



Dave Yost • Auditor of State

VILLAGE OF MARTINSVILLE
CLINTON COUNTY

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Dave Yost • Auditor of State

Village of Martinsville
Clinton County
101 School Street
Martinsville, Ohio 45146

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

October 12, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Martinsville
Clinton County
101 School Street
Martinsville, Oh. 45146

To the Village Council:

We have audited the accompanying financial statements of the Village of Martinsville, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2010 and 2009. 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 noted below in paragraph six, 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.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 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 and 2009, or its changes in financial position for the years then ended.

We were unable to obtain sufficient evidence to support the completeness of the Water Revenue Fund Charges for Services receipts comprising 82% of operating receipts in the Enterprise Fund Type for 2010 and 2009, nor were we able to satisfy ourselves as to the completeness of these receipts by other auditing procedures. In addition, we were unable to obtain sufficient evidence to support the completeness of the Water Deposit Fund balance at December 31, 2010 and 2009, comprising 97% and 89%, respectively, of the Enterprise Fund Type Fund Balance.

Also, in our opinion, except for the effects of adjustments, if any, as might have been determined to be necessary had we been able to examine evidence supporting the Enterprise Fund Charges for Services receipts for 2010 and 2009 and the Water Deposit Fund balance at December 31, 2010 and 2009, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Village of Martinsville, Clinton County, Ohio as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 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

October 12, 2011

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Local Taxes	\$11,235	\$0	\$11,235
Intergovernmental	18,105	13,376	31,481
Special Assessments		6,786	6,786
Earnings on Investments	12	21	33
Miscellaneous	<u>2,473</u>	<u>502</u>	<u>2,975</u>
 Total Cash Receipts	 <u>31,825</u>	 <u>20,685</u>	 <u>52,510</u>
Cash Disbursements:			
Current:			
Security of Persons and Property		5,534	5,534
Transportation		13,156	13,156
General Government	<u>31,770</u>	<u>25,293</u>	<u>57,063</u>
 Total Cash Disbursements	 <u>31,770</u>	 <u>43,983</u>	 <u>75,753</u>
 Total Receipts Over/(Under) Disbursements	 <u>55</u>	 <u>(23,298)</u>	 <u>(23,243)</u>
 Fund Cash Balances, January 1	 <u>14,116</u>	 <u>49,169</u>	 <u>63,285</u>
 Fund Cash Balances, December 31	 <u>\$14,171</u>	 <u>\$25,871</u>	 <u>\$40,042</u>
 Reserve for Encumbrances, December 31	 <u>\$1,080</u>	 <u>\$229</u>	 <u>\$1,309</u>

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

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

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

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$115,813
Total Operating Cash Receipts	115,813
Operating Cash Disbursements:	
Personal Services	22,588
Employee Fringe Benefits	3,495
Contractual Services	71,574
Other	10,030
Total Operating Cash Disbursements	107,687
Operating Income/(Loss)	8,126
Non-Operating Cash Disbursements:	
Capital Outlay	
Redemption of Principal	7,668
Interest and Other Fiscal Charges	1,410
Total Non-Operating Cash Disbursements	9,078
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(952)
Fund Cash Balances, January 1	10,450
Fund Cash Balances, December 31	\$9,498
Reserve for Encumbrances, December 31	\$53,405

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

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Local Taxes	\$11,474	\$0	\$11,474
Intergovernmental	17,223	15,495	32,718
Special Assessments		6,793	6,793
Fines, Licenses and Permits	1,850		1,850
Earnings on Investments	42	2	44
Miscellaneous	867		867
Total Cash Receipts	31,456	22,290	53,746
Cash Disbursements:			
Current:			
Security of Persons and Property		6,448	6,448
Transportation		7,340	7,340
General Government	25,310	19,614	44,924
Total Cash Disbursements	25,310	33,402	58,712
Total Receipts Over/(Under) Disbursements	6,146	(11,112)	(4,966)
Fund Cash Balances, January 1	7,970	60,281	68,251
Fund Cash Balances, December 31	\$14,116	\$49,169	\$63,285
Reserve for Encumbrances, December 31	\$42	\$189	\$231

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

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$121,407
Total Operating Cash Receipts	121,407
Operating Cash Disbursements:	
Personal Services	21,558
Employee Fringe Benefits	3,214
Contractual Services	82,882
Other	13,513
Total Operating Cash Disbursements	121,167
Operating Income/(Loss)	240
Non-Operating Cash Disbursements:	
Redemption of Principal	7,150
Interest and Other Fiscal Charges	1,911
Total Non-Operating Cash Disbursements	9,061
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(8,821)
Fund Cash Balances, January 1	19,271
Fund Cash Balances, December 31	\$10,450
Reserve for Encumbrances, December 31	\$90,764

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

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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 Martinsville, Clinton County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, street maintenance and water utilities. The Village contracts with the Clinton County Sheriff's department to provide security of persons and property. The Village contracts with the Clinton County Sheriff's Department to provide police protection services. Fire protection is provided by the Clark Township Volunteer Fire Department.

The Village participates in a jointly governed organizations and the Public Entities Pool of Ohio public entity risk pool. Notes 7 and 8 to the financial statements provides additional information for these entities. These organizations are:

Public Entity Risk Pool:

Public Entities Pool of Ohio – provides the Village with liability and property insurance coverage.

Jointly Governed Organization:

Clinton County Regional Planning Commission – formulates and reviews plans affecting long and short term social, economic, and governmental development within the region which includes the Village.

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

B. Accounting Basis

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

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

C. Cash and Deposits

The Village deposits all available funds in an interest bearing checking account at a local commercial bank.

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:

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

1. General Fund

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

2. Special Revenue Funds

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

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

Street Lighting Fund - This fund receives special assessment money for maintaining and repairing the Village street lights.

3. Enterprise Funds

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

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

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

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2010 and 2009 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.

2. Equity in Pooled Cash Deposits

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 was as follows:

	2010	2009
Demand deposits	\$49,539	\$73,735

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$38,700	\$31,825	(\$6,875)
Special Revenue	63,163	20,685	(42,478)
Enterprise	138,164	115,813	(22,351)
Total	\$240,027	\$168,323	(\$71,704)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$53,595	\$32,850	\$20,745
Special Revenue	108,584	44,212	64,372
Enterprise	239,378	170,170	69,208
Total	\$401,557	\$247,232	\$154,325

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

3. Budgetary Activity (Continued)

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$31,659	\$31,456	(\$203)
Special Revenue	25,300	22,290	(3,010)
Enterprise	122,587	121,407	(1,180)
Total	\$179,546	\$175,153	(\$4,393)

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$41,535	\$25,352	\$16,183
Special Revenue	59,458	33,591	25,867
Enterprise	205,776	220,992	(15,216)
Total	\$306,769	\$279,935	\$26,834

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Water Revenue Fund by \$33,446 for the year ended December 31, 2010. Budgetary expenditures exceeded appropriation authority in the Water Revenue Fund by \$14,303 and by \$2,713 in the Refuse Fund during 2009. Also contrary to Ohio law, at December 31, 2010, the Water Revenue Fund had a cash deficit balance of (\$1,142).

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.

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

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

5. Debt

Debt outstanding at December 31, 2010 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$12,477	7.24%

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

5. Debt (Continued)

The Ohio Water Development Authority (OWDA) loan relates to a water plant expansion project the Ohio Environmental Protection Agency mandated. The OWDA approved up to \$94,908 in loans to the Village for this project. The Village will repay the loans in semiannual installments of \$9,126, including interest, over 20 years. Water receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. In May of 2003, OWDA authorized an interest rate subsidy program which effectively reduced the interest rate to 7% on the outstanding balance of the loan.

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

Year ending December 31:	<u>OWDA Loan</u>
2011	4,544
2012	9,106
Total	<u><u>\$13,650</u></u>

6. Retirement System

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

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, 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.

7. 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.

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

7. Risk Management (Continued)

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 and 2009:

	<u>2010</u>	<u>2009</u>
Assets	\$34,952,010	\$36,374,898
Liabilities	<u>(14,320,812)</u>	<u>(15,256,862)</u>
Net Assets	<u>\$20,631,198</u>	<u>\$21,118,036</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.9 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. 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 \$4,100.

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>	<u>2009</u>
\$4,228	\$4,336

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.

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

8. Jointly Governed Organization

The constitution and laws of the State of Ohio establish the rights and privileges for the Clinton County Regional Planning Commission, Clinton County, Ohio (the Commission), as a body corporate and politic. An appointed 13 member Board governs the Commission. The Board consists of representatives from participating political subdivisions, the county commissioners, and appointed citizens. The Commission formulates and reviews plans affecting long and short term social, economic, and governmental development within the region. The participating subdivisions are:

Clinton County	Village of Midland	Village of Clarksville	Union Township
City of Wilmington	Village of Blanchester	Village of Sabina	
Village of Martinsville	Village of Port William	Village of New Vienna	

9. Compliance

The Village did not keep records in accordance with Ohio Rev. Code, Section 733.28.

The Village did not properly certify or encumber funds in accordance with Ohio Rev. Code, Section 5705.41(D).

The Village did not establish adequate water rates in accordance with Ohio Water Development Authority (OWDA) loan agreement.

Estimated receipts exceeded actual receipts and the deficiency reduced available resources below the current level of appropriations contrary to Ohio Rev. Code Section 5705.36(A)(4).

Monies were not posted to the proper funds contrary to Ohio Rev. Code, Section 5705.09(F).

Monies were improperly adjusted contrary to Ohio Rev. Code, Section 5705.10.

The Village Administrator did not manage the operations of the village in accordance with Ohio Rev. Code, Section 735.273 and Ohio Adm. Code Section 11702-02(D).

The Village's expenditures exceeded appropriations in various funds contrary to Ohio Rev. Code, Section 5705.41(B).

The Village's estimated receipts exceeded actual receipts in various funds contrary to Ohio Rev. Code, Section 5705.36(A)(2).

10. Subsequent Events

At December 31, 2010, the Village had an unpaid balance due to the Highland County Water, Inc. (HCW) in the amount of \$53,176 and the Water Revenue Fund had a negative cash fund balance of (\$1,142). This unpaid balance is included in the outstanding encumbrance on the financial statements.

The Highland County Water Inc., (HCW) had billed the Village approximately \$226 per month for bulk water during 2009 and 2010. HCW informed the Village that they had been billing the Village the incorrect amount since the end of 2008. The billing rate was corrected during the summer of 2011 and correct rates are now being billed to the Village. The new monthly rate being charged to the Village is approximately \$8,800; however, the Village only collects approximately \$7,831 per month.

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

10. Subsequent Events (Continued)

The amount collected is not adequate to fund the Water Revenue Fund. As noted in the previous paragraph, the Village had a negative fund balance in the Water Revenue Fund of (\$1,142). The following table reflects the potential cost of maintaining the system.

Number of Households	Price Per Household	Potential Monthly Water Revenue	Average Bill from HCW	Monthly Variance	Yearly Variance
187	\$42.50	\$7,947.50	\$8,885	(\$937.50)	(\$11,250)

If the Village fails to collect enough water revenue to pay HCW then the Village's General Fund may have to cover the cost of providing service to the citizens of the Village. The General Fund balance at December 31, 2010 was \$14,171 with outstanding encumbrances of \$1,080.



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 Martinsville
Clinton County
101 School Street
Martinsville, Ohio 45146

To the Village Council:

We have audited the financial statements of the Village of Martinsville, Clinton County, Ohio (the Village), as of and for the year ended December 31, 2010 and 2009, and have issued our report thereon dated October 12, 2011 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted 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 qualified our opinion on the Enterprise Fund Type Charges for Services for 2010 and 2009 due to an inability to obtain sufficient evidence to support the completeness of Charges for Services receipts. We also qualified our opinion on the December 31, 2010 and 2009 Water Deposit Fund balance due to an inability to obtain sufficient evidence to support the completeness of the water deposits held by the Village. Except as discussed in the preceding two sentences, 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 and other deficiencies we consider to be significant deficiencies.

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 2010-01 through 2010-04 and 2010-06 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2010-08 and 2010-09 described in the accompanying schedule of findings to be significant deficiencies.

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 and 2010-04 through 2010-08, 2010-10 and 2010-11.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated October 12, 2011.

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



Dave Yost
Auditor of State

October 12, 2011

VILLAGE OF MARTINSVILLE
CLINTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009

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

FINDING NUMBER 2010-01

NonCompliance Citation/Material Weakness

Ohio Rev. Code, Section 733.28, states that the village fiscal officer must keep the books of the village, exhibit accurate statements of all moneys received and expended, all property owned by the Village and income derived thereof, and all taxes and assessments.

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

(4)(b)Utilities billing records including:

- i. Master file of service address, account numbers, billing address, type of services provided, and billing rates;
- ii. Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and non-cash adjustments, each maintained by date and amount;
- iii. Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above

We noted that the following conditions existed during the audit period:

- No records were provided to determine which consumers had paid a water deposit. No subsidiary ledger was maintained with any information about money that was paid or refunded for water deposits;
- The Village records the list of water consumers by name instead of household address. As a result, it could not be determined if all households that are receiving water are being billed for water;
- The Village's debt payments were posted to the wrong line item;
- As noted in the Village's minutes, the Village officials instructed the fiscal officer to move monies from the Water Deposit Fund to the Water Revenue Fund. Water Deposit Funds are restricted and placed into a separate fund so that when consumers move out of town, they can be reimbursed.

We were unable to audit the utility receipts to ensure completeness of the Water Revenue Fund charges for services receipts reported as part of the Enterprise Fund Type on the financial statements. These Water Revenue Fund charges for services comprise 82% of the total Enterprise Fund Type Charges for 2010 and for 2009. Village management indicated that utility records were either lost or destroyed during 2008. A new list was recreated in 2009 which listed the name of the person on the water revenue account, but no actual service address or account number was used to identify the household for billing purposes. We were unable to obtain sufficient evidential matter regarding the Water Revenue Enterprise Fund's Charges for Services receipts or to perform alternative auditing procedures to ensure completeness over the applicable receipts.

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

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Councils' ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the Village's financial statements will be misstated.

The following table reflects the reclassification of the debt payments to the audit report.

2009	Principal Payment	Interest	Contractual Services
Water Fund	\$7,150	(\$7,150)	
2010			
Water Fund	\$7,668	(\$3,124)	(\$4,544)

We recommend the following:

- The Village should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location;
- The Village should obtain a copy of the billing information that Clinton County uses for sewer billing and compare their water billing list to the report prepared by the County. The Village should also maintain an actual roster of households by address along with a corresponding account number. In addition, the Village should compare the list to the actual households to determine that all residents are being billed for utility usage. A hard copy of the billing roster should be maintained in a separate place. This roster could be used as a backup in the event that utility records have been lost or destroyed;
- The Village should review the chart of account and post debt payments to the proper account;
- The Village should maintain a record of all utility deposits received, refunded and/or forfeited.

FINDING NUMBER 2010-02

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section § 5705.41(D)(1), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the 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. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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.

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

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.

Contrary to the above requirement, the availability of funds was not certified for 8 of 20 (40%) transactions tested for 2009 and 6 of the 20 (30%) transactions tested for 2010 and no evidence was discovered that any of the above mentioned exceptions were utilized. Failure to certify the availability of funds resulted in overspending funds and negative cash balances. Adjustments have been posted to the financial statements to record outstanding encumbrances of \$90,764 at December 31, 2009 and \$54,717 at December 31, 2010.

Prior certification is not only required by statute but also 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 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.

FINDING NUMBER 2010-03

Material Weakness

In addition to the utility weaknesses noted in Finding 2010-01, we also noted that the Village maintains a register of water deposits, but it did not maintain a current record of all customers that have a water deposit.

**FINDING NUMBER 2010-03
(Continued)**

The Village keeps the water deposits in a separate Water Deposit Fund which is reported as part of the Enterprise Fund Type on the financial statements. We were able to test the 2009 and 2010 deposits received and deposits applied to activity posted in the Water Deposit Fund. However, due to the Village's failure to maintain a record of all customers that have a water deposit on-hand with the Village, we were unable to gain assurances on the completeness of the fund balance in the Water Deposit Fund at December 31, 2010 and 2009. The Water Deposit Fund balance at December 31, 2010 was \$10,421 and at December 31, 2009 was \$9,221, comprising 97% and 89%, respectively, of the Enterprise Fund Type Fund Balance.

We recommend the Village maintain a listing of all users and the amount of water deposit that is being held or when the deposit was refunded. The total amount of the listing should reconcile to the Water Deposit Fund Balance. Since water deposit amounts fluctuate, it is essential to have supporting documentation that reconciles to the Water Deposit Fund and to help ensure that the Village has sufficient funds to cover refunds and to refund deposits accurately. We also recommend the Village certify balances to the County Auditor for delinquent water accounts in an attempt to collect on any outstanding balances.

Furthermore, the Village has a contract with D and A Trash Removal to provide refuse service to the Village residents at a flat rate of \$1,794 per month per month for a yearly total of \$21,528. The Village's one hundred fifty six customers are charged a flat rate of \$11.50 per month for a total amount of \$21,528 per year in potential revenue that the Village should be collecting for trash pickup. However, the Village only received \$20,347 in 2009 and \$20,596 in 2010. At the December 31, 2009 year end, the Refuse Fund balance was \$566 and the ending fund balance for the Refuse Fund for the year end December 31, 2010 was \$219. The flat rate charged to the Village residents for trash removal is insufficient to pay the contract, related overhead expenses and delinquent accounts. As a result, the Village's General Fund may have to subsidize this fund due to delinquent accounts and overhead expenses. We recommend the Village review the cost of providing trash pickup to the residents and establish a rate to cover all operating costs.

FINDING NUMBER 2010-04

Noncompliance Citation/Material Weakness

The OWDA loan Cooperative Agreement for State Planning Project 5-95, Section 3.2 (a) requires the Village to prescribe and charge such rates for the services of the system as shall result in pledged revenues at least adequate to provide for the payments required for the loan. Due to the Village's former utility billing system being deleted when an update was made to the UAN system, the Village was unable to verify that the rates charged was sufficient to provide for the payments required for the OWDA loan.

The Village did not collect sufficient revenue to offset the additional cost of supplying water to the Village residents. The Village purchases water from Highland County Water, Inc. (HCW) to supply the Village residents with water. The Village did not monitor the meter readings by comparing gallons purchased from (HCW) to the total amount of gallons the customers used. HCW bills the Village each month for the total amount of water that runs through the Village's master meter. The Village then bills each resident a flat rate on a monthly basis. The utility receipts are collected and deposited into the Village's Water Revenue Fund. The Village owed \$90,764 to (HCW) at December 31, 2009, however the adjusted Water Revenue Fund's balance was only \$10,450. During 2010, the Village only paid \$54,052.28 towards their unpaid balance. The Village owed \$53,176 to (HCW) at December 31, 2010, and the adjusted Water Revenue Fund's balance was (\$1,142).

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

Also, the Village did not have a complete list of utility customers as of December 31, 2010. When the utility records were deleted, to recreate a new list of utility users the Village used aged receivable records. Several council members reviewed and signed off the new customer list. There was no assurance the customer list is complete, that all users are being billed or, if necessary, included on the delinquency list. Monitoring the usage and purchasing of water is essential to ensure that the Village is able to properly assess the rates being charged and to monitor for leaks in a timely manner. Failure to monitor prevents the Village from being able to determine if there is a leak or just increases in usage. The officials must review the cost of maintaining and supplying water to the residents and establish rates based on the cost of maintaining the water system. The Village should continue to monitor their water usage and to work towards a solution to correct the water consumption. In addition, the Village should develop effective billing and collection procedures to reduce the customer delinquency amount and verify the listing of all meters/taps and the addresses to ensure that all houses receiving utility services are being billed.

FINDING NUMBER 2010-05

Noncompliance Citation

Ohio Rev. 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. At December 31, 2010, and 2009, the Village had estimated receipts that exceeded actual receipts and the deficiency reduced available resources below the current level of appropriations. Failure to monitor budgetary activity could result in overspending and negative fund balances. We recommend that the Village comply with the above Ohio Revised Code Section and obtain an amended certificate when necessary.

2010	Available Resources plus Beginning Cash Fund Balances	Current Year Appropriations plus Prior Year Carryover Appropriations	Excess
General Fund	\$49,878	\$53,595	(\$3,717)
Street Construction and Maintenance Fund	42,461	74,927	(32,466)
State Highway Fund	16,503	25,490	(8,987)
Street Lighting Fund	6,953	8,167	(1,214)
Water Revenue Fund	94,634	206,496	(111,862)

2009	Available Resources plus Beginning Cash Fund Balances	Current Year Appropriations plus Prior Year Carryover Appropriations	Excess
General Fund	\$40,664	\$41,535	(\$ 871)
Water Revenue Fund	117,345	183,718	(66,373)

FINDING NUMBER 2010-06

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 5705.09(F), provides that each subdivision shall establish a special fund for each source of revenue derived from a source other than the general property tax which the law requires to be used for a particular purpose. Monies were not always posted to the particular fund specified by their purpose. Ohio Rev. Code Section 5705.10(H) provides that monies paid into any fund shall be used only for the purpose for which such fund is established.

The Village posted the street lighting special assessment to the General Fund instead of the Street Lighting Fund. In addition, the Village improperly adjusted \$5,000 from the Water Deposit Fund to the Water Revenue Fund. We proposed adjustments to the financial statements to reverse effects of these items. The following table reflects the net effect of the adjustments to the audit report. The Village made the adjustments to their financial records to reflect receipts and expenditures in the proper funds.

Fund	Net Effect of Adjustments on Fund Balance Increase/(Decrease)
General	(\$3,937)
Street Lighting	3,937
Water Revenue	(5,000)
Water Deposit	5,000

Prior to these adjustments, the records maintained by the Fiscal Officer were not an accurate reflection of all monies received and expended by the Village. Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces Council's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that monies will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated.

We recommend the Fiscal Officer accurately maintain the accounting records in accordance with the uniform accounting system prescribed by the Auditor of State. Council should follow procedures to properly monitor the Village's financial activity.

FINDING NUMBER 2010-07

Noncompliance Citation

Ohio Rev. Code, 5705.10, requires that monies paid into any fund is used only for purposes for which such fund is established. During 2009, the Village approved a \$5,000 adjustment from the Water Deposit Fund to the Water Revenue Fund. We proposed an adjustment to correct the above adjustment approved by council. The Village made the adjustments to their financial records to reflect the proper fund balances. At December 31, 2010, the Village had a negative cash fund balance in the Water Revenue Fund of (\$1,142).

A negative cash fund balance is an indication that revenues from other sources were used to pay obligations of these funds. Fund activity should be monitored by the Village to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

FINDING NUMBER 2010-08

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code, Section 735.273, states that the village administrator appointed under **Ohio Rev. Code, Section 735.271**, shall manage, conduct, and control the water works. The Village Administrator is also responsible for billings and collections of water and trash.

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

(4)(b)Utilities billing records including:

1. Master file of service address, account numbers, billing address, type of services provided, and billing rates;
2. Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and non-cash adjustments, each maintained by date and amount;
3. Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above.

Ohio Rev. Code, Section 743.04, states for the purpose of paying the expenses of conducting and managing the waterworks of a municipal corporation, including operating expenses and the costs of permanent improvements, the director of public service or any other city official or body authorized by charter may assess and collect a water rent or charge of sufficient amount and in such manner as he or it determines to be most equitable from all tenements and premises supplied with water. When water rents or charges are not paid when due, the director or other official or body may do either or both of the following.

- (A) Certify them, together with any penalties to the county auditor.
- (B) Collect them by actions at law, in the name of the city from an owner, tenant, or other person who is liable to pay the rents or charges.

As required by the Ohio Revised Code, the Village has appointed a Village Administrator; however, the Village Administrator is not managing the daily operations of the utility billings and collections. The Village has appointed the Fiscal Officer to be in charge of all utility transactions. We noted that the Village Administrator did not provide for audit: complete customer lists for water and trash; complete lists of receivables for water and trash; complete lists of water and trash receipts along with the delinquent accounts. Water and Refuse records are not maintained separately in the utility system. Currently, the Village is using Quick Books as the Village's software system, to account for their water and refuse. However, this software is not set up to segregate specific payments to either the Water or Refuse Fund. The Fiscal Officer informed us that she is manually splitting the amounts between the Water and Refuse Funds. She applies all the past due amounts received to the Refuse Fund first, but has no way to check to see what she has posted to ensure that the total past due collections are allocated properly. As a result, we were not able to ensure completeness over the Water and Trash receipts. Additionally, the receivable reports have significant ending balances and no attempt has been made to collect outstanding receivables for water and trash by Council.

**FINDING NUMBER 2010-08
(Continued)**

Failure to prepare accounting records 1) reduces the accountability over Village funds, 2) reduces the Councils' ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the Village's financial statements will be misstated.

We recommend the Village Administrator maintain the Village's accounting records in accordance with the Ohio Administrative Code. The Village should develop policies and procedures to collect all outstanding receivables for trash and water. Also, we recommend the Village develop a policy to ensure that the amounts allocated between water and trash revenue are completed appropriately.

FINDING NUMBER 2010-09

Significant Deficiency

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

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that accounting records are properly designed.
- Plan for adequate segregation of duties or compensating controls.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.

The small size of the Village does not allow for an adequate segregation of duties. The Fiscal Officer processes all the financial record keeping including receipting, posting, and reconciling to the depository. Bookkeeping errors occurred without the detection of management. It is, therefore, important that Council monitor financial activity.

The following conditions were noted:

- Detailed, signed and dated credit card receipts were not attached to monthly statements to document what items were purchased and by whom. The Village does not have a credit card policy in place for their use;
- Supporting documentation was not always attached to the voucher packet to support the validity of the expenditure. Payments were made to individuals for "Street Work" without any documentation showing actual work performed or approval by Council;
- The Village did not approve a contract with the Water Administrator which outlines the duties and rate of pay;
- Reimbursements were made to a Village official for internet service without any documentation for the actual services charged or record of approval by Council;
- Manual checks were noted as being issued even though the Village is on the UAN system.

**FINDING NUMBER 2010-09
 (Continued)**

Failure to accurately prepare the accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated. To help strengthen the Village's internal control structure and reduce the likelihood of undetected errors, we recommend the Village's officials and management implement the following controls:

- Detailed, signed and dated credit card receipts should be maintained and attached to the monthly statements and voucher packet. A comparison should be made between the goods/services included on the credit card receipts and the goods/services received and billed. A policy needs to be established by the Village outlining necessary guidelines for credit card use;
- Supporting documentation should be maintained and required for all expenditures made by the Village. Preapproval for any work to be completed by individuals (other than employees of the Village) should be documented in the minute records of the Village and supporting documentation of work completed should be attached to the voucher packet;
- A contract should be provided by the Village to the Water Administrator outlining specific duties and the rate of pay for the position;
- Approval of reimbursements should be documented in the minute record of the Village and documentation supporting the reimbursement amount should be provided and attached to the voucher packet;
- Manual checks should not be written unless absolutely necessary. The use of manual checks increases the chances of errors or omissions and makes the preparation of the monthly reconciliation difficult; and
- Officials should periodically review the accounting records and financial statements to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer.

FINDING NUMBER 2010-010

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. The following funds had expenditures which exceeded appropriations:

2009	Prior Year Carryover Appropriations plus Current Year	Disbursements plus Outstanding Encumbrances	Variances
Water Revenue Fund	\$183,718	\$198,021	(\$14,303)
Refuse Fund	\$20,058	\$22,771	(\$2,713)

2010	Prior Year Carryover Appropriations plus Current Year	Disbursements plus Outstanding Encumbrances	Variances
Water Revenue Fund	\$115,735	\$149,181	(\$33,446)

FINDING NUMBER 2010-011

Noncompliance Citation

Ohio Rev. Code, Section 5705.36(A)(2), allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. 5705.36(A)(3) requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. We noted the following funds had estimated receipts exceeding actual receipts.

2010	Estimated Receipts	Actual Receipts	Variance
General Fund	\$38,700	\$31,825	(\$ 6,875)
Street Construction and Maintenance Fund	\$45,163	\$12,886	(\$32,277)
State Highway Fund	\$ 10,000	\$ 1,013	(\$ 8,987)
Street Lighting Fund	\$ 8,000	\$ 6,786	(\$ 1,214)
Water Revenue Fund	\$115,071	\$93,970	(\$21,101)
Refuse Fund	\$22,092	\$20,596	(\$ 1,496)

2009	Estimated Receipts	Actual Receipts	Variance
General Fund	\$31,659	\$31,456	(\$ 203)
Street Construction and Maintenance Fund	\$ 17,000	\$14,334	(\$2,666)
State Highway Fund	\$ 1,324	\$ 1,163	(\$ 161)
Street Lighting Fund	\$ 6,976	\$ 6,793	(\$ 183)
Water Revenue Fund	\$101,747	\$99,160	(\$2,587)

Failure of the Village to monitor budgetary activity can result in overspending and negative fund balances. We recommend the Village use due care in monitoring their budgetary documents since these documents are an integral part of the budgetary control process. The Village should integrate the budgetary documents into their budgetary system. We recommend that the Village monitor budgetary activity on a regular basis and obtain amended certificates as needed.

We did not receive a response from officials regarding the findings reported above.

**VILLAGE OF MARTINSVILLE
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Ohio Rev. Code Section 733.28, the Village did not maintain an accurate account of the Village books.	No	Reissued as Finding 2010-001
2008-002	Ohio Rev. Code Section 5705.41(D), the Village did not encumber all funds	No	Reissued as Finding 2010-002
2008-003	The Village did not have adequate segregation of duties.	No	Reissued as Finding 2010-009
2008-004	The Village did not maintain adequate records over the utility deposits.	No	Reissued as Finding 2010-003
2008-005	Ohio Rev. Code Section 5705.36(A)(4), estimated receipts exceeded actual receipts and the deficiency reduced available resources below the current level of appropriations in General Fund and Water Revenue Fund.	No	Reissued as Finding 2010-005
2008-006	Ohio Rev. Code Section 5705.41(B), expenditures exceeded appropriations in the Water Revenue and Refuse Fund.	No	Reissued as Finding 2010-10
2008-007	The Village did not establish sufficient water rates in accordance with their OWDA loan agreement	No	Reissued as Finding 2010-004

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Dave Yost • Auditor of State

VILLAGE OF MARTINSVILLE

CLINTON 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
NOVEMBER 10, 2011