



Dave Yost • Auditor of State

PREBLE COUNTY DISTRICT LIBRARY
PREBLE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2014	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2013	6
Notes to the Financial Statements	7
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	13
Schedule of Findings.....	15

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Preble County District Library
Preble County
450 South Barron Street
Eaton, Ohio 45320

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Preble County District Library, Preble County, (the Library) as of and for the years ended December 31, 2014 and 2013.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Library's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Library's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1B of the financial statements, the Library prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Library does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Additional Opinion Qualification and Unmodified Opinions* paragraphs below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Library as of December 31, 2014 and 2013, or changes in financial position thereof for the years then ended.

Basis for Additional Opinion Qualification

Public Services and Programs are reported at \$1,200,443 and \$1,195,143 for the years ended December 31, 2014 and 2013, respectively, which are 66 percent of General Fund expenditures for the years ended December 31, 2014 and 2013. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as Public Services and Programs. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Additional Opinion Qualification

In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the General Fund of the Preble County District Library, Preble County, as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1B.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Capital Projects and Permanent Funds of the Preble County District Library, Preble County, Ohio as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1B.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2016, on our consideration of the Library'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

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 15, 2016

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**PREBLE COUNTY DISTRICT LIBRARY
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes	\$648,760			\$648,760
Public Library	1,019,487			1,019,487
Intergovernmental	102,110			102,110
Patron Fines and Fees	29,453			29,453
Services Provided to Other Entities	501			501
Contributions, Gifts and Donations	3,143			3,143
Earnings on Investments	1,596		\$5	1,601
Miscellaneous	11,750			11,750
Total Cash Receipts	<u>1,816,800</u>		<u>5</u>	<u>1,816,805</u>
Cash Disbursements:				
Current:				
Library Services:				
Public Services and Programs	1,200,443		27	1,200,470
Collection Development and Processing	328,866			328,866
Support Services:				
Facilities Operation and Maintenance	156,918			156,918
Information Services	24,435			24,435
Business Administration	58,675			58,675
Capital Outlay	62,512			62,512
Total Cash Disbursements	<u>1,831,849</u>		<u>27</u>	<u>1,831,876</u>
Excess of Receipts Over (Under) Disbursements	<u>(15,049)</u>		<u>(22)</u>	<u>(15,071)</u>
Fund Cash Balances, January 1	<u>646,074</u>	<u>\$8,439</u>	<u>8,576</u>	<u>663,089</u>
Fund Cash Balances, December 31:				
Restricted		8,439	8,554	16,993
Unassigned (Deficit)	631,025			631,025
Fund Cash Balances, December 31	<u>\$631,025</u>	<u>\$8,439</u>	<u>\$8,554</u>	<u>\$648,018</u>

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

**PREBLE COUNTY DISTRICT LIBRARY
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes	\$643,738			\$643,738
Public Library	1,039,476			1,039,476
Intergovernmental	101,389			101,389
Patron Fines and Fees	27,660			27,660
Services Provided to Other Entities	250			250
Contributions, Gifts and Donations	6,191			6,191
Earnings on Investments	897		\$9	906
Miscellaneous	14,090			14,090
Total Cash Receipts	<u>1,833,691</u>		<u>9</u>	<u>1,833,700</u>
Cash Disbursements:				
Current:				
Library Services:				
Public Services and Programs	1,195,143		33	1,195,176
Collection Development and Processing	275,640			275,640
Support Services:				
Facilities Operation and Maintenance	199,715			199,715
Information Services	20,714			20,714
Business Administration	54,227			54,227
Other			605	605
Capital Outlay	67,028			67,028
Total Cash Disbursements	<u>1,812,467</u>		<u>638</u>	<u>1,813,105</u>
Excess of Receipts Over (Under) Disbursements	<u>21,224</u>		<u>(629)</u>	<u>20,595</u>
Fund Cash Balances, January 1	<u>624,850</u>	<u>\$8,439</u>	<u>9,205</u>	<u>642,494</u>
Fund Cash Balances, December 31:				
Restricted		8,439	8,576	17,015
Assigned	296,645			296,645
Unassigned (Deficit)	349,429			349,429
Fund Cash Balances, December 31	<u>\$646,074</u>	<u>\$8,439</u>	<u>\$8,576</u>	<u>\$663,089</u>

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

**PREBLE COUNTY DISTRICT LIBRARY
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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 Preble County District Library, Preble County, (the Library) as a body corporate and politic. Four Board members are appointed by the Preble County Commissioners and three are appointed by the Preble County Common Pleas judge. The Library provides the community with various educational and literary resources.

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

B. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits and Investments

The Library'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 Library values certificates of deposit at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

D. Fund Accounting

The Library uses fund accounting to segregate cash and investments that are restricted as to use. The Library 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. Capital Project Fund

This fund accounts for and reports financial resources that are restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Library had the following significant Capital Project Fund:

Building Fund – This fund is used to record the receipts and expenditures of the Library's building fund.

**PREBLE COUNTY DISTRICT LIBRARY
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Permanent Funds

This fund accounts for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Library's programs. The Library had the following significant permanent fund:

Scott Sheley Trust Fund – This fund is used to record the receipts and expenditures of the Scott Sheley Trust.

E. Budgetary Process

The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end. Budgetary expenditures may not exceed appropriations at the fund, function, and object level of control.

A summary of 2014 and 2013 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Library must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Non-spendable

The Library classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Library must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Library Trustees or a Library official delegated that authority by resolution, or by State Statute.

**PREBLE COUNTY DISTRICT LIBRARY
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Library applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

The Library 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:

	2014	2013
Demand deposits	\$626,409	\$641,683
Certificates of deposit	10,259	10,259
Cash on hand	530	330
Total deposits	637,198	652,272
STAR Ohio	10,820	10,817
Total investments	10,820	10,817
Total deposits and investments	\$648,018	\$663,089

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Library; or collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form.

**PREBLE COUNTY DISTRICT LIBRARY
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,785,296	\$1,816,800	\$31,504
Capital Projects			
Permanent	10	5	(5)
Total	<u>\$1,785,306</u>	<u>\$1,816,805</u>	<u>\$31,499</u>

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,000,513	\$1,831,849	\$168,664
Capital Projects	4,582		4,582
Permanent	40	27	13
Total	<u>\$2,005,135</u>	<u>\$1,831,876</u>	<u>\$173,259</u>

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,856,258	\$1,833,691	(\$22,567)
Capital Projects			
Permanent	10	9	(1)
Total	<u>\$1,856,268</u>	<u>\$1,833,700</u>	<u>(\$22,568)</u>

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,087,471	\$1,812,467	\$275,004
Capital Projects	8,439		8,439
Permanent	40	638	(598)
Total	<u>\$2,095,950</u>	<u>\$1,813,105</u>	<u>\$282,845</u>

4. GRANTS-IN-AID AND TAX RECEIPTS

The primary source of revenue for Ohio public libraries is the Public Library Fund (PLF). The State allocates PLF to each county based on the total tax revenue credited to the State's general revenue fund during the preceding month. This method of distribution is called the "percentage of revenue" method. This method was not used for August 2011 through June 2013. During that 23 month period PLF received a designated percentage of the dollar amounts received by the fund during the corresponding month of the fiscal year 2011 "base-year" period. Effective July 2013 the statutory allocation method reverted to the "percentage of revenue" method for PLF distribution. The fund received an amount equal to a specified percentage of the amount of GRF tax revenue received during the previous month. Beginning with the July 2013 distribution the "statutory allocation method" was implemented. The calendar year 2013 entitlements were used in the computation as the basis of each county's allocation percentage. Those percentages were used through

**PREBLE COUNTY DISTRICT LIBRARY
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

4. GRANTS-IN-AID AND TAX RECEIPTS (Continued)

December 2013. In December 2013 the actual calendar year entitlement was computed. Any difference was adjusted evenly to the PLF distributions from January-June 2014. In calendar year 2014 the statutory entitlement computation method continued. Estimated entitlement figures were issued to County Auditors in July 2013, December 2013 and June 2014. The actual 2014 entitlements will be computed in December 2014. The difference between the estimate and actual will be adjusted evenly in the PLF distributions made from January-June 2015.

Real property taxes become a lien on January 1 preceding the October 1 date for which the taxing authority of the subdivision to whose jurisdiction the Library is subject adopts rates. The State Department of Taxation, Division 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 Other Governments' Grants In Aid. 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 taxing district.

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

5. RETIREMENT SYSTEMS

The Library'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 2014 and 2013, OPERS members contributed 10% of their gross salaries and the Library contributed an amount equaling 14%, of participants' gross salaries. The Library did not pay all contributions required through December 31, 2014. See Note 8 for further information.

6. RISK MANAGEMENT

Commercial Insurance

The Library has obtained commercial insurance for the following risks:

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

7. CONTINGENT LIABILITIES

The Library is a potential defendant in a possible lawsuit. Management cannot presently determine the outcome of this possible suit nor the impact on the Library's financial condition.

**PREBLE COUNTY DISTRICT LIBRARY
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

8. COMPLIANCE

The Library did not remit federal and state taxes in accordance with 26 USC § 3403 and Ohio Rev. Code § 5747.07(B). The Library has been subject to late fees, penalties, and interest due to its failure report and file taxes in a timely manner.

The Library did not remit pension withholdings and employer share of pension obligations in accordance with Ohio Rev. Code § 145.47(B) and has been subject to penalties and interest for its failure to file and report pension obligations.



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

Preble County District Library
Preble County
450 South Barron Street
Eaton, Ohio 45320

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of the cash balances, receipts, and disbursements by fund type of the Preble County District Library, Preble County, (the Library) as of and for the years ended December 31, 2014, and 2013, and the related notes to the financial statements and have issued our report thereon dated June 15, 2016 wherein we noted the Library followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also qualified our opinion due to the lack of sufficient appropriate audit evidence supporting the amounts recorded as Public Services and Programs expenditures in the General Fund.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Library's internal control. Accordingly, we have not opined on it.

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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Library's financial statements. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2014-001 through 2014-005 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Library'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, opining 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 2014-006 through 2014-008.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Library's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 15, 2016

**PREBLE COUNTY DISTRICT LIBRARY
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2014-001

Material Weakness - Cash Reconciliations

In order to assist the Library Board and the Director in making informed decisions for the benefit of the Library, the Fiscal Officer should provide the Board with timely and accurate financial reports at least on a monthly basis. The Fiscal Officer was the only individual responsible for all accounting functions at the Library. Lack of oversight controls over the Fiscal Officer resulted in errors in processing accounting information remaining unnoticed. Cash is the asset most susceptible to theft and misappropriation. Monthly reconciliations between the bank and the accounting system provide reasonable assurance that all receipts and expenditures have been correctly posted in the accounting system and have been correctly posted by the bank. The Fiscal Officer did not complete reconciliations from August 2013 through December 2014. This issue was discovered by auditors during fieldwork in July 2015 and an outside consultant was hired to help the Library reconcile its books and correct errors. Year end reconciliations and annual financial reports for 2013 and 2014 were not completed until November 2015.

The Fiscal Officer did not post certain financial activity to the accounting system during the audit period mostly related to payroll expenditures in the Public Services and Programs expenditure line item. The annual financial reports completed in November 2015 included client posted adjustments for this activity. We were unable to obtain sufficient audit evidence supporting the Public Services and Programs expenditure line item. As such, the following differences were noted:

For the year ended December 31, 2013 the client prepared bank reconciliation agreed to the ending fund balances per the annual financial report. However, the reconciled bank balance for December 31, 2013 was \$19,484 higher than the book balance per the accounting system due to financial activity not posted to the accounting system.

For the year ended December 31, 2014 the client prepared bank reconciliation varied from the ending fund balances per the annual financial report by \$11,225 because the Library did not carry forward the correct balance for the General Fund from the 2013 annual financial report to the 2014 annual financial report. In addition, the reconciled balance for December 31, 2014 was \$218,124 higher than the book balance per the accounting system due to financial activity not posted to the accounting system.

Accurate reconciliations are a basic and essential internal control component for sound fiscal management. Library officials rely on accurate reconciliations to make sound financial decisions. Lack of oversight over the Library's financial reporting also increases the chances of fraud, theft, errors or omissions remaining unnoticed.

The Library should implement procedures to verify that the Fiscal Officer complete accurate and timely monthly bank reconciliations. Additionally, the monthly bank reconciliations should be provided to the Board of Trustees for their review and approval. Library officials should review and sign the reconciliations indicating their approval. All transactions should be accurately posted in the accounting system. Adjustments should be documented, and any unexplained differences should be investigated and resolved immediately.

Official's Response:

Officials did not provide a response.

FINDING NUMBER 2014-002

Material Weakness - Recording Receipts

When designing the Library's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly maintained, verify the existence and valuation of assets and periodically reconcile them to the accounting records, and perform analytical procedures to determine the reasonableness of financial data.

The Library did not properly classify and record receipt transactions during 2013 and 2014. The following errors were noted which were adjusted on the accompanying financial statements:

- Property tax and mobile home tax receipts were improperly posted at the net amount rather than the gross amount resulting in a difference of \$8,178 for 2013 and a difference of \$18,221 for 2014.
- Rollback and homestead receipts were classified as Property and Other Taxes rather than Intergovernmental Revenue. Also, rollback and homestead receipts were posted at the net amount rather than the gross amount resulting in a total difference of \$101,389 for 2013 and a total difference of \$102,110 for 2014.

The Library should implement procedures to verify that all receipts are posted correctly in the Library's accounting system. The Library Fiscal Officer and Board of Trustees should review postings each month and again at the end of the fiscal year to verify that all amounts are classified and posted correctly. Failure to perform these reviews could result in preparing and filing materially misstated financial statements.

Official's Response:

Officials did not provide a response.

FINDING NUMBER 2014-003

Material Weakness – Reporting Fund Balances

The Library prepared its annual financial statements in accordance with the accounting practices the Auditor of State prescribes or permits.

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, introduced five fund balance classifications and clarifies the existing governmental fund type definitions. The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are non-spendable, restricted, committed, assigned and unassigned. **Auditor of State Bulletin 2011-004** states that when the appropriation measure is adopted for the subsequent fiscal year, and those appropriations exceeds estimated receipts, the excess is assigned as it uses existing fund balance at year-end. This would be applicable to the general fund as it is the only fund with a positive unassigned fund balance.

The Library's annual report for 2013 and 2014 contained the following errors which were adjusted on the accompanying financial statements:

- The Library failed to properly classify the amount by which appropriations exceeded estimated receipts for the subsequent fiscal year. For 2013 appropriations exceeded estimated receipts in the subsequent year in the amount of \$214,587. This amount should have been reported as assigned fund balance rather than unassigned fund balance.
- For 2014 the Library reported an assigned fund balance in the amount of \$79,515 in the General Fund; however, the Library did not retain documentation to support the assigned fund balance.

**FINDING NUMBER 2014-003
(Continued)**

- For 2013 and 2014 the Library incorrectly reported the Scott Sheley and St. Clair trust funds as Investment Trust Funds rather than Permanent Funds.

The Library should implement procedures to verify that the financial statements are reviewed to determine the requirements noted in GASB 54 and Auditor of State Bulletin 2011-004 and to present governmental fund balances in accordance with current guidance. Failure to perform these reviews could result in preparing and filing materially misstated financial statements.

Official's Response:

Officials did not provide a response.

FINDING NUMBER 2014-004

Material Weakness - Payroll

We tested 32 employee paychecks for 2013 and 35 employee paychecks for 2014. The following deficiencies were noted during testing of payroll expenditures:

- For 2013, the Library did not maintain a salary schedule or other documentation approved by the Board showing the rate of pay for 29 of the 32 employees selected for testing.
- One out of six employee files tested did not have a state income tax withholding form on file.
- The minutes did not document the Board's approval of hiring a new employee during the audit period.
- The pay rate for four employees tested in 2014 did not agree to the 2014 salary schedule.
- A supervisor did not sign five employee time sheets in 2013 and one employee time sheet in 2014.
- An employee did not sign one time sheet in 2013.
- Neither the supervisor nor employee signed one time sheet in 2014.
- An employee's relative signed the time sheet rather than the employee for one time sheet in 2013 and one time sheet in 2014. The relative was also an employee of the Library.

The deficiencies below all pertain to payroll withholdings:

Federal Income Tax:

- We were unable to agree 6 payments recorded in the Detail Check Register to the entries on the bank statements.
- We were unable to verify amounts deducted from the checking account to completed remittance forms for 24 payments.
- We were unable to determine for what month payments were being made for 7 remittances and could not verify 3 payments to accounting system reports.

Ohio Public Employees Retirement System (OPERS):

- We were unable to verify OPERS payments to supporting remittance forms for 7 payments in 2013 and all payments in 2014.
- During 2013 there were 15 checks written for OPERS payments that cleared the bank well after the date of the check.

**FINDING NUMBER 2014-004
(Continued)**

State Income Tax:

- During 2013 and 2014 there were 12 checks written for state tax payments that cleared the bank well after the date of the check.
- We were unable to verify remittances made for November and December 2014.
- The Library did not timely file their IT-941 form for the year 2013.
- The Library was unable to provide the Ohio IT-941 form for the year 2014.

School District Income Tax:

- During 2013 and 2014 there were 13 checks written for school tax payments that cleared the bank well after the date of the check.
- We were unable to verify remittances made for November and December 2014.

Eaton City Income Tax:

- We were unable to confirm payments for Eaton City income tax for one month in 2013 and six months in 2014.
- For three payments recorded in 2013 and for six payments recorded in 2014 the original check for the payments failed to clear the bank. We found the original checks in a folder in the Library's records (i.e. the checks were never remitted).
- There were no employer's returns completed for one month in 2013 and for all 12 months in 2014.

New Paris Income Tax:

- We were unable to confirm payments for Village of New Paris income tax for eight months in 2014.
- For four payments recorded in 2013 and for four payments recorded in 2014 the original check for the payments failed to clear the bank. We found the original checks in a folder in the Library's records (i.e. the checks were never remitted).
- There were no employer's returns completed for five months in 2013 and for all 12 months in 2014.

West Elkton Income Tax:

- We were unable to confirm payments for Village of West Elkton income tax for two quarters in 2013 and all four quarters in 2014.
- There were no employer's returns completed for 2013 and 2014.

West Alexandria Income Tax:

- We were unable to confirm payments for Village of West Alexandria income tax for two quarters in 2014.
- For three payments recorded in 2013 and for two payments recorded in 2014 the original check for the payments failed to clear the bank. We found the original checks in a folder in the Library's records (i.e. the checks were never remitted).
- There were no employer's returns completed for two months in 2014.

Camden Income Tax:

- We were unable to confirm payments for Village of Camden income tax for all four quarters in 2014.
- There were no employer's returns completed for 2014.

**FINDING NUMBER 2014-004
(Continued)**

Regional Income Tax Agency (RITA):

- The Library did not file a withholding reconciliation form for 2013 and 2014.

Failure to maintain accurate documentation of employee pay rates could result in over/under payment of wages. Additionally, the failure to have supervisory approval and the employee's signature documented on time sheets could lead to employees being overpaid or underpaid for actual time worked. In addition the failure to document the hiring of employees in the minutes and have proper withholding forms on file could result in improper payment of payroll related expenditures. The Library should implement procedures to maintain approved salary schedules or to document approved wage rates in the minutes. The Board should document approval for hiring all new employees in the minutes. The Library should maintain all required withholding forms in each employee's personnel file. All time sheets should be reviewed and signed by the employee and the supervisor prior to being processed by the Fiscal Officer for payment. Time sheets should not be signed by an employee's relative.

The Library should establish and implement policies and procedures to verify that the Fiscal Officer remits all required payroll withholdings and files required reports with the applicable agencies in a timely manner. Failure to do so could result in additional fines and penalties as well as additional legal ramifications. All payroll related expenditures should be properly recorded in the accounting system.

Also see finding number 2014-008 for finding for recovery related to late fees, penalties and interest paid by the Library to the IRS, State of Ohio Department of Taxation, OPERS, and RITA.

Official's Response:

Officials did not provide a response.

FINDING NUMBER 2014-005

Material Weakness – Management Oversight

When designating the Library's system of internal control and specific control activities, management should plan for adequate segregation of duties or compensating controls. The Board of Trustees should perform procedures to monitor the financial activity of the Library. The small size of the Library's staff did not allow for an adequate segregation of duties, the Fiscal Officer performed all accounting functions. It is, therefore, important that the Board of Trustees monitor financial activity closely. The minutes stated the Board of Trustees reviewed bills and monthly financial reports at each meeting. However, there was no documentation of the extent to which the Board of Trustees reviewed vouchers for payment, financial reports and records to monitor financial activity of the Library. This could result in unauthorized expenditures, the ledgers of the Library not being posted up-to-date, errors in the reconciliation, and errors and omissions occurring in the Library's annual report without the timely knowledge of the Board of Trustees.

The Board of Trustees should review financial information on a regular basis. This information should include vouchers for payment, reconciliations, as well as revenue and expenditure activity and balance reports. A periodic review should also be performed on the Library's cash book to gain assurances that the records are posted up-to-date, in agreement with the presented reports and reflect authorized transactions. The reviews would be documented in the minutes of the Board of Trustee meetings.

Official's Response:

Officials did not provide a response.

FINDING NUMBER 2014-006

Noncompliance – Federal & State Income Tax

26 USC Section 3403 states that “the employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter, and shall not be liable to any person for the amount of any such payment.”

Additionally, **Ohio Rev. Code § 5747.07(B)(3)**, in part, states that if an employer's actual or required payments were more than two thousand dollars during the twelve-month period ending on the thirtieth day of June of the preceding calendar year, the employer shall make the payment of un-deposited taxes for each month during which they were required to be withheld no later than fifteen days following the last day of that month. The employer shall file the return prescribed by the tax commissioner with the payment.

The Library was consistently late in remitting federal and state income taxes and filing required reports during 2013 and 2014. The Internal Revenue Service (IRS) assessed \$22,780 in penalties and interest against the Library for its failure to remit the taxes and file required reports. The Ohio Department of Taxation assessed \$2,324 in penalties and interest against the Library.

The Library should implement procedures to verify that federal and state income taxes are properly remitted to the IRS and Ohio Department of Taxation and required returns are filed at that time.

Also see finding number 2014-008 for finding for recovery related to penalties and interest paid by the Library to the IRS and the Ohio Department of Taxation.

Official's Response:

Officials did not provide a response.

FINDING NUMBER 2014-007

Noncompliance - OPERS

Ohio Rev. Code §145.47(B) states, in part, that the head of each state department, institution, board, and commission, and the fiscal officer of each local authority subject to this chapter, shall transmit to the system for each contributor subsequent to the date of coverage an amount equal to the applicable per cent of each contributor's earnable salary at such intervals and in such form as the system shall require. The head of each state department and the fiscal officer of each local authority subject to this chapter shall transmit promptly to the system a report of contributions at such intervals and in such form as the system shall require, showing thereon all the contributions and earnable salary of each contributor employed, together with warrants, checks, or electronic payments covering the total of such deductions. A penalty shall be added when such report, together with warrants, checks, or electronic payments to cover the total amount due from the earnable salary of all amenable employees of such employer, is filed thirty or more days after the last day of such reporting period. The system, after making a record of all receipts under this division, shall deposit the receipts with the treasurer of state for use as provided by this chapter.

The Library did not remit retirement contributions to the Ohio Public Employees Retirement System (OPERS) in a timely manner. OPERS assessed \$6,677 in penalties and interest for 2013 and 2014.

The Library should implement procedures to verify that the Library remits required retirement contributions and files required reports to OPERS in a timely manner. Failure to do so could result in additional fines and penalties as well as other potential legal ramifications.

**FINDING NUMBER 2014-007
(Continued)**

Also see finding number 2014-008 for finding for recovery related to penalties and interest paid by the Library to OPERS.

Official's Response:

Officials did not provide a response.

FINDING NUMBER 2014-008

Noncompliance/Finding for Recovery

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, **Ohio Attorney General Opinion 82-006** indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. **Auditor of State Bulletin 2003-005** Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The law requires that employers withhold taxes from employees' paychecks and remit those taxes to the government. The United States Internal Revenue Code, for example, requires employers to deduct from wages paid to employees the employees' share of FICA taxes and individual income taxes. See 26 U.S.C. 3102(a) and 3402(a). Those withholdings are considered to be held in "a special fund in trust for the United States." 26 U.S.C. 7501(a). The employer is liable for the withheld portion of the employee's wages and must pay over the full amount to the government each quarter. See *United States v. Farr*, 536 F.3d 1174, 1176 (10th Circ. 2008). In addition, under Ohio law, employers are required to withhold state income taxes and school district income taxes from employees' wages and transmit the funds to the state. See Ohio Rev. Code §§ 5747.06 and 5747.07. Under Ohio Rev. Code § 5747.07 E(2), each employer required to withhold any tax is liable for the payment of the amount required to be withheld and the amount shall be deemed to be a special fund in trust for the general revenue fund. The same rule applies with respect to municipal income taxes in Ohio. See Ohio Rev. Code § 718.03. With respect to the Ohio Public Employees Retirement System (OPERS), when an employee is required to contribute to OPERS under state law, the fiscal officer of each local authority is required to transmit to OPERS for each contributor the applicable percent of the employee's salary at such intervals and in such form as OPERS requires. See Ohio Rev. Code § 145.47. In addition, each public employer "shall pay" to OPERS an amount that shall be a certain percent of the earnable salary of all contributors to be known as the "employer contribution" and must make such payments into the employers' accumulations fund in monthly installments. See Ohio Rev. Code §§ 145.48 and 145.51.

The Board hired Terri Wysong as fiscal officer on July 29, 2013. As fiscal officer, Terri Wysong was the official responsible for withholding and remitting the required income taxes and pension contributions from Library employee earnings. During the audit period, Terri Wysong withheld, as required, federal income tax, Medicare, state income tax, local income tax, school district income tax, and OPERS contributions from the earnings of each Library employee. However, Terri Wysong failed to transmit all required funds to the appropriate entity, agency, or system, a gross neglect of duty amounting to reckless disregard for the Library. As a result, the Library incurred penalties, late fees, and interest from the federal government, the State, OPERS, and the Regional Income Tax Agency (RITA). Specifically, the total amount of penalties assessed against the Library by the federal government for penalties and interest is \$22,780. The State assessed penalties and interest in the amount of \$2,324. OPERS assessed penalties and interest in the amount of \$6,677. RITA assessed penalties and interest in the amount of \$4,626. The penalties and interest assessed against the Library serve no proper public purpose for the Library and could have been avoided had the funds been remitted as required by law.

**FINDING NUMBER 2014-008
(Continued)**

In accordance with the foregoing facts and authorities, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money that has been illegally expended for failure to remit withheld income taxes and pension contributions resulting in penalties and interest assessed against the Library is hereby issued against Terri Wysong, Library Fiscal Officer, in the amount of \$36,407 and in favor of the Library's General Fund. Further, Terri Wysong's bonding company, The Cincinnati Insurance Company, will be jointly and severally liable in the total amount of \$36,407 in favor of the Library's General Fund.

Official's Response:

Officials did not provide a response.



Dave Yost • Auditor of State

PREBLE COUNTY DISTRICT LIBRARY

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 9, 2016**