



Dave Yost • Auditor of State

VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY

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Dave Yost • Auditor of State

AUDITORS' REPORT

Village of South Webster
Scioto County
P.O. Box 38
South Webster, Ohio 45682

To the Village Council:

We have selectively tested certain accounts, financial records, files, and reports of the Village of South Webster, Scioto County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011 following Ohio Administrative Code Section 117-4-02.

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

There are reportable findings and conditions as a result of performing these procedures. Our reportable findings and conditions follow the financial presentation. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, and we express no opinion on them.

As discussed in Note 10 to the financial statements, the Village has deficit fund balances in the General and Enterprise Funds. Note 10 describes Management's actions regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The report is intended solely for the information and use of management, the Village Council, and other officials authorized to receive this report under Section 117.26, of the Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

Columbus, Ohio

June 25, 2014

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VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY

**COMBINED STATEMENT OF UNCLASSIFIED CASH RECEIPTS, UNCLASSIFIED CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Total Unclassified Cash Receipts	<u>\$36,305</u>	<u>\$57,954</u>	<u>\$206,776</u>	<u>\$301,035</u>
Cash Disbursements:				
Total Unclassified Cash Disbursements	<u>43,515</u>	<u>54,878</u>	<u>214,513</u>	<u>312,906</u>
Total Unclassified Receipts Over/(Under) Unclassified Disbursements	<u>(7,210)</u>	<u>3,076</u>	<u>(7,737)</u>	<u>(11,871)</u>
Fund Cash Balances, January 1	<u>(12,701)</u>	<u>109,858</u>	<u>(28,702)</u>	<u>68,455</u>
Fund Cash Balances, December 31	<u>(\$19,911)</u>	<u>\$112,934</u>	<u>(\$36,439)</u>	<u>\$56,584</u>

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

VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY

COMBINED STATEMENT OF UNCLASSIFIED CASH RECEIPTS, UNCLASSIFIED CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Special Revenue	Enterprise	Totals (Memorandum Only)
Cash Receipts:				
Total Unclassified Cash Receipts	\$25,288	\$57,154	\$175,371	\$257,813
Cash Disbursements:				
Total Unclassified Cash Disbursements	28,949	71,491	236,116	336,556
Total Unclassified Receipts Over/(Under) Unclassified Disbursements	(3,661)	(14,337)	(60,745)	(78,743)
Fund Cash Balances, January 1	(9,040)	124,195	32,043	147,198
Fund Cash Balances, December 31	(\$12,701)	\$109,858	(\$28,702)	\$68,455

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

**VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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 South Webster, Scioto 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, sewer utilities, and maintenance of Village roads.

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

B. Accounting Basis

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

The Village did not classify its receipts 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

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively. The Village deposits all available funds in interest bearing checking accounts and a certificate of deposit 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:

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

**VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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

Street Lights Fund – This fund receives property tax receipts used for the construction, maintenance and operation of 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 fund:

Sewer Fund – This fund receives charges for services from residents and commercial 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. 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.

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.

A summary of 2012 and 2011 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.

**VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

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 was as follows:

	2012	2011
Demand deposits	\$51,584	\$63,455
Certificate of deposit	\$5,000	\$5,000
Total deposits	56,584	68,455

Deposits and Investments: Deposits and investments are insured by the Federal Depository Insurance Corporation.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2012 and 2010 follows:

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$24,839	\$36,305	\$11,466
Special Revenue	172,700	57,954	(114,746)
Enterprise	420,952	206,776	(214,176)
Total	\$618,491	\$301,035	(\$317,456)

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$26,155	\$43,515	(\$17,360)
Special Revenue	306,126	54,878	251,248
Enterprise	463,541	214,513	249,028
Total	\$795,822	\$312,906	\$482,916

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$24,714	\$25,288	\$574
Special Revenue	39,021	57,154	18,133
Enterprise	262,476	175,371	(87,105)
Total	\$326,211	\$257,813	(\$68,398)

**VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. Budgetary Activity (Continued)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$20,751	\$28,949	(\$8,198)
Special Revenue	183,868	71,491	112,377
Enterprise	409,025	236,116	172,909
Total	\$613,644	\$336,556	\$277,088

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$17,360 for the year ended December 31, 2012 and by \$8,198 for the year ended December 31, 2011. Also contrary to Ohio law, at December 31, 2012 the General Fund, Senior Building Fund, and Enterprise Fund had deficit cash balances of (\$19,911), (\$2,833), and (\$36,439) respectively and as December 31, 2011 the General Fund, Senior Building Fund, and Enterprise Fund had deficit cash balances of (\$12,701), (\$2,330), and (\$28,702) respectively.

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.

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

5. Retirement Systems

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 the plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OPERS members contributed 10% and 10%, respectively, of their gross salaries and the Village contributed an amount equaling 14 and 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

6. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
2003 OWDA Loan (Original Issue \$3,072,307)	\$2,099,410	0%
Total	\$2,099,410	

**VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

6. Debt (Continued)

The Ohio Water Development Authority (OWDA) loan relates to construction of a wastewater treatment and collection system. The Village is repaying the loans in semiannual installments of \$51,205 at 0% interest over 30 years.

Amortization of the above debt is scheduled as follows:

Year ending December 31:	Sewer OWDA Loan
2013	\$102,410
2014	102,410
2015	102,410
2016	102,410
2017	102,410
2018-2022	512,050
2023-2027	512,050
2028-2032	512,050
2033	51,210
Total	<u><u>\$2,099,410</u></u>

Effective April 1, 2014 Scioto County assumed complete responsibility for the entire wastewater and collection system of the Village and assumed the residual balance of the OWDA loan (See Note 9).

7. Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011 respectively.

**VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

7. Risk Management (Continued)

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Assets	\$13,100,381	\$12,501,280
Liabilities	(6,687,193)	(5,328,761)
Members' Equity	<u>\$6,413,188</u>	<u>\$7,172,519</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

8. Contingent Liabilities

The Village is not currently party to any legal proceedings.

9. Subsequent Event

On March 10, 2014 the Village Council passed resolution 2014-003 authorizing the complete transfer of the Wastewater Treatment Plant in accordance with an agreement with the Scioto County Board of Commissioners. The agreement was effective April 1, 2014 and under the agreement Scioto County will assume complete responsibility for the entire wastewater and collection systems that were under the control of the Village and the County will assume the residual balance of the loan (Acct. # 3798) held between the Village and OWDA which had a residual balance at April 1, 2014 of \$1,996,999.

10. Deficit Balances

The Village had deficit fund balances in the following funds at December 31, 2012: General (\$19,911), Senior Building (\$2,833), and Enterprise (\$36,439). Effective April 1, 2014 Scioto County assumed complete responsibility for the entire wastewater and collection system of the Village and assumed the residual balance of the OWDA loan (See Note 9). Currently, management is implementing a system of accounting that will facilitate in the monitoring of the Village's finances.



Dave Yost • Auditor of State

AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Village of South Webster
Scioto County
P.O. Box 38
South Webster, Ohio 45682

To the Village Council:

We have selectively tested certain accounts, financial records, files and reports of the Village of South Webster, Scioto County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011 following Ohio Admin. Code Section 117-4-02. We noted the Village did not classify receipts and disbursements in the financial statements. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinion on these matters.

Internal Control over Financial Reporting

During our procedures related to the internal control over financial reporting we noted matters that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. In addition, these matters could result in the occurrence of misstatements that are caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are described in the Schedule of Findings as items 2012-04 through 2012-005; 2012-007 through 2012-010; and 2012-012 through 2012-021.

Compliance and Other Matters

We tested compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to the Village, noncompliance with which could directly and materially affect the determination of financial statement amounts. The results of our tests disclosed instances of noncompliance or other matters that are reported in the accompanying Schedule of Findings as items 2012-001 through 2012-014 and 2012-019.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

June 25, 2014

VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING NUMBER 2012-001

Noncompliance Citation

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

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

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

The Village was holding deposits for lengthy amounts of time. For example, November and December 2012 local government and motor vehicle license distributions received from Scioto County were not deposited until February 2013. This could lead to the possibility of financial records not being properly reported and increases the chances of monies being lost or stolen. It also may lead to cumbersome reconciliation procedures.

We recommend the Village Clerk/Treasurer deposit funds in the Village's financial institution within a reasonable time period.

FINDING NUMBER 2012-002

Noncompliance Citation

Ohio Rev. Code, Section 109.43(B) and 149.43(E)(1), indicates all state and local elected officials, or their designees, must attend at least 3 hours of training on Ohio's Public Records Laws during each term of office. The training received must be certified by the Ohio Attorney General. Proof that training has been completed must include documentation that either the Attorney General's Office or another entity certified by the Attorney General provided the training to the elected official, or his/her designee. Attendees who successfully complete the training will receive a certificate to serve as proof of training.

Support was not provided to indicate that any elected official or their designee for the Village attended public records training. This results in noncompliance with Ohio Rev. Code Requirements.

We recommend council members attend public records training or appoint a designee to attend on their behalf.

FINDING NUMBER 2012-003

Noncompliance Citation

Ohio Rev. Code Section 117.103(B)(1) states a public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment. The auditor of state shall provide a model form on the auditor of state's web site (<https://ohioauditor.gov/fraud/FraudReportingSystemModelForm.pdf>) to be printed and used by new public employees to sign and verify their receipt of information as required by this section. The auditor of state shall confirm, when conducting an audit under section 117.11 of the Revised Code, that new employees have been provided information as required by this division.

Documentation that these forms were provided to employees was not maintained by the Village. Without proper notification to employees, they may not become aware of the options available to them for reporting suspected fraud. Further, without maintaining documentation, the Village is unable to provide support that notifications were made.

We recommend the Village ensure all employees are informed of the Ohio Fraud Reporting system and obtain and maintain confirmation from employees that this information was provided to them.

FINDING NUMBER 2012-004

Noncompliance Citation and Internal Control

Ohio Rev. Code Section 121.22 states all meetings of any public body are to be open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions [Ohio Rev. Code Section 121.22(C)].

Every public body shall, by rule, establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings. A public body shall not hold a special meeting unless it gives at least twenty-four hours advance notice to the news media that have requested notification, except in the event of any emergency requiring immediate official action. In the event of an emergency, the member or members calling the meeting shall notify the news media that have requested immediate notification [Ohio Rev. Code Section 121.22(F)].

A resolution, rule, or formal action of any kind is invalid unless adopted in an open meeting of the public body. A resolution, rule, or formal action adopted in an open meeting that results from deliberations in a meeting not open to the public is invalid unless the deliberations were for a purpose specifically authorized above [Ohio Rev. Code Section 121.22(H)].

**FINDING NUMBER 2012-004
 (Continued)**

We noted the following conditions while reviewing the Village's minute records:

- A minute record was not provided for the months of February, March or December 2012.
- The minute record was not signed.
- While the Village Clerk/Treasurer's report was approved by council, there was no indication that official financial information was approved.

This results in an inability to determine whether the minute record is accurate and complete and whether proper monitoring of the Village is occurring.

We recommend the minute record be prepared and maintained for every meeting of the Village Council and the official minutes should be signed by the Village Clerk/Treasurer, Mayor and Council President. We further recommend financial reports be presented to the Village Council for monitoring purposes and the minute record document what items are being reviewed and approved.

FINDING NUMBER 2012-005

Noncompliance Citation and Internal Control

Ohio Rev. Code Section 149.351(A) states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code or under the records programs established by the boards of trustees of state supported institutions of higher education under section 149.33.

While testing nonpayroll expenditures, the Village had the following expenditures which had no supporting documentation in the form of an invoice to support the amount paid:

Check Number	Payee	Description	Amount
9742	Lisa Allen	Dump Truck Purchase	\$4,500
9244	Mark Hardin	Sewer Assessment Refund	\$2,867
9245	Randy Nickles	Sewer Operator Services	\$1,375
9293	Barbara Ross	Travel	\$18
8777	Barbara Ross	Travel	\$18
9113	Randy Nickles	Sewer Operator Services	\$1,375
8708	Randy Nickles	Sewer Operator Services	\$1,375
9010	Kinder's Insurance	Insurance Premium	\$4,520

Alternative procedures were able to be performed to gain assurances and determine the reasonableness of the amounts.

Also during testing of nonpayroll expenditures, we identified check number 9603 which was written to Water One for \$95.83 but was not signed by any signatories. Further, check number 8831 to Hanes Chevrolet for \$95.83 had attached to it an invoice with a differing amount (\$30.36) than the amount of the check.

**FINDING NUMBER 2012-005
(Continued)**

This resulted in difficulty testing expenditures. In addition, lack of an invoice makes it difficult to determine whether expenditures are made for a proper public purpose. Without proper supporting documentation for amounts expended, findings for recovery could also result.

We recommend all records and documentation be maintained for audit purposes and no disbursements be made unless supporting documentation is available and maintained for future reference and auditing purposes.

FINDING NUMBER 2012-006

Noncompliance Citation

Ohio Rev. Code 733.27(B) states the village clerk shall attend training programs for new village clerks and annual training programs of continuing education for village clerks that are provided by the auditor of state pursuant to Ohio Rev. Code Section 117.44.

A certificate of completion was not provided and a confirmation was not obtained from the Ohio Treasurer's online reporting application for either Village Clerk/Treasurer that was in office during our audit period.

We recommend the Village Clerk/Treasurer attend the required training and maintain documentation to support attendance.

FINDING NUMBER 2012-007

Noncompliance Citation and Internal Control

Ohio Rev. Code Section 5705.09 states each subdivision must establish the following funds:

- General fund;
- Sinking fund whenever the subdivision has outstanding bonds other than serial bonds;
- Bond retirement fund, for the retirement of serial bonds, notes, or certificates of indebtedness;
- A special fund for each special levy;
- A special bond fund for each bond issue;
- 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;
- A special fund for each public utility operated by a subdivision;
- A trust fund for any amount received by a subdivision in trust.

The Village receives Permissive Motor Vehicle License tax funds however the Village has not established a Permissive Motor Vehicle License Tax Fund for tracking the receipt and expenditure of this special revenue source.

We recommend the Village establish a Permissive Motor Vehicle License Tax fund in the Village's accounting system and begin tracking revenues and expenditures within the fund.

FINDING NUMBER 2012-008

Noncompliance Citation and Internal Control

Ohio Rev. Code Sections 5705.10(l) states 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 cash balance indicates that money from one fund was used to cover the expenses of another fund.

In 2011 and 2012, there were negative fund balances identified at year end as follows:

Date	Fund	Balance
December 31, 2012	General Fund	(\$19,911)
December 31, 2012	Senior Building Fund	(\$2,833)
December 31, 2012	Enterprise Fund	(\$36,439)
December 31, 2011	General Fund	(\$12,701)
December 31, 2011	Senior Building Fund	(\$2,330)
December 31, 2011	Enterprise Fund	(\$28,702)

We recommend the Village Clerk/Treasurer monitor fund balances in each fund to ensure expenditures are not being made that would cause the fund to become negative. We further recommend expenditures be monitored to ensure they are being posted to the proper funds.

FINDING NUMBER 2012-009

Noncompliance Citation and Internal Control

Ohio Rev. Code Section 5705.36 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.

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

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

During 2012 and 2011, budgeted receipts were significantly more than actual receipts in the Enterprise Fund. In addition, for 2012, the Street Construction, Maintenance and Repair Fund's estimated receipts significantly exceeded actual receipts. The Village did not obtain a reduced amended certificate when the actual receipts were significantly less than the budgeted receipts. This could result in the expenditure of monies in excess of estimated resource amounts and could further lead to negative fund balances.

We recommend the Village perform a comparison of the estimated resources with the actual receipts periodically in order to determine whether an amended certificate of estimated resources needs to be obtained and ensure funds are not being expended in excess of amounts available.

FINDING NUMBER 2012-010

Noncompliance Citation and Internal Control

Ohio Rev. Code, Section 5705.41(B), states that no subdivision or taxing unit shall make any expenditure of money unless the same has been properly appropriated.

Actual disbursements exceeded appropriations in 2011 and 2012 in the General Fund after audit adjustments were made to the actual expenditures figures. The comparison was as follows:

Year	Carryover Encumbrance	Appropriation	Expenditures	Variance
2011	\$336	\$20,415	\$28,949	\$8,198
2012	\$336	\$25,819	\$43,515	\$17,360

This could result in excess spending of funds in the General Fund and lead to negative fund balances.

We recommend the Village Clerk/Treasurer obtain amended appropriations approved by the Village Council and filed with the County Auditor before incurring obligations that would cause expenditures to exceed appropriations. The Village Clerk/Treasurer should not certify and discourage any payments until the legislative authority has passed the necessary changes to the appropriation measure.

FINDING NUMBER 2012-011

Noncompliance Citation

Ohio Rev. 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. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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 5705.4(D)(3), respectively, of the Ohio Revised Code.

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

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

FINDING NUMBER 2012-011
(Continued)

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.

The Village Clerk/Treasurer did not certify the availability of funds prior to making commitments for 100% of the disbursements tested for 2012 and 2011 and there was no evidence that the Village followed the aforementioned exceptions.

The Village did not have sufficient internal controls in place to ensure the certification of the availability of funds. Failure to certify the availability of funds properly can result in overspending funds and negative cash balances. Unless the Village uses the exceptions noted above, prior certification is not only required by statute but is also 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 the Village Clerk/Treasurer certify that funds are or will be available prior to an obligation being incurred by the Village. When prior certification is not possible, “then and now” certification should be used.

We recommend the Village obtain the Clerk/Treasurer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language Ohio Rev. Code Section 5705.41(D) requires to authorize disbursements. The Village Clerk/Treasurer should sign the certification at the time the Village incurs a commitment, and only when the requirements of Ohio Rev. Code Section 5705.41(D) are satisfied. The Village Clerk/ Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2012-012

Noncompliance Citation and Internal Control

Ohio Admin. Code Section 117-2-01(D)(3) and (5) state that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

Ohio Admin. Code Section 117-2-02(A) requires public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

Accurate monthly reconciliations of the ending bank account balance to the Village's ending book balance were not performed during the audit period by the Village Clerk/Treasurer for the Village's bank accounts. Outstanding checks, deposits in transit and other reconciling items were not detailed to enable a proper reconciliation to be performed. The lack of proper reconciliations among the bank statements, cashbook and ledgers resulted in numerous errors which remained undetected and/or uncorrected. The extensive problems with these reconciliations resulted in the need for the Village to procure from the Auditor of State's Local Government Services Division detailed proofs of cash for each month and a reconstruction of the cash book for the entire audit period which can be costly to the Village.

We recommend the Village Clerk/Treasurer prepare detailed bank reconciliations that include all bank account balances being reconciled to total accounting system fund balances. We also recommend the Village Clerk/Treasurer maintain accurate listings of outstanding checks and deposits and follow up on items which have been outstanding for an extended period of time to ensure that proper credit is given to the Village for outstanding deposits, outstanding deposits are properly supported and outstanding checks are voided and paid into an unclaimed monies fund or reissued. We further recommend copies of bank reconciliations be presented to the Village Council for the Council's review, approval, and use in managing and making decisions for the Village.

FINDING NUMBER 2012-013

Noncompliance Citation and Internal Control

Internal Revenue Code (IRC) Chapter 26 Section 3102 (a) states the tax imposed by Section 3101 shall be collected by the employer of the taxpayer, by deducting the amount of the tax from the wages as and when paid.

While testing payroll expenditures, we identified an employee who had no Medicare withholdings. This could result in noncompliance and potential penalties.

We recommend that Medicare be withheld from all employees and properly remitted.

This item will be referred to the Internal Revenue Service.

FINDING NUMBER 2012-014

Noncompliance Citation and Internal Control

26 C.F.R Section 1.6041-1 requires that governments which pay any independent contractors (other than a corporation) \$600 or more during a year must be issued a 1099 form.

Per testing of expenditures, several individuals were identified which were paid over \$600 but there was no indication of the issuance of 1099 forms done for 2011 or 2012.

We recommend the Village Clerk/Treasurer issue 1099 forms for any independent contractor paid over \$600.

This item will be referred to the Internal Revenue Service.

FINDING NUMBER 2012-015

Internal Control

Auditor of State Bulletin 2004-010 states an auditor can regard electronic imaging of checks as evidence when performing an audit. The Bulletin provides, in part, that a bank may use the electronic image to create a "substitute check" for a bank that chooses to continue receiving paper checks. This substitute check has the same legal effect as the original paper check. A substitute check is a paper reproduction of the original check that: contains an image of the front and back of the original check; bears a magnetic ink character recognition (MICR) line containing all of the information appearing on the original check's MICR line, with certain exceptions; conforms, in paper stock, dimension, and otherwise, with generally applicable banking industry standards for substitute checks; and is as suitable for automated processing as the original check. A substitute check that meets these requirements and bears the following legend is considered to be the legal equivalent of the original paper check.

For governments that do not receive their cancelled original or substitute checks, AOS suggests these governments request that their banks send images of the front and back of all issued checks. This will enable governments to review and scrutinize the transactions and ensure that the payees as well as the various endorsements are appropriate. As monthly bank statements are received, reconciliation between check numbers and the amounts paid should be conducted promptly. If questionable items are identified, governments should immediately request their bank investigate these items for possible adjustment to the government's account.

Furthermore, a government may want to request a substitute check or the best available source document from the bank (e.g., copy of the front and back of the check) when a questionable item is identified that requires investigation.

During testing of nonpayroll expenditures it was discovered, although the bank did provide images of the front side of the checks, they did not provide optical images of the reverse side 37 of the 39 canceled checks selected for testing. By not having the reverse side of the check, it is not possible to ensure that the payees as well as the various endorsements are appropriate. This could result in a lack of sufficient audit evidence or could relate in a failure to follow the records retention laws.

**FINDING NUMBER 2012-015
(Continued)**

We recommend the Village Clerk/Treasurer consult with the bank to have the bank provide images of both the front and reverse side of each canceled check for disbursements. As an alternative, the bank could send the original canceled checks back to the Village or provide this information in electronic form (i.e. - CD).

FINDING NUMBER 2012-016

Internal Control

Checks that have been outstanding for an extended period of time (normally more than six months to one year) should be taken off the outstanding check listing and placed in an unclaimed monies fund or reissued to the payee. The Village had approximately \$3,080 of outstanding checks which were in excess of a year old.

We recommend the Village Clerk/Treasurer remove long outstanding checks from the outstanding check listing and place them in an unclaimed monies fund or reissue the checks to the payee.

FINDING NUMBER 2012-017

Internal Control

Although the Village utilizes the UAN accounting system to process all disbursements, the Village did not have an adequate system of internal controls. Examples of deficiencies include:

- Two skipped checks were identified in 2011
- 255 skipped checks were identified in 2012
- Several manual checks were identified
- Checks were signed by only one individual
- A check cleared the bank that was not signed by a Village signatory

These types of discrepancies and processes in the issuance of checks increases the possibility for unrecorded disbursements, incorrectly recorded disbursements, potential fraud or theft issues, and can lead to difficulties attempting to reconcile.

We recommend the Village address each of the deficiencies noted above. We further recommend that checks be written sequentially and the Village refrains from the issuance of manual checks. We further recommend that more than one signatory sign all checks prior to sending them out to payees.

FINDING NUMBER 2012-018

Internal Control

Personnel files should be maintained for all employees to support information recorded in the payroll records. Personnel Files should include the following types of information:

- a. Name
- b. Hiring authorization
- c. Position and authorized salary rate
- d. Department(s) / fund(s) to which salary will be charged
- e. Deduction authorizations, such as deferred compensation programs or charitable contributions
- f. Retirement system participation
- g. Federal withholding authorization Form W-4
- h. State & local income tax withholding authorization

While testing personnel files, we noted two employees who did not have a salary notice or contract on file. Also, we noted two employees who did not have a state withholding form on file, one employee who did not have a federal tax withholding form on file, and three employees who did not have a pension plan form on file and three employees who did not have the Auditor of State's notification of the fraud sign off system on file. Failure to maintain proper documentation in employee personnel files could result in an inability to support authorized pay rates, an inability to support withholding amounts, and noncompliance with state requirements.

We recommend that personnel files be maintained for all employees and include the types of information noted above including salary notices, contracts, tax withholding forms and the Auditor of State's fraud sign off sheets.

FINDING NUMBER 2012-019

Noncompliance and Internal Control

Sound financial reporting is the responsibility of the Village Clerk/Treasurer and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. Receipts and Expenditures should be posted to the fund and line item accounts as established by Ohio Administrative Code.

During 2011 and 2012, several receipts were not posted to accurate classifications based on the source of the receipt. The following conditions were noted in association with posting of revenues:

- During 2011 and 2012, monies received that were to be allocated between the Street Construction, Maintenance and Repair Fund and the State Highway Funds were not properly allocated.
- During 2011 and 2012, tax revenues were not posted to the proper funds.
- For 2011 and 2012, the Village had not established a Permissive Motor Vehicle License Tax Fund to track the activity of this source of revenue. Monies were incorrectly posted to the Street Construction, Maintenance and Repair Fund and State Highway Fund.

**FINDING NUMBER 2012-019
(Continued)**

- For 2012, support was not maintained for the rental of the Senior Building. There were no duplicate receipts or rental agreements on file to support revenues posted to this fund.
- Monies were being held for long periods of time before being deposited.
- We noted in 2012 that the Village Fiscal Officer stopped posting the majority of revenues to the UAN system.

During 2011 and 2012, instances were identified where expenditures were posted to improper funds. The following items were noted:

- In 2011, \$3,865 of expenditures related to Auditor of State payments were posted to the Enterprise fund that was not permitted to be paid from this fund and should have been posted to the General Fund.
- In 2012, \$4,520 of expenditures related to insurance premiums were posted to the Enterprise fund that were not permitted to be paid from this fund and should have been posted to the General Fund.
- In 2012, \$12,855 of expenditure related to Auditor of State payments were posted to the Enterprise fund that were not permitted to be paid from this fund and should have been posted to the General Fund.
- In 2012, \$4,987 of expenditures related to insurance premiums were posted to the Street fund that were not permitted to be paid from this fund and should have been posted to the General Fund.

As a result of these types of errors, the Village was not reconciled at year-end 2011 or 2012. This results in the inability to provide accurate financial information to those in charge of decision making. The Auditor of State's Local Government Services Division was procured for reconciliation procedures. These errors caused a significant number of adjusting entries for 2011 and 2012.

As a result of the above conditions, we make the following recommendations:

- We recommend the Village Council and Village Clerk/Treasurer review both revenue and disbursement items to help ensure accuracy and reliability in the financial reporting process. These reviews should include procedures to ensure that all sources of revenues and expenditures are properly identified and classified in the financial statements.
- We recommend the Village Council review the bank reconciliations monthly to make sure all transactions are being recorded and no unexplained differences or long outstanding items exist or are reported on the reconciliations.
- We recommend the Village Clerk/Treasurer refer to the Ohio Administrative Code and/or the Ohio Village Officer's Handbook for guidance to determine the proper establishment of receipt and expenditure accounts and posting of receipts and expenditures.
- We recommend the Village Clerk/Treasurer reconcile bank balances to the Village's book balance at the end of each month and provide the reconciliation as well as financial activity reports to the Village Council to review and approve.
- We recommend the Village Council adopt policies and procedures, including a final review of the statements and footnotes by the Village Clerk/Treasurer and Village Council to identify and correct errors or omissions.

FINDING NUMBER 2012-020

Internal Control

The Village should establish a formal reconciliation for utility transactions being billed and collected by the outside service organization for receipts relating to the sewer utility. There was no evidence presented for audit that any type of reconciliation was being performed to the billings and receipts reported by the service organization. Without a formal reconciliation process, the probability of detecting unrecorded receipts or uncollected revenues is reduced. Because a proper reconciliation was not performed, we were unable to satisfy ourselves to the completeness, occurrence, allocation, and rights and obligations of the charges for service receipts relating to the Sewer.

We recommend a formal reconciling procedure be established that would check that all usage has been billed, that the billing rates are correct, and that proper collections are being made and turned over to the Village on a timely basis.

FINDING NUMBER 2012-021

Internal Control

The Village has delegated utility billing, processing, and collecting, which is a significant accounting function, to a billing agency. The Village has not established procedures to reasonably determine that utility billings have been completely and accurately processed and collected in accordance with the utility billing contract.

The Village should implement procedures to reasonably assure the completeness, and accuracy of utility billing and collecting processed by its billing agency. Statement of Standards for Attestation Engagements (SSAE) NO. 16: Reporting on Controls at a Service Organization and AU-C 402: Audit Considerations Relating to an Entity Using a Service Organization prescribes testing and reporting standards for audits of bill processing controls which should satisfy this requirement. As described in those Statements, we recommend the Village obtain a "SOC 1" Report from the billing agency. Such a report, if unqualified, would provide evidence to the Village's management that utility billing and collecting were being processed in conformance with the contract.

We also recommend that the Village specify in its contract with the third party administrator that an annual SOC 1 audit report be performed. The Village should be provided a copy of the report timely and should review the report's content. A SOC 1 audit report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide you with a SOC 1 report, we recommend the Village only contract with a third-party administrator that will provide such a report.

Officials' Response:

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

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**VILLAGE OF SOUTH WEBSTER
SCIOTO COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Noncompliance and material weakness relating to posting receipts and expenditures	No	Reissued as finding 2012-019.
2010-002	Material weakness relating to bank reconciliations	No	Reissued as finding 2012-012.
2010-003	Material weakness relating to the Village not having an adequate system of internal controls.	No	Reissued as finding 2012-017.
2010-004	Material weakness relating to billing service reconciliations.	No	Reissued as finding 2012-020.
2010-005	Material weakness relating to billing service lack of SAS 70 / SOC 1 Report.	No	Reissued as finding 2012-021.
2010-006	Noncompliance relating to Ohio Rev. Code Section 5705.41(D) regarding properly encumbering funds.	No	Reissued as finding 2012-011.

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Dave Yost • Auditor of State

VILLAGE OF SOUTH WEBSTER

SCIOTO 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
JULY 10, 2014