



**Auditor of State
Betty Montgomery**

**VILLAGE OF McCLURE
HENRY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2003.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Enterprise Funds - For the Year Ended December 31, 2003.....	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2002.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Enterprise Funds - For the Year Ended December 31, 2002.....	6
Notes to the Financial Statements.....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19
Schedule of Prior Audit Findings	33

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of McClure
Henry County
145 Haley Street, P.O. Box 340
McClure, Ohio 43534-0340

To the Village Council:

We have audited the accompanying financial statements of the Village of McClure, Henry County, (the Village) as of and for the years ended December 31, 2003 and 2002. 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 audits.

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.

The Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments

We believe that our audit provides a reasonable basis for our opinion.

As described 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, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2003 and 2002, 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 July 7, 2004 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 audits.

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.



Betty Montgomery
Auditor of State

July 7, 2004

**VILLAGE OF McCLURE
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 25,639	\$ 9,480		\$ 35,119
Municipal Income Tax	55,656			55,656
Intergovernmental Receipts	31,717	23,184		54,901
Charges for Services	790			790
Fines, Licenses, and Permits	3,041			3,041
Earnings on Investments	1,210	4		1,214
Miscellaneous	15,642			15,642
Total Cash Receipts	133,695	32,668		166,363
Cash Disbursements:				
Current:				
Security of Persons and Property	27,065			27,065
Leisure Time Activities	1,108			1,108
Transportation		27,915		27,915
General Government	55,551			55,551
Total Cash Disbursements	83,724	27,915		111,639
Total Cash Receipts Over Cash Disbursements	49,971	4,753		54,724
Other Financing Receipts and (Disbursements):				
Other Financing Uses	(1,098)			(1,098)
Transfers-In		11,131	\$ 5,566	16,697
Transfers-Out	(16,697)			(16,697)
Total Other Financing Receipts/(Disbursements)	(17,795)	11,131	5,566	(1,098)
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	32,176	15,884	5,566	53,626
Fund Cash Balances, January 1	25,746	38,994	19,731	84,471
Fund Cash Balances, December 31	\$ 57,922	\$ 54,878	\$ 25,297	\$ 138,097
Reserves for Encumbrances, December 31	\$ -	\$ -	\$ -	\$ -

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**VILLAGE OF McCLURE
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$ 276,739
Fines, Licenses and Permits	<u>5,415</u>
Total Operating Cash Receipts	<u>282,154</u>
Operating Cash Disbursements:	
Personal Services	67,376
Fringe Benefits	18,667
Contractual Services	33,942
Supplies and Materials	72,835
Other	<u>467</u>
Total Operating Cash Disbursements	<u>193,287</u>
Operating Income	<u>88,867</u>
Non-Operating Cash Disbursements:	
Redemption of Principal	33,900
Interest and Other Fiscal Charges	<u>78,228</u>
Total Non-Operating Cash Disbursements	<u>112,128</u>
Net Cash Disbursements Over Cash Receipts	(23,261)
Fund Cash Balances, January 1	<u>115,308</u>
Fund Cash Balances, December 31	<u><u>\$ 92,047</u></u>
Reserve for Encumbrances, December 31	<u><u>\$ -</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**VILLAGE OF McCLURE
HENRY 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**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 21,785	\$ 7,464		\$ 29,249
Municipal Income Tax	59,894			59,894
Intergovernmental Receipts	34,710	23,318	\$ 5,850	63,878
Charges for Services	960			960
Fines, Licenses, and Permits	22,344			22,344
Earnings on Investments	3,417	23		3,440
Miscellaneous	1,527			1,527
	<u>144,637</u>	<u>30,805</u>	<u>5,850</u>	<u>181,292</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	61,977			61,977
Leisure Time Activities	900			900
Transportation		42,221		42,221
General Government	67,234			67,234
Capital Outlay			5,850	5,850
	<u>130,111</u>	<u>42,221</u>	<u>5,850</u>	<u>178,182</u>
Total Cash Receipts Over/ (Under) Cash Disbursements	<u>14,526</u>	<u>(11,416)</u>		<u>3,110</u>
Other Financing Receipts and (Disbursements):				
Other Financing Uses	(1,073)			(1,073)
Other Financing Sources		4,707		4,707
Transfers-In		15,602	6,031	21,633
Transfers-Out	(21,633)			(21,633)
	<u>(22,706)</u>	<u>20,309</u>	<u>6,031</u>	<u>3,634</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(8,180)</u>	<u>8,893</u>	<u>6,031</u>	<u>6,744</u>
Fund Cash Balances, January 1	<u>33,926</u>	<u>30,101</u>	<u>13,700</u>	<u>77,727</u>
Fund Cash Balances, December 31	<u>\$ 25,746</u>	<u>\$ 38,994</u>	<u>\$ 19,731</u>	<u>\$ 84,471</u>
Reserves for Encumbrances, December 31	<u>\$ 1,419</u>	<u>\$ 231</u>		<u>\$ 1,650</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**VILLAGE OF McCLURE
HENRY COUNTY**

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

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 280,297
Fines, Licenses and Permits	4,703
Total Operating Cash Receipts	285,000
Operating Cash Disbursements:	
Personal Services	37,950
Fringe Benefits	1,100
Contractual Services	75,101
Supplies and Materials	101,446
Other	1,000
Total Operating Cash Disbursements	216,597
Operating Income	68,403
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	6,201
Total Non-Operating Cash Receipts	6,201
Non-Operating Cash Disbursements:	
Redemption of Principal	32,094
Interest and Other Fiscal Charges	79,800
Other Non-Operating Cash Disbursements	9,063
Total Non-Operating Cash Disbursements	120,957
Excess of Cash Disbursements Over Cash Receipts Before Interfund Transfers	(46,353)
Transfers-In	75,000
Transfers-Out	(75,000)
Net Cash Disbursements Over Cash Receipts	(46,353)
Fund Cash Balances, January 1	161,661
Fund Cash Balances, December 31	\$ 115,308
Reserve for Encumbrances, December 31	\$ 601

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**VILLAGE OF McCLURE
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of McClure, Henry 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 and sewer utilities, park operations, and police services. In 2003 the Village contracted with the Henry 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

Certificates of deposit are valued at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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.

**VILLAGE OF McCLURE
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

2. Special Revenue Funds

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 Funds:

Street Construction, Maintenance and Repair Fund - This fund receives income tax, gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Permissive Tax Fund - This fund receives license tax money from the State and County Auditor for construction, maintaining and repairing Village Streets.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Capital Project Fund - This fund receives income tax. The proceeds used to purchase equipment.

4. 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 Funds:

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

Sewer 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.

**VILLAGE OF McCLURE
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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 unencumbered 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.

A summary of 2003 and 2002 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.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH

The Village maintains a cash 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:

**VILLAGE OF McCLURE
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

	2003	2002
Demand deposits	\$ 82,861	\$ 38,087
Certificates of deposit	147,283	161,692
Total deposits	\$ 230,144	\$ 199,779

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 174,973	\$ 133,695	\$ (41,278)
Special Revenue	31,290	43,799	12,509
Capital Projects	5,000	5,566	566
Enterprise	325,979	282,154	(43,825)
Total	\$ 537,242	\$ 465,214	\$ (72,028)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 99,057	\$ 101,519	\$ (2,462)
Special Revenue	34,232	27,915	6,317
Enterprise	290,062	305,415	(15,353)
Total	\$ 423,351	\$ 434,849	\$ (11,498)

**VILLAGE OF McCLURE
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 197,911	\$ 144,637	\$ (53,274)
Special Revenue	30,026	51,114	21,088
Capital Projects	5,000	11,881	6,881
Enterprise	283,954	366,201	82,247
Total	<u>\$ 516,891</u>	<u>\$ 573,833</u>	<u>\$ 56,942</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 181,594	\$ 154,236	\$ 27,358
Special Revenue	34,232	42,452	(8,220)
Capital Projects		5,850	(5,850)
Enterprise	266,513	413,155	(146,642)
Total	<u>\$ 482,339</u>	<u>\$ 615,693</u>	<u>\$ (133,354)</u>

In 2003 the Water Operating and the Sewer Operating funds had negative fund balances of (\$18,708) and (\$57,327), respectively. In 2002 the Street Construction, Maintenance and Repair, Water Operating and the Sewer Operating funds had negative fund balances of (\$2,486), (\$6,339) and (\$44,527), respectively.

In 2003 expenditures exceeded appropriations in the General fund (\$2,462), Permissive Motor Vehicle License Tax fund (\$9,068), Water Operating fund (\$12,590) and Sewer Operating fund (\$100,319). In 2002 expenditures exceeded appropriations in the Permissive Motor Vehicle License Tax fund (\$9,943), Water Operating fund (\$63,238), Sewer Operating fund (\$75,341), Utility Improvement fund (\$9,063) and State Issue II fund (\$5,850).

In 2003 appropriations exceed estimated resources in Street Construction, Maintenance and Repair fund (\$19,041). In 2002 appropriations exceed estimated resources in the Street Construction, Maintenance and Repair fund (\$23,891).

In 2003 and 2002 appropriations were increased throughout the year in numerous line items at the legal level of control without council approval.

**VILLAGE OF McCLURE
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

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.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary Sewer Mortgage Revenue Bonds	\$ 1,177,100	5.125%
Ohio Public Works Commission Loan	101,134	4%
First Mortgage Waterworks Revenue Bonds	245,000	5%
Total	<u>\$ 1,523,234</u>	

**VILLAGE OF McCLURE
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

The Village issued Sanitary Sewer Mortgage Revenue Bonds and received a loan from the Ohio Public Works Commission for the construction of a wastewater treatment facility. The bonds are payable over 40 years and the loan is payable semiannually over a 20 year period. The First Mortgage Waterworks System bonds were issued for potable water, payable annually over 20 years. The Village has agreed to set utility rates sufficient to cover the Mortgage Revenue Bonds' debt service requirements. The Village granted to holders of the Bonds a mortgage upon all property, real, personal and mixed and revenue constituting the Systems of the Village.

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

Year ending December 31:	Sanitary Sewer Mortgage Revenue Bonds	First Mortgage Waterworks Revenue Bonds	Ohio Public Works Commission Loan
2004	\$ 74,726	\$ 27,250	\$ 4,752
2005	74,689	27,500	4,752
2006	74,614	27,700	4,752
2007	74,705	27,850	4,753
2008	74,649	27,950	4,752
2009 - 2013	373,417	138,500	23,761
2014 - 2018	373,341	54,850	19,009
2019 - 2023	373,438		
2024 - 2028	373,363		
2029 - 2033	373,348		
2034 - 2038	224,041		
Total	<u>\$ 2,464,331</u>	<u>\$ 331,600</u>	<u>\$ 66,531</u>

The Village has not established the water and sewer sinking funds or obtained adequate bond coverage as required by Village ordinances authorizing the issuance of the mortgage revenue bonds. Also, the requirements of submitting financial information to the Ohio Public Works Commission and the Rural Development of the U.S. Department of Agriculture was not performed contrary to the loan agreements. The Village has not set utility rates sufficient to operate and maintain the sewer system and pay debt principal and interest as required by Village ordinance authorizing the issuance of sanitary sewer mortgage revenue bonds and by the Ohio Public Works Commission loan agreement.

**VILLAGE OF McCLURE
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

7. RETIREMENT SYSTEMS

The Village's Police Chief belongs to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide 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, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. Members of OPERS contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries for 2003 and 2002. The Village had a \$3,789 contribution still outstanding to OPERS at December 31, 2003.

8. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures losses exceeding \$10,000 if the annual aggregate

**VILLAGE OF McCLURE
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses and loss adjustment expenses should they exceed operating contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31 (for the periods available):

Casualty Coverage	2002	2001
Assets	\$ 20,174,977	\$ 19,358,458
Liabilities	(8,550,749)	(8,827,588)
Retained Earnings	\$ 11,624,228	\$ 10,530,870
Property Coverage	2002	2001
Assets	\$ 2,565,408	\$ 1,890,323
Liabilities	(655,318)	(469,100)
Retained Earnings	\$ 1,910,090	\$ 1,421,223

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

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

Village of McClure
Henry County
145 Haley Street, P.O. Box 340
McClure, Ohio 43534-0340

To the Village Council:

We have audited the financial statements of the Village of McClure, Henry County, (the Village) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated July 7, 2004 wherein we noted that the Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. 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* as items 2003-001 through 2003-11. However, we also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated July 7, 2004.

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 2003-012 through 2003-016.

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. Of the reportable conditions described above, we considered items 2003-012 through 2003-014 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 July 7, 2004.

This report is intended solely for the information and use of the management and 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

July 7, 2004

**VILLAGE OF McCLURE
HENRY COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

Finding for Recovery Repaid Under Audit

The Village cash fund balance exceeds the Village depository carrying balance at December 31, 2003 in the amount of \$689.23. This constitutes an unidentified shortage of funds. Ohio Revised Code § 9.39 states that all “public officials are liable for all public money received or collected by them or by their subordinates under color of office.”

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money collected but unaccounted for is hereby issued against Connie Ehlers, Village of McClure Clerk, and Auto-Owners Insurance and Ohio Government Risk Management Plan her bonding companies, jointly and severally, in the amount of six hundred eighty-nine dollars and twenty-three cents (\$689.23), and in favor of the Village of McClure, General Fund. Ms. Ehlers repaid the finding on June 10, 2004.

FINDING NUMBER 2003-002

Noncompliance Citation

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 6, B (2) and Village of McClure, First Mortgage Waterworks System Revenue Bond Ordinance No. 253, establish Sinking funds and the amounts to be set aside within the fund for the sewer and water related debt. The purpose of the Sinking Fund is to accumulate monthly the amount to be used toward the semiannual debt (principal and interest) payments.

The Village has not established the Sinking funds as required by Ordinance, which is contrary to the debt covenant.

By not establishing the required funds and setting aside the monies as stated in the Ordinances the Village may not have funds available to meet a future debt payment if adequate revenues are not generated.

We recommend the Village Council and Board of Public Affairs (BPA) establish the required funds and post the required amount of monies into these funds towards the payment of the semiannual debt requirements.

FINDING NUMBER 2003-003

Noncompliance Citation

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 6 states that the clerk-treasurer shall execute and keep in force a fidelity bond in an amount approved by the appropriate official of the United States of America, and the United States of America and the Village shall be named as co-obligee in such bond. The amount shall not be reduced without the prior written consent of the appropriate official of the United States of America. The United States Department of Agricultural Rural Development (USDA) office has set the bond at an amount equal to the yearly debt payment, which is \$75,000.

The Village currently has public official and surety bonds that total \$50,000. The Village is only named on said bonds.

The Village Council should review this requirement and obtain the necessary amounts to be bonded and to name the United States of America as a co-obligee.

FINDING NUMBER 2003-004

Noncompliance Citation

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 8 states that Village will fix rates and charges in an amount sufficient to pay the cost of operating and maintaining the Sewer System and to provide an amount of revenues adequate for the payment of principal and interest, debt service reserve and sinking fund requirements, replacements and improvement requirements. Ohio Public Works Commission (OPWC) Loan Agreement, Article 2.2(a), states that the Village shall charge rates, fees, charges or taxes in amount to meet operation, maintenance and all expenses of the Sewer Utility and the payment of amounts required by the Loan.

As of December 31, 2003 the Sewer Operating fund has a negative fund balance of (\$57,327) and has been operating at a loss since 1999. In December, 2003 the Village increased sewer rates by 10.8 percent to offset the operating deficit of prior years.

We recommend that the Village Council and BPA review the requirements of the Ordinance and Loan Agreement and set rates at an appropriate level.

The Village Council and the BPA should consider the accumulated December 31, 2003 deficit balance and the various requirements to meet future operating, maintenance and debt service requirements to ensure that the present rate structure is at an appropriate level to meet future spending.

FINDING NUMBER 2003-005

Noncompliance Citation

7 CFR 1780.47(f) (2) (ii) states that annual management reports, prior to the beginning of each fiscal year will be submitted to the USDA processing office. Financial information may be reported on Form RD 442-2 which includes Schedule 1, "Statement of Budget, Income and Equity; and Schedule 2, "Projected Cash Flow" or information in similar format. The management report requirement is in relation to the Sanitary Sewer loan that was obtained from the USDA in 1996.

The Village prepared and submitted Form RD 442-2 (the Form) for fiscal year 2003 and failed to prepare or submit the Form for fiscal year 2004. The following matters were found for the 2003 submission:

- The Form was not sent to the local Rural Development Office (the processing office) until September 2003 for fiscal year 2003.
- The budgeted information shown on Column 3 of Schedule 1 did not agree to the Village adopted Appropriation resolution or any subsequent approved amendments. In addition the column was not completed in its entirety.
- The amounts reported on Schedule 2 Projected Cash Flow were the 2002 actual cash amounts. The current fiscal year budgeted amounts should have been reported on this schedule. In addition the beginning cash balance amount was reported at \$1,165,000, which is significantly distorted from the audited December 31, 2002 negative cash balance of (\$40,938).

The items indicated above could result in inaccurate information being presented to the local Rural Development Office affecting management decisions regarding the operation of the Village's sewer system and its related debt. We recommend that the management of the Village request training or assistance from the Rural Development Office in the completion of this Form.

FINDING NUMBER 2003-006

Noncompliance Citation

Ohio Public Works Commission (OPWC) Loan Agreement, Article 2.2(b), states that the Village shall furnish to the Ohio Public Works Commission annual reports of the operations and income of the Utility together with an annual report of the account and operations of the Utility.

FINDING NUMBER 2003-006
(Continued)

The Village did not send any reports in 2002 and 2003 to the OPWC as required by the Loan Agreement.

The Village should contact OPWC to obtain the necessary reporting forms and file the required data with the OPWC.

FINDING NUMBER 2003-007

Noncompliance Citation

Ohio Revised Code § 5705.41(D) (1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above: including: “then and now” certificates, blanket certificates and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. “Then and Now” certificate – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the village can authorize the drawing of a warrant for the payment of the amount due. The village has thirty days from receipt of the “then and now” certificate to approve payment by ordinance or resolution.
2. Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

Fiscal officers may prepare so-called “blanket” certificates not exceeding \$5,000 against any specific line item account over a period not exceeding 3 months or running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item

FINDING NUMBER 2003-007
(Continued)

appropriation. Effective September 26, 2003, the \$5,000 limit on the issuance of purchase orders and the requirement that purchase orders not extend beyond three months have been removed from the law. Effective September 26, 2003, purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village did not properly certify the availability of funds prior to purchase commitment for 60% of expenditures in 2003 and 20% of expenditures tested in 2002. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Clerk certify that funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language § 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification prior to the Village incurring a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2003-008

Noncompliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. Our testing of budgetary compliance at December 31, 2003 and 2002 identified the following instances in which expenditures exceeded appropriations in the following funds:

**FINDING NUMBER 2003-008
(Continued)**

Fund	Appropriations	Expenditures	Excess
2002			
Permissive Motor Vehicle License Tax Fund	\$ -	\$ 9,943	\$ (9,943)
Water Operating Fund	140,729	203,967	(63,238)
Sewer Operating Fund	48,784	124,125	(75,341)
Utility Improvement Fund	75,000	84,063	(9,063)
State Issue II Fund	-	5,850	(5,850)
2003			
General Fund	\$ 99,057	\$ 101,519	\$ (2,462)
Permissive Motor Vehicle License Tax Fund	-	9,068	(9,068)
Water Operating Fund	164,379	176,969	(12,590)
Sewer Operating Fund	49,284	149,603	(100,319)

Management was advised that the failure to have adequate appropriations in place at the time of the expenditures are being made could result in expenditures to exceed available resources, further resulting in deficit spending practices.

The Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2003-009

Noncompliance Citation

Ohio Revised Code § 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The Village could not provide evidence of receipt of the County Auditor’s certificate in 2003. Also, approved appropriations exceeded total estimated resources plus unencumbered balances as presented on the latest amended Certificate of Estimated Resources for 2002 and 2003 for the Street Construction, Maintenance fund as follows:

**FINDING NUMBER 2003-009
 (Continued)**

<u>Fiscal Year</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Excess</u>
2002	\$ 33,232	\$ 9,341	\$ (23,891)
2003	33,232	14,191	(19,041)

Failure to monitor budgetary variances can result in deficit spending and negative fund balances. We recommend that the Council Finance Committee monitor estimated resources and appropriations throughout the year and make the necessary modifications, with Council approval, to avoid appropriations exceeding estimated resources. The Village Clerk should also request that the county auditor provide the above mentioned certification for any Council approved modifications to estimated resources and appropriations. We further recommend that Auditor of State Bulletins 97-010 and 97-012 be reviewed which addresses various budgetary issues and how they should be treated.

FINDING NUMBER 2003-010

Noncompliance Citation

Ohio Revised Code § 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. The Clerk increased appropriations throughout the year in numerous line items at the legal level of control without council approval by resolution. We recommend that Council monitor the budgetary expenditure activity and approve appropriation changes before they are entered into the system. The accompanying budgetary presentation (Note 3) includes only amounts approved by Council.

FINDING NUMBER 2003-011

Noncompliance Citation

Ohio Revised Code § 5705.10 states that money paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had negative fund balances in 2002 and 2003:

**FINDING NUMBER 2003-011
 (Continued)**

Fund	Balance
2002	
Water Operating Fund	\$ (6,339)
Sewer Operating Fund	(44,527)
Street Construction, Maintenance and Repair Fund	(2,486)
2003	
Water Operating Fund	\$ (18,708)
Sewer Operating Fund	(57,327)

The negative fund balance has existed since 1999 in the Sewer Operating Fund. The revenues to meet the expenses for operating this system and the water system and the related debt have not been sufficient. We recommend Council and the Board of Public Affairs monitor these funds closely throughout the year and subsidize these funds through a transfer or advance from the general fund, increase revenue or restrict expenditures until a positive fund balance exists. We further recommend that Council seek outside assistance to review the revenue generated to meet the required expenses for the Water and Sewer Operating Funds and to determine what steps need to be made to get these funds into a positive cash flow position. This type of review could be performed by Local Government Services a division of the Auditor of States Office.

FINDING NUMBER 2003-012

Material Weakness - Monitoring Village Financial Activity

The small size of the Village’s staff does not allow for an adequate segregation of duties; the Clerk must perform all accounting functions. It is therefore important that Council and the finance committee monitor financial activity closely. The following deficiencies were noted during the audit:

- The only indication noted of any reviews or approvals by Council or the finance committee was the listing of vouchers which is signed by the Council.
- The Village funds have not reconciled during the audit period. The deposit in-transit amount was used as the adjusting transaction on the reconciliation to balance the fund balances to the bank, and did not represent deposits in transit. No indication was noted that Council or Finance Committee reviewed any reconciliation.

FINDING NUMBER 2003-012
(Continued)

- At December 31, 2001 (end date of the prior period) the Street Construction, Maintenance and Repair Fund (SCMR) and Sewer Operating Fund had negative audited balances of (\$6,508) and (\$40,938), respectively. The UAN software does not allow a fund to go into a negative balance. As of December 31, 2001 the fund balances on the UAN system for these funds were adjusted to show a zero balance. The negative amounts shown above were used to reduce the balances in the Permissive Motor Vehicle License Tax Fund and the Utility Improvement Fund by the same amounts reported above. These funds were considered since they are similar type of funds as the SCMR and Sewer Operating Funds. The Village was provided a schedule showing what the December 31, 2001 audited fund balances were and was instructed to take these negative balances into consideration when budgeting in subsequent years in order to get these funds into a positive fund condition. During the audit period the balance of the Sewer Operating Fund at December 31, 2003 decreased to a negative audited balance of (\$57,327). In addition the Water Operating Fund at December 31, 2003 shows a negative audited balance of (\$18,708).

The fund balances presented to Council showed the funds in a positive condition. In order to meet payments and maintain the funds in a positive condition the Clerk made payments from other funds.

These deficiencies resulted in audit adjustments to the financial statements and a finding for recovery for an unidentified shortage. In addition Council is not provided accurate information in order to make informed decisions. To ensure that the financial position of the funds presented to Council are accurate we recommend that:

- The financial reports packet provided to the Finance Committee be reviewed and a copy of the reports is retained with the Finance Committee with signatures on the report packet indicating that a review was completed. The following reports should be included in the packet: monthly cash journal, monthly cash summary report by fund, monthly expenditure journal, monthly fund journal (which shows debit/expenditure and credit/revenue entries and checking and investment balances), monthly investment journal and monthly revenue journal and listing of vouchers, monthly budget to actual statements and bank reconciliations.
- The bank reconciliations should be occasionally re-performed and reconciled to bank statements by Council or finance committee. This re-performance would consist of verifying the accuracy of the adjustments to the bank balance (i.e. outstanding checks, deposits in transit) to the fund balances.

**FINDING NUMBER 2003-012
(Continued)**

- The audited December 31, 2003 funds are negative for the Water Operating and Sewer Operating funds in the amounts of (\$18,708) and (\$57,327), respectively. Council needs to monitor these funds closely taking into consideration the negative fund balance of these funds as of December 31, 2003

FINDING NUMBER 2003-013

Material Weakness - Cash Reconciliation Process

The Village is on the UAN system. We noted the following errors and weakness while testing year end cash reconciliations:

- In September 2002 \$30,000 and \$10,000 in certificate of deposits (CD's) matured and were receipted and posted as operating revenues in the water and sewer funds and deposited into the Primary Checking Account. The UAN Investment Account for these matured CD's was not updated and was overstated in the amount of \$40,000 throughout the audit period.
- The UAN Investment Account balances were not updated and did not reconcile to the monthly bank statements for 2002 and 2003.
- The monthly reconciliations had unexplained variances and these were posted as a positive or negative deposit in transit on the monthly reconciliations during 2002 and 2003. This method was used to balance the UAN system book balances to the bank. These unexplained variances were a result of not all receipts posted into the UAN system, checks were voided on the system that cleared the bank, and memo deductions (i.e. auditor and treasurer fees) were not posted correctly.
- Manual receipts are issued for monies received and posted to the UAN general ledger. The reconciliation process performed by the Clerk consisted of comparing the manual receipts issued to the bank deposits. Our testing found that not all the manual receipts were posted into the UAN system.

These deficiencies resulted in audit adjustments, which the Clerk agreed to and made, in order to reconcile the bank and the books. Failure to correctly reconcile Village books, keep accurate records and re-performance of reconciliations by oversight bodies can result in untimely detection of misappropriation of funds and results in inaccurate records that can misinform decision makers as to the solvency of the Village. We recommend that:

- Interbank transfers only need to be posted to the UAN Investment Account and Primary Checking Account. They do not affect fund cash balances. Additionally, the Clerk should seek training on how to properly post this type of transaction.

**FINDING NUMBER 2003-013
(Continued)**

- Investment ledger balances at the end of each month should be reconciled to the bank statement as part of the regular reconciliation process.
- All variance should be reconciled during the reconciliation process. If variances cannot be identified the Clerk should seek outside assistance in order to reconcile the books.

FINDING NUMBER 2003-014

Material Weakness - Expenditure Record Keeping and Reporting Practices

We noted the following weaknesses when testing non payroll disbursements:

- Several vouchers tested did not have supporting documentation attached. In addition, reimbursements to employees were approved and paid without receiving supporting documentation for substantiating reimbursements.
- Invoices were not consistently marked "paid" nor is there evidence of recalculation.
- Invoices were not marked indicating the related service or goods were received.
- Posting errors were found to the incorrect fund or account.
- Not all expenditures were approved by the Council or Board of Public Affairs (BPA). Expenditure approval list presented to Council and BPA is generated manually by the Clerk off of invoices.
- Blank checks are signed by the Council President after expenditure listing is approved by the Council or BPA.
- Manual checks were written, incorrectly entered onto the Village's accounting system, then voided from the system and re-entered as memo expenditures. Reconciliations between cleared manual checks, voids and memo entries was not completed and resulted in expenditures not being recorded on the Village's system.
- Employees regularly made purchases without using the Village's tax exempt ID and were charged sales tax. The Village reimbursed employees for the purchases, which included reimbursement for sales tax.
- Credit memos were not deducted from invoices when payments were made in the Water Operating fund for purchase of chemicals. These credit memos consisted of a return of deposits made by the Village on barrels in which chemicals were shipped. The Village subsequently received payment from the vendor on the amount of the credit memos.

To prevent the possible loss or diversion of cash assets; accurate presentation of expenditures on the financial statements; and to ensure that the expense is for a proper public purpose, we recommend the following to increase accountability and control over expenditures:

FINDING NUMBER 2003-014
(Continued)

- Payment should only be made off of original invoices instead of statements of accounts or copies of invoices. All invoices should be retained and attached to a copy of the voucher.
- Reimbursements to employees should only be paid when supporting documentation for reimbursement is received and is then approved by the Council.
- Invoices should be recalculated and marked "paid" when expenditure is made.
- Invoices should be marked/ initialed by a proper official indicating service or goods were received.
- Review of the UAN Chart of Accounts to ensure expenditures are posted to the correct fund and accounts.
- The expenditure listing should be a copy of the check register. The check register, vouchers, invoices and checks should be presented at the meetings and approved at that time. Approval should be evidenced by Council and BPA members signing the register.
- Council President or Mayor should sign the completed check at the Council meetings when the expenditures are approved.
- Manual checks should only be written during times when the system is inaccessible. All manual checks written should be reconciled to the memo entry posted. All voided entries that are re-entered as memo entries should be reconciled.
- Tax identification numbers should be given to all vendors, the Clerk should verify during invoice recalculation that taxes are not being paid.
- Credit memos attached need to be taken into consideration when making payment on purchases.

FINDING NUMBER 2003-015

Reportable Condition - Village Income Tax

The following deficiencies were noted in the testing of income tax records:

- Procedures have not been established to determine the completeness of tax filings.
- Errors identified included incorrect gross earnings and incorrect statements of earnings subject to reciprocity by tax preparer were accepted.
- No indication is made that tax returns submitted to the Village were recalculated.
- Tax records do not provide aging reports, nor do they show individual payment dates for tax year obligations.
- The Village has mandatory filing. Five out of sixty (8.3%) individuals tested did not file and were not considered non-filers.
- The tax accounting system is not reconciled to collections recorded in the General Ledger.

**FINDING NUMBER 2003-015
(Continued)**

Failure to establish and implement proper accounting procedures could result in lost revenues for the Village. To strengthen controls and accountability over income tax collections we recommend the following procedures:

- Utility billing records should be compared to current listings of tax filers to determine that all necessary individuals are filing tax returns.
- Income tax forms should be carefully reviewed and compared to attached W-2's to ensure correct gross earnings and withholdings are used to calculate tax requirement on the tax return.
- All tax returns should be recalculated and recalculation should be completed on the filed return.
- New tax accounting software should be considered and at a minimum the software should provided monthly aging reports, a receipt ledger that indicates amount and dates received and tax year obligation that the payment is applied. The Village should consider the efficiencies obtained in contracting out income tax collections.
- The Clerk should review the amended Tax Ordinance and follow procedures listed for obtaining tax returns from non-filers.
- Income tax records should be reconciled to the general receipt ledger at year end.

FINDING NUMBER 2003-016

Reportable Condition - Utility Account Processing Procedures

The following weaknesses and errors were noted in testing utilities:

- The Clerk is responsible for processing utility bills, receiving payments, depositing utility receipts and entering transactions into the utility system.
- Utility cash collections are made at the local bank, by mail sent to the Village post office address and at the Clerk's home. Cash assets are not secured in a lockbox or safe at the Village office or the Clerks home.
- The Board of Public Affairs (BPA) is not reviewing billing, payment, delinquency journals and consumption reports on a consistent basis.
- The Utility subsidiary ledger is not online with the General ledger and reconciliations between the ledgers are not completed.

FINDING NUMBER 2003-016
(Continued)

- Several days of utility receipts are batched together and credited to the accounts on the same day.
- Utility batches are posted to manual duplicate receipts and are deposited together as one receipt. The individual daily utility batches are posted to the General Ledger.
- Batch receipt numbers do not match receipt numbers entered in the General ledger accounting system.
- Customers maintain large unpaid account balances and the Clerk has written off customer accounts without Board of Public Affairs (BPA) approval.

The lack of segregation of duties and weaknesses could result in irregularities not being detected in a timely manner, and loss of revenue or misposting of revenues to the Water and Sewer Operating funds. We recommend the following:

- The Village Council or BPA periodically review and initial Utility Payments Journal and compare receipts to deposits.
- The BPA review billing, payment, and delinquency journals and consumption and production reports on a monthly basis and those members sign off on each journal and report indicating review was completed. The BPA should follow up on any unusual variances noted during their review.
- The Utility subsidiary ledger should be reconciled monthly to the General Ledger
- Utility payment should not be accepted at the Clerks home. Utility customers should be notified that utility payments should be made to the bank. However, if payments are received through the mail then these collections should be posted to utility customer accounts on the day of collection. At the end of each day a utility payment register should be printed, the days' collections should be posted to the UAN receipt ledger and the deposit made by the next business day. Each individual deposit should agree to the daily utility payment posting register, and to the individual UAN receipt.
- Payments made at the bank which are deposited to the Village's bank account at the end of the business day should be posted to the customer's account on the next business day. The utility payment register should be printed and the posting made to the UAN receipt ledger at the end of day. Each individual deposit should agree to the daily utility payment posting register, and to the individual UAN receipt.
- Any cash collections maintained at the Village office should be kept in a safe or lock box. No collections should be made at the Clerk's home or through the Clerk's personal mail.
- The Clerk should not write off delinquent receivables. Instead, the Clerk should provide a list of delinquent accounts to the BPA. The BPA should authorize writing off the account. The BPA should review a computer-generated aging schedule at each of their meetings.

**VILLAGE OF McCLURE
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-001	ORC § 5705.10	No	Not corrected. Reissued as finding 2003-011.
2001-002	ORC § 5705.39	No	Not corrected. Reissued as finding 2003-009.
2001-003	ORC § 5705.41 (B)	No	Not corrected. Reissued as finding 2003-008.
2001-004	ORC § 5705.40	No	Not corrected. Reissued as finding 2003-010.
2001-005	ORC § 5705.41 (D)	No	Not corrected. Reissued as finding 2003-007.
2001-006	ORC § 5705.14	Yes	
2001-007	Village Sewer Bond Ordinance 539 § 6(B)(2) Establishment of sinking fund	No	Partially corrected. Reissued as finding 2003-002.
2001-008	Village Sewer Bond Ordinance 539 § 9 Filing audited statements with the US Dept. of Ag	Yes	
2001-009	Village Water Bond Ordinance 253 Establishment of sinking fund.	No	Not corrected. Reissued as finding 2003-002.
2001-010	Ohio Public Works Commission Loan Agreement Article 2.2(b). Submission of annual utility operating reports	No	Not corrected. Reissued as finding 2003-006.
2001-011	Expenditure Material Weakness	No	Not corrected. Reissued as finding 2003-014.

This Page is Intentionally Left Blank.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF McCLURE

HENRY 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
AUGUST 5, 2004**