



**VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Newtonsville
Clermont County
P.O. Box 245
Newtonsville, Ohio 45158

To the Village Council:

We have audited the accompanying financial statements of the Village of Newtonsville, Clermont County (the Village), as of and for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Because of the inadequacies in the Village's accounting records, we were unable to obtain sufficient information regarding the amount reported as Reserve for Encumbrances (stated at a total of \$1,800 and \$3,396) at December 31, 2000 and 1999 respectively.

The accompanying financial statements present disbursements by fund type totals only. Ohio Administrative Code Section 117-2-02(A) requires governments to classify disbursement transactions.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence to support the total Reserve for Encumbrances at December 31, 2000 and 1999, and except for the omission of disbursement classifications, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2000 and 1999, and its combined cash receipts and unclassified disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2001 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 29, 2001

**VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | <u>Totals (Memorandum Only)</u> |
|---|------------------------|----------------------------|-----------------------------|---|
| Cash Receipts: | | | | |
| Property Tax and Other Local Taxes | \$4,518 | \$1,309 | \$0 | \$5,827 |
| Intergovernmental Receipts | 45,848 | 26,454 | | 72,302 |
| Fines, Licenses, and Permits | 37,760 | 7,729 | | 45,489 |
| Earnings on Investments | 1,961 | 2,310 | 1,938 | 6,209 |
| Miscellaneous | | 1,702 | | 1,702 |
| | <u>90,087</u> | <u>39,504</u> | <u>1,938</u> | <u>131,529</u> |
| Cash Disbursements: | | | | |
| Unclassified | <u>69,163</u> | <u>26,153</u> | | <u>95,316</u> |
| | <u>69,163</u> | <u>26,153</u> | <u>0</u> | <u>95,316</u> |
| Total Receipts Over/(Under) Disbursements | <u>20,924</u> | <u>13,351</u> | <u>1,938</u> | <u>36,213</u> |
| Fund Cash Balances, January 1 | <u>46,914</u> | <u>69,820</u> | <u>32,449</u> | <u>149,183</u> |
| Fund Cash Balances, December 31 | <u>\$67,838</u> | <u>\$83,171</u> | <u>\$34,387</u> | <u>\$185,396</u> |
| Reserves for Encumbrances, December 31 | <u>\$1,450</u> | <u>\$350</u> | <u>\$0</u> | <u>\$1,800</u> |

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

VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY

TATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCE - AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2000

Non-Operating Cash Receipts:

Other Non-Operating Receipts 57,213

Total Non-Operating Cash Receipts 57,213

Non-Operating Cash Disbursements:

Other Non-Operating Cash Disbursements 56,056

Total Non-Operating Cash Disbursements 56,056

Net Receipts Over/(Under) Disbursements 1,157

Fund Cash Balance, January 1 4,058

Fund Cash Balance, December 31 \$5,215

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

**VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

| | General | Special Revenue | Capital Projects | Totals (Memorandum Only) |
|--|-----------------|----------------------------|-----------------------------|---|
| Cash Receipts: | | | | |
| Property Tax and Other Local Taxes | \$4,189 | \$1,470 | \$0 | \$5,659 |
| Intergovernmental Receipts | 49,609 | 24,063 | | 73,672 |
| Fines, Licenses, and Permits | 29,327 | 6,232 | | 35,559 |
| Earnings on Investments | 1,417 | 2,021 | 2,331 | 5,769 |
| | | | | |
| Total Cash Receipts | 84,542 | 33,786 | 2,331 | 120,659 |
| Cash Disbursements: | | | | |
| Unclassified | 71,632 | 47,156 | | 118,788 |
| | | | | |
| Total Cash Disbursements | 71,632 | 47,156 | 0 | 118,788 |
| | | | | |
| Total Receipts Over/(Under) Disbursements | 12,910 | (13,370) | 2,331 | 1,871 |
| Other Financing Receipts/(Disbursements): | | | | |
| Transfers-In | | 9,835 | | 9,835 |
| Transfers-Out | (9,835) | | | (9,835) |
| | | | | |
| Total Other Financing Receipts/(Disbursements) | (9,835) | 9,835 | 0 | 0 |
| | | | | |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | 3,075 | (3,535) | 2,331 | 1,871 |
| | | | | |
| Fund Cash Balances January 1 | 43,839 | 73,355 | 30,118 | 147,312 |
| | | | | |
| Fund Cash Balances, December 31 | \$46,914 | \$69,820 | \$32,449 | \$149,183 |
| | | | | |
| Reserves for Encumbrances, December 31 | \$3,122 | \$274 | \$0 | \$3,396 |

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

VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY

TATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCE - AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 1999

Non-Operating Cash Receipts:

Other Non-Operating Receipts 42,424

Total Non-Operating Cash Receipts 42,424

Non-Operating Cash Disbursements:

Other Non-Operating Cash Disbursements 42,825

Total Non-Operating Cash Disbursements 42,825

Net Receipts Over/(Under) Disbursements (401)

Fund Cash Balance, January 1 4,459

Fund Cash Balance, December 31 \$4,058

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

**VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Newtonsville, Clermont County (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including police services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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).

The Village did not classify its disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-02-02(A) (effective July 1, 2000) and Ohio Administrative Code Section 117-5-11 (effective through June 30, 2000). These Ohio Administrative Code Sections require classifying disbursements.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Deposits

Certificates of deposit are valued 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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from 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 NEWTONSVILLE
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cruiser Replacement Fund -This fund receives 10% of the court costs allocated to the Village for expenditures related to the purchase of new police department cruisers.

COPS Grant Fund - This fund receives money from the federal government for the employment of additional police officers.

3. Capital Projects Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Village had the following significant capital projects fund:

Land and Building Construction Fund - This fund is for capital outlay expenditures for land and building construction projects.

4. Fiduciary Fund (Agency Fund)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following agency fund:

Mayor's Court - This fund collects and distributes court fines to the Village and the State.

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 Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. Additionally, the audit report was qualified since outstanding encumbrances could not be verified.

A summary of 2000 and 1999 budgetary activity appears in Note 3.

**VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND DEPOSITS

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

| | 2000 | 1999 |
|-------------------------|------------|------------|
| Demand deposits | \$ 156,224 | \$ 120,792 |
| Certificates of deposit | 34,387 | 32,449 |
| Total deposits | \$ 190,611 | \$ 153,241 |

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2000 and 1999 follows:

| 2000 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$73,471 | \$90,087 | \$16,616 |
| Special Revenue | 37,278 | 39,504 | 2,226 |
| Capital Projects | 1,800 | 1,938 | 138 |
| Total | \$112,549 | \$131,529 | \$18,980 |

| 2000 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$121,192 | \$70,613 | \$50,579 |
| Special Revenue | 84,264 | 26,503 | 57,761 |
| Capital Projects | 31,900 | 0 | 31,900 |
| Total | \$237,356 | \$97,116 | \$140,240 |

**VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|------------------|----------------------|--------------------|-----------------|
| General | \$72,838 | \$84,542 | \$11,704 |
| Special Revenue | 39,960 | 43,621 | 3,661 |
| Capital Projects | 1,800 | 2,331 | 531 |
| Total | <u>\$114,598</u> | <u>\$130,494</u> | <u>\$15,896</u> |

| 1999 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$108,510 | \$84,589 | \$23,921 |
| Special Revenue | 108,200 | 47,430 | 60,770 |
| Capital Projects | 31,900 | 0 | 31,900 |
| Total | <u>\$248,610</u> | <u>\$132,019</u> | <u>\$116,591</u> |

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Law Enforcement, Cruiser Replacement and COPS Grant funds by \$1,532, \$659 and \$13,021 respectively, for the year ended December 31, 2000. Budgetary expenditures exceeded appropriation authority in the Cruiser Replacement Fund by \$5,663 for the year ended December 31, 1999.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, 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.

**VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

5. DEBT

Debt outstanding at December 31, 2000 was as follows:

| | Principal | Interest Rate |
|----------------------|-----------|------------------|
| Police Cruiser Lease | \$7,814 | 6.5% |

The Police Cruiser lease relates to a lease-purchase agreement entered into on December 10, 1999 with 32 Ford Mercury for a 2000 Ford Crown Victoria Police Sedan. The original lease-purchase amount was \$11,891 and is being paid in monthly installments of \$362.73, including interest, over 3 years.

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

| Year ending December 31: | Police Cruiser Lease |
|--------------------------|----------------------------|
| 2001 | \$4,353 |
| 2002 | 3,990 |
| Total | \$8,343 |

6. RETIREMENT SYSTEMS

The Village has no full-time employees. All part-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plans. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2000 and 1999, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of PERS participants' gross salaries through June 30, 2000. Commencing July 1, 2000, PERS temporarily reduced employer contributions to 8.13%. The Village has paid all contributions required through December 31, 2000.

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.

**VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

8. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

9. COMPLIANCE

The expenditures presented on the financial statements are unclassified. This presentation is a material departure from the presentation prescribed by the Auditor of State in sections 117-2-02 and 117-09-01 of the Ohio Administrative Code. Those sections of the Ohio Administrative Code require classifying expenditures by purpose.

Contrary to various Ohio Revised Code and Ohio Administrative Code sections, the Village:

- Did not maintain an appropriation ledger in a complete and accurate form;
- Did not maintain a receipts ledger in the proper format;
- Did not maintain a cash journal in complete and accurate form;
- Did not establish or post permissive motor vehicle license tax receipts into the Permissive Motor Vehicle License Tax Fund.



STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Newtonsville
Clermont County
P.O. Box 245
Newtonsville, Ohio 45158

To the Village Council:

We have audited the accompanying financial statements of the Village of Newtonsville, Clermont County (the Village), as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated November 29, 2001, which was qualified for the total Reserve for Encumbrances at December 31, 2000 and 1999. Also, our report was qualified since the Village did not classify disbursements in its financial statements. Except as discussed in the first sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-30413-001 through 2000-30413-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated November 29, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2000-30413-001 through 2000-30413-007.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider 2000-30413-001 through 2000-30413-002 and 2000-30413-006 through 2000-30413-007 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated November 29, 2001.

This report is intended solely for the information and use of management and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

November 29, 2001

**VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2000 AND 1999**

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

FINDING NUMBER 2000-30413-001

Material Noncompliance and Material Internal Control Weakness - Accounting System

Ohio Rev. Code, Section 733.28 requires the Village Clerk to maintain the books of the Village and exhibit accurate statements of all monies received and expended. The Village's fiscal officer did not maintain a receipt ledger, appropriation ledger or cash journal. The Village did not classify receipt and disbursement transactions. The Village was therefore unable to monitor compliance with its appropriation resolution. The Village was also unable to classify receipts by source or disbursements by purpose in its annual report, contrary to Ohio Rev. Code Section 117.38. The receipts are classified by source in the financial statements.

Ohio Admin. Code, Section 117-2-02(A) * requires governments to maintain an accounting system and accounting records sufficient 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. Per Ohio Admin. Code Section 117-2-02(C), accounting records that can help achieve these objectives include:

1. Cash journal, which typically includes the amount, date, receipt number, check number, accountcode, 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.
3. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.
4. Ohio Admin. Code Section 117-9-01* provides suggested account classifications. These accounts classify receipts by source (taxes or charges for services, for example) and classify disbursements by program (security of persons and property, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

The Village's cash journal, receipts ledger, and appropriation ledger were incomplete and inaccurate.

* Prior to July 1, 2000, these requirements were included in Ohio Administrative Code Section 117-5.

FINDING NUMBER 2000-30413-001
(Continued)

To provide accurate and complete financial information for management to use in the decision making process, and to aid in the accurate classification of receipts and disbursements on the Village's annual financial report, we recommend:

1. The Village classify disbursements in accordance with the Ohio Administrative Code.
2. The Village maintain receipt and appropriation ledgers as prescribed by the Ohio Admin. Code.
3. Encumbrances and disbursements should be posted to the appropriation ledger resulting in declining unencumbered balances.
4. Receipts should be posted by fund and line item, with a running balance maintained. At year-end, the totals from these ledgers should be carried forward to the annual financial report.
5. Purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation accounts.

FINDING NUMBER 2000-30413-002

Material Noncompliance and Material Weakness - Certification of Funds/Reserve for Encumbrances

Ohio Rev. Code, Section 5705.41(D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section provides for two exceptions to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 dollars, the Clerk-Treasurer may authorize payment through a Then and Now Certificate without affirmation of the Village Council, if such expenditure is otherwise valid.

Of the transactions reviewed, approximately 82% were noted where the invoice was dated prior to the purchase order. We found that often, the purchase orders are dated the same date as the check, instead of when the purchase was encumbered. These did not meet the exceptions provided in the Code.

FINDING NUMBER 2000-30413-002
(Continued)

When the availability of funds is not properly certified for expenditures and the funds are not properly encumbered this indicates the purchases were made prior to the Clerk assuring money is available to pay the obligation. This can result in committing monies the Village does not have.

We recommend all proposed purchases be properly encumbered by the Clerk. Also, the voucher packages should contain the purchase order and invoice prior to a payment being processed.

The Village of Newtonsville's Certificate of the Total Amount from All Sources Available for Expenditures, and Balances indicated total reserves for encumbrances of \$1,800.00 at December 31, 2000 and \$3,395.59 at December 31, 1999. The Village did not maintain a list of outstanding purchase orders of December 31, 2000 and 1999 that made up these reserves for encumbrances. Because the Village did not provide sufficient documentation supporting these outstanding, we were not able to audit the outstanding encumbrances or to satisfy ourselves regarding the validity of the underlying transactions through other procedures. The Village did not maintain a list to support the 2000 and 1999 encumbrances.

Not maintaining a list of outstanding encumbrances could result in the inability to monitor the activity of open purchase orders, and ultimately certification of incorrect balances in the Official Certificate submitted to the County Auditor.

We recommend the Village maintain a list of purchase orders to support outstanding encumbrances. This list will facilitate the monitoring of the activity of open purchase orders.

We also reported this matter in our audit of the 1997 and 1998 financial statements.

FINDING NUMBER 2000-30413-003

Material Noncompliance and Reportable Condition - Expenditures exceeding Appropriations

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. The following funds had expenditures which exceeded appropriations as of December 31, 2000: Law Enforcement Fund, \$1,532; Cruiser Replacement Fund, \$659; and COPS Grant Fund in the amount of \$13,021. The following fund had expenditures which exceeded appropriations as of December 31, 1999: Cruiser Replacement Fund in the amount of \$5,663.

When expenditures exceed appropriations, this could result in the Village having negative fund balances.

It is recommended that Village personnel and Council review its budgetary compliance on a monthly basis and make adjustments as required.

FINDING NUMBER 2000-30413-004

Finding for Adjustment, Material Noncompliance and Reportable Condition - Permissive Motor Vehicle License tax receipts

Ohio Rev. Code, Section 5705.10, requires that all revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made. The Village did not record some monies received from the Permissive Motor Vehicle License (MVL) tax in a separate MVL tax fund. Instead, these monies were receipted into the Street and State Highway Funds

**FINDING NUMBER 2000-30413-004
(Continued)**

Had these monies been properly receipted in the Permissive Motor Vehicle Tax fund, the effect would have been to increase the cash balance of the MVL fund by \$1,309 to 2,780 for 2000 and by \$1,471 to \$1,471 for 1999. Also, the effect would have been to decrease the cash balance of the Street Maintenance Fund by \$1,211 to \$53,626 for 2000 and by \$1,360 to \$46,633 for 1999. The effect would have been to decrease the cash balance of the State Highway Fund by \$98 to \$10,234 for 2000 and by \$110 to \$9,307 for 1999. The effect of these adjustments are not reflected in the financial statements. During 2001, an adjustment has been made to the financial records of the Village of Newtonsville to account for this error.

FINDING NUMBER 2000-30413-005

Internal Control/Reportable Condition - Payroll

The Village of Newtonsville has delegated Werner Tax Service to process its payroll, which is a significant accounting function. The Village has not established procedures to reasonably determine that payroll processing has been completely and accurately processed in accordance with the Village Council requirements.

During our audit, we found:

- Personnel files are not maintained for employees.
- Withholding forms are completed by the employee and forwarded to the payroll service, but the Village has very few records for its employees.
- There were some payroll checks that duplicated regular expenditure check numbers.

The forms and information act as evidence for authorization of withholdings, document membership with a retirement system, and authorization of pay. Issuing two checks with the same check number would not be allowed in a formal accounting system. In a manual system, it may cause errors in recording the checks. Therefore, we recommend:

- The Village should keep on file: copies of withholding forms, the hiring authorization including position and salary or rate, the fund to which the salary will be charged, and any changes to pay or position.
- The Village should update their pay schedule, which should include all positions. They should also document all changes in the minute records.
- The Village should retain all necessary payroll reports to verify the accuracy of tax forms filed for withholdings.
- The payroll check numbers should either be in sequence with each other or spaced enough that duplicate number will not occur. We recommend the Village use a five digit number on their payroll checks. For example, all payroll checks could start with a "9."

FINDING NUMBER 2000-30413-005
(Continued)

- The Village implement procedures to reasonably assure the completeness, and accuracy of payroll processing by the third party administrator. Statement on Auditing Standards No. 70 (SAS 70) as amended by SAS No. 88, prescribes standards for reporting on the processing of transactions by service organizations. An unqualified "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS No. 70 and SAS No. 88, should provide the Village with an appropriate level of assurance that the payroll is being processed in conformance with the Council approved rates of pay. However, it may be possible for the Village to obtain an appropriate level of assurance by other means.

FINDING NUMBER 2000-30413-006

Internal Control /Material Weakness - Monthly reconciliations

The Village did not prepare accurate or complete monthly cash reconciliations for 2000 and 1999. The Auditor of State's office was contracted during the audit to provide accounting services which included preparing monthly reconciliations so that the monthly financial statements would be in an auditable condition. Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well as, ensure that all recorded transactions have been deposited in the financial institution. Reconciliations will facilitate preparation of the annual report.

Throughout the audit period, the Village's bank balance was not reconciled to the accounting records book balance. This condition could result in errors and other irregularities in the financial statements which are not detected by management.

We recommend the Village Clerk regularly prepare the monthly bank reconciliation in a timely manner and assure that the reconciliations can be supported by detailed records which should be available for inspection. Any variances should be immediately investigated and justified. The person assigned responsibility for preparation of the monthly bank reconciliation should be adequately trained and have knowledge of the Village's operations. In addition, we recommend these reconciliations be presented to and approved by Council.

The Village's current system of internal control does not address the need for the accurate posting and updating of the Village's budgetary records and the consistent monitoring of budgetary financial information. It also does not address the review of Mayor's court monthly reports. The lack of such controls reduces the Village's ability to determine its financial status accurately at any given time and may result in obligations being incurred without the available resources.

The budgeted receipts and appropriations from the official documents should be accurately recorded and updated in the respective ledgers. On a monthly basis, detailed budget and actual financial statements should be presented to Council for review. Council should carefully review this information along with the Mayor's Court report and make appropriate inquires to help determine the continued integrity of the financial information and accept the information officially in the minutes.

FINDING NUMBER 2000-30413-007

Internal Control / Material Weakness - Expenditures

There were numerous deficiencies in the expenditure cycle:

- Original invoices were not kept in an organized manner; many were copied, when the original invoice would be expected and supporting invoices were not maintained for eight of the expenditures tested during the audit;
- Reimbursements were made often and for high dollar amounts;
- The Village does not have a policy outlining the use of credit cards;
- The Village did not have any policies regarding the proper procedures for disbursements; and
- The Village paid sales tax on several reimbursements to individuals.

Invoices provide evidence of expenditures made in accordance with the law. Without proper supporting documentation and policies in place regarding the expenditure of Village monies, expenditures could be made that are not for a proper public purpose. We were able to perform alternative auditing procedures to assure that these expenditures were for a proper public purpose. We recommend the following in order to improve the Village's internal controls over expenditures:

- Original invoices, receipts, and/or other supporting documentation should be obtained and filed with other documents relating to the same expenditure (such as purchase order, requisition, duplicate check or check stub). All expenditures must be for a proper public purpose.
- A reimbursement policy should be implemented. An insignificant dollar amount should be set as a threshold. A special provision may be made for cases of extreme emergency. Original detailed sales receipts must be required in order for an expenditure to be reimbursed. If no documentation is provided, the employee should not be reimbursed with Village money.
- The Village should create a policy regarding the use of credit cards, along with limiting the number of employees who receive a credit card to use for purchases. Once an employee leaves or is terminated, all credit cards issued to that individual should be retrieved.
- The Village should develop and implement policies regarding expenditures. All purchases should be properly encumbered before the Village is committed to the expenditure.
- Sales receipts should be reviewed carefully for purpose and payment of sales tax. The Village is tax-exempt and sales tax must not be reimbursed.

**VILLAGE OF NEWTONSVILLE
CLERMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2000**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|--|------------------|--|
| 1998-30413-001 | The Village did not maintain a complete, accurate and reliable appropriation ledger. | No | Not Corrected. Finding has been reissued as Finding No. 2000-30413-001. |



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OFFICE OF THE AUDITOR

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VILLAGE OF NEWTONSVILLE

CLERMONT 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
DECEMBER 13, 2001**