



**KNOX COUNTY LAW LIBRARY ASSOCIATION
KNOX COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005-2004



**Auditor of State
Betty Montgomery**

LAW LIBRARY ASSOCIATION
KNOX COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balances - All Public Funds - For the Year Ended December 31, 2005.....	5
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balances - All Public Funds - For the Year Ended December 31, 2004.....	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	11
Schedule of Findings.....	13
Schedule of Prior Audit Findings	16

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

Law Library Association
Knox County
117 East High Street, Suite B 142
Mount Vernon, Ohio 43050

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Library to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

September 30, 2006

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Law Library Association
Knox County
117 East High Street, Suite B 142
Mount Vernon, Ohio 43050

To the Board of Trustees:

We have audited the accompanying financial statements of the general fund and the retained monies fund of the Knox County Law Library Association, Knox County, Ohio, (the Library) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Library'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 reasonably assure 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 described more fully in Note 1, the Library has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Library to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. While the Library does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Library has elected not to reformat its statements. Since this Library does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Library as of December 31, 2005 and 2004, or its changes in financial position for the year then ended.

Also in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances and reserves for encumbrances of the Library's general fund and the retained monies fund as of December 31, 2005 and 2004, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Library to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Library has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2006 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

September 30, 2006

**LAW LIBRARY ASSOCIATION
KNOX COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PUBLIC FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Retained Monies Fund	Totals (Memorandum Only)
Cash Receipts:			
Fine and Forfeitures	\$47,877	\$0	\$47,877
Miscellaneous Receipts	133	0	133
Total Cash Receipts	<u>48,010</u>	<u>0</u>	<u>48,010</u>
Cash Disbursements:			
Supplies and Materials	45,682	0	45,682
Bank Charges	17	0	17
Total Cash Disbursements	<u>45,699</u>	<u>0</u>	<u>45,699</u>
Total Cash Receipts Over Cash Disbursements	2,311	0	2,311
Public Fund Cash Balances, January 1	<u>(53)</u>	<u>100</u>	<u>47</u>
Public Fund Cash Balances, December 31	<u>\$2,258</u>	<u>\$100</u>	<u>\$2,358</u>
Reserves for Encumbrances, December 31	<u>\$7,417</u>	<u>\$0</u>	<u>\$7,417</u>

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

**LAW LIBRARY ASSOCIATION
KNOX COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PUBLIC FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General Fund</u>	<u>Retained Monies Fund</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Fine and Forfeitures	\$48,998	\$0	\$48,998
Total Cash Receipts	<u>48,998</u>	<u>0</u>	<u>48,998</u>
Cash Disbursements:			
Supplies and Materials	48,760	0	48,760
Bank Charges	191	0	191
Total Cash Disbursements	<u>48,951</u>	<u>0</u>	<u>48,951</u>
Total Cash Receipts Over Cash Disbursements	47	0	47
Public Fund Cash Balances, January 1 -	<u>(100)</u>	<u>100</u>	<u>0</u>
Public Fund Cash Balances, December 31	<u>(\$53)</u>	<u>\$100</u>	<u>\$47</u>
Reserves for Encumbrances, December 31	<u>\$4,439</u>	<u>\$0</u>	<u>\$4,439</u>

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

**LAW LIBRARY ASSOCIATION
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Knox County Law Library (the Library) is governed by a board of trustees. Members of the Knox County Bar Association annually elect the board members. The Library provides access to all county officers and the judges of the several courts within the county.

The Library operates by receiving a portion of fine and forfeiture monies from the courts (and any associated interest) under Ohio Revised Code (ORC) §§ 3375.50 to .53, inclusive. ORC § 3375.54 authorizes the Library to disburse funds to purchase, lease or rent lawbooks; computer communications consoles to access a system of computerized legal research; microfilm materials and equipment, videotape materials and equipment; audio or visual materials and equipment; and other services, materials, and equipment that provide legal information or facilitate legal research.

ORC §3375.49 requires the Knox County Commissioners to provide adequate facilities for the Library, including suitable bookcases, heating and lighting for the rooms.

The Board of Trustees did not have a librarian or any assistant law librarians employed during the audit period.

The Library's management believes these financial statements present all public funds for which the Library is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Library recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. The Reserve for Encumbrances on the financial statement represents the Library's commitments for purchases. The Library recognizes encumbrances when it commits funds.

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash

The Library maintained a non-interest bearing checking account during the audit period.

D. Fund Accounting

The Library uses fund accounting to segregate cash that is restricted as to use. The Library classifies its funds into the following types:

1. General Fund

The General Fund accounts for all financial resources except those required to be accounted for in another fund.

**LAW LIBRARY ASSOCIATION
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fund Accounting (continued)

2. Retained Monies Fund

Retained Monies Fund reports funds the Library retains under Ohio Revised Code § 3375.56. At the end of each calendar year the Library may retain up to ten percent of their unencumbered balance. See footnote 2 for additional information.

E. Budgetary Process

The Ohio Revised Code does not require the Library to budget annually. However, under Ohio Revised Code § 3375.56 the Library may encumber funds equal to their commitments outstanding at year end. Encumbrances outstanding at year end are carried over to the subsequent year.

F. Property, Plant, and Equipment

The Library records disbursements for equipment acquisitions when paid. The accompanying financial statements do not report these items as assets. The Library deems computers, copiers, fax machines, and other items related toward facilitating the use of equipment as equipment.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, or results of operations in conformity with the Library's accounting basis. Neither is such data comparable to a consolidation. The Library does not eliminate interfund transactions when aggregating this data.

2. REFUND TO RELATIVE INCOME SOURCES AND AMOUNT RETAINED

In any year that receipts exceed disbursements, the Library refunds at least ninety percent of the unencumbered balance to the political subdivisions who provided the funds and retains the remainder. Ohio Revised Code § 3375.56 requires this "refund to relative income sources."

In both fiscal years 2005 and 2004 the Library's disbursements plus reserved for encumbrances exceeded its revenues therefore, no unencumbered balance remained to be refunded.

3. EQUITY IN POOLED CASH

The carrying amount of cash at December 31 was as follows:

	<u>2005</u>	<u>2004</u>
Demand deposits	<u>\$2,358</u>	<u>\$47</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

**LAW LIBRARY ASSOCIATION
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

4. RISK MANAGEMENT

Commercial Insurance

The Library has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Law Library Association
Knox County
117 East High Street, Suite B 142
Mount Vernon, Ohio 43050

To the Board of Trustees:

We have audited the financial statements of the Knox County Law Library, Knox County, Ohio, (the Library) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 30, 2006, wherein we noted the Library followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine 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 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 Library's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-002 and 2005-003.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Library's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Library's management dated September 30, 2006, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and the Board of Trustees. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

September 30, 2006

**LAW LIBRARY ASSOCIATION
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

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

FINDING NUMBER 2005-001

Sales Tax

Ohio Rev. Code Section 3375.49 states in part that the books, computer communications console that is a means of access to a system of computerized legal research, microform materials and equipment, videotape materials and equipment, audio or visual materials and equipment, other materials and equipment utilized in conducting legal research, and furniture of the law library association that are owned by, and used exclusively in, the law library are exempt from taxation.

From the period of December 2001 through December 2005, the law library has paid approximately \$8,365 in state and local taxes to LexisNexis for computerized legal research.

We recommend that the Library Board contact LexisNexis to seek reimbursement for the taxes paid during this period as well as taxes paid before and after this period and to inform them of the Library's tax exempt status.

Officials' Response:

We did not receive a response from officials' to this finding.

FINDING NUMBER 2005-002

Recordkeeping and Bookkeeping

When designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensuring that all transactions are properly authorized in accordance with management's policies.
- Ensure that accounting records are properly designed.
- Ensure adequate security for assets.
- Adequate segregation of duties.
- Periodically reconciling valuation of assets to the accounting records.
- Performing analytical procedures over financial data as a part of the overall monitoring process by the Board
- Ensuring timely compilation of date for timely preparation of financial statements.

The following internal control weaknesses were noted over departmental operations:

- a. Invoices were not kept in a reasonable order with a reference to a check or payment number.
- b. Checks were voided but not kept or documented in the check register.
- c. Running balances were not maintained in the check register in 2004 and 2005 (in 2004 several checks bounced resulting from lack or an accurate check register).

**LAW LIBRARY ASSOCIATION
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)
--

FINDING NUMBER 2005-002 (continued)

Recordkeeping and Bookkeeping (continued)

- d. Monthly reconciliations were not performed during the audit period.
- e. Throughout the year, encumbrances exceeded available fund balances.

The above weaknesses can result in an inability to manage and monitor the Library's operations in an effective manner and the ability to pay bills as they become due.

To strengthen internal controls, we recommend:

- a. Original invoices should be retained to document each disbursement made, with corresponding reviews of the invoices being evident (approval of invoice by initials and date, check number and date of the invoice paid, etc.).
- b. Voided checks should be kept and documented in the check registers to reduce the risk of fraud due to theft.
- c. Check registers should be maintained with a running balance to ensure that funds are available for expenditure and that monthly reconciliations may be performed.
- d. Monthly bank reconciliations should be performed to document the reconciliation of the fund balances to the bank balance(s) and should be presented to the Board of Trustees on a regular basis.
- e. Encumbrances at month end should not exceed available fund balances. The Board should review monthly billings for computerized legal research and limit billings to available funds.

Officials' Response:

We did not receive a response from officials' to this finding.

FINDING NUMBER 2005-003

Board Monitoring/Audit Committee

Implementing internal controls is an important responsibility of management. In addition, the Board must periodically monitor management's control procedures to verify they are functioning effectively. To serve as informed overseers of the financial reporting process, the Board of Trustees, at minimum, should periodically convene to perform the following functions:

- Review monthly financial reports
- Review monthly reconciliations
- Review the financial statements
- Approve financial transactions
- Assure that audit results are addressed

**LAW LIBRARY ASSOCIATION
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

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

FINDING NUMBER 2005-002 (continued)

Board Monitoring/Audit Committee

There was no documentation to indicate the Board of Trustees met during the audit period.

By not reviewing monthly reports and reconciliations and not being involved in the operations of the Library, errors and irregularities could occur and not be detected in a timely manner.

It is vital that there is Board oversight in an entity that lacks segregation of duties as all accounting functions of the Library are controlled by one individual. We recommend the Board meet on a quarterly basis to monitor Library financial activity and document their review in the minute record.

Officials' Response:

In order to correct this finding, the Board agrees to meet on a quarterly basis and for records to be kept with financial documentation on those meetings.

**LAW LIBRARY ASSOCIATION
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	A finding for recovery was issued for the payment of personal bills with public funds	An individual is currently paying restitution to the Law Library	
2003-002	Proper record and bookkeeping by the Law Library Treasurer	No	Finding was reissued as 2005-002.
2003-003	Lack of monitoring by the Board	No	Finding was reissued as 2005-003



**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

LAW LIBRARY ASSOCIATION

KNOX 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 5, 2006**