



Dave Yost • Auditor of State



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May 21, 2018

Village of Nellie
Coshocton County
117 Main Nellie St.
Warsaw, Ohio 43844

We have completed certain procedures in accordance with Ohio Rev. Code § 117.01(G) to the accounting records and related documents of the Village of Nellie, Coshocton County, Ohio (the Village), for the years ended December 31, 2017 and 2016.

Our procedures were designed solely to satisfy the audit requirements of Ohio Rev. Code § 117.11(A). Because our procedures were not designed to opine on the Village's financial statements, we did not follow *generally accepted auditing standards*. We do not provide any assurance on the Village's financial statements, transactions or balances for the years ended December 31, 2017 or 2016.

The Village's management is responsible for preparing and maintaining its accounting records and related documents. Our responsibility under Ohio Rev. Code § 117.11(A) is to examine, analyze and inspect these records and documents.

Based on the results of our procedures, we found the following significant compliance or accounting issues to report.

Current Year Observations

1. Ohio Rev. Code § 5705.10(C) requires that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made. We noted that property tax reimbursements received from the State in the amounts of \$2,706 and \$2,682 were misidentified as Property Tax revenue instead of Intergovernmental Revenue in 2017 and 2016, respectively. These receipts were received as reimbursements for Homestead and Rollback deductions on property taxes levied in the General Fund and Garbage Fund. However, the 2017 reimbursements were reported in the General Fund and not allocated between the General and Garbage Funds. Additionally, the 2016 reimbursements were reported in the General, Street, and State Highway Funds and were not properly allocated between the General and Garbage Funds. Of the amounts received, \$1,548 should have been reported in the Garbage Fund instead of the General Fund in 2017, and \$1,540 should have been reported in the Garbage Fund instead of \$199 in the General Fund, \$1,240 in the Street Fund and \$101 in the State Highway Fund in 2016. These adjustments have been posted to the Village's ledgers in 2018. Our prior basic audit also reported this non-compliance.
2. Ohio Rev. Code § 5705.10(I) states that money paid into any fund shall be used only for the purposes for which such fund is established. We noted the Village paid \$1,780 and \$1,080 in mowing disbursements from the Street Fund during 2017 and 2016, respectively. As the Street Fund revenue is to be used for construction, maintenance, and repair of streets within the Village, the mowing disbursements should have been paid from the General Fund. The Village should review the purpose of all funds and disbursements prior to posting a payment to the Village ledgers in order to assure allowable payments are made by the Village. This adjustment of \$2,860 from the General Fund to the Street Fund was posted to the Village's ledgers in 2018.

Current Year Observations (Continued)

3. Village Ordinance 2-17 states that each Council Member shall be paid \$350 per year and the Council President shall be paid \$375 per year. However, if a Council Member or Council President misses four or more meetings during a fiscal year, the Council Member and Council President will be paid at a rate of \$29.17 and \$31.25, respectively, for each meeting attended. We reviewed the 2017 payroll disbursements and noted three instances where Council Members were paid at a meeting rate of \$25 per meeting. Failure to pay in accordance with Village ordinances could result in overpayment or underpayment of Village employees. The Village Fiscal Officer should review all ordinances relating to payroll prior to issuing payment to Village employees.
4. We examined multiple payments made to Council members in 2017. Three Council members were reimbursed their filing fee to run for Council with the Coshocton County Board of Elections. The aggregate amount reimbursed was \$90, three Council members each reimbursed \$30 for their filing fee. Reimbursements to Council members for election filing were a prohibited political activity as governmental funding cannot be used to pay for the political activity of a Village. The Village should cease making reimbursements for filings, and all Council members that received a reimbursement should pay the money back to the Village.
5. 26 U.S.C. § 3402 and Ohio Rev. Code § 5747.06 requires every employer, including the state and its political subdivisions making payments of any compensation to an employee who is a taxpayer, to deduct and withhold from such compensation for each payroll period a tax substantially equivalent to the tax reasonably estimated to be due under this chapter with respect to the amount of such compensation included in his adjusted gross income during the calendar year. 26 U.S.C. § 3102(a) requires employers to withhold social security Medicare tax from an employee's wages if the employee was hired after April 1, 1986. Ohio Rev. Code § 145.03 states that employees eligible for exemption from the Ohio Public Employees Retirement System (OPERS) may choose to be exempt from compulsory membership by signing a written application for exemption within the first month after being employed. We noted that no individuals had Federal, State, Medicare or pension withheld from their pay. Additionally, the Village did not pay the employer portion of Medicare or any required pension payment. The Village has identified Council, the Mayor and Fiscal Officer as independent contractors; however, these are elected official positions. Therefore, they are not independent contractors. The Village should not consider elected officials to be independent contractors. They should calculate applicable withholdings for all taxes to determine if withholdings are required and should remit them to the applicable agencies. The Village should review OPERS guidelines to determine employees eligible for OPERS retirement and make the appropriate withholdings and payments. Employees not eligible for OPERS should have Social Security withheld and paid. Our prior basic audit also reported this non-compliance.

This matter will be referred to the IRS, State of Ohio and OPERS for whatever action deemed necessary.

6. Monthly reconciliations between the Village's bank statements and accounting ledgers should be performed on a timely basis. Any variances between the bank balance and accounting ledgers, such as outstanding checks or deposits-in-transit, should be recorded on a formal bank to book reconciliation as reconciling items. Per review of the December 2017 and March 2018 bank statements and Village ledgers, no bank to book reconciliations had been completed by the Village Fiscal Officer other than a note indicating "balanced & reconciled", as well as markings, on the bank statement. While no formalized bank reconciliations were completed by the Fiscal Officer, alternative audit procedures were performed to gain assurance the Village was reconciled as of December 31, 2017 and March 31, 2018. Failure to complete bank reconciliations could result in inaccurate information being used by Council to make sound financial decisions for the Village.

Current Year Observations (Continued)

6. (continued)

The Village Fiscal Officer should complete the monthly bank to book reconciliations on a timely basis. Additionally, the reconciliation should be presented to Village Council and formally approved in the minutes during the monthly council meetings. Our prior basic audit also reported this control issue.

7. The Village's small size requires governing board involvement with critical accounting processes (such as the review and approval of all revenue and disbursements) to compensate for the inability to segregate the duties of the accounting function. Currently, Council reviews and approves revenue information each month in aggregate but not in detail. The absence of a review of detailed receipt information may be a significant deficiency in internal accounting control which could possibly result in inaccurate cash balances or even undetected theft. The Village Fiscal Officer should submit the monthly cashbook and bank to book reconciliations to the Council for review and approval. This will help allow the Council timely review of financial information and compensate for the lack of segregation of duties within the accounting function. Our prior basic audit also reported this control issue.

Current Status of Matters Reported in our Prior Engagement

1. In addition to the matter reported in item 1 above, our prior audit for the years ended December 31, 2015 and 2014 included a finding for adjustment against Fund A1 – the General Fund in the amount of \$1,676, Fund B1 – Street Fund in the amount of \$1,173, Fund B2 – State Highway Fund in the amount of \$95, and in favor of Fund B9 – the Garbage Fund in the amount of \$2,944. The January 2018 Cash Journal recorded these adjustment amounts.



Dave Yost
Auditor of State
Columbus, Ohio

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VILLAGE OF NELLIE

COSHOCTON 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 31, 2018