



Dave Yost • Auditor of State



VILLAGE OF GRATIS  
PREBLE COUNTY

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# Dave Yost • Auditor of State

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

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

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

November 30, 2011

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

We have audited the accompanying financial statements of the Village of Gratis, Preble County, Ohio (the Village), as of and for the year ended December 31, 2010. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in paragraph seven, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the third following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2010, or its changes in financial position or cash flows, where applicable for the year then ended.

We were unable to obtain sufficient evidence to support the completeness of Agency Fund unclassified receipts for 2010, nor were we able to satisfy ourselves of the completeness by other auditing procedures. We were also unable to obtain sufficient evidence to support the completeness of Enterprise Fund unclassified receipts for 2010, nor were we able to satisfy ourselves of the completeness by other auditing procedures.

Also, in our opinion, except for the effect of the of the matters discussed in paragraph three above, regarding the omission of receipt and disbursement classifications and except for any adjustments, if any, that might have been determined to be necessary had we been able to obtain sufficient evidence supporting the Agency Fund unclassified receipts and Enterprise Fund unclassified receipts noted in the previous paragraph, the financial statement referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Gratis, Preble County, as of December 31, 2010, and its individual fund and combined fund type unclassified cash receipts and disbursements for the year ended on the accounting basis Note 1 describes.

As discussed in Note 10 to the financial statements, the Village has suffered operating losses and has a net asset deficiency. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management has not disclosed any plans regarding this deficit.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Dave Yost**  
Auditor of State

November 30, 2011

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Balance 1/1/2010</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 12/31/2010</u>
<b>General</b>	(\$13,257)	\$109,013	\$121,029	(\$25,273)
<b>Special Revenue:</b>				
Street Construction, Maintenance, and Repair	21,990	46,894	55,237	13,647
State Highway	4,556	3,934	1,548	6,942
Community Center	802	0	119	683
Parks	264	0	0	264
Fire	70,700	64,880	55,599	79,981
EMS	180,659	225,468	237,290	168,837
EMS-B	4,917	21,134	828	25,223
OMVUI	174	0	0	174
Gratis Beautification	635	330	678	287
FEMA	4,085	0	4,085	0
Total Special Revenue	<u>288,782</u>	<u>362,640</u>	<u>355,384</u>	<u>296,038</u>
<b>Capital Projects:</b>				
CDBG	58	242,346	242,346	58
<b>Enterprise:</b>				
Water Operating	30,283	162,933	156,553	36,663
Sewer Operating	72,361	129,478	124,806	77,033
Trash Operating	18,969	50,947	58,311	11,605
Water Debt	976	12,793	11,684	2,085
Sewer Debt	39,573	38,766	32,600	45,739
Water Reserve	18,749	0	0	18,749
Sewer Reserve	33,000	0	0	33,000
Total Enterprise	<u>213,911</u>	<u>394,917</u>	<u>383,954</u>	<u>224,874</u>
<b>Agency:</b>				
Mayor's Court	<u>15,300</u>	<u>35,923</u>	<u>43,825</u>	<u>7,398</u>
Total All Funds:	<u><u>\$504,794</u></u>	<u><u>\$1,144,839</u></u>	<u><u>\$1,146,538</u></u>	<u><u>\$503,095</u></u>

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**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Gratis, Preble County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, emergency medical services, fire services, and police services.

The Village participates in the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Note 8 to the financial statements provides additional information for this entity.

The Village's management believes these financial statements present all activities for which the Village is financially accountable, except the financial statements do not include debt service funds external custodians maintain. Note 6 to the financial statement describes these assets.

**B. Accounting Basis**

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

The Village did not classify its receipts and disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-2-02(A). This Ohio Administrative Code Section requires classifying receipts and disbursements.

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

**C. Deposits and Investments**

Village funds are pooled in checking accounts with local commercial banks.

**D. Fund Accounting**

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

**1. General Fund**

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

VILLAGE OF GRATIS  
PREBLE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010  
(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

2. **Special Revenue Funds**

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

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

Fire Fund - This fund receives real estate and personal property taxes and contracts with Gratis Township to provide for the protection of area citizens.

EMS Fund - This fund receives real estate and personal property taxes and contracts with Gratis Township and the Village of West Elkton to provide for the protection of area citizens.

3. **Capital Project Funds**

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

CDBG Fund – This fund was used to construct a capital improvement.

4. **Enterprise Funds**

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

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

5. **Fiduciary Funds**

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

E. **Budgetary Process**

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**1. Appropriations**

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

The Village did not approve appropriations for 2010.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2010 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

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

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. Equity in Pooled Deposits and Investments**

The Village maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31, 2010 was as follows:

Demand deposits	\$503,095
Total deposits	<u>503,095</u>

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the year ending December 31, 2010 follows:

Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$112,707	\$109,013	(\$3,694)
Special Revenue	306,885	362,640	55,755
Capital Projects	0	242,346	242,346
Enterprise	281,270	394,917	113,647
Total	\$700,862	\$1,108,916	\$408,054

Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$133,878	\$121,029	\$12,849
Special Revenue	370,973	355,384	15,589
Capital Projects	0	242,346	(242,346)
Enterprise	471,912	383,954	87,958
Total	\$976,763	\$1,102,713	(\$125,950)

Contrary to Ohio law, the Village did not complete a certificate of the total amount available from all sources for expenditure.

Also, contrary to Ohio law, the Village did not request amended certificates.

Also, contrary to Ohio law, the Village had expenditures that exceeded appropriations for various funds at December 31, 2010.

**4. Property Tax**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010  
(Continued)**

**5. Debt**

Debt outstanding at December 31, 2010 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sewer Revenue Bonds	\$253,000	5.00%
Water Revenue Bonds	\$30,000	Varies
Ohio Public Works Commission Loan	\$97,799	0.00%
Ohio Water Development Authority Loan	\$539,906	4.42%
Police Cruiser Loan	\$3,880	5.79%
Truck Loan	\$5,439	5.49%
Ford Truck Loan	17,147	4.50%
Total	<u>\$947,171</u>	

The Sewer Revenue Bonds relate to mortgage revenue bonds issued in 1980. The bonds will be repaid in annual installments over 40 years. The bonds are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

The Water Revenue Bonds relate to mortgage revenue bonds issued in 1998 to fund improvements to the Village's water system. The bonds will be repaid in semi-annual installments over 15 years.

The bonds are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

Ohio Public Works Commission (OPWC) loan was obtained in 2005 in the amount of \$102,947 for water treatment storage and distribution improvements. Starting in July 2009, the loan will be repaid in semi-annual installments of \$2,574 over 20 years.

The Ohio Water Development Authority (OWDA) loan was obtained in 2004 in the amount of \$768,390 for water system improvements. The loan had a negative disbursement of \$138,008 in February 2008, which brought the disbursed funds and capitalized interest at December 31, 2009 to \$610,552, and was a reduction of the principal balance. A final amortization schedule will be established upon completion of the project. The loan is collateralized by water and sewer receipts. The Village had agreed to set water rates sufficient to cover bond payment requirements.

The police cruiser loan was obtained in March 2008 for \$11,110 for the purpose of acquiring a police cruiser. The loan is to be repaid in monthly installment payments of \$258 over 4 years. The loan is collateralized by the police cruiser.

The truck loan was obtained in November 2006 for \$24,505 for the purpose of acquiring a new truck. The loan is to be repaid in annual installment payments of \$5,738 over 5 years. The loan is collateralized by the truck.

The Ford truck loan was obtained in March 2010 for \$17,147 for the purpose of acquiring a new truck. The loan is to be repaid in annual installment payments of \$3,906 over 5 years. The loan is collateralized by the truck.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010  
(Continued)**

**5. Debt (Continued)**

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

Year ending December 31:	Sewer Revenue Bonds	Water Revenue Bonds	OPWC Loan
2011	\$32,650	\$11,685	\$7,721
2012	32,650	11,125	5,147
2013	32,600	10,563	5,147
2014	32,500		5,147
2015	33,350		5,147
2016-2020	163,950		25,737
2021-2025			25,737
2026-2029			18,016
Total	<u>\$327,700</u>	<u>\$33,373</u>	<u>\$97,799</u>

Year ending December 31:	Police Cruiser Loan	Truck Loan	2010 Truck Loan
2011	\$3,354	\$5,738	\$3,906
2012	774		3,906
2013			3,906
2014			3,906
2015			3,906
Total	<u>\$4,128</u>	<u>\$5,738</u>	<u>\$19,530</u>

**6. Debt Service Trust Funds**

The 1998 Water Revenue bond agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2010, the custodian held \$10,843 in Village assets. The bond agreement also required the Village to establish a debt service reserve fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2010, the custodian held \$11,500 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

**7. Retirement Systems**

The Village's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2010 OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2010.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010  
(Continued)**

**7. Retirement Systems (Continued)**

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the OPERS have an option to choose Social Security. As of December 31, 2010, nine employees of the Village have elected Social Security. The employees' liability is 6.2 percent of wages paid.

**8. Risk Management**

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010.

Assets	\$34,952,010
Liabilities	(14,320,812)
Net Assets	<u>\$20,631,198</u>

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010  
(Continued)**

**8. Risk Management (Continued)**

At December 31, 2010, respectively, the liabilities above include approximately \$12.9 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Village's share of these unpaid claims collectible in future years is approximately \$16,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>
<u>2010</u>
\$17,085

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**9. Compliance**

Contrary to Ohio law:

- Village ledgers were not accurately maintained.
- The Village does not have a Board of Public Affairs or a Village Administrator.
- Various records were not retained by the Village.
- The Village did not record CDBG monies disbursed on behalf of the Village.
- The Village did not timely deposit.
- The Village did not made debt payments from the proper funds.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010  
(Continued)**

**10. Fiscal Distress**

The Village incurred operating losses and negative fund balances. A summary follows:

- The Village had a negative fund balance of (\$25,273) for the General Fund at December 31, 2010.
- The Village had operating losses as follows for 2010: General Fund - \$12,016; Street Fund - \$8,343; Community Center Fund - \$119; EMS Fund - \$11,822; Gratis Beautification - \$348; FEMA - \$4,085; and Trash Operating Fund - \$7,364.

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# Dave Yost • Auditor of State

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

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

We have audited the financial statements of the Village of Gratis, Preble County, Ohio (the Village), as of and for the year ended December 31, 2010, and have issued our report thereon dated November 30, 2011, which was qualified since the Village did not classify receipts and disbursements in its financial statements. We also qualified the opinion due to lack of completeness of Agency Fund and Enterprise Fund unclassified receipts. We also noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of state to audit Ohio governments. We also noted the Village suffered operating losses and has a net asset deficiency at December 31, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-03 through 2010-05, 2010-12, 2010-15, 2010-16, 2010-18, and 2010-19 described in the accompanying schedule of findings to be material weaknesses.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-01, 2010-02, 2010-05 through 2010-11, 2010-13 through 2010-15, 2010-17, and 2010-19.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated November 30, 2011.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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



**Dave Yost**  
Auditor of State

November 30, 2011

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010**

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

**FINDING NUMBER 2010-01**

**Finding for Recovery – Overpayment to Serrer Phillips**

*State ex rel. McClure v. Hagerman*, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper “Public Purpose” states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

The Village issued the following reimbursement checks to Serrer Phillips, Former Fiscal Officer. No supporting documentation was maintained for these reimbursements.

Check Number	Check Date	Amount	Signed by	Fund and Amount
19755	3/15/10	\$ 201.77	Serrer Phillips Gary Vest	General: \$118.52 Water: 40.00 Sewer: 43.25
19888	3/31/10	65.07	Serrer Phillips Randy Kemper	EMS: 20.07 General: 45.00
20034	4/30/10	177.38	Serrer Phillips Gary Vest	Street: 75.06 Water: 75.00 Sewer: 27.32
20036	7/30/10	152.29	Serrer Phillips Randy Kemper	Sewer: 20.67 Water: 20.00 Street: 30.00 EMS: 56.62 General: 25.00
20848	11/30/10	226.70	Serrer Phillips Randy Kemper	Sewer: 20.00 Water: 21.49 Street: 38.75 Fire: 14.00 General: 109.88 EMS: 22.58

In accordance with the foregoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Serrer Phillips and her bonding company, Cincinnati Insurance Company, in the amount of \$823, and in favor of the Village of Gratis General Fund in the amount of \$298, Street Fund in the amount of \$144, Fire Fund in the amount of \$14, EMS Fund in the amount of \$99, Water Operating Fund in the amount of \$157, and Sewer Operating Fund in the amount of \$111.

**FINDING NUMBER 2010-01  
(Continued)**

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

Randy Kemper, Village Mayor, signed the checks 19888, 20366, and 20848 resulting in the overpayments. Therefore, Randy Kemper and his bonding company, Cincinnati Insurance Company, are jointly and severally liable for approving the payments, in the amount of \$444, and in favor of the Village of Gratis General Fund in the amount of \$180, Street Fund in the amount of \$69, Fire Fund in the amount of \$14, EMS Fund in the amount of \$99, Water Operating Fund in the amount of \$41, and Sewer Operating Fund in the amount of \$41 to the extent that recovery is not obtained from Serrer Phillips.

Gary Vest, President of Council, signed the checks 19755 and 20034 resulting in the overpayments. Therefore, Gary Vest and his bonding company, Cincinnati Insurance Company, are jointly and severally liable for approving the payments, in the amount of \$379, and in favor of the Village of Gratis General Fund in the amount of \$118, Street Fund in the amount of \$75, Water Operating Fund in the amount of \$116, and Sewer Operating Fund in the amount of \$70 to the extent that recovery is not obtained from Serrer Phillips.

**Officials’ Response:**

The Village will look into the Bonding & Insurance purchased on the individuals for the over payment of \$823. The General fund shall receive \$298, the Street fund will receive \$144, the Fire fund will receive \$14, the EMS fund will receive \$99, the Water fund will receive \$157, and the Sewer fund will receive \$111. Authorized individuals will make sure all expenditures are legal before approving. The Village will look into the Bonding & Insurance purchased on the individual for overpayment of checks totaling \$444. The General fund will receive \$180, the Street fund will receive \$69, the Fire fund will receive \$14, the EMS fund will receive \$99, the Water fund will receive \$41, and the Sewer fund will receive \$41. The Village will look into the Bonding & Insurance purchased on the individual for overpayment of checks totaling \$379. The General fund will receive \$118, the Street fund will receive \$75, the Water fund will receive \$116, and the Sewer fund will receive \$70.

**FINDING NUMBER 2010-02**

**Finding for Recovery – Overpayment to Serrer Phillips**

The Village Mayor appointed Serrer Phillips to the Fiscal Officer position. Pursuant to the contract signed by Ms. Phillips and the Mayor and approved by Village Council, she was to receive \$250 a month for her duties as clerk of the Mayor’s Court; however, Ms. Phillips received more than \$250 per month. Serrer Phillips received 13 checks in the amount of \$250/month for Mayor’s Court in the eleven-month period from January through November 2010. All thirteen checks cleared the bank. Therefore, she was overpaid \$500. The Village Council did not have a resolution or ordinance establishing Ms. Phillips pay rate for the Mayor’s Court Clerk position.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Serrer Phillips and her bonding company, Cincinnati Insurance Company, in the amount of \$500, and in favor of the Village of Gratis General Fund, in the amount of \$500.

**FINDING NUMBER 2010-02  
(Continued)**

**Officials' Response:**

The Village is looking into the Bonding & Insurance purchased on the individual for the overpayment of \$500. The payment of \$500 will go back into the General fund.

**FINDING NUMBER 2010-03**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records and ensuring the collection and compilation of the data needed for timely and accurate preparation of financial statements.

The Village lacks management oversight in the posting of debt and expenditure activity. This lack of oversight is illustrated by the following:

- The proceeds and corresponding capital outlay expenditures for a loan to purchase a Ford Truck in the amount of \$17,147 were not recorded on the Village's financial statements.
- Debt payments were not properly allocated between Principal and Interest for six of the seven debt issuances.
- The Village failed to make one payment in the amount of \$258 for the police cruiser loan.

The Fiscal Officer should use due care when posting transactions.

Failure to properly record and post debt activity may result in misleading financial statements and incorrect fund balances. Any new debt incurred should be recognized as proceeds of debt for the gross amount received. Any payments made on behalf of the Village needs to be recorded as an expenditures.

We recommend that the Village accurately post debt activity.

Adjustments were posted to the financial statements and the accounting records where applicable to correct the above misstatements.

Failure to accurately record and post debt activity may result in misleading financial statements and incorrect fund balances. Any new debt incurred should be recognized as proceeds of debt for the gross amount received. Any payments made on behalf of the Village should be recorded as expenditures. We recommend the Village accurately post all debt activity.

**Officials' Response:**

The Fiscal Officer will accurately record and post debt activity to financial statements and to fund balances.

## FINDING NUMBER 2010-04

### Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village lacks management oversight in the posting of financial activity. Significant posting errors were noted in the testing of cash, taxes, intergovernmental revenue, expenditures, and debt. These errors resulted in the following adjustments to the Village's funds:

- General Fund revenues were increased by \$7,244 due to unrecorded interest, two unrecorded local government distributions, and unrecorded special assessment receipts, and decreased by \$13,299 due to postings not traced to the bank. Expenditures were increased by \$10,935 due to unrecorded expenditures and decreased by \$4,085 due to expenditures posted to improper funds.
- Street Fund revenues were increased by \$16,628 due to unrecorded gasoline excise, state, and local government highway, and homestead and rollback receipts and decreased by \$7,476 due to postings that did not traced to the bank. Expenditures were increased by \$1,888 due to unrecorded expenditures.
- EMS Fund revenues were increased by \$60,085 due to unrecorded Medicare, donations, and contract receipts and decreased by \$6,001 due to postings not traced to the bank. Expenditures were increased by \$12,085 due to unrecorded expenditures.
- Capital Projects Fund revenues and expenditures were increased by \$242,346 to record on-behalf activity.
- Water Operating Fund revenues were increased by \$130,873 due to unrecorded utility payments and decreased by \$147,146 due to postings not traced to the bank. Expenditures were increased by \$45,439 due to unrecorded expenditures and decreased by \$5,000 due to expenditures posted to improper funds.
- Sewer Operating Fund revenues were increased by \$123,696 due to unrecorded utility payments and decreased by \$98,723 due to postings not traced to the bank. Expenditures were increased by \$27,420 due to unrecorded expenditures and decreased by \$6,685 due to expenditures posted to improper funds.
- Trash Operating Fund revenues were increased by \$46,243 due to unrecorded utility payments and decreased by \$50,469 due to postings not traced to the bank. Expenditures were increased by \$39 due to unrecorded expenditures.
- Water Debt Service Fund revenues were increased by \$11,685 due to unrecorded utility payments and decreased by \$15,025 due to postings not traced to the bank. Expenditures were increased by \$11,685 and decreased by \$8,312 due to debt payments paid from improper funds.
- Sewer Debt Service Fund revenues were increased by \$32,600 due to unrecorded utility collections and decreased by \$36,964 due to postings not traced to the bank. Expenditures were increased by \$7,400 and decreased by \$12,400 due to debt payments paid from improper funds.
- EMS-B Fund revenues were increased by \$21,134 and expenditures were increased by \$828 due to unrecorded billing revenue and bank service charges.

**FINDING NUMBER 2010-04  
(Continued)**

Adjustments were posted to the financial statements and Village accounting records where applicable to correct the above improper postings.

The lack of proper management oversight could result in material misstatement relating to financial data. To improve record keeping and accountability we recommend that all activity be posted properly. For guidance the Village should utilize the Village Officers' Handbook and village chart of accounts which can be located at [www.auditor.state.oh.us](http://www.auditor.state.oh.us) under Publications.

**Officials' Response:**

To improve record keeping and accountability all activity will be posted properly. The Village will use the Village Officer's Handbook and chart of accounts.

**FINDING NUMBER 2010-05**

**Material Noncompliance / Material Weakness**

**Ohio Revised Code, Section 149.351**, provides that no public records shall be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Rev. Code Sections 149.38 to 149.42.

In addition, Ohio Rev. Code, Section 149.39, provides, in part, that when records have been approved for disposal, a copy of such records application or schedule shall be sent to the Ohio historical society, who upon completion of its review, shall forward it on to the Auditor of State. If the Auditor disapproves the action by the Village's record commission in whole or in part, he shall inform the Village's records commission within a period of sixty days and these records shall not be destroyed. Before public records are otherwise disposed of, the Ohio Historical Society shall be informed and given the opportunity for a period of sixty days to select for its custody or disposal such records as it considers to be of continuing historical value.

The Village did not maintain supporting documentation for all of their non-payroll and payroll expenditures. However, we performed alternative audit procedures on all non-payroll and payroll expenditures and reviewed them for proper public purpose. We did not have sufficient supporting documentation to determine proper public purpose for some of those expenditures. The items with insufficient documentation resulted in the Findings for Recovery noted in Finding Numbers 2010-01 and 2010-02.

The Village should receive monthly billing reports from MBI. The Fiscal Officer did not have all of the monthly billing reports for the audit period. The Village received more money than was documented on the billing reports the Village maintained. Therefore, the Village did not maintain off the monthly billing reports for the audit period.

The Village failed to retain all voided checks for the EMS account.

The Village did not maintain support for the calculation for allocating audit costs to funds other than the General Fund. However, the allocation appeared reasonable based on the review of the amount of expenditures paid from each fund.

The Village did not retain supporting documentation for a receipt in the amount of \$2,000.

**FINDING NUMBER 2010-05  
(Continued)**

Failure to maintain supporting documentation can result in incorrect posting of financial activity, questions regarding funding received, and may lead to possible findings for recovery. We recommend the Village keep all records and supporting documentation.

**Officials' Response:**

The Village will keep all records and supporting documentation to all financial activity.

**FINDING NUMBER 2010-06**

**Material Noncompliance**

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

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**FINDING NUMBER 2010-06  
(Continued)**

25 percent of the transactions tested were neither certified by the fiscal officer at the time the commitment was incurred nor was evidence discovered that one of the above exceptions were utilized. 20% of expenditures were not supported by original invoices. Alternative audit procedures were able to be completed as noted in Finding Number 2010-05. During our test of unrecorded liabilities we were unable to determine if an expenditure was paid in the proper period because the invoice could not be located. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

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

**Officials' Response:**

All purchases will be certified by a purchase order. Purchase orders will be signed by the Fiscal Officer and another authorized individual. The Fiscal Officer will post approved purchase commitments to the proper appropriation code.

**FINDING NUMBER 2010-07**

**Material Noncompliance**

**Ohio Revised Code, Section 9.38**, provides that public money must be deposited with the Fiscal Officer or with the designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of the 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 moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited.

Formal policies have not been adopted by Council and cash collected for utilities was not deposited in a timely manner.

Failure to make timely deposits may result in loss of funds. We recommend the Village develop a written policy for depositing funds. The policy should include procedures to safeguard the assets during the intervening period and for the Fiscal Officer to ensure the policy is followed.

**FINDING NUMBER 2010-07  
(Continued)**

**Officials' Response:**

The Village Officials will write a policy on depositing Village funds.

**FINDING NUMBER 2010-08**

**Material Noncompliance**

**Ohio Revised Code, Section 5705.36(A)(1)**, requires that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year.

The Village did not complete a certificate of the total amount available for expenditure. Failure to complete said certificate could result in loss of tax funding.

We recommend the Village complete annual certificates of the total amount available for expenditure.

**Officials' Response:**

The annual certificate of the total amount available for expenditure will be completed annually.

**FINDING NUMBER 2010-09**

**Material Noncompliance**

**Ohio Revised Code, Section 5705.38(A)**, requires that on or about the first day of each year, the taxing authority of each subdivision or other taxing unit shall pass an appropriation measure. If the taxing authority desires to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based on actual balances, it may pass a temporary appropriation measure for meeting the ordinary expenses of the taxing unit until no later than April 1 of the current year, and the appropriations made in the temporary measure shall be chargeable to the appropriations in the annual appropriation measure for that fiscal year when passed.

Also, **Ohio Revised Code, Section 5705.39**, in part, states that no appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate.

Contrary to the above, the Village did not pass temporary appropriations, The Village passed an annual appropriation ordinance on March 4, 2010 but it was never submitted to the County Auditor. Since the ordinance was not submitted to the County Auditor, the Village did not receive the required certificate and therefore the Village's appropriations were not effective.

Failure to approve and submit appropriations to the County Auditor can result in overspending and negative fund balances. We recommend the Village approve appropriations by the required date and submit them to the County Auditor.

**Officials' Response:**

The Village Officials' will approve Village appropriations by the required date and submit to the County Auditor.

**FINDING NUMBER 2010-10**

**Material Noncompliance**

**Ohio Revised Code, Section 5705.36(A)(3)**, states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater than the amount included in an official certificate and the legislative authority intends to appropriate and expend the excess revenue, the fiscal officer shall certify the amount of the excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the excess.

**Ohio Revised Code, Section 5705.36(A)(4)**, states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

The Village did not request any amended certificates of estimated resources during the audit period. The original certificate of estimated resources was dated October 9, 2009 and did not include accurate beginning fund balances for fiscal year 2010. The Village did not have properly approved appropriations in place for fiscal year 2010. Negative budget and actual receipt variances were noted indicating that amended certificates of estimated resources should have been issued.

<b>Fund</b>	<b>Estimated Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$125,741	\$109,013	\$(16,728)
Street	55,425	46,894	(8,531)
State Highway	4,125	3,934	(191)
Parks	17,500	0	(17,500)
Fire	16,815	64,880	48,065
EMS	148,102	225,468	77,366
Gratis Beautification	1,000	330	(670)
Capital Projects	0	242,346	242,346
Water Operating	109,840	162,933	53,093
Sewer Operating	125,340	129,478	4,138
Trash Operating	47,380	50,947	3,567
Water Debt	22,205	12,793	(9,412)
Sewer Debt	11,845	38,766	26,921

Failure to request amended certificates of estimated resources can result in overspending and negative fund balances. We recommend the Village request amended certificates of estimated resources as necessary.

**Officials' Response:**

The Village will amend the certificates of estimated resources as necessary.

**FINDING NUMBER 2010-11**

**Material Noncompliance**

**Ohio Revised Code, Section 5705.41(B)**, states no taxing authority shall make any expenditures of money unless it has been appropriated.

Expenditures exceeded appropriations at December 31, 2010 as follows:

<b>Fund</b>	<b>Appropriations</b>	<b>Expenditures</b>	<b>Variance</b>
General	\$0	\$121,029	\$(121,029)
Street	0	55,237	(55,237)
State Highway	0	1,548	(1,548)
Community Center	0	120	(120)
Fire	0	55,599	(55,599)
EMS	0	237,291	(237,291)
Gratis Beautification	0	678	(678)
FEMA	0	4,085	(4,085)
Capital Projects	0	242,346	(242,346)
Water Operating	0	156,553	(156,553)
Sewer Operating	0	124,806	(124,806)
Trash Operating	0	58,311	(58,311)
Water Debt	0	11,684	(11,684)
Sewer Debt	0	32,600	(32,600)

Failure to enact appropriations may result in negative fund balances. We recommend the Village take steps to ensure appropriations are being properly approved, monitored, and recorded in the ledgers. No expenditure should be made unless funds have been sufficiently appropriated.

**Officials' Response:**

The Village will enact appropriations by taking steps to ensure they are being properly approved, monitored, and recorded in the ledgers.

**FINDING NUMBER 2010-12**

**Material Weakness**

**Ohio Admin. Code, Section 117-2-02(C)(1)**, states that 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.

**FINDING NUMBER 2010-12  
 (Continued)**

Appropriations were not accurately posted to the financial accounting system at December 31, 2010 as follows:

<b>Fund</b>	<b>Approved Appropriations</b>	<b>Appropriations posted to the UAN System</b>	<b>Variance</b>
General	\$0	\$133,878	\$(133,878)
Street CMR	0	56,665	(56,665)
Community Center	0	300	(300)
Fire	0	49,883	(49,883)
EMS	0	259,362	(259,362)
Gratis Beautification	0	678	(678)
FEMA	0	4,085	(4,085)
Water Operating	0	169,374	(169,374)
Sewer Operating	0	158,293	(158,293)
Trash Operating	0	85,144	(85,144)
Water Debt	0	21,500	(21,500)
Sewer Debt	0	37,600	(37,600)

Estimated receipts were not accurately posted to the financial accounting system at December 31, 2010 as follows:

<b>Fund</b>	<b>Estimated Receipts</b>	<b>Estimated Receipts posted to the UAN System</b>	<b>Variance</b>
General	\$125,741	\$112,707	\$13,034
Street CMR	55,425	51,425	4,000
Parks and Recreation	17,500	500	17,000
Fire	16,815	60,815	(44,000)
EMS	148,102	189,020	(40,918)
Sewer Operating	125,340	90,000	35,340

Budgeted receipts and appropriations were not accurately reported in the notes to the financial statements.

Failure to properly post appropriations and estimated receipts can result in an inability to monitor unrealized budgetary receipts and remaining uncommitted balances of appropriations timely and accurately. We recommend the Village properly post appropriations and estimated receipts to the financial accounting system.

**FINDING NUMBER 2010-12  
(Continued)**

**Officials' Response:**

The Village will properly post appropriations and estimated receipts to the UAN system.

**FINDING NUMBER 2010-13**

**Material Noncompliance**

**Ohio Revised Code, Section 5705.10(H)**, requires that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. At December 31, 2010, the General Fund had a negative cash balance of \$25,273.

We recommend the Village monitor financial activity and develop a plan to avoid negative cash balances.

**Officials' Response:**

The Village will monitor financial activity and develop a plan to avoid negative cash balances.

**FINDING NUMBER 2010-14**

**Material Noncompliance**

**Ohio Revised Code, Section 5705.10**, provides that money paid into a fund shall be used only for the purpose for which such fund was established. Therefore, money in a fund may be used to pay debt charges provided the payment of such debt charges is consistent with the purpose for which the fund was established.

The Village failed to pay debt from the proper funds: Sewer Revenue Bond payments of \$6,685 were made from the Sewer Operating Fund rather than the Sewer Debt Fund. Water Bond payments of \$11,685 were made from the Sewer Debt Fund rather than the Water Debt Fund. Twin Valley Bank Truck loan payments of \$5,738 were made from the Water Debt Fund rather than being split between the Water Operating and Sewer Operating Funds. OPWC loan payments of \$2,574 were made from the Water Debt Fund rather than the Water Operating Fund.

Adjustments were posted to the accompanying financial statements for these payments. Failure to pay debt charges from the correct fund could result in improper fund balances and also could result in debt covenant violations.

We recommend that money in a fund be used only for the intended purpose of the fund.

**Officials' Response:**

The Village will review money in fund and make sure it is used only for the intended purpose of the fund.

## FINDING NUMBER 2010-15

### Material Noncompliance / Material Weakness

**Ohio Revised Code, Section 733.28**, requires the Village Fiscal Officer to maintain the books of the Village and exhibit accurate statements of monies received and expended.

The Village's fiscal officer did not maintain an accurate receipt ledger, appropriation ledger or cash journal. The Village was also unable to classify receipts by source or disbursements by purpose in its annual report, contrary to **Ohio Revised Code, Section 117.38**.

The 2010 financial statements present receipts and disbursements by totals only. **Ohio Administrative Code, 117-2-02(A)**, requires governments to classify receipt and disbursement transactions, however, accurate receipts and appropriations ledgers were not maintained.

Review of the Village's ledgers noted the following exceptions:

- \$415,304 of receipts posted to the accounting system did not agree to the bank.
- Deposits shown on Village bank statements of \$465,651 did not agree to the UAN system.
- Expenditures shown on Village bank statements of \$88,700 were not posted to the UAN system.
- Expenditure posting errors of \$181 were noted.
- Expenditures of \$5,000 did not trace to the bank.
- Outstanding check lists were not reported accurately. At December 31, 2010, outstanding checks were understated by \$22,088.

The above exceptions were noted during the performance of a proof of cash. The proof of cash facilitated the determination that transactions that cleared the bank were posted in the Village accounting records and financial activity posted to the Village accounting records cleared the bank.

Adjustments were made to the financial statements and posted to accounting records where applicable for the above misstatements. After making the above adjustments the Village was able to reconcile their accounting records to the bank statements.

Failure to accurately maintain the Village's accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity, 3) increases the risk that errors, theft or fraud could occur and not be detected, and 4) increases the likelihood that the Village's financial statements will be misstated.

We recommend the Village Fiscal Officer accurately maintain the Village's accounting records using the Village Officer's Handbook and village chart of accounts as guidance which can be located at [www.auditor.state.oh.us](http://www.auditor.state.oh.us) under Publications.

### Officials' Response:

The Fiscal Officer will maintain the Village's accounting records using the Village's Officers Handbook.

## FINDING NUMBER 2010-16

### Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village did not accurately reconcile its bank account to fund balances for the audit period necessitating a proof of cash to determine the completeness and accuracy of the amounts reported. Examples of discrepancies found are:

- A reconciliations was not completed for January 2010.
- The Village reported outstanding checks that were greater than one year old.
- Eleven of eleven completed monthly bank reconciliations had other adjusting factors and did not have adequate support for these other adjusting factors. The amounts ranged from \$14,915 to \$54,767.
- The Village's outstanding check value did not equal the Auditor of State's recalculated outstanding check value for December 31, 2010. The Village included checks that cleared the bank on their outstanding check listing and improperly excluded checks that had not cleared the bank from the list.
- As a result of our proof of cash procedures, the Village fund balances as of December 31, 2010 were increased by 7% or \$29,425.

We were able to accurately reconcile the Village's accounts through proof of cash auditing procedures. The Village has posted adjustments for these items in their accounting system.

Accurate reconciliations are a basic and essential internal control component for sound fiscal management. Village officials rely on accurate reconciliations to make sound financial decisions. Adjustments were posted to the financial statements and to accounting records to correct the above transactions.

We recommend the Village Fiscal Officer complete accurate monthly reconciliations. Other adjusting factors should be documented and adequately explained. Deposits in transit should be documented by receipt numbers reflecting the date, amount, and source of the deposit in transit. These deposits in transit should trace to the subsequent month's bank statement. Village officials should review and sign the reconciliations indicating their approval. Adjustments should be documented, and any unexplained differences should be investigated and resolved immediately. Outstanding checks older than six months should be investigated and appropriate actions taken to remove them from the reconciliation if they no longer apply. To improve record keeping and accountability of receipts we recommend that all interest and investment activity be properly posted. For guidance the Village should utilize the Village Officer's Handbook, which can be located at [www.auditor.state.oh.us](http://www.auditor.state.oh.us) under Publications.

### Officials' Response:

The Fiscal Officer will do a monthly reconciliation. All other adjusting factors will be documented and approved. The Village Officials will review and sign the reconciliation. Outstanding checks older than six months will be looked into too and taken off the reconciliation. The Village Officer's handbook and Village chart of accounts will be used as guidance.

### FINDING NUMBER 2010-17

#### Material Noncompliance

**Ohio Revised Code, Section 735.28**, states that in each village in which a water works, electric light plant, artificial or natural gas plant, or other similar public utility is situated, such legislative authority shall establish a board of trustees of public affairs, which shall consist of three members who are residents of the village. When the legislative authority establishes such board, the mayor shall appoint the members thereof, subject to the confirmation of the legislative authority. The successors of such appointed members shall be elected at the next regular election of municipal officers held in the village which occurs more than one hundred days after the appointment.

**Ohio Revised Code, Section 735.272**, states that upon the establishment of the position of village administrator, his appointment by the mayor and confirmation by the legislative authority of the village, as provided by section 735.271 of the Revised Code, the board of trustees of public affairs, if such a board has been created in accordance with section 735.28 of the Revised Code, shall be abolished and the term of office of members of such board shall terminate.

In the event the legislative authority abolishes the position of village administrator, as provided by section 735.271 of the Revised Code, a board of trustees of public affairs shall be established by operation of law and the mayor shall appoint three members of such board, subject to the confirmation of the legislative authority, who shall serve until the successors of such appointed members have been elected at the next regular election of municipal officers held in the village occurring more than one hundred days after the appointment of such members by the mayor, as provided by section 735.28 of the Revised Code. Such board of trustees of public affairs shall have those powers and duties as provided by sections 735.28 and 735.29 of the Revised Code and as otherwise provided by law.

The Village operates public utilities; however does not have a Board of Public Affairs or a Village Administrator. Failure to appoint a Board of Public Affairs or Village Administrator results in noncompliance with Ohio law and lack of oversight of the public utility operations. We recommend the Village appoint a Board of Public Affairs or appoint a Village Administrator to oversee the Village public utilities.

#### Officials' Response:

The Village will look into establishing a Board of Public Affairs.

### FINDING NUMBER 2010-18

#### Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed. Management should also ensure the collection and compilation of the data needed for the timely preparation of financial statements, as well as verifying the existence and valuation of assets and liabilities and periodically reconciling them to the accounting records. The Village does not have proper controls over emergency medical services (EMS) billing revenue as evidenced by the following:

**FINDING NUMBER 2010-18  
(Continued)**

In addition to providing EMS services to residents of the Village of Gratis, the Village also provides EMS services to the Village of West Elkton and Gratis Township through contracts. A third party administrator (TPA) bills the appropriate parties for these services and receives and processes the collections. The TPA forwards on a quarterly basis the proceeds of the collections for services provided to the three entities to the Village of Gratis. The Village of Gratis then records revenue for the portion of the EMS collections related to services provided to Village of Gratis residents, and writes checks to the Village of West Elkton and Gratis Township for the portion of the EMS collections that related to those entities. The Village of West Elkton and Gratis Township then issue checks back to the Village of Gratis for the original amount obtained from the Credit Detail report from the TPA that the Village of Gratis issued to them. This process is done based on the contract signed by the entities. Also, the Village did not record TPA service charges.

The Village failed to send all checks due to the Village of West Elkton and Gratis Township during the audit period. Also, the Village failed to record the activity on their books when the monies are originally deposited into the bank account. The Village also failed to record all Medicare payments deposited into the Twin Valley Bank account for two months in 2010. In addition, the Village did not record any of the service charges or interest deposits on their books from the Fifth Third MBI lockbox account.

Audit adjustments were required to increase EMS revenue for unrecorded Medicare and EMS billing by \$28,023 and EMS expenditures by \$828.

Adjustments were made to the accompanying financial statements for these items.

We recommend that the Village improve controls over the EMS receipts by depositing and recording the entire amount of EMS receipts and related fees upon receipt of the check and account information from the TPA.

Effective September 23, 2011, Ohio Revised Code Section 505.441 states that a township that enters into a contract that the contracting party shall collect and retain any fee that the township may charge for each run involving ambulance service, emergency medical service, or nonemergency patient transport service. According to this section, the Village may retain the fees instead of sending the monies to the entities and then the entities sending the money back to the Village. In order to follow this section, the entities would need to amend their contract include these Ohio Revised Code requirements. Also, in accordance with Ohio Revised Code Section 505.441, the contract shall require that once each month, the contracting party shall provide a written report that includes the previous month's number of runs the contracting party made in the township, the amount that was billed for each run, and the amount received for each run from the person that was billed for that particular run. The report also shall include the total amount collected that calendar year to date and the total amount outstanding that calendar year to date.

**Officials' Response:**

The Village will improve controls over the EMS receipts by depositing and recording the entire amount of the EMS receipts and related fees upon receipt of the check and account information from the TPA. The Village will revise contracts with the Village of West Elkton, Gratis Township and the Village of Gratis.

## FINDING NUMBER 2010-19

### Material Noncompliance / Material Weakness

**Ohio Revised Code, Section 5705.09(F)**, requires the Village to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified to the County Auditor as available for expenditure and anticipated expenditures should be included in the Village's appropriations.

As further discussed in Ohio Compliance Supplement Chapter 1 and Auditor of State Bulletin 2000-008, the Clerk shall record the appropriations in accordance with the terms and conditions of the on-behalf grant or project agreement. Ohio Rev. Code Section 5705.42 requires Federal and State grants or loans are "deemed appropriated for such purpose by the taxing authority" as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection. "Deemed an appropriation" under this section means the Federal or State government has already appropriated and established the purpose(s) for which a government can spend monies received from Federal or State grants and loans. The taxing authority cannot deviate from this purpose; the taxing authority can only resolve to spend the money for a purpose already prescribed in a contract, grant agreement, loan agreement, etc. Therefore, Federal and State grants and loans received under Ohio Rev. Code Section 5705.42 do not require formal appropriation by the legislative body. In other words, Ohio Rev. Code Section 5705.42 effectively eliminates an unnecessary appropriation action by the taxing authority. However, Ohio Rev. Code Section 5705.42 directs the fiscal officer to record the appropriation amount in the accounting system. The fiscal officer should also include the appropriated amounts on the (amended) certificate to properly monitor budget versus actual activity.

The Village did not record CDBG monies disbursed on behalf of the Village totaling \$242,346 for 2010. Also, the appropriations related to the grant money and loan proceeds were not properly posted to the accounting system. The accompanying financial statements have been adjusted to reflect the activity. We recommend that the Village following the accounting treatment as prescribed in Auditor of State Bulletin 2000-008 for on-behalf grants and loans.

### Officials' Response:

The Village will record all grants and loans as prescribed in the Auditor of State Bulletin 2000-008.

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**VILLAGE OF GRATIS  
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2009-01	Finding for Recovery against Serrer Phillips.	No*	Not corrected – not repaid as of November 30, 2011.
2009-02	Finding for Recovery against Olivia Hill.	No*	Not corrected – not fully repaid as of November 30, 2011.
2009-03	Finding for Recovery against Serrer Phillips	No*	Not corrected – not repaid as of November 30, 2011.
2009-04	Finding for Recovery against Serrer Phillips regarding utility monies unaccounted for.	No*	Not corrected – not repaid as of November 30, 2011.
2009-05	Finding for Recovery against Serrer Phillips regarding Mayor's Court monies unaccounted for.	No*	Not corrected – not repaid as of November 30, 2011.
2009-06	Finding for Recovery against Serrer Phillips regarding money owed to the Treasurer of State.	No*	Not corrected – not repaid as of November 30, 2011.
2009-07	Finding for Adjustment for amounts due to the Village from Mayor's Court.	No*	Not corrected – not adjusted as of November 30, 2011.
2009-08	Ohio Rev. Code, Section 733.28, failure to exhibit accurate statements of monies received and expended.	No*	Not corrected. Reissued as Finding 2010-15.
2009-09	Failure to properly reconcile.	No*	Not corrected. Reissued as Finding 2010-16.
2009-10	Failure to document utility adjustments.	No*	Utility testing for 2010 was completed with the 2008-2009 audit.
2009-11	Ohio Rev. Code, Section 17 and Ohio Rev. Code Section 735.272, failure to establish a Board of Public Affairs or Village Administrator.	No*	Not corrected. Reissued as Finding 2010-17

\* The periods ending December 31, 2008, December 31, 2009, and December 31, 2010 were audited concurrently.

Village of Gratis  
 Preble County  
 Schedule of Prior Audit Findings  
 Page 2

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2009-12	Ohio Rev. Code, Section 149.351, failure to maintain records.	No*	Not corrected. Reissued as Finding 2010-05.
2009-13	Failure to have proper controls over emergency medical services billing revenue.	No*	Not corrected. Reissued as Finding 2010-18
2009-14	Lack of management oversight in the posting of financial activity.	No*	Not corrected. Reissued as Finding 2010-04.
2009-15	Ohio Rev. Code, Section 5705.09(F), failure to record on-behalf activity.	No*	Not corrected. Reissued as Finding 2010-19.
2009-16	Failure to reconcile the Mayor's Court bank account.	No*	Mayor's Court testing for 2010 was completed with the 2008-2009 audit.
2009-17	Ohio Rev. Code, Section 1905.01(F), failure to maintain complete and accurate Mayor's Court records.	No*	Mayor's Court testing for 2010 was completed with the 2008-2009 audit.
2009-18	Ohio Rev. Code, Section 733.40, failure to disburse Mayor's Court fines to the Village.	No*	Mayor's Court testing for 2010 was completed with the 2008-2009 audit.
2009-19	Ohio Rev. Code, Section 2949.091, failure to remit Mayor's Court fines to the State.	No*	Mayor's Court testing for 2010 was completed with the 2008-2009 audit.
2009-20	Ohio Rev. Code, Section 2743.70, failure to remit Mayor's Court fines to the State.	No*	Mayor's Court testing for 2010 was completed with the 2008-2009 audit.
2009-21	Lack of management oversight in the posting of debt and expenditure activity.	No*	Not corrected. Reissued as Finding 2010-03.
2009-22	Ohio Rev. Code Section 5705.41(D)(1), failure to certify funds.	No*	Not corrected. Reissued as Finding 2010-06.

\* The periods ending December 31, 2008, December 31, 2009, and December 31, 2010 were audited concurrently.

Village of Gratis  
 Preble County  
 Schedule of Prior Audit Findings  
 Page 3

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2009-23	Ohio Rev. Code, Section 5705.36(A)(4), appropriations exceed actual resources.	Yes	Corrected.
2009-24	Ohio Rev. Code, Section 5705.10(H), negative fund balance for General Fund.	No*	Not corrected. Reissued as Finding 2010-13.
2009-25	Ohio Rev. Code, Section 5705.41(B), expenditures exceed appropriations.	No*	Not corrected. Reissued as Finding 2010-11.
2009-26	Utility collections not deposited and recorded daily.	No*	Utility testing for 2010 was completed with the 2008-2009 audit.
2009-27	Lack of oversight over utility receipts	No*	Utility testing for 2010 was completed with the 2008-2009 audit.

\* The periods ending December 31, 2008, December 31, 2009, and December 31, 2010 were audited concurrently.

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# Dave Yost • Auditor of State

VILLAGE OF GRATIS

PREBLE COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
DECEMBER 27, 2011