hemlock'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 and responses as items 2016-001 through 2016-008 and 2016-010 through 2016-013.

Village of Hemlock's Responses to Findings

The Village of Hemlock's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not subject the Village of Hemlock's responses to the auditing procedures applied in the audit of the financial statements 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 of Hemlock's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village of Hemlock's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
August 14, 2018

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS | |
|--|----------|
| Finding Number | 2016-001 |

Material Weakness/Noncompliance – Budgetary Law:

Ohio Rev. Code § 5705.36 states on or about the first day of each fiscal year, the Fiscal Officer is to prepare and present to the budget commission the total amount from all sources available for expenditure from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year.

Ohio Rev. Code § 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

Ohio Revised Code Section 5705.39 provides that no appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate.

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

Ohio Rev. Code § 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The Village failed to provide evidence that it complied with the applicable budgetary procedures outlined in the Ohio Revised Code. The Village failed to submit the Total Amount from All Sources Available for Expenditures form to the County Budget Commission at the beginning of the year for 2016.

Therefore, the County Budget Commission never certified the Official Amended Certificate of Estimated Resources, which is the basis for the appropriation measure. The Village did not provide evidence that appropriations were adopted by Village Council for the period as well. Therefore, all expenditures made by the Village were made without legally adopted appropriations in place.

Failure to properly follow the applicable budgetary laws and regulations could result in deficit spending by the Village.

We recommend the Village refer to the Village Officer’s Handbook for the guidelines established for preparing budgets and the budgetary procedures for a Village.

Client Response: We will work to correct this moving forward.

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|--|----------|
| Finding Number | 2016-002 |

Noncompliance:

26 U.S.C. § 3102(a)(1) requires every employer making payment of wages to deduct and withhold a tax determined in accordance with tables or computational procedures prescribed by the Secretary of the Treasury.

We noted no Federal income taxes were being withheld for any Village employee. In addition, the Village could not provide any documentation to support employees having enough exemptions for which no withholding would be required. Also, for Medicare, we noted the employer portion was also not tracked and properly remitted to the Internal Revenue Service. It was noted that 2016 Federal taxes were later remitted in 2017. However, failure to withhold and remit Federal taxes in a timely fashion, as required could subject the Village to significant penalties and interest.

We recommend the Fiscal Officer withhold and remit the required Federal taxes to the Internal Revenue Service quarterly, as required.

Client Response: We will work to correct this moving forward.

| | |
|----------------|----------|
| Finding Number | 2016-003 |
|----------------|----------|

Noncompliance:

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

The Village had 60% of expenditures that were not timely certified for the year ended December 31, 2016.

Without timely certification, the Village may expend more funds than available in the Treasury, in the process of collection or in the funds appropriated. It may also result in unnecessary purchases.

We recommend that all orders or contracts involving the expenditure of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. A policy and procedure statement adopted by the Council and distributed at least annually may be beneficial. The Village should consider using “Then” and “Now” certificates where applicable.

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|--|------------------------|
| Finding Number | 2016-003 - (Continued) |

Client Response: We will work to correct this moving forward.

| | |
|----------------|----------|
| Finding Number | 2016-004 |
|----------------|----------|

Noncompliance:

Ohio Rev. Code § 149.43 provides that all public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, public offices shall maintain public records in such a manner that they are available for inspection.

Pursuant to Ohio Rev. Code § 149.43(B)(2), the entity shall have available a copy of its current records retention schedule at a location readily available to the public.

All state and local elected officials, or their designees, must attend at least 3 hours of training on Ohio's public records laws during each term of office [Ohio Rev. Code § 109.43(B) & 149.43(E)(1)]. The training received must be certified by the Ohio Attorney General. Proof that training has been completed must include documentation that either the Attorney General's Office or another entity certified by the Attorney General provided the training to the elected official, or his/her designee. Attendees who successfully complete the training will receive a certificate to serve as proof of training.

The Village did not have a public records policy nor a records retention policy/schedule in place for the year ended December 31, 2016. Further, the Village officials or their designees did not attend public records training for the year ended December 31, 2016.

We recommend the Village Council approve a public records policy and a records retention policy/schedule based on guidance in Ohio Rev. Code § 149.43 and Auditor of State Bulletin 2007-014. Officials, or their designees, should attend public records training. Officials, or their designees, should attend public records training.

Client Response: We will work to correct this moving forward.

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|--|----------|
| Finding Number | 2016-005 |

Noncompliance:

Ohio Rev. Code § 117.103(B)(1) states a public office shall provide information about the Ohio fraud reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment.

The Village did not provide evidence that signed confirmations for notification of the fraud-reporting system to new employees were obtained.

We recommend the Village prepare and maintain a new hire packet, which contains all required documents needed for the start of employment. This should include a signed copy of a form acknowledging the Ohio fraud reporting system amongst other required personnel forms. Also, it is recommended these documents are maintained within a personnel file for easy access in the future.

Client Response: We will work to correct this moving forward.

| | |
|----------------|----------|
| Finding Number | 2016-006 |
|----------------|----------|

Noncompliance:

Ohio Rev. Code § 3.06(B) permits any department or instrumentality of the state or any county, township, municipal corporation, or other subdivision or board of education or department or instrumentality thereof, may procure a blanket bond from any duly authorized corporate surety covering officers, clerks and employees, other than treasurers or tax collectors and any officer, clerk or employee required by law to execute or file an individual official bond to qualify for office or employment.

The Village did not provide support that any employees or council members, including the Fiscal Officer were bonded for the year.

Failure to bond officers within the Village with access to Village funds could result in the Village not being able to recover funds in the event of loss or theft.

We recommend the Village consider bonding any officer and Village employee with access to Village funds.

Client Response: This was corrected in 2017.

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|--|----------|
| Finding Number | 2016-007 |

Noncompliance:

Ohio Rev. Code § 733.27 requires village fiscal officers to attend annual training programs for new village fiscal officers and annual continuing education programs provided by the Auditor of State. The Auditor of State interprets this section as requiring a newly-elected fiscal officer to attend the new fiscal officer's training offered by the Auditor of State between December 1 and the following February 15, and any other annual training offered by the Auditor of State. Continuing fiscal officers must attend the annual update sessions only.

In addition, Ohio Rev. Code § 733.81 requires a newly elected or appointed fiscal officer to complete at least six hours of initial education programs before commencing, or during the first year of office. An additional eighteen hours of continuing education must be completed within the fiscal officer's first term. Twelve hours of training shall be completed for each subsequent term.

We noted that the fiscal officer was elected to fill the position as of April 23, 2013; however, no evidence was noted of the Fiscal Officer completing the required continuing education training.

We recommend the Fiscal Officer attend the required training programs, or they request the proper exemptions, if applicable. In addition, Village Council should review and monitor the operations of the Fiscal Officer ensuring Village officials attend the appropriate training required.

Client Response: This was corrected in 2017. The Fiscal Officer does attend training programs as required.

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|----------------|----------|
| Finding Number | 2016-008 |
|----------------|----------|

Noncompliance:

Ohio Rev. Code §9.38 indicates that public money must be deposited with the Treasurer of the public office or to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day following the date of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school Villages), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the first business day following the date of receipt.

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|--|------------------------|
| Finding Number | 2016-008 - (Continued) |

The collection and deposit of public monies were not timely deposited during the year. It was noted deposits were not made in a timely manner and receipts were entered into the system months after the fact. On several occasions, receipts from the County were voided by the County and reissued at later time because the Village did not deposit the initial receipt timely. Delays of this nature could cause daily receipts to be lost, stolen, or misplaced without being detected in a timely manner.

We recommend the Village develop additional policies and procedures to help properly safeguard receipts and implement Ohio Rev. Code §9.38 relative to depositing requirements and procedures.

Client Response: We will work to correct this moving forward.

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| Finding Number | 2016-009 |
|----------------|----------|

Material Weakness - Bank Reconciliation:

The Village's bank statements should be reconciled on a monthly basis, promptly after month end. Further, these bank reconciliations along with supporting documentation should be submitted to the Village Council for review and approval at the meeting date following month end.

Accurate reconciliations of the Village's accounting system to the bank statements for the year ended December 31, 2016 were not performed and completed until several months after year end. Further, the reconciliations included unexplained reconciling adjustments.

Not providing Village Council with timely and accurate monthly reconciliations results in the Village relying on misrepresented financial information in which they base their decisions.

We recommend the Village Fiscal Officer timely reconcile its bank statements and provide the reconciliation and supporting documentation to the Village Council. A Village Council representative should review the bank reconciliations for any unusual items and document their approval by initialing the reconciliation. This may significantly improve the system of checks and balances necessary for strong cash control.

Client Response: This was corrected in 2017.

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|--|----------|
| Finding Number | 2016-010 |

Material Weakness/Noncompliance – Accounting System:

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

Ohio Admin. Code § 117-2-02(C)(1) states that all local public offices should integrate the budgetary accounts, at the legal of control or lower, into the financial accounting system. This means providing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

In addition, Ohio Admin. Code § 117-2-02(D) outlines accounting records that can help achieve these objectives, including the following:

- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund.
- Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.

In addition, all local public offices should maintain or provide payroll records including:

- W-2 forms, W-4 forms and other withholding records and authorizations;
- Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, or meetings attended, 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;
- Check register that includes, in numerical sequence, the check number, payee, net amount, and the date.

During the year ended December 31, 2016, the Village maintained a manual receipts ledger, but did not maintain a manual cash journal, appropriation ledger or payroll journal. The Village did join the Uniform Accounting Network (UAN) in early 2017 and recorded all its 2016 financial activity into UAN at this point. However, failure to maintain and timely update an accounting system does not allow Village management and Council the information needed to adequately monitor the Village’s finances.

We recommend the Village properly maintain an accounting system and the related accounting records listed above. This will assist in the monthly reconciliation and will provide the Village Council with information required to monitor compliance with the budget and prepare annual financial reports.

Client Response: This was corrected in 2017.

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|--|----------|
| Finding Number | 2016-011 |

Noncompliance:

Ohio Rev. Code § 5747.06 states that except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such a 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. The employer shall deduct and withhold the tax on the date that the employer directly, indirectly, or constructively pays the compensation to, or credits the compensation to the benefit of, the employee. The method of determining the amount to be withheld shall be prescribed by rule of the tax commissioner.

We noted the Village did not withhold and remit state taxes for the year ended December 31, 2016.

We recommend the Village take the necessary actions to remit the required state taxes to the tax commissioner. In addition, the Village should ensure that the transmittal of state income taxes is made timely to avoid possible late penalties and interest.

Client Response: We will work to correct this moving forward.

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| Finding Number | 2016-012 |
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Noncompliance:

Ohio Revised Code Section 5705.10 in part requires that on a cash basis, no fund shall have a negative fund balance during the year or at year end.

At December 31, 2016, the Village's general fund balance was (\$1,487).

By having a negative fund balance, this fund has spent other funds' cash balances. This could indicate insufficient monitoring of appropriations and related expenditures and continual review of cash management. No fund should have a negative cash fund balance throughout the year or at year end.

We recommend the Village properly expend monies only after funds have been received and subsequent to proper appropriation. We recommend the Village utilize its accounting software to its fullest and continually review relevant reports to assist in preventing negative fund balances.

Client Response: We will work to correct this moving forward.

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|--|----------|
| Finding Number | 2016-013 |

Noncompliance:

26 C.F.R. § 1.6041-1 requires the Village to issue Form 1099 to independent contractors the Village has made payments aggregating to \$600 or more during the calendar year.

We noted that in 2016 no 1099s were issued to the proper contractors which the Village paid in excess of \$600.

We recommend the Village maintains records of contractor payments throughout the year, which will allow them to complete and issue a Form 1099 where applicable.

Client Response: We will work to correct this moving forward.

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| Finding Number | 2016-014 |
|----------------|----------|

Material Weakness - Financial Statement Presentation:

Accurate financial reporting is required in order to provide management and other stakeholders with objective and timely information to enable well-informed decisions.

Numerous adjustments were made to the financial statements for the year ended December 31, 2016 to properly state financial statement amounts.

The audited financial statements, note disclosures and Village records have been adjusted for the misstatements identified during the audit.

Presentation of materially correct financial statements and the related footnotes is the responsibility of management. This responsibility remains intact even if management decides to outsource this function for efficiency purposes or any other reason. In either case, it is important that control procedures are developed related to the financial statements that enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes. In general, an accounting and information system should be designed to provide management with accurate and timely information to enable well-informed business decisions to be made.

We recommend the Village of Hemlock implement additional control procedures that enable management to more timely prevent or detect and correct potential misstatements in the basic financial statements prior to presenting them to the auditors.

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2016**

| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|--|------------------------|
| Finding Number | 2016-014 - (Continued) |

Client Response: We will work to correct this moving forward.

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|----------------|----------|
| Finding Number | 2016-015 |
|----------------|----------|

Material Weakness – Segregation of Duties

The size of the Village’s staff and operations did not allow for an adequate segregation of duties; one individual was responsible for all accounting functions, including receipting, depositing, disbursing, and reconciling. It is therefore important the Village Council monitor financial activity and records very closely.

As previously noted in Finding Number 2016-009, timely and complete bank reconciliations were not completed by the Fiscal Officer. In addition, as noted in Finding Numbers, 2016-010 and 2016-001, appropriate financial records and reports were not maintained for Village activity and the Village failed to follow the required budgetary procedures. These conditions are evidence the Village’s finances and records need to be monitored more closely by Village Council.

The Village Council should review detailed financial reports, budget vs. actual information and bank reconciliations on a monthly basis. This should be documented in the minute record and/or initialed and dated as reviewed. The Village Council should also periodically review the Village’s financial records to ensure the required records are being maintained. Furthermore, Village Council should make appropriate inquiries to help determine the continued integrity of financial information. Appropriate inquiries would include:

- Are current receipts sufficient to cover expenditures?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood?
- Are anticipated receipts being received in a timely manner?
- Are expenditures within appropriations?

We recommend the Village Council take an active role in the daily operations to help reduce the amount of responsibility placed on the Fiscal Officer.

Client Response: We will work to correct this moving forward. If possible; however, due to the nature of our small village, the responsibility has always remained with the Fiscal Officer to ensure proper procedures are followed.

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016**

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|--|---------------|--|
| 2015-001 | A noncompliance and internal control citation of Ohio Rev. Code § 117-2-01(D)(3) and (5) that the fiscal officer did not prepare monthly reconciliations of bank balances for the period of January 1, 2013 through December 31, 2015, resulting in adjustments to the financial statements. | Not Corrected | Repeated as finding 2016-009 for not timely and accurately completing bank reconciliations. |
| 2015-002 | A noncompliance and internal control citation of Ohio Rev. Code § 117.38 for failure to file its 2015, 2014, or 2013 annual reports with the Auditor of State within 60 days of its fiscal year-end. | Corrected | N/A |
| 2015-003 | A noncompliance and internal control citation of Ohio Rev. Code § 117-2-02 for failure to maintain a cash journal, appropriation ledger or payroll journal. | Not Corrected | Repeated as finding 2016-010 for not maintaining an appropriate accounting system and related records. |
| 2015-004 | A noncompliance and internal control citation of Ohio Rev. Code § 5705.36, 5705.38(A), 5705.40, and 5705.41(B) for failure to provide evidence that it complied with the applicable budgetary procedures outlined. | Not Corrected | Repeated as finding 2016-001 for not complying with budgetary law. |
| 2015-005 | A noncompliance citation of Ohio Rev. Code § 5705.41(D)(1) for failure to certify expenditures properly prior to issuance of checks. | Not Corrected | Repeated at finding 2016-003 for not timely certifying expenditures. |
| 2015-006 | A noncompliance and internal control citation of Ohio Rev. Code § 149.351 for failure to maintain proper supporting documentation. | Corrected | N/A |
| 2015-007 | An internal control citation for adequate staffing and operations that do not allow for proper segregation of duties. | Not Corrected | Related as finding 2016-015 for lack of segregation of duties. |

**VILLAGE OF HEMLOCK
PERRY COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016**

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|---|---------------|--|
| 2015-008 | A noncompliance citation of Ohio Rev. Code § 9.38 for not timely depositing public money with the treasurer or designated depositor within the allotted timeframe. | Not Corrected | Repeated at finding 2016-008 for untimely deposit of monies. |
| 2015-009 | A noncompliance citation of Ohio Rev. Code § 145.47 for failure to properly withhold and remit withholdings and contributions to the retirement system. | Corrected | N/A |
| 2015-010 | A noncompliance citation of Ohio Rev. Code § 5747.06 for failure to timely remit the proper amount for state taxes. | Not Corrected | Repeated as finding 2016-011 for not withholding and remitting state taxes. |
| 2015-011 | A noncompliance citation of 26 U.S.C. § 3102(a)(1) for failure to withhold and remit federal taxes in a timely fashion. | Not Corrected | Repeated as finding 2016-002 for not timely withholding and remitting federal taxes. |
| 2015-012 | A noncompliance citation of Ohio Rev. Code § 3.06(B) for failure to bond officers with access to Village funds. | Not Corrected | Repeated as finding 2016-006 for failure to bond employees. |
| 2015-013 | A noncompliance citation of Ohio Rev. Code § 117.103(B)(1) for not obtaining acknowledgement that new employees were informed about the fraud reporting system. | Not Corrected | Repeated as finding 2016-005 for not obtaining acknowledgement of the Ohio fraud reporting system. |
| 2015-014 | A noncompliance citation of Ohio Rev. Code § 149.43(E)(1) for not having a public records policy, records retention policy, and a records retention schedule. In addition, no Village officials attended public records training. | Not Corrected | Repeated as finding 2016-004 for not adopting the required policies/schedules nor attending the required training. |

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|---|---------------|--|
| 2015-015 | A noncompliance citation of Ohio Rev. Code § 733.27 for failure of the Fiscal Officer to attend annual training programs for new fiscal officers and annual continuing education. | Not Corrected | Repeated as finding 2016-007 for failure to receive the required training. |
| 2015-016 | A noncompliance citation of 26 C.F.R § 1.6041-1 for failure to issue Form 1099 to independent contractors who aggregate payments more than \$600 during the year. | Not Corrected | Repeated as finding 2016-013 for not issuing Form 1099 where applicable. |
| 2015-017 | An internal control deficiency citation for improperly recording property tax receipts. | Corrected | N/A |

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Dave Yost • Auditor of State

VILLAGE OF HEMLOCK

PERRY 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
OCTOBER 16, 2018