



Mary Taylor, CPA
Auditor of State

VILLAGE OF DONNELSVILLE
CLARK COUNTY

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Mary Taylor, CPA

Auditor of State

Village of Donnelsville
Clark County
15 South Hampton Street, P.O. Box 36
Donnelsville, Ohio 45319

To the Mayor and the Council:

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 an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village 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 adverse 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 "Mary Taylor".

Mary Taylor, CPA
Auditor of State

July 11, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Donnelsville
Clark County
15 South Hampton Street, P.O. Box 36
Donnelsville, Ohio 45319

To the Mayor and the Council:

We have audited the accompanying financial statements of the Village of Donnelsville, Clark County, (the Village) as of and for the year ended December 31, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*. 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 our audit provides a reasonable basis for our opinion.

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

As described more fully in Note 1, the Village 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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. 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 year ended December 31, 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006, or its changes in financial position, where applicable for the year then ended.

Also, in our opinion, except for the omission of receipt and disbursement classifications, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Donnelsville, Clark County as of December 31, 2006, and its combined unclassified cash receipts and unclassified disbursements for the year then ended on the accounting basis Note 1 describes.

The Village 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 July 11, 2007, 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 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.



Mary Taylor, CPA
Auditor of State

July 11, 2007

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Total Cash Receipts	\$58,920	\$18,650	\$77,570
Cash Disbursements:			
Total Cash Disbursements	39,769	1,637	41,406
Total Receipts Over/(Under) Disbursements	19,151	17,013	36,164
Fund Cash Balances, January 1	70,635	61,174	131,809
Fund Cash Balances, December 31	<u>\$89,786</u>	<u>\$78,187</u>	<u>\$167,973</u>
Reserve for Encumbrances, December 31	<u>\$3,501</u>	<u>\$0</u>	<u>\$3,501</u>

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

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Cash Receipts:			
Total Cash Receipts	<u>\$1,779,070</u>	<u>\$11,250</u>	<u>\$1,790,320</u>
Cash Disbursements:			
Total Cash Disbursements	<u>1,339,536</u>	<u>3,286</u>	<u>1,342,822</u>
Net Receipts Over/(Under) Disbursements	439,534	7,964	447,498
Fund Cash Balances, January 1	<u>93,222</u>	<u>8,322</u>	<u>101,544</u>
Fund Cash Balances, December 31	<u>\$532,756</u>	<u>\$16,286</u>	<u>\$549,042</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Donnelsville, Clark County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides sewer utility, and police services. The Village contracts with Bethel Township to receive fire protection services.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

The Village did not classify its receipts or disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-02-02(A) and Ohio Administrative Code Section 117-5-11. These Ohio Administrative Code Sections require classifying receipts and disbursements.

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

C. Cash and Investments

The Village values certificates of deposit at cost. Money market mutual funds are recorded at share values the mutual funds report.

The Village has no investments.

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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Street Construction, Maintenance and Repair Fund (SCM&R) - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

7.5% Highway Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, and repairing highways.

3. Enterprise Funds

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

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

4. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for court fines and distribution of court fines to appropriate jurisdictions.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village 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 individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not use the encumbrance method of accounting.

A summary of 2006 budgetary activity appears in Note 3.

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. EQUITY IN POOLED CASH

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

	2006
Demand deposits	\$673,364
Certificates of deposit	43,651
Total deposits	\$717,015

Deposits: Deposits are 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 year ending 2006 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$58,920	\$58,920
Special Revenue	0	18,650	18,650
Enterprise	0	1,779,070	1,779,070
Total	\$0	\$1,856,640	\$1,856,640

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$4,400	\$43,270	(\$38,870)
Special Revenue	95	1,637	(1,542)
Enterprise	624,557	1,339,536	(714,979)
Total	\$629,052	\$1,384,443	(\$755,391)

Contrary to Ohio law, the Village did not obtain certificates of estimated resources or adopt appropriation measures for 2006 on or about the first day of the fiscal year. Budgetary expenditures exceeded appropriation authority in the General fund, SCM&R fund and Sewer fund by \$38,870; \$1,542 and \$714,979 respectively for the year ended December 31, 2006.

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, 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. DEBT

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$2,790,163	1%

The Ohio Water Development Authority (OWDA) loan relates to the Ohio Environmental Protection Agency mandated sewer project that completed during 2006. The OWDA approved up to \$2,798,347 in loans to the Village for this project. The Village will repay the loans in semiannual installments of \$53,942, including interest, over 30 years. The scheduled payment amount below assumes that \$2,790,163 will be borrowed. The OWDA will adjust scheduled payment to reflect any revisions in amounts the Village actually borrows. Water and sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

<u>Year ending December 31:</u>	<u>OWDA Loan</u>
2007	\$53,942
2008	107,883
2009	107,883
2010	107,883
2011	107,883
2012-2016	539,417
2017-2021	539,417
2022-2026	539,417
2027-2031	539,417
2032-2036	539,417
2037	53,942
Total	<u><u>\$3,236,501</u></u>

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

6. RETIREMENT SYSTEMS

The Village's part-time police officers belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006, OPERS members contributed 9% of their gross salaries and the Village contributed an amount equaling 13.70% of participants' gross salaries. The Village had an outstanding balance of \$331 for contributions required through December 31, 2006.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

8. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

9. NONCOMPLIANCE

The Village did not comply with requirements regarding approval of contract change orders, the preparation and publication of an annual financial report, maintenance of financial records, allocation of interest, certifying the availability of funds, collections by the Mayor's Court, posting of receipts to correct funds, withholding of tax, preparation of tax forms, and retirement withholdings.

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Mary Taylor, CPA

Auditor of State

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

Village of Donnelsville
Clark County
15 South Hampton Street, P.O. Box 36
Donnelsville, Ohio 45319

To the Village Council:

We have audited the financial statements of the Village of Donnelsville, Clark County, (the Village) as of and for the year ended December 31, 2006 and have issued our report thereon dated July 11, 2007, wherein we also noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We qualified our report because the Village did not classify receipts and disbursements in its financial statements. 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 Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-024.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

**Internal Control over Financial Reporting
(Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings number 2006-003, and 2006-006 through 2005-018 are also material weaknesses.

We noted certain matters that we reported to the Village's management in a separate letter dated July 11, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Village'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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-008 through 2005-024.

We did note certain noncompliance or other matters that we reported to the Village's management in a separate letter dated July 11, 2007.

We intend this report solely for the information and use of the management, Mayor, and Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

July 11, 2007

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

Significant Deficiency – Evaluation of OWDA Project

The Village borrowed 2.7 million dollars from the Ohio Water Development Authority (OWDA) for the construction of a sewer system within the Village. The loan carried an interest rate of 1% and would be paid out of the sewer collections after related operating expenditures had been paid. Approximately 110 households and Tecumseh Local Schools hooked up to the sewer system. The monthly rate charged by the Village was \$50 per household for the residents and actual usage for the School District except for the Donnelville Elementary that was charged at a rate of 9 units.

Total projected receipts based on the actual rates approved by the Council up to 2010 and a 2% increase for each year thereafter will not be able to cover the debt service expenditures required to retire the debt. The Village should re-evaluate the viability of paying the debt from the sewer collections. Other possible alternatives to explore include increasing the number of customers by trying to get people outside the Village hooked up to the sewer system, possible rate increases, or exploring the possibility of finding some grants/donations to ease the burden on the Village. Failure to do so could result in financial distress for the Village in future and declaration of fiscal watch/ emergency.

FINDING NUMBER 2006-002

Significant Deficiency - Expenditures

Objectives of a governing board are met through purchasing of various goods and services for the benefit of the subdivision. Good purchasing policies and controls help to verify that government's objectives are being met. The following exceptions were noted during the test of expenditures:

- a. The Village obtained a grant from the Ohio Public Works Commission (OPWC) for the construction of the sewer project. The OPWC made its portion (11%) of the payments directly to the contractors upon certification from the Village for the release of funds. The Village paid the whole invoice amount to the contractors and also certified the 11% portion of the invoice to the OPWC for release of funds thus resulting in overpayments. The Village overpaid Demmy Construction \$16,861 on May 31, 2005. The overpayment was discovered by the Village in 2006 and a credit was obtained on March 8, 2006.
- b. Additionally, the Village overpaid \$762 in its insurance premiums on January 1, 2006. The overpayment was refunded on January 27, 2006.
- c. The Village posted check number 6607 as 6707 on its books.

Policies and procedures should be established and implemented to help verify that all expenditures are properly posted on the Village's books, are made for proper amounts and have all required signatures and authorizations on them. On behalf grants should be posted on the Village's books as memo expenditures and receipts. The Village should additionally consider using purchase orders and start tracking unpaid balances on them. This would allow the Village to detect overpayments especially on contracts. Failure to do so could result in overpayments being unnoticed and the ineffective use of funds.

FINDING NUMBER 2006-003

Material Weakness - Bank Reconciliations

Cash is the asset most susceptible to theft and misappropriation. Monthly reconciliations between the bank and the books provide a reasonable assurance that all receipts and expenditures have been correctly posted on the entity's books and have been correctly posted by the bank. Additionally, reconciliations provide the Village with a picture of the Village's financial position at month end.

The Village did not perform monthly bank reconciliations throughout 2006. In 2007, the Village hired the Auditor of State's Local Government Services (LGS) Division to reconcile its books. Numerous posting errors were noted and corrected by LGS during the reconciliation process. The total difference between the books maintained by the Village and the reconciled balance per LGS was \$550,728 at December 31, 2006. Bank account reconciliation is a basic control to provide accuracy and completeness of the Village's recording of current receipts and expenditures. Failure to maintain complete accountability of public monies could increase the possibility of funds being altered, impaired, lost or stolen.

Procedures should be implemented to verify that monthly bank reconciliations are performed in a timely manner and any reconciling items, other than deposits in transit, and outstanding checks, are corrected within a reasonable period. Failure to do so could result in management using the incorrect cash balance as a basis for their decisions and bank errors going unnoticed. Additionally, independent detailed reviews should be performed of these reconciliations as means of providing for their accuracy.

FINDING NUMBER 2006-004

Significant Deficiency - Posting Capitalized Accrued Interest

The Village borrowed money from the Ohio Water Development Authority (OWDA) for the construction of a sewer project. The Village did not make interest payments on the loan during the year. The OWDA capitalized this accrued interest and added it to the loan balance in the following amount during 2006:

<u>Year</u>	<u>Loan #4229</u>
2006	\$26,442

The Village did not post the addition of the accrued interest to the loan balance as a memo receipt indicating loan proceeds and a memo expenditure of interest payment. No adjustment was posted to the financial statements, as the variance was not considered material. Policies and procedures should be established to verify that all loan activity is recorded properly. Failure to do so could result in material misstatements in the Village's financial statements and discrepancy between the loan balance per the Village and the balance per OWDA.

FINDING NUMBER 2006-005

Significant Deficiency - Posting of Revenues

The Village did not post on-behalf payments made by the County, Ohio Public Works Commission (OPWC) and Ohio Water Development Authority (OWDA) during the audit period. This resulted in following understatements of revenues and expenditures:

<u>Payor</u>	<u>Description</u>	<u>Enterprise Fund</u>
2006		
OWDA	Loan Fees and Payments	\$744
U.S. Army	Grant Administration Fees	15,001
Total 2006 unrecorded receipts and expenditures		<u>\$15,745</u>

**FINDING NUMBER 2006-005
(Continued)**

Additionally, the Village posted tax receipts at "net" rather than "gross", thus understating General Fund actual revenues and expenditures by \$439 during 2006. Policies and procedures should be established and implemented to verify that all on-behalf payments are recorded on the Village's ledgers. The Village should also verify that all revenues are posted at gross rather than net. Failure to do so could result in material understatement of revenues and corresponding expenditures in the Village's financial statements.

FINDING NUMBER 2006-006

Material Weakness - Mayor's Court

Records for the mayor's court were maintained separately from the Village's records. During the examination of these records, the following deficiencies were noted:

1. The mayor's court did not perform monthly bank reconciliations, track its cash book balance, or deposit money in a timely manner. This allowed for unrecorded receipts in the amount of \$1,546 at December 31, 2006 being unnoticed as well as the court not recognizing un-deposited receipts in amount of \$670 from May 2005 until the error was caught during the audit in June 2007. Additionally, \$585 in November 2006 receipts were not deposited until January 2007.
2. \$285 or 0.69% of the total receipts on the cash book did not have corresponding tickets.
3. \$2,213 or 5.39% of the total tickets received during the audit period were not in accordance with the bond schedule for traffic violations.

The mayor's court should perform monthly cash reconciliations and track its cashbook balance. Additionally, policies and procedures should be established and implemented to verify that all tickets are on file and cases for which payments have been received are entered into the receipt book/docket. Periodically someone independent of the Court system should review the books to verify the accuracy and completeness of the records.

The Village also did not pursue unpaid tickets. Policies and procedures established should also address the required steps to be taken to collect the unpaid fines. These steps should include, but not be limited to, contacting the Bureau of Motor Vehicles to get the driving privileges of delinquent accounts suspended. This would not only increase the revenue for the Village but also hold individuals accountable who threaten the safety of the general public with unsafe driving.

FINDING NUMBER 2006-007

Material Weakness - Risk Assessment

Management should establish a risk assessment process to identify internal and external events and circumstances that may occur and adversely affect an entity's ability to record, process, summarize and report financial data consistent with management's financial statement assertions. Risk assessment differs from monitoring controls. Monitoring controls primarily address the continued effective operation of application controls. Risk assessment includes:

- Identifying unusual events or transactions, or changes in laws or accounting principles or other financial reporting requirements.
- Analyzing how these events or transactions affect financial reporting
- If the event or transaction will be recurring, determining modifications to the accounting systems or control activities to help assure properly including and reporting these matters in the financial statements.

**FINDING NUMBER 2006-007
(Continued)**

The Village did not maintain accurate financial records or prepare monthly reconciliations during 2006. The Village had to hire the Local Government Services division of the Auditor of State to reconcile its books with the bank for the past three years. During the reconciliation process, the LGS noted a difference of \$550,728 between the books and actual transactions. Additionally, the Village failed to prepare year end financial statements for 2006. The Village did not have a risk assessment process working effectively that could have identified the problems in processing and reporting financial information.

The Village should establish an effective risk assessment process that is capable of identifying events or transactions that might adversely affect the Village's ability to record, process, summarize and report financial data consistent with the management's financial statement assertions. Failure to do so could result in problems associated with management's financial statement assertions going unnoticed.

FINDING NUMBER 2006-008

Noncompliance and Material Weakness

Ohio Rev. Code Section 731.16 requires that when it becomes necessary in the opinion of the legislative authority of a village, or, in the event a village administrator has been appointed as provided by section 735.271 of the Revised Code, the village administrator, in the prosecution of any work under contract, to make alterations or modifications in such contract, such alterations or modifications shall be made only by the legislative authority by resolution, or, in the event a village administrator has been appointed as provided by section 735.271 of the Revised Code, such alterations or modifications shall be made only by the village administrator in writing, but such resolution or written modification shall be of no effect until the price to be paid for the work and material, or both, under the altered or modified contract, has been agreed upon in writing and signed by the contractor, and by the mayor, or, in the event a village administrator has been appointed as provided by section 735.271 of the Revised Code, the village administrator on behalf of the village.

The Village Council did not approve five change orders totaling \$406,970 with Demmy Construction. To assist the Council in monitoring contractual obligations of the Village and help it in decision making, policies and procedures should be developed to verify that all change orders are reviewed and approved by the Council.

FINDING NUMBER 2006-009

Noncompliance and Material Weakness

Ohio Rev. Code Section 117.38 requires that each public office, other than a state agency, file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

The report shall be certified by the proper officer or board and filed with the Auditor of State within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. The Auditor of State may extend the deadline for filing a financial report and establish terms and conditions for any such extension. At the time the report is filed with the Auditor of State, the chief fiscal officer, except as otherwise provided in section 319.11 of the Revised Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer.

**FINDING NUMBER 2006-009
(Continued)**

The report shall contain the following:

- A) Amount of collections and receipts, and accounts due from each source;
- B) Amount of expenditures for each purpose;
- C) Income of each public service industry owned or operated by a municipal corporation, and the cost of such ownership or operation;
- D) Amount of public debt of each taxing district, the purpose for which each item of such debt was created, and the provision made for the payment thereof.

Any public office, other than a state agency, that does not file its financial report at the time required by this section shall pay to the Auditor of State twenty-five dollars for each day the report remains unfiled after the filing date; provided, that the penalty payments shall not exceed the sum of seven hundred fifty dollars.

The Village did not file its annual financial reports with the Auditor of State's office for 2006. Additionally, the financial statements prepared by the Village did not contain the detail as required by section 117.38 of the Ohio Revised Code. Annual financial reports provide a brief overview of the operations of the Village and how it fared financially during the year and serve as an important tool for the Council and the management to established goals for the future.

Policies and procedures should be developed and implemented to verify that the annual financial report is generated in the prescribed format and available for review by the general public and the Village Council at the end of each year. A copy of this report should be filed with the Auditor of State of Ohio no later than 60 days from the fiscal year end and a notice should be published in a local newspaper stating that the financial statements are available for inspection. This would provide an opportunity for the citizens to review the Village's finances and would provide for an open government. Failure to do so could result in assessment of more penalties by the Auditor of State of Ohio in the future and lowered credit rating due to an adverse opinion on its financial statements. The Village should consider utilizing software that is capable keeping records and generating reports in accordance with the formats prescribed by the Auditor of State of Ohio and the Government Accounting Standards Board (GASB).

FINDING NUMBER 2006-010

Noncompliance and Material Weakness

Ohio Rev. Code Section 733.28 requires that the Village Clerk shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all the property owned by the Village and the income derived there from, and of all taxes and assessments.

The Village did not keep accurate financial records for 2006. Monthly bank reconciliations were not performed and the Village had to hire the Auditor of State's Local Government Services Division (LGS) to reconcile and adjust the Village's records to correctly reflect its activities during the period. The total difference between the books maintained by the Village and the reconciled balance per LGS was \$550,728 at December 31, 2006.

The Village should develop and implement procedures to verify accurate recordkeeping of all its activities. The bank account reconciliation is a basic control to provide accuracy and completeness of the Village's recording of current receipts and expenditures. Failure to maintain complete accountability of public monies could increase the possibility of funds being altered, impaired, lost or stolen. The Village should consider utilizing software that is capable keeping records and generating reports in accordance with the formats prescribed by the Auditor of State of Ohio and the Government Accounting Standards Board (GASB). Additionally, independent detailed reviews should be performed of these reconciliations as means of providing for their accuracy.

FINDING NUMBER 2006-011

Noncompliance and Material Weakness

Ohio Rev. Code Section 135.21 requires that interest earned must be credited to the general fund of the subdivision, with the following exceptions:

- Interest earned on money derived from a motor vehicle license or fuel tax must follow the principal. [Article XII, Section 5a, Ohio Const. and 1982 Op. Atty Gen. No. 82-031.
- Federal regulations may require local governments to credit interest earned on federal money to the fund to which the principal belongs. 7 CFR Part 210.2, 210.5, and 210.14(a)
- Interest earned on principal of a non-expendable trust fund established to receive donations or contributions that the donor or contributor requires to be maintained intact must be credited to the non-expendable trust fund to which the principal belongs. [Section 5705.131].

The Village did not post any interest earned during 2006 to the General, SCM&R and 7.5% Highway Funds. Local Government Services (LGS) had to post the receipts during the reconciliation process. All interest revenue was posted to the General Fund during the reconciliation process and audit adjustments were required to correctly classify the revenue. The Village should establish and implement policies and procedures to verify that the interest income is posted to the correct funds and amounts when it is earned. Failure to do so could result in material misstatements in the Village's financial statements.

FINDING NUMBER 2006-012

Noncompliance and Material Weakness

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity 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 that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 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 the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 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.

FINDING NUMBER 2006-012
(Continued)

2. **Blanket certificate** - Fiscal officers may prepare "blanket" certificates not exceeding an amount established by resolution or ordinance adopted by the legislative authority, against any specific line item account over a period not running beyond the current 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 appropriation.
3. **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 extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

The Village did not issue purchase orders for any of its expenditures during 2006. Failure to properly certify the availability of funds could result in misappropriation of monies 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 that Village funds would exceed budgetary spending limitations, the Village's Clerk-Treasurer should certify that the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, "then and now" certification should be used. The Village should 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 Clerk-Treasurer 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 also post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2006-013

Noncompliance and Material Weakness

Ohio Rev. Code Section 733.40 requires that all moneys collected shall be paid by the mayor into the municipality on the first Monday of each month. At the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all money received, from whom and for what purposes received, and when paid into the treasury.

Ohio Rev. Code 2743.70(A)(2)(b) and 2949.091(A)(1) require that all moneys collected during a month and owed to the state shall be transmitted on or before the twentieth day of the following month by the clerk of the court to the treasurer of the state.

The Mayor's Court cashbook had an ending balance of \$16,286 at December 31, 2006 as the Court did not make the required payments to the Village and the State during the audit period. Of the \$16,286 ending balance, \$10,011 was due to the Village, \$4,764 was due to the State, and the remainder \$1,511 was for receipts that were not posted on the docket or the cashbook during the period.

Policies and procedures should be established to verify that the Mayor's Court pay the State and the Village their shares by the required dates. Cash received from the Mayor's Court partially supports the Court and the Police department at the Village. Funds held at the Court resulted in the Village using its general revenues for these activities. The state uses these funds to provide support for the local law enforcement agencies. Non-payment of the required amounts could result in loss of support provided by the State to the local police department and the courts.

**FINDING NUMBER 2006-013
(Continued)**

Additionally, there was no indication that the Mayors Court presented a full statement to the Council. Policies and procedures should be established to verify that the Court submits a monthly report to the Council for review and approval. This would allow for the oversight of the Courts by an independent body and would allow the Council to verify that required payments had been made.

FINDING NUMBER 2006-014

Noncompliance and Material Weakness

Ohio Rev. Code Section 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

Appropriation measures were never passed for 2006. Budgeting is an important tool used by the governing board to allocate proposed expenditures amongst various activities of the subdivision. It establishes benchmarks for the subdivision and allows the governing board to monitor the actual results to these goals. The Village should adopt an annual appropriation measure by the first day of each fiscal year or adopt temporary appropriations until the permanent appropriations are adopted on or before April 1. The governing board could amend the appropriation at a later date if the actual expenditures are determined to exceed or significantly fall below the budgeted amounts. Failure to do so could result in the Village spending its resources on activities that are not in accordance with the Council's objectives.

FINDING NUMBER 2006-015

Noncompliance and Material Weakness

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

Ohio Rev. Code Section 5705.36(A)(3) requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. **Ohio Rev. Code Section 5705.36(A)(4)** requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

The Village did not obtain a certificate of estimated resources for 2006. The Village should establish policies and procedures to verify that certificates of estimated resources are obtained prior to the approval of any appropriation measures. Certificate of estimated resources show how much money is estimated to be receipted during the year and the beginning unencumbered balance that was available for appropriation. Appropriation measures should be limited to the amount on the Certificate of estimated resources. The Village should additionally establish policies and procedures to monitor estimated and actual revenues throughout the year and obtain an amended certificate if revenues are going to significantly vary from the original estimate to prevent over-appropriating available resources.

FINDING NUMBER 2006-016

Noncompliance and Material Weakness

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

The following funds had expenditures in excess of amounts appropriated at December 31, 2006:

Fund	Appropriated	Enc + Exp	Variance
General Fund	\$ 4,400	\$ 43,270	(\$38,870)
Special Revenue Funds			
SCM&R	95	1,637	(1,542)
Enterprise Funds			
Sewer	\$624,557	\$1,339,536	(\$714,979)

Although the Village did not utilize the encumbrance method of accounting, the financials have been properly adjusted to show obligations into the next year. The Village should develop and implement procedures to properly monitor its budgetary activity as it relates to appropriations and expenditures. This will assist the Village in complying with budgetary requirements while verifying accurate financial position throughout the year.

FINDING NUMBER 2006-017

Noncompliance and Material Weakness

Ohio Admin. Code Section 117-2-02(D) requires that all local public offices maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.
- (4) In addition, all local public offices should maintain or provide a report similar to the following accounting records:
 - a. Payroll records including:
 - i. W-2's, W-4's and other withholding records and authorizations;
 - ii. Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments;
 - iii. Check register that includes, in numerical sequence, the check number, payee, net amount, and the date;
 - iv. Information regarding non-monetary benefits such as car usage and life insurance
 - v. Information, by employee, regarding leave balances and usage

**FINDING NUMBER 2006-017
(Continued)**

- b. Fixed asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Fixed assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.
- c. Each local public office should establish a capitalization threshold so that, at a minimum, eighty per cent of the local public office's non-infrastructure assets are identified, classified, and recorded on the local public office's financial records.

The Village did not maintain all required records. The accounting records consisted of the receipt and appropriations ledgers. The Village did not maintain a cash journal and its accounting records did not provide balances for each fund maintained by the Village. No payroll journal or other records regarding non-monetary benefits such as car usage, life insurance, or information by employee regarding leave balances and usage were maintained. The Village did not establish a capitalization threshold or track its capital assets.

Policies and procedures should be established and implemented to verify that the Village maintains all required accounting and payroll records. Additionally, the Village should establish a capitalization threshold and track its assets over that dollar limit. This would provide for a complete set of financial records that would assist the Village Council and the Mayor in the decision making process and would assist the Village in complying with the reporting requirements of the Internal Revenue Service. Establishing a capitalization threshold would allow the Village to better track its assets for purchasing the appropriate level of insurance coverage and help detect misuse.

FINDING NUMBER 2006-018

Noncompliance and Material Weakness

Ohio Rev. Code Section 9.38 requires that the public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day following the date of receipt.

For example, a government employee, other than the fiscal officer collecting funds and issuing a receipt, must deposit the funds with the government's fiscal officer on the business day following the day of receipt. As an alternative to depositing the funds with the government's fiscal officer, the employee instead may deposit funds with the government's designated depository on the business day following the day of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school districts), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the first business day following the date of receipt.

**FINDING NUMBER 2006-018
 (Continued)**

The Mayor's Court did not deposit money in a timely manner. Various months during 2006 had reconciling items for deposit in transit. In addition, review of the Village's 2006 receipts from the Clark County Auditor indicated that payments received were not deposited for excessive periods of time. There were no deposits made during October 2006 and November 2006. September 2006 rent payment from the United States Postal Service was not deposited as of April 11, 2007 and \$5,257 in deposits in transit at December 31, 2006 was not deposited until February 9, 2007.

Policies and procedures should be established to verify that all money collected is deposited in a timely manner. If the Council determines that adequate controls exist to safeguard the receipts, they could adopt a policy of depositing receipts less than \$1,000 no later than three business day after receiving it. Failure to do so could result in loss of receipts before they are deposited and possible findings for recovery in future audits.

FINDING NUMBER 2006-019

Noncompliance and Significant Deficiency

Ohio Rev. Code Section 149.351 (A), requires that 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 commission provided for under sections 149.38 to 149.42 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

The Village did not have supporting documentation for \$1,420 or 0.46% of the expenditures sampled for the audit period and \$2,904 of .07% of the individually significant items tested in addition to the sample of expenditures. Failure to retain these required public records resulted in an incomplete audit trail and could cause potential problems for future management decisions and may result in findings for recovery in future audits. The Village should implement procedures which would strengthen control over their physical assets and preservation of records.

FINDING NUMBER 2006-020

Noncompliance and Significant Deficiency

Ohio Rev. Code Section 5705.10, requires that all revenue derived from a source other than the general property tax, and which the law prescribes shall be used for a particular purpose, is to be paid into a special fund for such purpose. The Village failed to properly record the receipt of the following revenues during the audit period:

Description	General Fund	Special Revenue Funds		
		SCM&R	7.5% Highway	Net Change
2006				
Personal Property Taxes & Other	\$130	(\$120)	(\$10)	(\$130)
FEMA Reimbursement	(748)	748	0	748
Rollbacks and Liquor License	1,811	(1,675)	(136)	(1,811)
Gasoline Cents Per Gallon	(1,065)	985	80	1,065
2006 Net Change in Fund Balances	\$ 128	(\$62)	(\$66)	(\$128)

Positive values reflect the fund(s) where the revenue should have been posted and the negative values reflect the fund(s) where the revenue was actually posted. In accordance with the preceding facts, finding for adjustments are hereby issued against the Village of Donnelsville for 2006. The adjustments shown have been reflected in the combined statements presented with this report.

FINDING NUMBER 2006-021

Noncompliance and Significant Deficiency

26 USC 3402(a)(1) requires that in general except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary.

Ohio Rev. Code 5747.06(A) requires that except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748. of the Revised Code with respect to the amount of such compensation included in the employee's adjusted gross income during the calendar year.

The Village did not withhold any federal, state or local taxes from the Council, Mayor, and its employees' salaries. The Village should contact the taxing agencies and rectify such issues and begin withholding federal, state and local (if applicable) taxes from its employees and remit them to the respective agencies. Failure to do so could result in assessment of fines and penalties by the Internal Revenue Service and the Ohio Department of Taxation.

FINDING NUMBER 2006-022

Noncompliance and Significant Deficiency

26 USC 3102(a) of the Internal Revenue Code requires employers to withhold Social Security Medicare Tax from employees hired on or after April 1, 1986. The Village did not withhold Medicare from the Village Clerk-Treasurer, Mayor, the Council and the Patrolman during 2006. To comply with the abovementioned section of code, the Village should contact the IRS and rectify such issues and procedures should be developed and implemented to provide for proper withholdings and submission to the appropriate authority.

FINDING NUMBER 2006-023

Noncompliance and Significant Deficiency

26 CFR 1.6041-1 Return of information as to payments of \$600 or more states that:

(a) General rule. (1) Information returns required--(i) Payments required to be reported. Except as otherwise provided in Sections 1.6041-3 and 1.6041-4, every person engaged in a trade or business shall make an information return for each calendar year with respect to payments it makes during the calendar year in the course of its trade or business to another person of fixed or determinable income described in paragraph (a)(1)(i) (A) or (B) of this section. For purposes of the regulations under this section, the person described in this paragraph (a)(1)(i) is a payor (A) Salaries, wages, commissions, fees, and other forms of compensation for services rendered aggregating \$600 or more. (B) Interest (including original issue discount), rents, royalties, annuities, pensions, and other gains, profits, and income aggregating \$600 or more.

The section further requires all payments to attorneys of \$600 or more that are not otherwise reported (e.g., on form W-2 for attorneys who are employees) must be reported on form 1099-MISC.

**FINDING NUMBER 2006-023
(Continued)**

26 CFR 1.6041-2 Return of information as to payments to employees states that:

(a)(1) In general. Wages, as defined in section 3401, paid to an employee are required to be reported on Form W-2.

The Village did not issue any 1099 forms to the independent contractors and its attorney for their services during 2006. Additionally, the Village failed to report 2006 wages to the required agencies. The Village should establish policies and procedures to verify that payments in excess of \$600 to independent contractors are reported on the 1099 form and all payments to the employees are reported on the W-2 Form at the end of the year. This would assist the independent contractors and the employees during their tax filing process and assist the federal, state and local authorities in detecting tax evasion. Failure to do so could result in assessment of fines and penalties by the Internal Revenue Service and the Ohio Department of Taxation.

FINDING NUMBER 2006-024

Noncompliance and Significant Deficiency

Ohio Rev. Code Section 145.03 (A) requires that membership in the public employees retirement system is compulsory upon being employed and shall continue as long as public employment continues.

Pursuant to **Ohio Rev. Code Section 145.20** membership in the retirement system is optional for elected officials. Internal Revenue Code 312(B)(7)(F) states that after July 1, 1997, employees who are not members of retirement systems of employers shall be required to pay into the social security system.

The Mayor, Council and the Clerk-Treasurer did not contribute to the Ohio Public Employees Retirement System (OPERS) or Social Security. The Village should determine the eligibility of the Mayor, Council and the Clerk-Treasurer to participate in the OPERS and begin withholding retirement contributions to the system. If it is determined that the above named individuals are exempt from participation in the OPERS, the Village should begin withholding Social Security from their pay checks. Failure to do so could result in assessment of penalties against the Village, and loss of credit towards retirement for the employees.

We did not receive a response from Officials to the findings reported above.

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Going concern assessment.	No	Not Corrected – Repeated as finding 2006-001.
2005-002	Expenditure procedures.	No	Not Corrected – Repeated as finding 2006-002.
2005-003	Failure to perform bank reconciliations.	No	Not Corrected – Repeated as finding 2006-003.
2005-004	Failure to post capitalized accrued interest.	No	Not Corrected – Repeated as finding 2006-004.
2005-005	Incorrect posting of revenues.	No	Not Corrected – Repeated as finding 2006-005.
2005-006	Mayors court deficiencies.	No	Not Corrected – Repeated as finding 2006-006.
2005-007	Lack of risk assessment.	No	Not Corrected – Repeated as finding 2006-007.
2005-008	ORC 731.16 – Failure to approve change orders.	No	Not Corrected – Repeated as finding 2006-008.
2005-009	ORC 117.38 – Failure to file annual financial reports with the Auditor of State.	No	Not Corrected – Repeated as finding 2006-009.
2005-010	ORC 733.28 – Inaccurate financial records.	No	Not Corrected – Repeated as finding 2006-010.
2005-011	ORC 135.21 – Inaccurate posting of interest.	No	Not Corrected – Repeated as finding 2006-011.
2005-012	ORC 5705.41(D) – Failure to use purchase orders.	No	Not Corrected – Repeated as finding 2006-012.
2005-013	ORC 733.4 & 2743.7 & 2949.091 – Failure of mayors court to remit funds to the Village and State.	No	Not Corrected – Repeated as finding 2006-013.
2005-014	ORC 5705.38(A) – Failure to pass appropriations by the required date.	No	Not Corrected – Repeated as finding 2006-014.
2005-015	ORC 5705.36(A)(2) – Failure to obtain certificate of estimated resources.	No	Not Corrected – Repeated as finding 2006-015.
2005-016	ORC 5705.39 – Appropriations exceeding estimated resources.	No	No appropriations or estimated resources for 2006. Other sections of code were cited.

Village of Donnelsville
 Clark County
 Schedule of Prior Audit Findings
 Page 2

2005-017	OAC 117-2-02(D) – Failure to maintain required financial records.	No	Not Corrected – Repeated as finding 2006-017.
2005-018	ORC 5705.41(B) – Expenditures exceeding appropriations.	No	Not Corrected – Repeated as finding 2006-016.
2005-019	ORC 9.38 – Failure to deposit money in a timely manner.	No	Not Corrected – Repeated as finding 2006-018.
2005-020	ORC 149.351(A) – Lack of supporting documentation for expenditures.	No	Not Corrected – Repeated as finding 2006-019.
2005-021	ORC 5705.10 – Failure to record revenues in the appropriate funds.	No	Not Corrected – Repeated as finding 2006-020.
2005-022	26 USC Section 3402(a)(1) and ORC 5747.06(A) – Failure to withhold federal, state or local taxes.	No	Not Corrected – Repeated as finding 2006-021.
2005-023	Title 26 USC Section 3102(a) – Failure to withhold medicate tax from employees.	No	Not Corrected – Repeated as finding 2006-022.
2005-024	26 CFR Section 1.6041-1 and 1.6041-2 – Failure to issue 1099's and W-2's.	No	Not Corrected – Repeated as finding 2006-023.
2005-025	ORC 145.03(A) – Failure to withhold PERS from employees.	No	Not Corrected – Repeated as finding 2006-024.
2005-026	OAG Opinion 82-006 – Paying penalties and late fees.	Yes	
2005-027	Attachment C of the CDBG grant Agreement – Expenditures reported on such reports not agreeing to underlying accounting records.	N/a	Grant ended in the beginning of 2006, and the 2005 finding addressed all reports through the final one in 2006.



Mary Taylor, CPA
Auditor of State

VILLAGE OF DONNELSVILLE

CLARK 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 6, 2007