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Auditor of State

**Village of Willshire
Van Wert County, Ohio**

Report on Accounting Methods

Local Government Services Section



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Auditor of State

CERTIFICATION

In compliance with the requirements set forth in section 118.10(A) of the Ohio Revised Code, an assessment of the methods, accuracy, and legality of the accounts, records, files, and reports of the Village of Willshire was conducted. This report on accounting methods states whether there are adequate controls in place to assure confidence in the records. The deficiencies and non-compliance with State statutes and the Ohio Administrative Code are identified throughout this report. Therefore, pursuant to section 118.10 of the Revised Code, a "Report on Accounting Methods" is hereby submitted and certified to Paul Marshall, Chairman of the Financial Planning and Supervision Commission of the Village of Willshire; Sharon Krall, Mayor of the Village of Willshire; and Amos Stauffer, President Pro-Tempore of Village Council.

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Village of Willshire - Van Wert County

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Purpose

As required by section 118.10(A) of the Ohio Revised Code, the Auditor of State "...shall issue a preliminary report with respect to the method, accuracy, and legality of the accounts, records, files, and reports of the municipality. Such report shall state whether Chapter 117 of the Revised Code and the requirements of the office of the Auditor of State have been complied with..."

Accordingly, this report centers upon the following: (1) whether the current accounting system fulfills the needs of the Village, and (2) whether the current accounting system is in compliance with Chapter 117 of the Revised Code and the requirements of the Auditor of State. Information for this report was obtained by interviewing Village personnel and reviewing pertinent accounting, financial, and budgetary records.

This report is intended solely for the use of the Financial Planning and Supervision Commission of the Village of Willshire. We were not engaged to, nor did we, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

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Governance Overview

The Village of Willshire (the Village) is located in northwest Ohio in Van Wert County. The Village is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Operating as a statutory village, Willshire must comply with all State laws regulating village government. The decision making process is directed by an elected Village Council and Mayor.

The Village Council is the legislative authority of the Village and consists of six members who are elected at large and serve terms of four years. The Village Council elects a President Pro Tempore to preside over Village Council meetings in the Mayor's absence. The Village Council has the authority to prescribe, by ordinance, the manner in which any power of the Village shall be exercised.

The Mayor is the chief executive officer of the Village and serves a term of four years. The Mayor supervises the administration of the Village and is the President of Village Council. The Mayor makes recommendations to Village Council and has voting rights only in the case of a tie.

The Clerk Treasurer is elected to a four-year term and serves as the chief fiscal officer of the Village and Clerk for the Village Council. The Clerk Treasurer attends all Village Council meetings and keeps a record of all proceedings, rules, bylaws, and legislation. In addition, the Clerk Treasurer keeps accurate statements of all monies received and disbursed by the Village and keeps records of all property owned by the Village and of all taxes and assessments. The Clerk Treasurer establishes the accounting procedures for the Village necessary to comply with the administrative rules adopted by the Auditor of State.

Village Council contracts with an attorney to handle any legal matters for the Village. The Village Solicitor is the chief legal officer of the Village.

On December 29, 2005, the Village was declared to be in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Revised Code section 118.05. Commission membership is as follows:

1. The Director of the Office of Budget and Management or a designee;
2. The Mayor of the Village or a designee;
3. The President Pro Tempore of Village Council or a designee;
4. The Treasurer of State or a designee; and
5. Three individuals appointed by the Governor with knowledge and experience in financial matters who are residents of the Village.

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Governance Overview

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The powers, duties, and functions of the Commission may include:

1. Review all tax budgets, tax levy ordinances, bond and note resolutions or ordinances, appropriation measures, and certificates of estimated resources to ensure they are consistent with the financial recovery plan;
2. Inspect and secure copies of pertinent documents of the Village;
3. Inspect and secure copies of pertinent documents of the County or State agencies relating to the Village;
4. Review, revise, and approve determinations and certifications affecting the Village made by the County Budget Commission or the County Auditor;
5. Bring civil actions to enforce fiscal emergency provisions;
6. Approve the amount and purpose of any debt obligations;
7. Implement steps necessary to bring accounting records, accounting systems, and financial procedures and reports into compliance with rules established by the Auditor of State;
8. Make and enter into all contracts necessary or incidental to the performance of its duties;
9. Make recommendations for cost reductions or revenue increases to achieve a balanced budget; and,
10. Annually, before April 1, make a report and recommendations to the Speaker of the House of Representatives and the President of the Senate on the progress of the Village.

This Commission is required to adopt a financial recovery plan for the Village within one hundred twenty days of its first meeting. The recovery plan was submitted to the Commission on August 4, 2006. By State statute, the Village must operate within the provisions of the recovery plan.

The Commission will continue in existence until the Auditor of State, or the Commission itself, determines that:

1. An effective financial accounting and reporting system is in the process of being implemented and is expected to be completed within two years;
2. All of the fiscal emergency conditions have been corrected or eliminated and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and,
4. The Village Council has prepared a financial forecast for a five-year period and such forecast is, in the Auditor of State's opinion, "nonadverse".

Once these requirements are satisfied and certified to the Commission, the Governor, the Director of the Office of Budget and Management, and the County Budget Commission; the role of the Commission will be terminated.

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Budgetary System

Description of an Effective Budgetary System

The legally adopted annual budget plays a unique and central role in determining the amount and type of financial resources that will be raised and how those financial resources will be spent. Annually, a budget consisting of estimated receipts and disbursements for each fund for the next year should be presented to the governing body with sufficient time for review and public input. The budget should identify the major sources of receipts and the programs, activities, and major objects of disbursements. The budget should encompass current operations and maintenance, capital acquisition and replacement, and debt retirement. The budget, once approved by the legislative authority, should be the basis for the appropriation measure. The appropriation measure should identify, by fund, department/activity, and object, the amount of resources authorized to be expended for the various governmental functions and programs. The amount appropriated for each fund should not exceed the estimated resources available in that fund for the year. The estimated revenues and appropriations should be integrated with the accounting system to ensure and demonstrate compliance with the budget and allow for ongoing and timely information on unrealized receipts and balances available for disbursement.

Statutory Requirements

The budgetary process for the Village is prescribed in Chapter 5705 of the Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance.

Tax Budget - The Mayor prepares an annual tax budget of the estimated receipts and disbursements for all funds of the Village for the period of January 1 to December 31 of the following year. The budget must be filed in the Clerk Treasurer's office for public inspection ten days prior to adoption by the Village Council. At least one public hearing must be held for discussion of the budget. Village Council is required to adopt the budget by July 15 and the budget must be submitted to the Van Wert County Budget Commission by July 20 of each year.

The County Budget Commission examines the budget to ascertain that all tax levies of the Village are properly authorized. The Budget Commission also revises and adjusts the estimated receipts for property taxes and local government fund allocations. The Budget Commission then prepares and submits to the Village the Resolution Accepting Rates for Village Council's consideration. Village Council must accept or reject the rates outlined in the Resolution and file the Resolution with the Budget Commission. On or about October 1, Village Council must authorize, by resolution, the necessary tax levies and certify them to the County Auditor.

The County Budget Commission may, by an affirmative vote of a majority of the Budget Commission, waive the requirement that Village Council adopt a tax budget as provided under section 5705.28 of the Revised Code, but shall require the Village Council to provide such information to the Budget Commission as may be required by the Budget Commission to perform its duties under Chapter 5705 of the Revised Code, including the allocation of inside millage to each subdivision or taxing unit.

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Budgetary System

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Certificate of Estimated Resources - The Budget Commission issues an official certificate of estimated resources on or about September 1 based upon information provided in the tax budget and other information available to the Budget Commission.

On or about January 1, the Clerk Treasurer certifies the actual year end balances for all funds to the Budget Commission. Upon receipt of the information, the Budget Commission issues an amended official certificate of estimated resources that includes the unencumbered fund balances as of December 31. Further amendments may be made during the year if the Clerk Treasurer determines that the revenue to be collected by the Village will be greater than or less than the amount included in the amended official certificate of estimated resources.

Appropriation Ordinance - Section 5705.38 of the Revised Code requires that on or about January 1, the annual appropriation ordinance must be enacted by the Village Council. Prior to the passage of the annual appropriation measure, a temporary appropriation measure may be passed to meet the ordinary expenses of the Village until April 1. The appropriation ordinance, by fund, must be within the estimated resources as certified by the County Budget Commission. Appropriation measures must be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services. Any revisions that alter the total of any fund appropriation or alter the levels adopted by Village Council must be approved by Village Council. The Village may pass supplemental appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent amended certificate of estimated resources.

The Clerk of Village Council is required to certify a copy of each appropriation ordinance to the County Budget Commission. No appropriations are effective until the County Auditor provides a certificate indicating the appropriations, by fund, are within the estimated resources.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of monies are encumbered and recorded as the equivalent of disbursements in order to reserve that portion of the applicable appropriation and to maintain legal compliance with the adopted appropriations. Disbursements plus encumbrances may not legally exceed appropriations.

Annual Tax Ordinance - Section 705.17 of the Revised Code requires that an annual tax ordinance to determine the amount of the tax levy be prepared by the Mayor, under the direction of the Village Council. The section also requires the involvement of each office and department of the Village, comparative financial information for the previous years and the next year for each office, department, and division, a public hearing after at least one weeks notice, approval of the Village Council, and submission to the County Budget Commission which shall fix the total maximum tax levy permitted to the Village for the ensuing year.

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Budgetary System

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Section 705.18 of the Revised Code provides that an annual appropriation ordinance shall be prepared by the legislative authority of a municipal corporation from estimates submitted by the mayor, the chairman of the commission, or the city manager, as the case may be, in the manner provided in section 705.17 of the Revised Code for the annual tax ordinance. The annual appropriation ordinance shall be submitted to the legislative authority at its first meeting in January and the total of any appropriation ordinance passed by such legislative authority shall not exceed the total balances carried over from the previous year plus the estimated receipts of the current year.

Section 705.19 of the Revised Code provides that no money shall be drawn from the treasury of a municipal corporation, except in pursuance of appropriations made by the legislative authority, and whenever an appropriation is so made, the clerk shall forthwith give notice to the Auditor and the Treasurer. Appropriations may be made in furtherance of improvements or other objects or work of the municipal corporation which will not be completed within the current year. At the end of each year, all unexpended balances of appropriations shall revert to the respective funds from which they were appropriated and shall then be subject to future appropriations.

Administrative Code Requirements

All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The legal level of control is the level at which spending in excess of budgeted amounts would be in violation of law. This is established by the level at which the legislative authority appropriates. For all local public offices subject to the provisions of Chapter 5705 of the Revised Code, the minimum legal level of control is described in section 5705.38 of the Revised Code. The legal level of control is a discretionary decision made by the legislative authority and must meet or exceed the level prescribed in section 5705.38 of the Revised Code.

Methods Used by the Village

The tax budget is prepared by the Clerk Treasurer and is based on prior year receipts and disbursements. There is generally no input from Village officials or employees in the budget preparation process. There is no formal process for determining major capital disbursements for the upcoming year. The tax budget for 2006 was approved by Village Council on August 3, 2005, and submitted to the County Budget Commission. The Budget Commission determines the financial needs and the corresponding tax rates to be charged on behalf of the Village. The Budget Commission then prepares and submits to the Village the Resolution Accepting Rates for Village Council's consideration. For the 2006 tax budget, Village Council accepted the rates by resolution on September 6, 2005, and filed the resolution with the Budget Commission.

The Village submits a Certificate of the Total Amount from All Sources Available for Expenditures, and Balances to the County Auditor after year end closing. The Certificate identifies the actual year end fund balances for each fund of the Village.

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Budgetary System

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The Clerk Treasurer does not prepare the permanent appropriation ordinance for all funds for the upcoming year until the amended certificate of estimated resources is received from the County Auditor. The appropriation ordinance is presented to the Village Council for approval. For 2006, the permanent appropriation ordinance was not approved by Village Council until February 6, 2006. The Village did not approve a temporary appropriation ordinance. Appropriations are established at the fund, program, activity, and object level of disbursements. Once approved, the appropriation ordinance is certified to the Budget Commission and appropriations are recorded to the accounting system. The Budget Commission verifies that appropriations, by fund, do not exceed estimated resources and returns an amended certificate of estimated resources to the Village.

Auditor of State Comments

- In accordance with section 5705.28 of the Revised Code, all subdivisions must submit a tax budget to the County Budget Commission by July 15 for the subsequent year. For the 2006 budget year, the Village submitted the tax budget on July 16, 2005, and for the 2007 budget year, the Village submitted the tax budget on August 3, 2006. The Village should file its tax budget in accordance with the guidelines established by State statute. The failure to submit the tax budget timely may result in a loss of local government monies.
- The Clerk Treasurer prepares the tax budget based on the prior year's tax budget. Little consideration is given to projected increases or decreases needed in receipts or disbursements or the capital requirements for the upcoming year. In preparing the tax budget, consideration must be given to the estimates for current year receipts and disbursements and the factors which may require increases or decreases to those amounts in the upcoming year. Discussion with departments should identify other factors affecting potential receipts and disbursements as well as identify capital needs for the upcoming year. Other known factors, such as impacts resulting from the condition of the local economy, should also be considered when preparing the tax budget.
- For 2006, the Village did not adopt a permanent appropriation ordinance until February 6, 2006. The Village did not adopt a temporary appropriation ordinance. Section 5705.38(A) states that on or about the first day of each year, the taxing authority of each subdivision or other taxing unit shall pass an annual appropriation measure. If it desires to postpone the passage of the annual appropriation measure until an amended certificate is received based on the actual balances, it may pass a temporary appropriation measure for meeting the ordinary expenses of the taxing unit until no later than the first day of April of the current year. The Village must approve either a temporary or permanent appropriation ordinance before any disbursements may be made for the year.

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Budgetary System

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- Section 5705.39 of the Revised Code requires that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditure, as certified by the Budget Commission. The Clerk Treasurer should document the comparison of appropriations to estimated resources. This comparison should be presented to the Village Council upon request for supplemental appropriations demonstrating the effect of the supplemental appropriations and compliance with budgetary requirements, if adopted.
- The Village does not compare actual receipts to estimated resources during the year or request an amended certificate of estimated resources when increases or decreases are appropriate as authorized by section 5705.36 of the Revised Code. The Clerk Treasurer should routinely compare estimated to actual receipts and determine if requesting an amended certificate is appropriate. The Clerk Treasurer should document the comparison of actual receipts to estimated receipts and present this comparison to the Village Council prior to requesting an amended certificate of estimated resources from the County Auditor.
- The Village does not compare cash disbursements plus encumbrances to available appropriations prior to certifying any purchase obligations and to determine whether any adjustments are needed to the amounts appropriated during the year. Section 5705.41(B) of the Revised Code states that no expenditure of money may be made unless it has been appropriated. The Clerk Treasurer should periodically review the Appropriation Status Report to determine if amounts appropriated will be sufficient for the remainder of the year and in the appropriate line item appropriation prior to certifying any purchase obligations.

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Chart of Fund and Account Codes

Description of an Effective Chart of Fund and Account Codes

Common terminology and classification should be used throughout the budgeting, accounting, and financial reporting activities. The consistent use of fund and account codes is necessary to classify and summarize receipt and disbursement transactions. Fund codes should allow for the classification and identification of fund types and the individual funds. Receipt and disbursement codes should allow the transactions to be summarized by major revenue source or disbursement program. Major object codes for disbursements should be used consistently throughout the various program/activity codes.

The Village should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established.

Statutory Requirements

The creation of funds is authorized by section 5705.09 of the Revised Code. Section 5705.13 of the Revised Code allows for the creation of a reserve balance for budget stabilization, for the payment of claims under a self-insurance program, and for the payment of claims under a retrospective workers' compensation plan. This section also allows for a special revenue fund to accumulate resources for the payment of sick and vacation leave. Additionally, it allows for creation of capital projects funds to accumulate resources for up to ten years for the acquisition, construction, or improvement of capital assets. Funds may also be established under section 5705.12 of the Revised Code with the written approval of the Auditor of State.

Methods Used by the Village

The Village is using the State software known as the Uniform Accounting Network (UAN). This system utilizes a numeric account coding system as outlined in the Village Officers' Handbook.

The Fire Chief is the only Village staff member that writes account codes on invoices (the Village does not use purchase orders); however, he uses alpha-numeric codes that do not correspond to the system used by UAN.

Auditor of State Comments

- Since the Village began using UAN in July 2006, the Clerk Treasurer has compiled a new chart of accounts. The chart of accounts needs to be distributed and explained to Village departments and used consistently for all financial transactions.

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Accounting Journals and Ledgers

Description of Effective Accounting Journals and Ledgers

The accounting journals and ledgers of the Village should provide ongoing and timely information on estimated and actual receipts, disbursements, and encumbrances compared to appropriation authority and available cash balances for each fund. The information captured in the journals and ledgers for each transaction should allow the transaction to be traced throughout the journals and ledgers and back to the document that originated the transaction.

Administrative Code Requirements

Ohio Administrative Code section 117-2-02(A) requires that all local public offices maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record, and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance related legal and contractual requirements, and prepare financial statements required by Ohio Administrative Code section 117-2-03.

Section 117-02-02(C)(1) of the Ohio Administrative Code requires that all local public offices integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized receipts and remaining uncommitted balances of appropriations.

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

Cash Journal - The cash journal is the book of original entry for recording all cash receipts and disbursements processed in the Clerk Treasurer's office. The cash journal presents receipts deposited to and warrants drawn against the Village treasury and the fund to which the receipts and warrants were recorded. Entries to the cash journal are posted sequentially by date from source documents, such as pay-in-orders and warrants. The related pay-in-order or warrant number, account codes, and date are also recorded for each transaction. At the end of each month, month to date totals and year to date totals are to be recorded.

Receipts Ledger - The receipts ledger is used to summarize receipts by fund and account. In addition, the estimated receipts and uncollected balance is presented for each source of revenue. Estimated receipts are recorded from the detail and/or supplemental information used in the preparation of the tax budget and is adjusted for any amendments to the certificate of estimated resources. Receipt transactions are posted from the cash journal based on the account code. A balance reflecting the estimated amount remaining to be received is maintained. At the end of each month, month to date totals and year to date totals are to be recorded.

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Accounting Journals and Ledgers

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Appropriation Ledger - The appropriation ledger is used to summarize appropriations, disbursements, and encumbrances, by fund and account. In addition, the ledger should reflect the encumbering of obligations of the Village, identify the warrant/check issued for the payment of the obligation, and accommodate any adjustments to an appropriation account. The ledger also facilitates budgetary control by enabling the Clerk Treasurer to keep the Village's disbursements and encumbrances within the amounts appropriated by Village Council. The unencumbered appropriation balance provides information on the amount available for disbursement. At the end of each month, month to date totals and year to date totals are to be recorded.

Methods Used by the Village

The Village recently converted from another computer system to the Uniform Accounting Network (UAN). All reports required by the Revised Code are available and accessible with the UAN software.

The Clerk Treasurer prints various reports at month end which reflect the monthly activity. At any time, the Clerk Treasurer is able to print reports for any month. Up to five years of prior information can be maintained on the UAN system.

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Receipt Transactions

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent classification and identification of each receipt. All receipts should be promptly recorded, safeguarded, and deposited in accordance with State statute. The receipt or pay-in-order form should be a multi-part form that is pre-numbered and consecutive. The receipt should bear the name of the entity and reflect the date received, the payer, the amount, the purpose or nature of the receipt, the account code, and the signature of the person preparing the receipt. Supporting documents should be attached to a copy of the receipt and filed numerically or by payer. Departmental receipts should be summarized and remitted to the finance department daily. The finance department should issue pay-in-orders to those departments depositing daily collections to the finance department and for any payments received from the public. The pay-in-order forms should be a multi-part, pre-numbered form that bears the name of the entity, the date received, the payer, the amount, the purpose or nature of the receipt, the account code, and the signature or name of the person preparing the pay-in-order. Supporting documents should be attached to a copy of the pay-in-order. All receipts or pay-in-orders should be recorded in the cash journal and receipts ledger in a timely manner. Adequate safeguards should be in place to ensure that one individual does not have total control over the receipting of monies, depositing of monies, posting of receipts, and reconciliation of bank accounts.

Statutory Requirements

Section 9.38 of the Revised Code provides that a person who is a public official, employee, or agent shall deposit all public monies received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt if the total amount of such monies received exceeds one thousand dollars. If the total amount of the public monies so received does not exceed one thousand dollars, the person shall deposit the monies on the business day next following the day of receipt unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt for making such deposits, and the person is able to safeguard the monies until such time as the monies are deposited. The policy shall include provisions and procedures to safeguard the public monies until they are deposited. If the public office of which the person is a public official is governed by a legislative authority, only the legislative authority may adopt such a policy.

Section 733.40 of the Revised Code requires all fines, forfeitures, and costs in ordinance cases, and all fees that are collected by the Mayor that in any manner come into the Mayor's hands, or that are due the Mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses that have been advanced out of the treasury of the municipal corporation, and all monies received by the Mayor for the use of the municipal corporation shall be paid by the Mayor into the treasury of the municipal corporation 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 monies received, from whom and for what purposes they were received, and when they were paid into the treasury.

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Receipt Transactions

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Administrative Code Requirements

Section 117-2-02(D)(1) of the Ohio Administrative Code requires the date, amount, receipt number, account code, and any other information necessary to properly classify the receipt transactions be recorded in the cash journal. Section 117-2-02(D)(2) of the Ohio Administrative Code requires the amount, date, name of the payer, purpose, receipt number, and other information required for the transaction to be recorded in the receipts ledger.

Methods Used by the Village

Summary of General Receipts - All receipts are processed by the Clerk Treasurer. Receipts from local sources are received from walk-in customers at the municipal building, in the mail in the form of checks, and by direct deposit. Receipts from the State are deposited directly into the Village's checking account. Miscellaneous receipts consist mostly of donations, zoning/building permits, rent, and cemetery lot sales, as well as payments for the opening and closing of graves.

The Clerk Treasurer prepares a multi-part deposit slip daily listing each general receipt. However, deposits may not be taken to the bank daily. Receipts and the daily deposit slip are kept in a locked bank bag and locked in a closet in the Mayor's office until taken to the bank. The Mayor and Clerk Treasurer are the only individuals who have access to the Mayor's office/closet.

After the Clerk Treasurer takes the deposit to the bank, the receipts are entered into the UAN system. A duplicate copy of the deposit ticket along with supporting documentation and a standard receipt printed from the UAN software is filed in a file folder by month. In addition, another copy of the system generated receipt is three-hole punched and put in a binder in receipt number order.

At the end of each month, a receipt register is printed from UAN showing the receipt number assigned by UAN, the date, the type of receipt (standard, memo, or interest), the source from where the payment originated, the account code, a brief description, and the amount. The receipt register and the deposit slips are compared to the bank statement to determine outstanding deposits, if any.

All employees who receive cash are bonded.

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Receipt Transactions

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Summary of Utility Receipts - The Village provides water and sewer services to its residents. New customers are required to pay a \$100 deposit to receive water and sewer service. The Village records this deposit in a utility deposit fund. The deposit will automatically be fully refunded upon termination of utility service if the account is paid in full. If a resident notifies the Clerk Treasurer that they intend to move from the Village, the Clerk Treasurer prepares a final bill and the water is shut off. If a resident moves and fails to notify the Clerk Treasurer, the water is shut off. For accounts that involve renters, the property owner is responsible for paying the bill prior to water service being restored. For accounts that are not rental accounts, a bill is sent to the real estate company or the bank handling the sale of the property who becomes responsible for payment of the bill prior to water service being restored. Delinquent sewer payments are certified to the County Auditor annually.

Individuals can pay their bill by bringing their payment to the municipal building, by mail, or through automatic deduction from a checking or savings account. All utility bill payments are received by the Clerk Treasurer. The Clerk Treasurer prepares a multi-part deposit slip daily listing each utility receipt. However, deposits may not be taken to the bank daily. Receipts and the daily deposit slip are kept in a locked bank bag and locked in a closet in the Mayor's office until taken to the bank. The Mayor and Clerk Treasurer are the only individuals who have access to the Mayor's office/closet.

When a payment is received in person, the Clerk Treasurer stamps the customer's billing stub with the date paid and writes the amount paid, if different than the billed amount, on both the Village's and the customer's billing stub and gives the customer a portion of the billing stub. If paid by check, the check is immediately stamped with the endorsement stamp. When a payment is received in the mail, the Clerk Treasurer verifies the check amount to the billing stub and writes the amount paid, if different than the billed amount, on the billing stub and stamps the check with the endorsement stamp. If a customer is behind on their payments, the Clerk Treasurer determines the allocation of the past due payment between water and sewer based on the customer's outstanding balance as maintained in the computer system. All payments are first applied to delinquent balances before current billing. If a customer overpays their account, the amount is applied to water or sewer at the discretion of the Clerk Treasurer.

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Receipt Transactions

(continued)

Customers have the option of signing up for automatic withdrawal payment. Customers must obtain an authorization form from the Clerk Treasurer which identifies their checking or savings account number from which the withdrawal will be made. The form must be signed and dated. These forms are kept on file in the Clerk Treasurer's office. When the form is returned, the Clerk Treasurer enters a code into the utility system (not part of the UAN system) to designate that the customer has automatic withdrawal payments. When the bills are generated, these accounts are listed separately on the Utility System New Charge Report. After the report is printed, the Clerk Treasurer will go to the Community First Bank & Trust web site, ACH section, and enter the amount of the utility charge to be deducted from that customer's account. The Clerk Treasurer will verify the total amount entered for the ACH matches the total on the Utility System New Charge Report as well as verifying the amounts for each customer. The deductions are to be made by the bank by the 15th of each month. At this time, the Clerk Treasurer will verify the money has been successfully transferred to the Village's bank account. The total will then be posted to UAN and a system generated receipt is printed. The duplicate deposit slip is attached to the UAN receipt and filed by date. The Utility System New Charge Report is filed in a binder by date.

Customer payments are entered in batches into the computer from the billing stubs. The Clerk Treasurer records these payments on the same day the deposit is made at the bank. The billing stub lists the customer's name, mailing address, account number, meter reading, usage in gallons, due date, service type (water and/or sewer), and any past due balance. The Clerk Treasurer verifies customer name and amount by individual billing stub when posting to the utility system.

After each batch of payments is entered, a Utility System Daily Cash Receipts Journal Report is printed. Each payment and billing stub is checked against this report and then matched to the total for the bank deposit. When the total of the billing stubs and the Daily Cash Receipts Journal Report agree, a deposit ticket is prepared listing each utility receipt and the batches are posted, which updates the customer's account. This process is completed every day that utility payments are received. The billing stubs are kept in a filing cabinet by month by year. The billing stubs are retained until the audit is completed. The Clerk Treasurer posts the total of the utility collections for that day to the UAN system and prints a UAN system generated receipt. After the bank deposit is made, the deposit ticket, Utility System Daily Cash Receipts Journal Report, and calculator tapes are filed with the UAN system generated receipt by date by month.

At the end of each month, a delinquent account list is run, penalties are assessed, and a Penalty Journal Report is run. A 10 percent penalty is assessed for each month delinquent.

Village of Willshire - Van Wert County

Report on Accounting Methods

Receipt Transactions

(continued)

Meter readings are completed at the end of each month. The Clerk Treasurer loads the hand-held reading unit with account information from the utility billing system before meter readings are started. Some meters are read electronically by the hand-held unit, others must be entered manually. It takes two to three days to read all meters. Once the meter reading is completed, the hand-held unit is returned to the Clerk Treasurer for processing. The hand-held unit is downloaded into the computer. A Utility System Meter Reading and Consumption Report is generated. This report is reviewed by the Clerk Treasurer to identify possible reading errors based on history and on consumption. After all errors have been corrected, the bills are calculated and a New Charge Journal Report is generated. This report lists the account number, name, address, consumption, water charge, sewer charge, and total. The New Charge Journal Report is reviewed by the Clerk Treasurer to determine if any accounts continue to appear unusually high or low. Once the New Charge Journal Report has been checked and any errors corrected, the bills are printed. The bills are sorted under postal regulations and sent out via a first class mailing permit. The bills are sent out the first of the month and are due approximately two weeks later.

Delinquent notices are sent out around the first week of the month for each account currently delinquent. The president of the Board of Public Affairs signs each notice before sending via first class mail. Each person is given approximately two weeks to pay their bill before their water is shut off. If it is necessary to shut off water for non-payment, a \$25.00 reconnection fee is added to the account. A list of customer shut offs for non-payment is given to the Board of Public Affairs each month.

The Board of Public Affairs approves billing adjustments and recommends water rate changes to Village Council. Once a year, usually around the end of August, delinquent sewer accounts are turned over to the Van Wert County Auditor to be assessed with the property owners' real estate taxes.

Summary of Income Tax Receipts - The Village implemented an income tax effective January 1, 2006. All Village residents eighteen and older, excluding high school students working part-time, are required to file an annual income tax return by April 30th. Residents and businesses are taxed at a rate of 1 percent of gross wages or earned income. The Village Council approved the tax rate by ordinance and all income tax revenue is to be recorded in the General Fund. The Village has an Income Tax Administrator who works part-time.

Monthly income tax withholdings, quarterly estimates, and annual payments filed with the income tax return are generally received in the mail in care of the Income Tax Administrator in the Village of Rockford. The Income Tax Administrator takes all forms and payments received in the mail to the municipal building. There is no set schedule for this process. All income tax payments are opened by the Income Tax Administrator who reads check numbers and amounts to the Clerk Treasurer. The Clerk Treasurer writes the check numbers and amounts on an income tax receipt form. From this form, the Income Tax Administrator prepares a multi-part deposit slip and takes the receipts to the bank. The duplicate copy of the deposit slip is given to the Clerk Treasurer who enters the income tax receipt into the UAN system.

Village of Willshire - Van Wert County

Report on Accounting Methods

Receipt Transactions

(continued)

For any individuals who take their income tax form and payment directly to the municipal building, the Clerk Treasurer puts the form and payment into a sealed envelope until the Income Tax Administrator arrives.

The Income Tax Administrator prepares a report for Village Council which identifies individual and business withholding collections for both the month and year to date. This report is prepared monthly; however, is provided to Village Council inconsistently.

The Village adopted its income tax in January 2006. The Village has not yet established procedures for handling delinquent accounts, overpayments, payments returned for insufficient funds, or for identifying non-payers.

Auditor of State Comments

- Deposits are not made daily. Section 9.38 of the Revised Code requires the deposit of all public monies the next business day next following the day of receipt or, if the amount is less than \$1,000, the legislative authority may adopt a policy permitting a different time period, not to exceed three business days next following the day of receipt for making such deposits. The policy shall include provisions and procedures to safeguard the public monies until they are deposited.
- The Clerk Treasurer determines how past due payments and over payments on utility bills are applied to the water and sewer funds. The Village should develop a policy regarding the distribution of these payments.
- To ensure a comprehensive assessment of income taxes to all residents and businesses, the Income Tax Administrator should request a listing of utility customers approximately semi-annually from the Clerk Treasurer to assure completeness of the list of taxpayers. When new residents are identified, a letter should be sent explaining the requirement to file a return.
- The Clerk Treasurer should secure customer automatic withdrawal payment authorization forms in a locked filing cabinet to prevent possible identify theft for utility customers.
- The Village has not developed any operating procedures related to the new income tax. This should detail the internal procedures to be followed for administering the tax such as methods used in identifying taxpayers, in handling delinquent and non-filing taxpayers, in the receipting and depositing process, and in the types and frequency of information and reports to be provided to the Village Council and Clerk Treasurer.

Village of Willshire - Van Wert County

Report on Accounting Methods

Purchasing Process

Description of an Effective Method for Purchasing

The process of purchasing goods or services should ensure that each transaction is properly authorized, documented, and recorded and that the purchasing process be integrated with the budget. The process should include a justification of need and selection of the vendor with the best price, as well as authorization by an appropriate individual. In addition, authorization must include the fiscal officer's certification of the availability of funds and that the amount has been appropriated and is free from previously encumbered obligations. All purchase orders should be in written form clearly indicating the items, quantities, and unit cost. Authorized purchase commitments should be recorded against a budget line item in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Statutory Requirements

Several State laws govern the purchasing process. The requirements are as follows:

Certification of the Fiscal Officer - Each contract or order for the expenditure of monies must be accompanied by a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing year, the amount required to meet the obligation in the year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer.

Blanket Certification of the Availability of Funds - The subdivision may utilize blanket purchase orders for authorizing obligations for a particular purpose that does not extend beyond year end in an amount established by resolution of the Village Council. A general certification of this type may be established for any appropriation line item and need not identify a specific vendor. This type of purchase order is used for routine, recurring type items or for unanticipated emergencies. An itemized statement of obligations incurred and expenditures made under such certificate shall be rendered to the auditor or other chief fiscal officer before another such certificate may be issued, and not more than one such certificate per appropriation line shall be outstanding at a time.

"Super" Blanket Certification of the Availability of Funds - The super blanket certification permits the fiscal officer to certify any amount from a specific line item appropriation. The certification is authorized to be outstanding for any period up to the end of the year and more than one certificate is permitted to be outstanding at one time. The certification must identify a specific line item appropriation in a specific fund. The certification may be limited to a specific vendor, if desired. A list of obligations incurred and expenditures made under each certification must be maintained and provided by the fiscal officer.

Village of Willshire - Van Wert County

Report on Accounting Methods

Purchasing Process

(continued)

Purchases that may be made through the use of a super blanket certificate are the services of an accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor or appraiser by or on behalf of the subdivision, fuel oil, gasoline, food items, roadway materials, utilities, and any purchase exempt from competitive bidding under Revised Code section 125.04, and any other specific disbursement that is a recurring and reasonably predictable operating expense.

Then and Now Certification - It is intended that the fiscal officer's certification be secured at the time a purchase order is issued or a contract is executed. If timely certification was not obtained, contracts or purchase orders may be certified at the time of payment but the certification must indicate that, both at the time the order was placed (then) and at the current time (now), a sufficient sum was appropriated for the purpose of such contract and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. If the amount exceeds \$3,000, the Village Council has thirty days from the receipt of such certificate to approve payment by resolution. If approval is not made within thirty days, there is no legal liability on the part of the Village.

Authority to Contract - Contracts are made by the Village Council and executed in the name of the Village by the Mayor, except as otherwise specified by State statute.

Bidding - All contracts calling for expenditures in excess of \$25,000 shall be in writing and made to the lowest and best bidder. Revised Code section 731.14 requires that bids be opened and publicly read by the Clerk Treasurer at the time, date, and place specified in the advertisement for bids. Village Council must authorize and direct all such expenditures. Exceptions to the bidding requirements include contracts for:

1. Personal services of a specialized nature;
2. Goods and services when only one source is available;
3. Work to be done or for the purchase of supplies and materials in any department of the Village if a real and present emergency exists;
4. The purchase of used equipment and supplies at a public auction or at a sale where bids are required by all parties wishing to purchase;
5. Purchases from other political subdivisions and agencies; and,
6. Goods purchased under the State Cooperative Purchasing Program.

Findings for Recovery Database - Effective January 1, 2004, State statute (Revised Code section 9.24) prohibits any State agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to a person against whom a finding for recovery has been issued by the Auditor of State on or after January 1, 2001, if the finding for recovery is unresolved.

Village of Willshire - Van Wert County

Report on Accounting Methods

Purchasing Process

(continued)

Per Auditor of State Bulletin 2004-006, a contract for purposes of Section 9.24 of the Revised Code is awarded when a written agreement is executed pursuant to a formal competitive contracting procedure that may include competitive bidding, requests for proposals, or invitations to bid. A purchase arrangement that does not involve competitive contracting procedures does not constitute the awarding of a contract and is not subject to Revised Code section 9.24. For purchases made off the State term schedule, the Ohio Department of Administrative Services engages in a contracting process as described under Attorney General Opinion 2004-014 and, consequently, is required to comply with Revised Code section 9.24. State agencies and political subdivisions that purchase off the State term schedule do not engage in their own contracting processes and are not subject to the provisions of Revised Code section 9.24.

Section 9.24 (G)(1)(a) of the Revised Code states that the only contracts subject to the provisions of the statute are those contracts in which the cost of goods, services, or construction exceeds \$25,000. Section 9.24 (G)(1)(b) of the Revised Code provides an exception to this rule and applies the statute to a contract awarded to any person who, in the previous year, received contracts from the State agency or political subdivision, the aggregate of which exceeded \$50,000.

Delinquent Personal Property Taxes - Section 5719.042 of the Revised Code provides that after the award by a taxing district of any contract let by competitive bid, and prior to the time the contract is entered into, the person making a bid shall submit to the fiscal officer a statement affirmed under oath that the person with whom the contract is to be made was not charged, at the time the bid was submitted, with any delinquent personal property taxes on the general tax list of personal property of any county in which the taxing district has territory, or that such person was charged with delinquent personal property taxes on any such tax list, in which case the statement shall also set forth the amount of such due and unpaid delinquent taxes and any due and unpaid penalties and interest thereon. If the statement indicates that the taxpayer was charged with any such taxes, a copy of the statement shall be transmitted by the fiscal officer to the County Treasurer within thirty days of the date it is submitted.

Administrative Code Requirements

Section 117-2-02(C)(2) of the Ohio Administrative Code states, “purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s) as required by section 5705.41(D) of the Revised Code. Purchase orders are not effective unless the fiscal officer’s certificate is attached. The certificate should be attached at the time a commitment to purchase goods or services is made”.

Village of Willshire - Van Wert County

Report on Accounting Methods

Purchasing Process

(continued)

Methods Used by the Village

The Clerk Treasurer is either notified when a purchase needs to be made or more often is asked to make a payment after a purchase has been made and when the invoice arrives in the mail. Purchases are generally initiated by the Clerk Treasurer, the water/sewer operator, or the Fire Chief. When one of these employees determines that a purchase needs to be made, the order is placed by the employee for the goods or services without obtaining a purchase order. Purchase orders are prepared after the receipt of the goods or services. The Village has a policy that no department may initiate a purchase over \$500 without the prior approval of the Village Council.

Purchase orders for Village Council and the Board of Public Affairs are distinguished by the color of the paper. Village Council's purchase orders are printed on gold paper and the Board of Public Affairs are printed on blue paper. The Village only uses regular purchase orders. Regular purchase orders include the purchase order number, vendor name and address, a description of the items, amount per unit, total quantity requested, account code, Clerk Treasurer's certification, and the signature of Village Council members or the Board of Public Affairs. The Clerk Treasurer is assigning the account code upon review of the invoice.

The Clerk Treasurer establishes a purchase order in the computer system and prints two copies with the Clerk Treasurer's signature certifying that sufficient appropriations were available for the purchase. One copy of the purchase order is placed in a three ring binder for Village Council or the Board of Public Affairs depending on who initiated the purchase and kept in the Clerk Treasurer's office. The other copy is attached to the invoice, along with a copy of the check and is filed by month in check number order. The purchase order, invoice, and copy of the check is presented to the Village Council or the Board of Public Affairs for their review at their respective monthly meetings.

Auditor of State Comments

- Ohio Administrative Code requires purchase orders to be used to initiate purchase commitments and to encumber funds against the applicable appropriation accounts. Purchases should be certified indicating sufficient unencumbered appropriations exist prior to the purchase of goods or services.
- There is no preapproval process in place to initiate a purchase. Documented approvals do not occur until the time the invoice needs to be paid at which time it is approved by Village Council. All purchases should be approved by the Mayor prior to the order for goods or services being placed.
- The Clerk Treasurer does not utilize a Then and Now Certificate when employees acquire goods without prior approval and certification.
- A copy of the purchase order should be sent to every vendor.

Village of Willshire - Van Wert County

Report on Accounting Methods

Purchasing Process

(continued)

- The Village does not require new vendors to submit information before a purchase order is completed. The Village should not issue purchase orders to a vendor until all appropriate information about the vendor is received, including an IRS Form W-9.
- The Village does not use the Auditor of State Findings for Recovery Database when entering into contracts. Section 9.24 of the Revised Code prohibits any State agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to any person against whom a finding for recovery has been issued by the Auditor of State if that finding is unresolved.

Village of Willshire - Van Wert County

Report on Accounting Methods

Cash Disbursements

Description of an Effective Method for Cash Disbursements

The processing of invoices should ensure that each payment represents goods or services that were properly authorized and received by the Village. The processing should include a comparison of the invoiced items and quantities to the purchase order and billing slips or receiving copy of the purchase order, a comparison of the prices on the invoice to the purchase order, and the signature of the individual who made the comparisons. All invoices should be recomputed ensuring accurate extensions and totals. A voucher should be prepared reflecting the proper payee, invoice amount, and account codes, and should include a copy of the purchase order, invoice, and receiving report or a signed billing slip. A warrant should be prepared based on the completed voucher, the existence of appropriate vendor information (I.R.S. Form 1099 data), and a properly executed certification by the Clerk Treasurer. All warrants should be signed by the Clerk Treasurer and recorded in the cash journal and appropriations ledger. Vouchers should be filed numerically or by vendor.

Statutory Requirements

State law places the following requirements on the disbursement of funds:

Warrants - Disbursements may only be made by a proper warrant drawn against an appropriate fund. The warrant must show upon its face the appropriation from which the disbursement is made and the fund which it is drawn upon.

Restrictions - Monies are drawn from the Village treasury only for appropriations enacted by Village Council. Disbursements from each fund may be used only for the purposes of such fund and to the extent that cash exists in the fund.

Certification - If no certificate of the fiscal officer is furnished as required, upon receipt by the Village Council of a certificate of the fiscal officer stating that there was at the time of the making of such contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, the Village Council may authorize the drawing of a warrant in payment of amounts due upon such contract, but such ordinance shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than \$3,000, the fiscal officer may authorize it to be paid without such affirmation of the Village Council, if such expenditure is otherwise valid.

Administrative Code Requirements

Section 117-2-02(C)(3) of the Ohio Administrative Code states "vouchers may be used as a written order authorizing the drawing of a warrant in payment of a lawful obligation of the public office. Each voucher shall contain the date, purchase order number, account code, amount, approval, and any other required information".

Village of Willshire - Van Wert County

Report on Accounting Methods

Cash Disbursements

(continued)

Methods Used by the Village

The Clerk Treasurer receives all mail and reviews all invoices received; however, there is no verification that the invoices correspond to the goods or services received. Because purchase orders are not issued until invoices are received, the Clerk Treasurer determines which expenditure codes are to be charged when paying the invoices. The purchase orders are created and a copy is attached to the invoice. The Board of Public Affairs reviews purchase orders, invoices, and warrants that are related to water and sewer activity. Village Council reviews all other purchase orders.

The Clerk Treasurer creates the warrants in the UAN software assigning the appropriate purchase order number. All warrants are kept in a locked closet in the Mayor's office. The Mayor and Clerk Treasurer are the only individuals who have access to the Mayor's office/closet. All warrants with a copy of the purchase order and invoice attached are filed in warrant number order in the Clerk Treasurer's office.

The Clerk Treasurer and Mayor are the only individuals that have access to the UAN software.

Auditor of State Comments

- Invoices are being paid without any verification that goods and services were received, that goods and services received were as ordered (items, quantities, and costs), or that purchases were authorized. The Village must establish a process by which purchases are properly authorized, received, and verified before invoices are paid.

Village of Willshire - Van Wert County

Report on Accounting Methods

Payroll Processing

Description of an Effective Method of Payroll Processing

The processing of payroll should ensure that all employees are compensated on a regular basis for work performed and at the rate approved by the appointing authority. All compensation should be recorded in a permanent record reflecting the hourly rate and hours worked or salary, deductions, and the gross and net compensation for the pay period and the year. Standard deductions such as pension, Medicare, and state and federal taxes should be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the Village should be authorized by the employee and the authorization should be maintained in a file. Payment of the net compensation should be by a check signed by the appropriate official. Payment of deductions and the related employer obligations should be made timely and reported in the format prescribed by the regulatory agency. Personnel files should contain relevant employee information and any other information required by state and/or federal laws.

Statutory Requirements

The following State statutes apply:

Section 705.13 of the Revised Code requires the legislative authority of a municipal corporation to set, by ordinance, the salary of its members so that each shall be paid in equal monthly installments. For each absence from regular meetings of the legislative authority, unless authorized by a two-thirds vote of all members thereof, there shall be deducted a sum equal to 2 percent of such annual salary. Absence for ten successive regular meetings shall operate to vacate the seat of a member, unless such absence is authorized by the legislative authority.

Section 731.13 of the Revised Code requires the legislative authority of a Village to fix the compensation and bonds of all officers, clerks, and employees of the Village except as otherwise provided by law. The legislative authority must, in the case of elective officers, fix their compensation for the ensuing term of office at a meeting held not later than five days prior to the last day fixed by law for filing as a candidate for such office. All bonds shall be made with sureties subject to the approval of the Mayor. The compensation so fixed shall not be increased or diminished during the term for which any officer is elected or appointed. This section does not prohibit the payment of any increased costs of continuing to provide the identical benefits provided to an officer at the commencement of his/her term of office.

Methods Used by the Village

Village Council approves all new employees. Village Council approves pay rates and raises.

When an employee is hired or an official is new, an IRS Form W-4, a State withholding form, and PERS forms are completed. The individual must also identify their school district of residence to determine if school district income tax withholdings are also required. These forms are maintained in each official/employee personnel file. These files are maintained in the Clerk Treasurer's office; access is limited to the Clerk Treasurer and the Mayor. Official/employee information is updated when changes in pay rate or deductions occur.

Village of Willshire - Van Wert County

Report on Accounting Methods

Payroll Processing

(continued)

The Income Tax Administrator, Clerk Treasurer, water/sewer employees, street maintenance worker, and the seasonal employee for mowing are paid monthly. The water/sewer operator is paid on the first and fifteenth of the month. The Mayor, Village Council, Board of Public Affairs, Fire Chief, and Assistant Fire Chief are paid semi-annually.

The water/sewer relief operator, the street maintenance worker, and the seasonal employee for mowing prepare a timesheet or a timecard. Each of these employees maintains their own timesheet or timecard. At the end of a pay period, the timesheet or timecard is totaled, signed, and dated by the employee and submitted to the Clerk Treasurer. The Clerk Treasurer recalculates the timesheet or timecard to verify its mathematical accuracy and enters the hours worked into the payroll system. Hours worked by the Clerk Treasurer, water/sewer employees, and the street maintenance worker are allocated to several funds on a percentage basis as established by Village Council. The water/sewer relief operator, street maintenance worker, and the seasonal employee are paid hourly; all other employees are paid on a salary basis. Blank timesheets are kept at the water/sewer treatment plant.

The water/sewer operator is earning vacation leave. Vacation leave is not preapproved. The water/sewer operator does not complete a vacation leave form. Vacation leave balances are currently not maintained within the payroll software.

The Clerk Treasurer enters the hours worked into the UAN payroll software. The software calculates the gross pay, as well as all payroll withholdings to determine the net pay amount. A batch report is run to determine that hours have been entered correctly and that the dollar amounts calculated are correct. If any changes are required, the system allows editing to occur anytime before the payroll is posted. After the payroll is posted and the checks are printed, the Clerk Treasurer signs each check. The Clerk Treasurer distributes the paychecks by placing them in a sealed envelope and distributing the check to the employee in person or by mailing it to the address listed in the personnel file.

All payroll taxes are calculated by the UAN software and are paid on a timely basis. Several reports can be printed from UAN that can be sent directly to the agency, such as OPERS and Employer's Quarterly Taxes (Form 941).

Auditor of State Comments

- All timesheets or timecards are signed by the employee but should also be approved by the respective supervisor or the Mayor in the absence of a supervisor.
- The Village should require vacation leave forms to be completed by the water/sewer operator and approved before vacation is taken. This form should be filed with the payroll records. Vacation leave balances should be maintained on the computer software.

Village of Willshire - Van Wert County

Report on Accounting Methods

Payroll Processing

(continued)

- The Village Council should periodically review the actual time employees work in various departments to ensure the amount of time allocated to the various funds and departments is reasonable.
- The Village does not have an employee leave policy.

Village of Willshire - Van Wert County

Report on Accounting Methods

Debt Administration

Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. An ordinance authorizing the issuance of debt must be passed by Village Council. The statute authorizing the issuance should be identified in the ordinance as well as the purpose of the debt, the maturity, the interest rate, and the source of revenue to be used for repayment. Debt proceeds should be recorded in a separate fund and used only for the purpose specified in the authorizing ordinance. Monies to be used for debt payment may be receipted into a separate fund created specifically for debt retirement. Care should be taken to insure the timely payment of both principal and interest.

Statutory Requirements

General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code. The statutory requirements vary depending on the nature of the debt being issued.

Methods Used by the Village

The Village monitors debt payments by line item in the accounting records.

The Village's debt is described below:

<u>Debt Issue</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Date of Final Maturity</u>
<u>Mortgage Revenue Bonds</u>				
USDA/RD	3/24/99	4.75%	\$209,000	3/1/2039
<u>Loans Payable</u>				
OWDA Water Treatment Plant Construction	1/29/98	2.00	233,763	1/01/2017
OWDA Water Treatment Plant	5/4/90	2.00	778,298	1/01/2024
OPWC Wells and Water Treatment Facilities	7/1/96	0.00	237,639	1/01/2019
First Financial Bank	6/29/05	4.42	26,150	11/11/2006

Village of Willshire - Van Wert County

Report on Accounting Methods

Debt Administration

(continued)

The revenues pledged for repayment and the fund from which the debt service payments are made are as follows:

<u>Debt Issue</u>	<u>Pledged Revenues</u>	<u>Fund</u>
<u>Mortgage Revenue Bonds</u>		
USDA/RD	Charges for Services	Water
<u>Loans Payable</u>		
OWDA Water Treatment Plant Construction	Charges for Services	Sewer
OWDA Water Treatment Plant	Charges for Services	Water
OPWC Wells and Water Treatment Facilities	Charges for Services	Water
First Financial Bank	Charges for Services	Water

The Village has not been delinquent on any principal and interest payments.

Village of Willshire - Van Wert County

Report on Accounting Methods

Inventory of Capital Assets

Description of an Effective Inventory of Capital Assets

Capital assets of the Village should be adequately safeguarded against loss or theft. An inventory describing each item, cost, serial and/or model number, location, and date of purchase should be maintained by the Clerk Treasurer. The inventory should be updated periodically for purchases and disposals. Verification of the listed assets should be performed at least annually. The disposal of an asset should be properly authorized and reported to the Clerk Treasurer.

Administrative Code Requirements

Section 117-2-02(D)(4)(c) of the Ohio Administrative Code requires that all local public offices maintain capital 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. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

Auditor of State Comments

- The Village does not maintain an inventory of capital assets. Without an inventory of capital assets, the Village is unable to determine if there is adequate insurance coverage, whether assets have been lost or stolen, whether idle assets exist that can be sold to generate additional revenue, and whether assets are used in the most efficient manner. The Village should develop an inventory of all capital assets and update it annually.

Village of Willshire - Van Wert County

Report on Accounting Methods

Cash Management and Investing

Description of an Effective Method of Cash Management

Cash received by the Village should be deposited in a central bank account. Monies for all funds should be maintained in the account or temporarily used to purchase investments. Idle cash should be invested in interest bearing accounts, certificates of deposit, STAR Ohio, and/or other investments as authorized by State statute. Deposits of public monies should be insured and/or collateralized to insure repayment of public monies deposited with a financial institution. Interest allocated should be in accordance with the Ohio Constitution and State statutes.

A reconciliation between the bank and cash journal should be completed for all accounts on a monthly basis. The reconciliation should be completed immediately after the books are closed for the month and upon receipt of the bank statement. Reconciling items should be specifically identified and listed by the Clerk Treasurer.

Statutory Requirements

Section 135.14(O)(1) of the Revised Code states, "Except as otherwise provided in divisions (O)(2) and (3) of this section, no treasurer or governing board shall make an investment or deposit under this section, unless there is on file with the Auditor of State a written investment policy approved by the treasurer or governing board. The policy shall require that all entities conducting investment business with the treasurer or governing board shall sign the investment policy of that subdivision.

Section 135.14(O)(2) of the Revised Code states, "if a written investment policy described in division (O)(1) of this section is not filed on behalf of the subdivision with the Auditor of State, the treasurer or governing board of that subdivision shall invest the subdivision's interim monies only in interim deposits pursuant to division (B)(3) of this section, no-load money market mutual funds pursuant to division (B)(5) of this section, or the Ohio subdivision's fund pursuant to division (B)(6) of this section".

Section 135.14(O)(3) of the Revised Code states, "Divisions (O)(1) and (2) of this section do not apply to a treasurer or governing board of a subdivision whose average annual portfolio of investments held pursuant to this section is one hundred thousand dollars or less, provided that the treasurer or governing board certifies, on a form prescribed by the Auditor of State, that the treasurer or governing board will comply and is in compliance with the provisions of sections 135.01 to 135.21 of the Revised Code".

Section 135.22 of the Revised Code requires the Clerk Treasurer to attend annual training programs of continuing education for treasurers provided by the Treasurer of State.

Section 135.12 of the Revised Code requires that the designation period for depositories be five years.

In addition to the training required by Section 135.22 regarding investing, Section 733.27 of the Revised Code requires that the Clerk Treasurer attend annual training programs of continuing education for village clerks provided by the Auditor of State. This training encompasses a wide variety of topics.

Village of Willshire - Van Wert County

Report on Accounting Methods

Cash Management and Investing

(continued)

Federal Requirements

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires that, in order for a depositor to have a valid claim to assets of a failed financial institution, there must be a security agreement. This agreement must have been:

1. In writing;
2. Executed by the financial institution and the depositor making the claim;
3. Approved by the board of directors or loan committee of the institution; and
4. An official record of the financial institution continuously from the time of its execution.

Methods Used by the Village

The Village has three types of accounts: checking, savings, and a certificate of deposit. The Village does not have any investments.

The Community First Bank & Trust serves as the Village's only depository and receives all wire transfers and deposits. All checks are written against this account.

The Village receives all cancelled checks from Community First Bank & Trust on a monthly basis for the checking account. The Village can access its account through the internet. The Clerk Treasurer reviews the bank activity daily through the internet to view the deposits and checks recorded by the bank.

The UAN software provides a reconciliation from bank to books which is currently being utilized by the Clerk Treasurer. The reconciliation is printed from the software and includes an outstanding checklist. Upon completion of the monthly reconciliation, Village Council reviews the bank reconciliation as printed from the UAN software.

Interest is posted in the month it is received. Interest earned in the checking account is divided equally and posted to the Street Construction, Maintenance, and Repair; State Highway; and Permissive Motor Vehicle License Tax funds as required by the Ohio Constitution. Interest is not currently being posted to the General Fund as it has a negative fund balance. Interest earned on the savings account is posted monthly to the Cemetery fund.

Voided checks have the bank routing number and account number crossed through with a black marker. These checks are also marked "void" on the face of the check. These checks are put into a file folder which is labeled "voided checks".

The Village has a current depository agreement with the Community First Bank & Trust. The agreement is in effect for the period from August 23, 2003, to August 23, 2008. The Village also has an investment policy which has been filed with Auditor of State.

Village of Willshire - Van Wert County

Report on Accounting Methods

Cash Management and Investing

(continued)

Auditor of State Comments

- The Clerk Treasurer does not attend annual training provided by the State Treasurer's Office for investments. Although the Clerk Treasurer is exempt from this training because they have no investments, the Clerk Treasurer is required to file an exemption form. This form should be filed in the future.
- The Village should have a policy which defines the method of allocating interest earnings among the funds required to receive interest as outlined in the Ohio Constitution and State statues, such as making the allocation based on the fund balance of each fund at month end compared to the total for all funds receiving interest.

Village of Willshire - Van Wert County

Report on Accounting Methods

Financial Reporting

Description of an Effective Method of Financial Reporting

At least monthly, the Clerk Treasurer should provide Village Council with a report that identifies year to date receipts, disbursements, outstanding encumbrances, and available fund balances for each fund of the Village. In addition, information concerning the estimated and actual receipts, appropriations, and disbursements plus encumbrances should be presented for Village Council's review. On an annual basis, the Clerk Treasurer should prepare and publish financial statements, a comparison of budgeted versus actual information, a summary of debt activity for the year, and the outstanding principal balance on all debt obligations.

Statutory Requirements

Section 117.38 of the Revised Code requires that the annual financial report be filed with the Auditor of State within sixty days after the close of the year for reports prepared on the cash basis of accounting. At the time the report is filed, a notice should be published in the local newspaper that the report is completed and available at the office of the fiscal officer.

Section 733.45 of the Revised Code states, "The treasurer of a municipal corporation shall settle and account with the legislative authority, quarterly, and at any other time which it by resolution or ordinance requires. At the first regular meeting of such legislative authority in January, each year, the treasurer shall report to it the condition of the finances of the municipal corporation, the amount received, the sources of such receipts, the disbursements made, and on what account during the year preceding. Such account shall exhibit the balance due on each fund which has come into the treasurer's hands during the year".

Administrative Code Requirements

Ohio Administrative Code section 117-2-03(A)(2) requires that local public offices shall file their annual financial report either in paper form or electronically in a manner and format prescribed by the Auditor of State. Ohio Administrative Code section 117-2-03(D) requires the reports to be filed on the forms provided by the Auditor of State.

Methods Used by the Village

The Clerk Treasurer provides to Village Council each month the following information: a fund status report, the bank reconciliation, a cash journal, and the receipts register. The fund status report only provides the fund balances and the bank balances. The Income Tax Administrator provides a monthly income tax report which outlines total individual and business withholding taxes collected.

In prior years, the Clerk Treasurer prepared and filed the annual financial report manually. With the UAN software, annual reports will be sent to the Auditor of State's office on a compact disk.

Village of Willshire - Van Wert County

Report on Accounting Methods

Financial Reporting

(continued)

Auditor of State Comments

- Village Council has not defined, by ordinance, the type or frequency of financial information they expect to receive. The Clerk Treasurer should give to Village Council a monthly statement that provides the beginning and ending cash balances and the month to date and the year to date receipts and disbursements for each fund.
- The Clerk Treasurer should provide a revenue status and appropriation status report from the UAN system to Village Council on a monthly basis. These reports provide a comparison of estimated receipts to actual receipts and the percent collected to date as well as the appropriations and disbursements and the percent spent to date. The reports demonstrate compliance with the adopted budget.

Village of Willshire - Van Wert County

Report on Accounting Methods

Recording Official Proceedings

Description of an Effective Method of Recording Official Proceedings

The Village Council minutes should reflect full and accurate information to permit the public's understanding and appreciation of the rationale supporting Village Council's decisions. An ordinance, resolution, or bylaw should be limited to one subject, which should be clearly expressed in its title. In the adoption or passage of an ordinance, resolution, or bylaw, the yeas and nays should be entered into the minutes and the ordinance, resolution, or bylaw should be signed by the presiding officer and the Clerk. All Village Council minutes, ordinances, and resolutions should be maintained as a permanent record of the Village.

Statutory Requirements

Section 121.22 of the Revised Code requires the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussion in executive sessions authorized under division (G) or (J) of this section. Further, the Ohio Supreme Court has held that the minutes must be "full and accurate," which means that they must contain sufficient facts and information to permit the public to understand and appreciate the rationale behind the relevant decision. The public not only has a right to know a government body's final decision on a matter, but also the means by which those decisions were reached.

Sections 731.20 through 731.25 of the Revised Code address the passage, style, number of subjects, authentication and recording, and publication requirements of Village Council legislation. In general, no ordinance, resolution, or bylaw shall contain more than one subject, which shall be clearly expressed in its title. The copy of the proposed ordinance must be filed with the Clerk and kept open for public inspection for ten days. Each ordinance, resolution, or bylaw is required to be adopted or passed by separate vote of Village Council and the yeas and nays shall be entered in the minutes. Ordinances, resolutions, and bylaws shall be authenticated by the signature of the presiding officer and clerk. Ordinances and resolutions must be published in an English speaking newspaper once a week for two consecutive weeks. If no newspaper is published within the Village, copies of the ordinances and resolutions must be posted in no less than the five most public places in the Village for not less than fifteen days prior to the effective date of the ordinances or resolutions or by publication in any newspaper printed in the State and of general circulation in the Village.

Section 149.39 of the Revised Code creates in each municipal corporation, a records commission composed of the chief executive or his appointed representative, as chairman, and the chief fiscal officer, the chief legal officer, and a citizen appointed by the chief executive. The commission shall appoint a secretary, who may or may not be a member of the commission, and who shall serve at the pleasure of the commission. The commission may employ an archivist to serve under its direction. The commission shall meet at least once every six months and upon call of the chairman. The functions of the commission shall be to provide rules for retention and disposal of records of the municipal corporation, to review applications for one-time records disposal, and schedules of records retention and disposition submitted by municipal offices.

Village of Willshire - Van Wert County

Report on Accounting Methods

Recording Official Proceedings

(continued)

Methods Used by the Village

The Clerk Treasurer takes notes during the Village Council and Board of Public Affairs meetings. From the notes, the Clerk Treasurer prepares the minutes of the meeting. The minutes include who is in attendance, reports that are presented by various departments and officials, a summary of topics discussed, a description of ordinances and/or resolutions and the votes thereon, and other upcoming events. The Village does not follow the publication requirements for ordinances and resolutions as outlined in sections 731.20 and 731.21 of the Revised Code.

Auditor of State Comments

- The Village has not established a records commission as required by Section 149.39 of the Revised Code.
- The minutes reflect occasions in which the Village Council has entered into executive session. According to section 149.39 of the Revised Code, the Village Council may only enter into executive session to discuss the following subjects: to consider the appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or official, or to consider the investigation of charges or complaints against such a person, unless asked by such employee or official to be held in public; to consider the purchase or sale of property if premature disclosure would give an unfair advantage to a person whose personal private interest is adverse to public interests; attorney conferences concerning pending or imminent court action; prepare for conducting or reviewing employee negotiations and bargaining; matters requiring confidentiality by law; and security arrangements. The minutes do not reflect the general subject matter of discussion during executive session.
- The Village fails to follow the publication requirements outlined in sections 731.20 and 731.21 of the Revised Code.

Village of Willshire - Van Wert County

Report on Accounting Methods

Conclusion

The methods as described by the Village and included in this report are based on our inquiries and discussions with Village personnel and the related procedures documented from the Village's ordinances, administrative rules, and the Revised Code. These methods, in some cases, vary from the actual methods used in performing the daily activities.

It is our opinion that the current methods of accounting and financial reporting of the Village of Willshire are not completely in compliance with Chapter 117 of the Revised Code and the requirements of the Auditor of State as disclosed throughout this report.



Mary Taylor, CPA
Auditor of State

VILLAGE OF WILLSHIRE

VAN WERT 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
MAY 11, 2007