



**Auditor of State
Betty Montgomery**

VILLAGE OF PHILO
MUSKINGUM COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Philo
Muskingum County
565 Water Street
Philo, Ohio 43771-9710

To Village Council:

We have audited the accompanying financial statements of the Village of Philo, Muskingum County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001. 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.

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.

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.

The basis of accounting prescribed by the Auditor of State requires the Village to report outstanding encumbrances at year-end as budgetary expenditures. The Village did not record encumbrances on its financial statements or in Note 3 to the financial statements. It was not practical for us to determine the amount of unrecorded encumbrances at year-end.

We were unable to obtain sufficient evidence supporting certain disbursements, including numerous credit card disbursements, to provide reasonable assurance that these disbursements were made for goods or services provided to the Village. Disbursements made within the General, Special Revenue and Enterprise fund types lacking sufficient evidence represented approximately 8%, 17%, and 9%, respectively, of each fund type's total disbursements. It was not practicable to perform alternative procedures.

In our opinion, except for such adjustments, if any, that would have been necessary had we been able to examine evidence supporting certain disbursements including credit card disbursements, and to reflect year-end outstanding encumbrances, as discussed in the two preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2002 and 2001, and its combined cash receipts and 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 12, 2003 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, the 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 12, 2003

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$33,176	\$	\$33,176
Intergovernmental Receipts	49,120	19,487	68,607
Charges for Services	110		110
Earnings on Investments	357	29	386
Miscellaneous	6,103		6,103
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	88,866	19,516	108,382
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
Security of Persons and Property	6,657		6,657
Transportation	15,038	22,916	37,954
General Government	16,532		16,532
Capital Outlay	5,734		5,734
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	43,961	22,916	66,877
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	44,905	(3,400)	41,505
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	30,550	784	31,334
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$75,455</u>	<u>(\$2,616)</u>	<u>\$72,839</u>

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

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$88,754
Miscellaneous	2,022
	90,776
Total Operating Cash Receipts	90,776
Operating Cash Disbursements:	
Personal Services	23,183
Contractual Services	11,615
Supplies and Materials	14,542
Capital Outlay	41,121
	90,461
Total Operating Cash Disbursements	90,461
Operating Income/(Loss)	315
Non-Operating Cash Receipts:	
Intergovernmental Receipts	4,370
	4,370
Total Non-Operating Cash Receipts	4,370
Non-Operating Cash Disbursements:	
Debt Service:	
Principal Payments	9,359
Interest Payments	625
	9,984
Total Non-Operating Cash Disbursements	9,984
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(5,299)
Transfers-In	9,560
Transfers-Out	(9,560)
	(5,299)
Net Receipts Over/(Under) Disbursements	(5,299)
Fund Cash Balances, January 1	96,550
Fund Cash Balances, December 31	\$91,251

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

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$31,305	\$	\$31,305
Intergovernmental Receipts	43,356	18,393	61,749
Charges for Services	135		135
Earnings on Investments	481	12	493
Miscellaneous	9,847		9,847
	<hr/>		<hr/>
Total Cash Receipts	85,124	18,405	103,529
Cash Disbursements:			
Current:			
Security of Persons and Property	7,864		7,864
Transportation	52,282	20,048	72,330
General Government	45,875		45,875
Capital Outlay	7,324		7,324
	<hr/>		<hr/>
Total Cash Disbursements	113,345	20,048	133,393
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>
	(28,221)	(1,643)	(29,864)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	58,771	2,427	61,198
Fund Cash Balances, December 31	<hr/> \$30,550 <hr/>	<hr/> \$784 <hr/>	<hr/> \$31,334 <hr/>

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

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$76,940
Miscellaneous	2,604
	79,544
Total Operating Cash Receipts	79,544
Operating Cash Disbursements:	
Personal Services	18,805
Contractual Services	14,891
Supplies and Materials	14,285
Capital Outlay	23,408
	71,389
Total Operating Cash Disbursements	71,389
Operating Income/(Loss)	8,155
Non-Operating Cash Receipts:	
Intergovernmental Receipts	14,004
	14,004
Total Non-Operating Cash Receipts	14,004
Non-Operating Cash Disbursements:	
Debt Service:	
Principal Payments	9,359
Interest Payments	834
	10,193
Total Non-Operating Cash Disbursements	10,193
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	11,966
Transfers-In	1,560
Transfers-Out	(1,560)
	11,966
Net Receipts Over/(Under) Disbursements	11,966
Fund Cash Balances, January 1	84,584
Fund Cash Balances, December 31	\$96,550

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

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Philo, Muskingum 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 water utilities and road maintenance. The Village contracts with the Muskingum County Sheriff's Department to provide security of persons and property.

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).

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

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

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 trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

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 PHILO
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Fund:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. The Village did not use the encumbrance method of accounting.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

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.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2002	2001
Demand deposits	\$121,538	\$87,022
Certificates of deposit	42,552	40,862
Total deposits	\$164,090	\$127,884

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$65,931	\$88,866	\$22,935
Special Revenue	20,000	19,516	(484)
Enterprise	87,020	104,706	17,686
Total	\$172,951	\$213,088	\$40,137

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$97,000	\$43,961	\$53,039
Special Revenue	20,000	22,916	(2,916)
Enterprise	111,000	110,005	995
Total	\$228,000	\$176,882	\$51,118

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$82,835	\$85,124	\$2,289
Special Revenue	20,000	18,405	(1,595)
Enterprise	90,915	95,108	4,193
Total	\$193,750	\$198,637	\$4,887

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$135,600	\$113,345	\$22,255
Special Revenue	23,000	20,048	2,952
Enterprise	120,000	83,142	36,858
Total	\$278,600	\$216,535	\$62,065

Compliance and Accountability:

Contrary to Ohio law, the certification of availability of unencumbered appropriations for expenditure was not made prior to purchase commitments being incurred. As a result, there were no encumbrances to report on the financial statements and outstanding purchase commitments were not included in budgetary disbursements shown above.

Also contrary to Ohio law, budgetary expenditures exceeded appropriations in the Street Construction, Maintenance, and Repair Fund by \$2,916 and in the Water Fund by \$1,635 for the year ended December 31, 2002. Expenditures exceeded appropriations at the legal level of control for certain accounts within the General and Water Construction Funds during 2002, and within the General, Water, and Water Construction Funds during 2001.

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 payments, the first half is due December 31. The second half payment is due the following June 20.

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

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 PHILO
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

5. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
Water Main Construction Notes	\$7,250	5.75%
Total	\$7,250	

The promissory notes were issued during April of 1996 to finance the construction of a water main line and are payable through water user charges. The notes are collateralized solely by the Village's taxing authority. The notes are being repaid in annual installments of \$3,625 plus interest.

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

	Water Main Construction Notes
Year ending December 31:	
2003	\$4,042
2004	3,833
Total	\$7,875

6. RETIREMENT SYSTEMS

The Village's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. 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 2002 and 2001, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Village has paid all contributions required through December 31, 2002.

7. RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

7. RISK MANAGEMENT (Continued)

The Plan uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5% of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

8. CONTINGENT LIABILITIES

The Village is currently a party to litigation. Although the outcome of this suit is not presently determinable, management believes that the resolution of this matter will not adversely affect the Village's financial condition. Additionally, management believes that, should an unfavorable outcome result, any damages would be covered by the Village's risk management plan.



**Auditor of State
Betty Montgomery**

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

Village of Philo
Muskingum County
565 Water Street
Philo, Ohio 43771-9710

To Village Council:

We have audited the accompanying financial statements of the Village of Philo, Muskingum County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated November 12, 2003, wherein we noted there was insufficient evidence to support certain disbursements, and wherein we noted the Village did not report encumbrances as budgetary disbursements. 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 which are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-001 through 2002-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated November 12, 2003.

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 2002-002 through 2002-004 and as items 2002-006 through 2002-011.

Village of Philo
Muskingum County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
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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 items 2002-002 through 2002-004 and items 2002-006 through 2002-009 to be material weaknesses. We noted another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Village in a separate letter dated November 12, 2003.

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



Betty Montgomery
Auditor of State

November 12, 2003

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

During the year ended December 31, 2002, the following Village funds had expenditures which exceeded appropriations:

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Disbursements</u>	<u>Variance</u>
Street Construction Fund	\$20,000	\$22,916	(\$2,916)
Water Fund	96,000	97,635	(1,635)

Although total fund budgetary expenditures did not exceed appropriations in the General, Water, and Water Construction Funds during 2001 and General and Water Construction Funds during 2002, budgetary expenditures exceeded appropriations for certain accounts within these funds, contrary to Ohio law. The practice of allowing expenditures to exceed appropriations could result in negative fund balances for the Village.

The Clerk-Treasurer should deny payment requests exceeding appropriations, as required by Ohio Rev. Code Section 5705.41(D). We recommend Village Council and the Clerk-Treasurer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations.

FINDING NUMBER 2002-002

Noncompliance and Material Weakness

Ohio Admin. Code § 117-2-02(A) requires all 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 required by rule 117-2-03 of the Administrative Code. The Village's accounting system and accounting records did not enable the Village to document compliance with finance-related legal requirements, including various sections of Ohio Revised Code Chapter 5705 as follows:

- A. Appropriations were not posted to an appropriation ledger. As a result, there was no method established whereby the fiscal officer could determine if unencumbered appropriations were available for expenditure. Village management could not monitor the types of expenditures being made and the year-to-date expenditures made for any particular expenditure function.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2002-002 (Continued)

Noncompliance and Material Weakness - Ohio Admin. Code § 117-2-02(A) (Continued)

A. (Continued)

We recommend the Village Clerk-Treasurer post appropriation amounts to the appropriations ledger, once appropriations are adopted by Village Council and certified by the Budget Commission. This would enable the Clerk-Treasurer to utilize the encumbrance method of accounting and document compliance with finance-related legal requirements. Comparisons of budgeted (appropriated) expenditures to actual expenditures should then be presented to management as a tool to manage the Village. Guidance for maintaining the appropriations ledger is now included in Ohio Admin. Code Section 117-2-02(D)(3), which became effective July 1, 2000.

B. Estimated receipts were not posted to the receipts ledger. As a result, there was no method established whereby Village management could compare budgeted receipts to actual receipts and file amended certificates of estimated resources when needed.

We recommend budgeted and actual receipts be posted to the receipts ledger as recommended in Ohio Admin. Code Section 117-2-02(D)(2) (effective July 1, 2000), to provide useful monthly budget vs. actual comparisons to assist management in monitoring Village operations. This would enable the Clerk-Treasurer to document compliance with finance-related legal requirements concerning the filing of estimated resources and any amendments thereto.

FINDING NUMBER 2002-003

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 5705.41 (D) states 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 (Clerk-Treasurer) 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 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 also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that both at the time the contract or order was made and at the time that he is completing his certification a sufficient sum was appropriated and free of any previous encumbrances, the taxing authority (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, if such expenditure is otherwise valid.
- B. If the amount involved is less than one thousand dollars (which was increased to \$3,000 on April 7, 2003), the fiscal officer may authorize it to be paid without affirmation of the taxing authority, upon completion of the then and now certificate, provided the expenditure is otherwise lawful.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2002-003(Continued)

Noncompliance Citation and Material Weakness - Ohio Rev. Code § 5705.41 (D) (Continued)

We recommend the Village's management implement procedures to gain fiscal control over expenditures. Purchase orders containing the required certification should be utilized to certify the availability of funds prior to commitments being incurred. Appropriations should then be encumbered and balances maintained of unencumbered appropriations. Additional purchase orders should be issued only after the fiscal officer determines that sufficient unencumbered appropriations exist in the amount of the requested purchase.

FINDING NUMBER 2002-004

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 149.39 requires the creation of a records commission in each municipal corporation. The commission shall be composed of the chief executive or his appointed representative, as chairman, and the chief fiscal officer, the chief legal officer, and a citizen appointed by the chief executive. The commission shall appoint a secretary and meet at least once every six months. The functions of the commission shall be to provide rules for retention and disposal of records and to review applications for one-time records disposal and schedules of records retention and disposition submitted by municipal offices. Records may be disposed of by the commission pursuant to the procedure outlined in this section. Furthermore, Ohio Rev. Code § 149.351 states in part "All records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code..."

Our review of Village records indicated the following:

1. Village Council's minutes for meetings held during 2001 and 2002 indicated ordinances and resolutions were read and adopted by Council. However, the Clerk-Treasurer did not present ordinances and resolutions adopted during 2001 and 2002. Since most Village officials' compensation had not changed for a number of years, ordinances and/or resolutions adopted prior to 2001 were requested in order to verify each official's authorized compensation. The Clerk-Treasurer presented two books containing ordinances and resolutions as well as loose ordinances and resolutions not within a bound book. The most recent of these ordinances and resolutions were dated during 1982 although ordinances and resolutions were not presented for a major portion of the 1970s through the present time. Although the Village Clerk-Treasurer indicated a number of Village records, including those ordinances and/or resolutions governing Village officials' compensation, were destroyed or damaged from a waterline break within Village Hall during 1998, certain ordinances and resolutions dated before 1998 were presented for audit while ordinances and resolutions adopted after 1998 were not presented for audit. A waterline break during 1998 does not explain why certain records made after 1998 cannot be located.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2002-004(Continued)

Noncompliance Citation and Material Weakness - Ohio Rev. Code § 149.39 (Continued)

2. When reviewing Council's minutes for information related to pay rates, we determined that minutes for the period from the December 1976 meeting through the December 1978 meeting were not in the minute book. It was during this time period that the Clerk's and Treasurer's positions were combined and the salary for the Clerk-Treasurer's position would have been set. The minutes were silent concerning the Clerk-Treasurer's compensation from the January 1979 meeting through the present time.
3. Paving contracts for 2001 and 2002, and related records including bidding and prevailing wage information, were not presented for audit.

We found no evidence to indicate that a municipal records commission had been established and had met at least every six months. As a result, there was no authorization for the destruction or disposal of records. We recommend Village Council, the Clerk-Treasurer, and the Mayor review the existing Village records to determine those records destroyed or damaged by water. As certain Village records are considered permanent records to be maintained by the Village indefinitely, including ordinances and resolutions, Village officials should consult with the Village's legal counsel to determine the appropriate steps to address the apparent lack of records. Perhaps certain records, although damaged, could be transcribed into more legible form and kept on file for future reference. Certain records may not be recoverable and/or legible, but may still be of continuing significance, such as ordinances and resolutions that authorize salaries and pay rates currently being paid, water rates, etc. In those instances, Council should adopt new legislation to replace the destroyed legislation, as Village legal counsel advises.

FINDING NUMBER 2002-005

Noncompliance Citation

Ohio Rev. Code § 2921.42(A)(1) prohibits any public official from knowingly authorizing, or employing the authority or influence of his office to secure of any public contract in which he, a member of his family, or any of his business associates has an interest. Furthermore, **Ohio Rev. Code § 2921.42(G)(1)(a)** indicates that a public contract means the purchase or acquisition, or a contract for the purchase or acquisition, of property or services by or for the use of the state, any of its political subdivisions, or any agency or instrumentality of either, including the employment of an individual by the state, any of its political subdivisions, or any agency or instrumentality of either.

On November 11, 2001, Village Council authorized the hiring of Becky Hutcheson as assistant to the Clerk-Treasurer, Samuel Hutcheson. Becky Hutcheson is the wife of Samuel Hutcheson.

1998 O.E.C. No. 98-004 states, in part, "Division (A)(1) of Section 2921.42 of the Revised Code, and Division (D) of Section 102.03 of the Revised Code, prohibit a village clerk-treasurer from authorizing, or employing the authority or influence of her office to secure the authorization of, her husband's contract of employment, and from discussing, deliberating, or otherwise participating in any part of the village's decision-making process authorizing or approving her husband's contract of employment or the continuation, implementation, or terms and conditions of her husband's contract of employment."

This matter is being referred to the Ohio Ethics Commission as a possible violation of Ohio Rev. Code §§ 2921.42(A)(1) and 102.03(D).

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2002-006

Material Weakness

Management has a key role to play in ensuring the Village establish and maintain effective internal controls. Accordingly, Village management must establish procedures to ensure and document that the Village is complying with applicable legal requirements.

The results of our audit indicated a weakness in management's role to establish and maintain effective internal controls and to ensure and document the Village is complying with legal requirements as evidenced by the material noncompliance citations and material weaknesses included in our report. The small size of the Village's staff did not allow for an adequate segregation of duties as the Village Clerk-Treasurer performed all accounting functions, including receipting, depositing, disbursing, and reconciling Village monies. Monitoring controls could be implemented where Village Council could function as a finance and audit committee to monitor financial activity closely and to follow up on any audit findings.

We recommend Village management become more actively involved in monitoring financial activity of the Village. Village Council should assure that the Village Clerk-Treasurer performs a monthly bank reconciliation that includes total fund balances being reconciled to total deposits and investments, detailing outstanding checks and any other reconciling items. Village Council should then review the validity of the computations and attest to the reconciliation's accuracy. Village Council should also assure the Clerk-Treasurer maintains and presents to Council monthly the following records; receipts ledger, appropriations ledger, cash journal, budget vs. actual reports for receipts and disbursements, payroll journal and check register. Supervisory reviews should be performed by members of Village Council and evidenced by the initials of each member performing the review and the date the review was performed.

The presentation of these records and reviews by Village Council should be noted in Council's minutes. Council should make appropriate inquiries to help determine the continued integrity of financial information such as:

- Are current receipts sufficient to cover expenditures?
- Are actual receipts and expenditures in line with the budget?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted for?
- Are anticipated receipts being received in a timely manner?

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Village. The Village Clerk-Treasurer, Council and Mayor should become familiar with the Ohio Compliance Supplement, which has been provided to the Village, and use this as a tool to assist them in complying with applicable Ohio laws and regulations.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2002-007

Material Weakness

As indicated above, Ohio Rev. Code § 731.13 requires the legislative authority of a Village to fix the compensation and bonds of all officers, clerks, and employees of the Village except as otherwise provided by law. The legislative authority shall, in the case of elective officers, fix their compensation for the ensuing term of office at a meeting held not later than five days prior to the last day fixed by law for filing as a candidate for such office.

Village officers received the following compensation during 2001 and 2002:

Elected/Appointed Office	Rate/Salary	Ordinance/Resolution Authorizing Salary	Total Compensation 2001	Total Compensation 2002
Members of Village Council	\$15/meeting	None Presented	Varied by number of meetings attended. All members were paid \$15 per meeting	Varied by number of meetings attended. All members were paid \$15 per meeting
Mayor	\$580/year plus \$69.96/quarter	None Presented	\$859.84	\$859.84
Clerk-Treasurer	\$1,800/year plus \$194.96/quarter (\$219.96/quarter starting 4 th quarter 2001)	None Presented	\$2,604.84	\$2,679.84
Assistant Clerk-Treasurer	\$900 per year	November 11, 2001 Council Minutes	\$700	\$900
Water Clerk	\$1,460/year plus \$225/quarter	None Presented	\$2,360	\$2,360

With the exception of the Clerk-Treasurer's quarterly allowance and the salary for the newly formed position of Assistant Clerk-Treasurer, amounts paid to Village officers during 2001 and 2002 were consistent with those amounts paid in the previous two year audit period. However, as indicated in finding no. 2002-004 above, the Village Clerk-Treasurer indicated those ordinances and/or resolutions governing Village officials' compensation were destroyed or damaged. As a result of the apparent loss of records, the Village is lacking certain permanent records vital to the operations of the Village, including the authorization for Village officer's compensation.

We recommend Village Council and the Clerk-Treasurer obtain and review the ordinances or resolutions that establish each Village employee's and official's compensation to determine compensation paid is properly authorized by Village Council. If legislation cannot be located, then Village Council should adopt new legislation to authorize compensation of employees and officials as Village legal counsel advises.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2002-008

Material Weakness

For non-payroll related disbursements, Council members approved only a listing of bills and checks were signed by only the Clerk-Treasurer and issued to various vendors. Individual vouchers with invoices attached were not prepared and presented for Council's review and approval. Our review indicated numerous disbursements made where supporting documentation was not present. The majority of disbursements made which were not supported by adequate documentation were purchases made by Village employees with a Village credit card. Our review of these credit card statements, and certain other expenditures, indicated payments totaling \$29,704, representing 8% of total expenditures, were made without adequate supporting documentation. In certain instances where supporting documentation was available, such as for the Water Fund, it was maintained in a haphazard fashion.

As a result, we could not determine whether payments made to various vendors were for a proper public purpose. Village Council members and Board of Public Affairs members have represented to us that expenditures were made for a proper public purpose.

This condition could allow errors or fraud to occur and remain undetected by Village management.

We recommend the Village Clerk-Treasurer and Water Clerk prepare a voucher for each invoice to be paid. The original invoice and a purchase order should be attached to the voucher. Once Council (or its designated committee) has reviewed the voucher contents, Council members should sign the voucher indicating their approval for payment. Voucher numbers should correspond to check numbers for future reference purposes. Council should also consider requiring dual signatures on checks, since the segregation of duties obtained with separate positions of Clerk and Treasurer is not present with a combined Clerk-Treasurer's position.

We also recommend Village Council adopt a formal policy concerning credit card purchases. The policy should include a description of those items which may be purchased as well as examples of those items strictly prohibited from being purchased. The policy should require documentation, such as vendor invoices, to be obtained and forwarded to the Clerk-Treasurer for all purchases made, and should hold individuals making credit card purchases personally liable when documentation is not obtained. The policy should require documentation to be attached to the applicable credit card statement when received and presented to Council for approval prior to the expenditure being made. Council may wish to refer to Ohio Rev. Code § 301.27, relating to County credit cards, as guidance for the Village's policy.

FINDING NUMBER 2002-009

Material Weakness

During our review of the Village's payroll system, we noted the following conditions:

- Personnel files were not established for each employee.
- A payroll ledger was not maintained by the Clerk-Treasurer.
- Timesheets for hourly employees were not formally reviewed and approved by Village Council.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2002-009 (Continued)

Material Weakness (Continued)

- PERS exemption forms were not on file for Council members who did not contribute to PERS. For those employees that did have PERS withholdings, PERS remittance forms were not kept by the Clerk-Treasurer for future reference.
- State income taxes were not withheld from compensation of elected officials and Village employees who earned in excess of \$300 per quarter, although required by Ohio Rev. Code Section 5747.06.
- The Clerk-Treasurer did not deduct and withhold federal income tax from any officials or employees wages; and
- Medicare tax was not deducted and withheld for employees and officials hired after April 1, 1986.

As a result of the aforementioned items, errors could occur within the payroll system and remain undetected by management and the Village could be held liable for any payments due other agencies as a result of noncompliance with payroll related regulations. We recommend the following:

- Personnel files should be established and maintained for each employee and should contain pertinent information including, but not limited to, tax withholding forms, retirement forms, voluntary deduction forms, approved pay rate information, approved employee contracts, policy acknowledgment forms, and evaluations.
- The Clerk-Treasurer should utilize a payroll ledger. This payroll should detail, by employee, gross pay, deductions, and net pay for each applicable pay period.
- Timesheets for all hourly employees should be reviewed and approved by a member(s) of the Village Council. Approval should be noted by a signature of the reviewing party on the timesheet.
- PERS exemption forms should be on file for each employee not participating in PERS. PERS remittance forms should be kept on file for future reference.
- State income taxes should be withheld as required by the Ohio Revised Code.
- Exemption forms should be on file to support no deduction and withholding of federal income taxes or taxes should be deducted and withheld in accordance with 26 U.S.C Section 3402; and
- Medicare should be deducted and withheld in accordance with 26 U.S.C. Section 3102(a).

FINDING NUMBER 2002-010

Reportable Condition

The Water Clerk maintained a cash journal for the recording of quarterly water payments received and forwarded water payments to the Village Clerk-Treasurer on a monthly basis. However, the Clerk-Treasurer did not issue pay-in orders each month to the Water Clerk. In addition, the Clerk-Treasurer did not issue a pay-in order to the individual forwarding monies from bulk water sales to the Clerk-Treasurer.

This weakness resulted in a lack of accountability between the water department collections and the amounts entered in the Clerk-Treasurer's cashbook.

We recommend the Clerk-Treasurer issue a pay-in order to the Water Clerk when she forwards water payments to the Clerk-Treasurer. We also recommend a pay-in order be issued to the individual forwarding bulk water sales monies to the Clerk-Treasurer. The individual turning in bulk water sales monies should also record the meter reading at that time and forward it to the Clerk-Treasurer. The Clerk-Treasurer should review the meter reading to bulk water sales monies turned in for reasonableness.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

FINDING NUMBER 2002-011

Reportable Condition

Pay-in-orders were not issued by the Clerk-Treasurer for all amounts received by the Village. In addition, we noted multiple instances in which the Clerk-Treasurer either did not post receipts to the accounting records, or did not deposit receipts into the Village depository in a timely manner after they were received.

As a result, source documentation was not available in many instances to indicate to which account code revenue should be posted. The lack of posting and depositing receipts on a timely basis could also allow errors or fraud to occur and remain undetected by management.

We recommend the Clerk-Treasurer issue a pay-in order when any money is received on behalf of the Village. The pay-in-order should be issued in duplicate, with the original given to the person making payment after all information has been entered in the spaces provided. The duplicate should remain in the binding and be used as a posting source to the cash journal. Monies should be deposited as soon as possible and the Clerk-Treasurer should properly safeguard monies until the time the deposit is made.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEARS ENDED
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-31060-001	Ohio Rev. Code § 5705.41(D), failure to certify the availability of funds prior to incurring obligations	No	Not Corrected – Finding repeated as finding number 2002-003
2000-31060-002	Ohio Admin. Code § 115-5-11, failure to properly maintain an Appropriations Ledger	No	Not Corrected – Finding repeated as finding number 2002-002
2000-31060-003	Ohio Admin. Code § 115-5-09, failure to properly maintain a Cash Journal	Yes	Corrected
2000-31060-004	Ohio Admin. Code § 115-5-10, failure to properly maintain a Receipts Ledger	No	Not Corrected – Finding repeated as finding number 2002-002
2000-31060-005	Weaknesses within the Village payroll system	No	Not Corrected – Finding repeated as finding number 2002-008
2000-31060-006	Failure to effectively monitor Village financial activity by Village Council	No	Not Corrected – Finding repeated as finding number 2002-006
2000-31060-007	Failure to produce detailed monthly account reconciliations	No	Not Corrected – Finding repeated as finding number 2002-006
2000-31060-008	Failure to obtain proper approval and maintain adequate documentation supporting expenditures	No	Not Corrected – Finding repeated as finding number 2002-007
2000-31060-009	Ohio Admin. Code § 115-5-10, failure to use pay-ins	No	Not Corrected – Finding repeated as finding number 2002-010
2000-31060-010	Ohio Rev. Code § 5705.41(B), expenditures exceeding appropriations	No	Not Corrected – Finding repeated as finding number 2002-001
2000-31060-011	Ohio Rev. Code § 5705.10, negative fund balances	No	Partially Corrected – Finding repeated in Management Letter



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**VILLAGE OF PHILO
MUSKINGUM 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 2, 2003**