



Dave Yost • Auditor of State

VILLAGE OF PHILO
MUSKINGUM COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Philo
Muskingum County
310 Main Street
Philo, Ohio 43771

To the Village Council:

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 Village of Philo, Muskingum County, Ohio (the Village) 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 § 117.38 and Ohio Administrative Code § 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 Village'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 Village'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 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 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.

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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 Village 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 § 117.38 and Ohio Administrative Code § 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph 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 Village as of December 31, 2014 and 2013, or changes in financial position or cash flows thereof for the years then ended.

Basis for Additional Opinion Qualifications

Fines, Licenses and Permits are reported at \$3,513, and \$3,291 for the years ended December 31, 2014 and 2013, respectively, which are five percent of General Fund receipts for the year ended December 31, 2014, and four percent of General Fund receipts for the year ended December 31, 2013.

Miscellaneous receipts are reported at \$10,241, and \$12,309 for the years ended December 31, 2014 and 2013, respectively, which are 15 percent of General Fund receipts for the year ended December 31, 2014, and 14 percent of General Fund receipts for the year ended December 31, 2013.

Charges for services receipts are reported at \$105,595 and \$100,779 for the years ended December 31, 2014 and 2013, respectively, which is 100 percent of total Enterprise Fund operating receipts for the years ended December 31, 2014 and 2013.

Cash disbursements are reported at \$54,271 and \$92,631 for the years ended December 31, 2014 and 2013, respectively, which are 100 percent of General Fund disbursements for the years ended December 31, 2014 and 2013. Cash disbursements are reported at \$31,664 and \$31,092 for the years ended December 31, 2014 and 2013, respectively, which are 100 percent of Special Revenue Fund disbursements for the years ended December 31, 2014 and 2013. Cash disbursements are reported at \$125,300 and \$133,888 for the years ended December 31, 2014 and 2013, respectively, which are 100 percent of Enterprise Fund disbursements.

We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as fines, licenses and permits, miscellaneous receipts, charges for services receipts, and cash disbursements. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Additional Opinion Qualifications

In our opinion, except for the possible effects of the matters described in the *Basis for Additional Opinion Qualifications* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the General Fund, Special Revenue Funds, and Enterprise Fund of the Village of Philo, Muskingum 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 § 117.38 and Ohio Administrative Code § 117-2-03(D) permit, described in Note 1.

Unmodified Opinion on Regulatory Basis of Accounting

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2016, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

May 12, 2016

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**VILLAGE OF PHILO
MUSKINGUM COUNTY**

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

| | General | Special Revenue | Capital Projects | Totals (Memorandum Only) |
|---|-----------------|--------------------|---------------------|--------------------------------|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$30,145 | \$0 | \$0 | \$30,145 |
| Intergovernmental | 24,944 | 26,180 | 58,038 | 109,162 |
| Fines, Licenses and Permits | 3,513 | 0 | 0 | 3,513 |
| Miscellaneous | 10,241 | 0 | 0 | 10,241 |
| <i>Total Cash Receipts</i> | <u>68,843</u> | <u>26,180</u> | <u>58,038</u> | <u>153,061</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 9,345 | 0 | 0 | 9,345 |
| Transportation | 14,801 | 31,664 | 0 | 46,465 |
| General Government | 30,575 | 0 | 0 | 30,575 |
| Capital Outlay | 0 | 0 | 58,038 | 58,038 |
| <i>Total Cash Disbursements</i> | <u>54,721</u> | <u>31,664</u> | <u>58,038</u> | <u>144,423</u> |
| <i>Net Change in Fund Cash Balances</i> | 14,122 | (5,484) | 0 | 8,638 |
| <i>Fund Cash Balances, January 1</i> | <u>22,084</u> | <u>7,545</u> | <u>0</u> | <u>29,629</u> |
| Fund Cash Balances, December 31 | | | | |
| Restricted | 0 | 2,061 | 0 | 2,061 |
| Unassigned (Deficit) | 36,206 | 0 | 0 | 36,206 |
| <i>Fund Cash Balances, December 31</i> | <u>\$36,206</u> | <u>\$2,061</u> | <u>\$0</u> | <u>\$38,267</u> |

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

VILLAGE OF PHILO
MUSKINGUM COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

| | <u>Enterprise</u> |
|---|------------------------|
| Operating Cash Receipts | |
| Charges for Services | <u>\$105,595</u> |
| Operating Cash Disbursements | |
| Personal Services | 24,835 |
| Contractual Services | 16,141 |
| Supplies and Materials | <u>5,874</u> |
| <i>Total Operating Cash Disbursements</i> | <u>46,850</u> |
| <i>Operating Income (Loss)</i> | <u>58,745</u> |
| Non-Operating Receipts (Disbursements) | |
| Earnings on Investments | 114 |
| Capital Outlay | (58,911) |
| Principal Retirement | (19,539) |
| Interest and Other Fiscal Charges | <u>0</u> |
| <i>Total Non-Operating Receipts (Disbursements)</i> | <u>(78,336)</u> |
| <i>Net Change in Fund Cash Balances</i> | (19,591) |
| <i>Fund Cash Balances, January 1</i> | <u>94,550</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$74,959</u></u> |

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

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

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

| | General | Special Revenue | Totals (Memorandum Only) |
|---|------------------------|-----------------------|--------------------------------|
| Cash Receipts | | | |
| Property and Other Local Taxes | \$30,226 | \$0 | \$30,226 |
| Intergovernmental | 42,118 | 32,428 | 74,546 |
| Fines, Licenses and Permits | 3,291 | 0 | 3,291 |
| Miscellaneous | 12,309 | 0 | 12,309 |
| <i>Total Cash Receipts</i> | <u>87,944</u> | <u>32,428</u> | <u>120,372</u> |
| Cash Disbursements | | | |
| Current: | | | |
| Security of Persons and Property | 9,097 | 0 | 9,097 |
| Transportation | 29,103 | 31,092 | 60,195 |
| General Government | 54,431 | 0 | 54,431 |
| <i>Total Cash Disbursements</i> | <u>92,631</u> | <u>31,092</u> | <u>123,723</u> |
| <i>Net Change in Fund Cash Balances</i> | (4,687) | 1,336 | (3,351) |
| <i>Fund Cash Balances, January 1</i> | <u>26,771</u> | <u>6,209</u> | <u>32,980</u> |
| Fund Cash Balances, December 31 | | | |
| Restricted | 0 | 7,545 | 7,545 |
| Unassigned (Deficit) | 22,084 | 0 | 22,084 |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$22,084</u></u> | <u><u>\$7,545</u></u> | <u><u>\$29,629</u></u> |

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

VILLAGE OF PHILO
MUSKINGUM COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

| | <u>Enterprise</u> |
|---|------------------------|
| Operating Cash Receipts | |
| Charges for Services | <u>\$100,779</u> |
| Operating Cash Disbursements | |
| Personal Services | 38,721 |
| Contractual Services | 13,972 |
| Supplies and Materials | <u>8,211</u> |
| <i>Total Operating Cash Disbursements</i> | <u>60,904</u> |
| <i>Operating Income (Loss)</i> | <u>39,875</u> |
| Non-Operating Receipts (Disbursements) | |
| Earnings on Investments | 114 |
| Capital Outlay | (57,534) |
| Principal Retirement | (15,450) |
| Interest and Other Fiscal Charges | <u>0</u> |
| <i>Total Non-Operating Receipts (Disbursements)</i> | <u>(72,870)</u> |
| <i>Net Change in Fund Cash Balances</i> | (32,995) |
| <i>Fund Cash Balances, January 1</i> | <u>127,545</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$94,550</u></u> |

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

**VILLAGE OF PHILO
MUSKINGUM 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 Village of Philo, Muskingum County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water utilities, park operations, and street maintenance.

The Village participates in a public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This entity is:

Public Entity Risk Pool:

The Village belongs to the Ohio Plan Risk Management, Inc. (the Plan), an unincorporated non-profit association providing a formalized, jointly administered self insurance risk management risk plan. Member governments pay annual contributions to fund the Plan. The Plan pays judgments, settlements and other expenses resulting from covered claims exceeding the member's deductible.

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 permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 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 § 117.38 and Ohio Administrative Code § 117-2-03(D) permit.

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.

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.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Fund

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 Fund:

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

3. Capital Project Fund

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant Capital Project Fund:

Community Development Block Grant Fund - This fund accounts for activity related to Community Development Block Grants administered by Muskingum County for the benefit of the Village.

4. Enterprise Fund

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:

Water Fund - This fund receives charges for services from residents to cover water 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 approve estimated resources.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. The Village did not use the encumbrance method of accounting.

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

F. Fund Balance

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

1. 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.

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

2. EQUITY IN POOLED DEPOSITS

The Village maintains a deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

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

2. EQUITY IN POOLED DEPOSITS (Continued)

The carrying amount of deposits at December 31 was as follows:

| | 2014 | 2013 |
|-------------------------|-----------|-----------|
| Demand deposits | \$54,228 | \$65,295 |
| Certificates of deposit | 58,998 | 58,884 |
| Total deposits | \$113,226 | \$124,179 |

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

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 | \$88,000 | \$68,843 | (\$19,157) |
| Special Revenue | 82,000 | 26,180 | (55,820) |
| Capital Projects | 0 | 58,038 | 58,038 |
| Enterprise | 100,000 | 105,709 | 5,709 |
| Total | \$270,000 | \$258,770 | (\$11,230) |

2014 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|----------------------------|---------------------------|----------|
| General | \$126,700 | \$54,721 | \$71,979 |
| Special Revenue | 25,000 | 31,664 | (6,664) |
| Capital Projects | 0 | 58,038 | (58,038) |
| Enterprise | 148,000 | 125,300 | 22,700 |
| Total | \$299,700 | \$269,723 | \$29,977 |

2013 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|------------|
| General | \$120,030 | \$87,944 | (\$32,086) |
| Special Revenue | 15,000 | 32,428 | 17,428 |
| Enterprise | 112,600 | 100,893 | (11,707) |
| Total | \$247,630 | \$221,265 | (\$26,365) |

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

| 2013 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$145,800 | \$92,631 | \$53,169 |
| Special Revenue | 21,000 | 31,092 | (10,092) |
| Enterprise | 143,000 | 133,888 | 9,112 |
| Total | \$309,800 | \$257,611 | \$52,189 |

Contrary to Ohio Admin. Code § 117-2-02(A), the Village did not post estimate receipts or appropriations to the Receipts Ledger and Appropriations Ledger. In addition, for 2014, the Village had appropriations in excess of estimated resources in the amount of \$16,616 in the Village's General Fund, contrary to Ohio Rev. Code § 5705.39.

Furthermore, contrary to Ohio Rev. Code § 5705.41(B), the Village made expenditures in excess of appropriations at the Village's legal level of control during 2014 and 2013. The Village also made expenditures in excess of appropriations in the Street Construction, Maintenance, and Repair Fund in the amounts of \$6,664 and \$10,092 for the years ending December 31, 2014 and 2013, respectively. Additionally, a negative variance of \$58,038 was noted for 2014 in the Capital Projects Fund as the result of payments made on-behalf of the Village which were not recorded by the Village and therefore were not budgeted.

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.

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

5. DEBT

Debt outstanding at December 31, 2014 was as follows:

| | | |
|------------------------------------|-----------|---------------|
| | Principal | Interest Rate |
| Ohio Public Works Commission CR21C | \$26,632 | 2% |

The Ohio Public Works Commission loan relates to the water tower. The loan is collateralized by water receipts. Payments are made semi-annually.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

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

5. DEBT (Continued)

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

| Year ending December 31: | OPWC Loan |
|-----------------------------|-----------------|
| 2015 | \$3,619 |
| 2016 | 3,619 |
| 2017 | 3,619 |
| 2018 | 3,619 |
| 2019 | 3,619 |
| 2020-2024 | 10,858 |
| Total | <u>\$28,953</u> |

6. RETIREMENT SYSTEM

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

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has not paid all contributions in accordance with Ohio Rev. Code § 145.47. During 2013, the Village paid \$30,055 for previous contributions the Village had not paid in accordance with Ohio Rev. Code §§ 145.034, 145.47, and 145.48.

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 § 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 (and through October 2014) 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 774 and 783 members as of December 31, 2013 and 2014 respectively.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(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 equity at December 31, 2013 and 2014:

| | <u>2013</u> | <u>2014</u> |
|-----------------|--------------------|--------------------|
| Assets | \$13,774,304 | \$14,830,185 |
| Liabilities | (7,968,395) | (8,942,504) |
| Members' Equity | <u>\$5,805,909</u> | <u>\$5,887,681</u> |

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

8. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

9. COMPLIANCE

Contrary to 26 U.S.C. § 3102(a)(1), Ohio Rev. Code § 145.47 and Ohio Rev. Code § 5747.06, the Township failed to remit certain withholdings and employer contributions to the appropriate agencies related to federal and state income taxes and retirement.

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Dave Yost • Auditor of State

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

Village of Philo
Muskingum County
310 Main Street
Philo, Ohio 43771

To the Village Council:

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 Village of Philo, Muskingum County, Ohio (the Village) 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 May 12, 2016, wherein we noted the Village followed financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit. We qualified our opinion on the Village's financial statements for the years ended December 31, 2014 and 2013 because we were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as Fines, Licenses and Permits in the General Fund in the amounts of \$3,513 and \$3,291 for the years ended December 31, 2014 and 2013, respectively; for amounts recorded as Miscellaneous receipts in the General Fund in the amounts of \$10,241 and \$12,309 for the years ended December 31, 2014 and 2013, respectively; and for Charges for Services in the Enterprise Fund in the amounts of \$105,595 and \$100,779 for the years ended December 31, 2014 and 2013, respectively. We also qualified our opinion over cash disbursements reported by the Village because we were unable to obtain sufficient appropriate audit evidence supporting General Fund cash disbursements of \$54,271 and \$92,631 for the years ended December 31, 2014 and 2013, respectively; Special Revenue Fund cash disbursements of \$31,664 and \$31,092 for the years ended December 31, 2014 and 2013, respectively; and Enterprise Fund cash disbursements of \$125,300 and \$133,888 for the years ended December 31, 2014 and 2013, respectively.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village'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 Village'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 Entity'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 and 2014-009 through 2014-017 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 2014-001 through 2014-012.

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 Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

May 12, 2016

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

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

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

Finding for Recovery and Material Weakness

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.

The following payments to Village officials and employees, in addition to their regular compensation, were noted; however, no supporting documentation or Council authorization was provided to support these payments:

- Eight quarterly payments of \$142 were made to the Village Mayor, Lloyd Miller. The payments included a description of “Phone” related to these amounts; however, no supporting documentation was attached to the voucher jacket nor was any evidence that these payments were determined to be a proper public purpose of the Village provided. Total unsupported payments paid to Mr. Miller were \$1,136.
- Eight quarterly payments of \$142 were made to the Village Clerk-Treasurer, Sam Hutcheson. The payments included a description of “Phone” related to these amounts; however, no supporting documentation was attached to the voucher jacket nor was any evidence that these payments were determined to be a proper public purpose of the Village provided. In addition, we noted three additional payments, totaling \$1,324, which contained no supporting documentation or information regarding the nature of these transactions. Total unsupported payments made to Mr. Hutcheson were \$2,460.
- Eight quarterly payments of \$75 were made to the Water Clerk, Tammy Blake. These payments were described on the voucher jackets payments for “Phone.” Certain supporting documentation attached to the vouchers were altered and included handwritten dates. In addition, a Council resolution or ordinance was not provided by the Village to evidence these payments were authorized and determined to represent a proper public purpose. Total unsupported payments made to Ms. Blake were \$600.
- Six payments totaling \$520 were made to employee Eric Fesler, for “trapping animals.” No Village ordinance or resolution was provided to indicate these types of expenditures were determined to be for a proper public purpose. Also, no voucher jacket or other supporting documentation was available for one payment, in the amount \$120. This payment was also excluded from a list of approved bills. In addition, one payment, in the amount of \$50 was also excluded from the Village’s approved list of bills. Total payments which were unsupported and/or not determined to be for a proper public purpose made to Mr. Fesler were \$520.

There was no documentation to support that the expenditures were for an otherwise proper public purpose. In the absence of supporting documentation, it could not be determined whether any of these transactions were actually made for proper public purposes relating to Village business.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Lloyd Miller and his bonding company, Ohio Plan Risk Management, Inc., in the amount of \$1,136, and in favor of the Village of Philo General Fund.

VILLAGE OF PHILO
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)

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

FINDING NUMBER 2014-001 (Continued)

Finding for Recovery and Material Weakness (Continued)

A Finding for Recovery for public monies illegally expended is hereby issued against Sam Hutcheson and his bonding company, Ohio Plan Risk Management, Inc., in the amount of \$2,460, and in favor of the Village of Philo General Fund and Water Fund in the amounts of \$1,965 and \$495, respectively. A Finding for Recovery for public monies illegally expended is hereby issued against Tammy Blake in the amount of \$600, and in favor of the Village of Philo Water Fund. A Finding for Recovery for public monies illegally expended is hereby issued against Eric Fesler in the amount of \$520, and in favor of the Village of Philo General Fund and Street Fund in the amounts of \$50 and \$470, respectively.

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

Clerk-Treasurer, Sam Hutcheson, processed the improper payments to Mr. Miller, Ms. Blake, and Mr. Fesler. Accordingly, Sam Hutcheson and his bonding company, Ohio Plan Risk Management, Inc. will be jointly and severally liable in the total amount of \$2,256, and in favor of the Township’s General Fund, Street Fund and Water Fund, in the amounts of \$1,186, \$470, and \$600, respectively.

Reimbursements should only be made to Village employees in accordance with policies legally enacted by the Village Council determining the expenditures represent proper public purposes of the Village. Supporting documentation should be maintained by the Clerk-Treasurer in accordance with record retention policies for each disbursement including a voucher with the original invoice attached, and any other supporting documentation applicable to the disbursement. Vouchers should not be approved by the Village Council unless the original invoice is attached in order to ensure amounts paid agree to the applicable supporting documentation and that supporting documentation is present.

FINDING NUMBER 2014-002

Finding for Recovery

Ohio Rev. Code § 731.13 states, in part, the legislative authority of a Village shall fix the compensation of all officers, clerks, and employees of the Village except as otherwise provided by law. The legislative authority shall, in the case of elective officers, fix their compensation for the ensuing term of office at a meeting held not later than five days prior to the last day fixed by law for filing as a candidate for such office. The compensation so fixed shall not be increased or diminished during the term for which any officer is elected or appointed. This section does not prohibit the payment of any increased costs of continuing to provide the identical benefits provided to an officer at the commencement of his term of office.

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.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-002 (Continued)

Finding for Recovery (Continued)

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.

We noted that Sam Hutcheson, Clerk-Treasurer, was overpaid \$40 in fiscal year 2013 and \$40 in fiscal year 2014. Subsidiary payroll ledgers reflected Mr. Hutcheson's quarterly net pay to be \$623; however, Mr. Hutcheson was paid \$633 per review of the appropriation ledger and canceled checks. There was no documentation to support that Village Council approved the overcompensation. Further, there was no indication that the overpayments were for a proper public purpose.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Sam Hutcheson and his bonding company, Ohio Plan Risk Management, Inc., in the amount of \$80, and in favor of the Village of Philo's General Fund.

FINDING NUMBER 2014-003

Noncompliance

26 U.S.C. § 3102(a)(1) requires every employer making payment of wages to deduct and withhold a tax determined in accordance with tables or computational procedures prescribed by the Secretary of the Treasury.

During 2014, the Village withheld federal taxes, Social Security taxes, and Medicare from employees' pay, but the withholdings were not remitted to the Internal Revenue Service. In addition, the employer share of Social Security and Medicare was not remitted in 2014. We noted the Village should have remitted \$4,721 to the Internal Revenue Service; however, we noted \$0 was remitted during 2014, a variance of \$4,721.

During 2013, the Village withheld federal taxes, Social Security taxes, and Medicare from employees' pay, but the withholdings were not remitted to the Internal Revenue Service. In addition, the employer share of Social Security and Medicare was not remitted in 2013. We noted the Village should have remitted \$5,434 to the Internal Revenue Service; however, only \$1,320 was remitted during the first quarter of 2013, a variance of \$4,114.

Failure to remit federal taxes in a timely fashion, as required, could subject the Village to significant penalties and interest.

The Village should remit the proper federal taxes, Social Security, and Medicare promptly to the Internal Revenue Service each period, as required, along with the employer share of Social Security and Medicare.

This matter will be referred to the Internal Revenue Service for whatever action deemed necessary.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-004

Noncompliance

Ohio Rev. Code § 5747.06(A) states that except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee. The employer shall deduct and withhold the tax on the date that the employer directly, indirectly, or constructively pays the compensation to, or credits the compensation to the benefit of, the employee. The method of determining the amount to be withheld shall be prescribed by rule of the tax commissioner.

During 2014, the Village withheld \$572 in state taxes from the employees' pay. Payments totaling \$751 were noted as being remitted to the Treasurer of State of Ohio. This resulted in a positive variance of \$179 for 2014. During 2013, the Village also withheld \$746 in state taxes from employees' pay; however, \$0 was noted as being remitted to the Treasurer of State of Ohio. This resulted in a variance of (\$746) for 2013.

We were unable to substantiate if payments made were for the current period or previous periods. The Village provided no explanation or documentation for these variances. Failure to properly withhold and remit the withholdings could result in errors and/or irregularities occurring and remaining undetected and subject the Township to penalties and interest charges.

The Village should take the necessary action to correct the discrepancy in the amount withheld and remitted for state taxes. The Village should ensure that transmittal of state income taxes is made timely to avoid possible late penalties and interest.

This matter will be referred to the Treasurer of the State of Ohio for whatever action deemed necessary.

FINDING NUMBER 2014-005

Noncompliance

Ohio Rev. Code § 145.47 requires each employer to withhold an amount, as determined by the public employees' retirement board, not to exceed ten percent from each employee's earnable salary that is a contributor to the retirement system.

The required rate was ten percent for 2014 and 2013. Ohio Rev. Code § 145.48 states, in part, each employer shall pay to the public employees' retirement system an amount that shall have a certain per cent of the earnable salary of all contributors to be known as the "employer contribution." The required rate was 14% for 2014 and 2013.

The Village appears to have withheld the proper amounts from employees; however, variances were noted with the amounts remitted to the Ohio Public Employees Retirement System (OPERS). For 2014, we noted the Village should have remitted a total of \$8,739 for employee and employer contributions; however, our review of the appropriation ledger noted a total of \$14,294 remitted during the year. This resulted in a positive variance of \$5,555 for 2014.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-005 (Continued)

Noncompliance – Ohio Rev. Code § 145.47 (Continued)

For 2013, we noted the Village should have remitted a total of \$7,403 for employee and employer contributions; however, our review of the appropriation ledger noted a total of \$40,872 remitted during the year. This resulted in a positive variance of \$33,469 for 2013. We further noted the Village received and paid a notice for \$30,005 related to an employee who did not have OPERS properly withheld and remitted from January 1, 1998 through December 31, 2003. Of this amount, \$14,848 was interest, \$5,978 represented overdue employee contributions, and \$9,179 represented overdue employer contributions. Excluding this item, the variance between what was paid and what was due for 2013 was \$3,463.

For the payments made to OPERS, we were unable to substantiate if payments made during each year were for the current period or previous periods. The Village provided no explanation or documentation for these variances, aside from the matter noted above for the \$30,005 payment due in 2013. Failure to properly withhold and remit the withholdings and contributions could result in errors and/or irregularities occurring and remaining undetected and subject the Village to penalties and interest charges.

The Village should remit employee withholdings and employer contributions in a timely fashion to the Ohio Public Employees Retirement System as required. The Village Council should monitor these payments to ensure payments are being made timely and in the appropriate amounts.

This matter will be referred to OPERS for whatever action deemed necessary.

FINDING NUMBER 2014-006

Noncompliance

Ohio Rev. Code § 145.034 states a member of the public employees retirement system who is a public employee as defined in division (A)(2) of section 145.01 of the Revised Code and whose earnings from employment are or become subject to the tax on wages imposed by the "Federal Insurance Contributions Act," 68A Stat. 415 (1954), 26 U.S.C. 3101, as amended, may elect to have such earnings exempted from contributions to the public employees retirement system by filing with the public employees retirement board a written request bearing his signature. The request shall be filed not later than ninety days after the date the member becomes subject to such tax on wages. A request mailed to the board shall be considered to have been filed on its postmark date. On receipt of a request, the board shall notify the member's employer that the request has been made.

No contributions by the person making the request or his employer shall be required for service for which earnings are made exempt from contributions pursuant to this section, and no service credit shall be granted or purchased for such service. Once granted, a request made pursuant to this section may not be withdrawn.

The Village had various employees and officials who did not participate in the Ohio Public Employees Retirement System (OPERS); however, no signed exemptions forms showing these employees elected not to participate in the public employees retirement system were presented for audit. Therefore, we were not able to determine whether the Village took necessary steps to document whether exclusions from the public employees retirement system were proper. It was noted one employee during 2013 and 2014 had no withholdings for either OPERS or Social Security. All other employees who did not have OPERS withholdings had evidence of withholdings for Social Security.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-006 (Continued)

Noncompliance – Ohio Rev. Code § 145.034 (Continued)

Failure to adequately document exemptions in the public employees retirement system could result in the Village being obligated for amounts due to the public employees retirement system, as well as interest and/or penalties. Failure to properly document this matter in prior audit periods resulted in the Village having to pay \$30,005 during 2013 for an employee's service from January 1, 1998 through December 31, 2003. Of this amount, \$5,978 was the required employee contribution, \$9,179 was the required employer contribution, and \$14,848 was the amount related to interest for these unpaid contributions.

The Village should obtain signed exemptions forms for any employee or official who will not be participating in the Ohio Public Employees Retirement System and retain this documentation for its records.

This matter will be referred to OPERS for whatever action deemed necessary.

FINDING NUMBER 2014-007

Noncompliance

Ohio Rev. Code § 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority of influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest.

Furthermore, Ohio Rev. Code § 2921.42(G)(1)(a) indicates that a public contract means the purchase of acquisition, or a contract for the purpose or acquisition, of property or services by or for the use of the state, any of its political subdivisions, or any agency or instrumentality of either, including the employment of an individual by the state, any of its political subdivisions, or any agency or instrumentality of either.

Ohio Rev. Code § 102.03(D) provides that no public official or employee shall use or authorize the use of the authority of influence of his office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

1998 Ohio Ethics Commission Opinion No. 98-004 states, in part, that Division (A)(1) of § 2921.42 of the Revised Code, and Division (D) of § 102.03 of the Revised Code, prohibit a Village Clerk-Treasurer from authorizing, or employing the authority of influence of her office to secure the authorization of, her husband's contract of employment or the continuation, implementation, or terms and conditions of her husband's contract of employment.

On November 11, 2001, Village Council authorized the hiring of Becky Hutcheson as assistant to the Clerk-Treasurer, Samuel Hutcheson. Becky Hutcheson is the wife of Samuel Hutcheson. Village Council re-affirmed the hiring of Becky Hutcheson with passage of Ordinance 2003-6A which was introduced on December 16, 2003.

This matter was referred to the Ohio Ethics Commission as a possible violation of Ohio Revised Code § 2921.42(A)(1) and 102.03(D) as a result of the prior audit report dated November 12, 2003. This employment situation has not changed.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-008

Noncompliance

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the Clerk-Treasurer is attached thereto. The Clerk-Treasurer 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 Clerk-Treasurer'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 Ohio Rev. Code §§ 5705.41(D)(1) and 5705.41(D)(3), respectively:

Then and Now Certificate - If the Clerk-Treasurer can certify that both at the time the contract or order was made "then" and at the time that the Clerk-Treasurer 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 encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Village has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance. Amounts of less than \$3,000, may be paid by the Clerk-Treasurer without a resolution or ordinance of the Village 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.

Blanket Certificate – Clerk-Treasurers 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.

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.

Prior certification was not obtained for 100% of the expenditures tested for 2014 and 2013. Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Clerk-Treasurer certify that funds are or will be available prior to obligations being incurred by the Village. When prior certification is not possible, "then and now" certificates should be used.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-008 (Continued)

Noncompliance – Ohio Rev. Code § 5705.41(D)(1) (Continued)

The Village should certify purchases to which Ohio Rev. Code § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language § 5705.41(D) requires to authorize disbursements. The Village Clerk-Treasurer should sign the certification prior to the Village incurring a commitment, and only when the requirements of § 5705.41(D) are satisfied. The Village Clerk-Treasurer should post approved purchase commitments to the proper appropriation code to reduce the available appropriation. In addition, if the Village chooses to utilize blanket certificates, we recommend the Village Council adopt a resolution to set a maximum amount for which blanket certificates may be issued.

FINDING NUMBER 2014-009

Noncompliance and Material Weakness

Ohio Rev. Code § 731.13 states, in part, the legislative authority of a Village shall fix the compensation of all officers, clerks, and employees of the Village except as otherwise provided by law. The legislative authority shall, in the case of elective officers, fix their compensation for the ensuing term of office at a meeting held not later than five days prior to the last day fixed by law for filing as a candidate for such office. The compensation so fixed shall not be increased or diminished during the term for which any officer is elected or appointed. This section does not prohibit the payment of any increased costs of continuing to provide the identical benefits provided to an officer at the commencement of his term of office.

During the audit period, there was no documentation for the Council approved pay rates for seven employees and four Village officials included in our testing. For one employee, who was noted to have an approved pay rate of \$12 per hour during the audit period, the subsidiary ledgers revealed that the employee was paid \$11.75 per hour during fiscal year 2014.

In addition, for 2014, we noted the following discrepancies, during our test of a sample of payroll transactions, between hours documented on employee time sheets and hours approved by the Finance Committee for payment as follows:

- A Village employee was paid on January 9, 2014 for 138.5 hours of services; however, our review of Village time sheets only noted 111.5 hours documented for the period. At the employee's rate of \$9 per hour, this resulted in a variance of \$243.
- A Village employee was paid on May 13, 2014 for 12 hours of services; however, our review of Village time sheets only noted 7 hours documented for the period. At the employee's rate of \$9 per hour, this resulted in a variance of \$45.
- A Village employee was paid on June 12, 2014 for 92.5 hours of services; however our review of Village time sheets noted 95 hours documented for the period. At the employee's rate of \$11.75 per hour, this resulted in a variance of \$29.
- A Village employee was paid on August 14, 2014 for 128.75 hours of services; however, our review of Village time sheets noted 129.5 hours documented for the period. At the employee's rate of \$11.75 per hour, this resulted in a variance of \$9.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-009 (Continued)

Noncompliance and Material Weakness – Ohio Rev. Code § 731.13 (Continued)

Furthermore, for 2013, we noted a Village employee was overpaid \$51 for the fourth quarter of 2013 as the result of a mathematical error in the payroll ledger in which federal withholdings were not correctly deducted from the employee's net pay. We also noted the following discrepancies, during our test of a sample of payroll transactions, between hours documented on employee time sheets and hours approved by the Finance Committee for payment as follows:

- A Village employee was paid on February 14, 2013 for 137.75 hours of services; however, our review of Village time sheets only noted 111 hours documented for the period. At the employee's rate of \$11.50 per hour, this resulted in a variance of \$305.
- A Village employee was paid on October 10, 2013 for 98.5 hours of services; however, our review of Village times sheets noted 101.5 hours documented for the period if the employee was being compensated based upon the prior calendar month. This would result in a variance of \$35. We could not easily determine if work performed on September 30th was included within this payment or the following month. If this payment was included in the following month then hours documented on times sheets documented would be 92.5 hours. This would result in a variance of \$69.
- A Village employee was paid on December 31, 2013 for 18.5 hours of services; however, our review of Village time sheets noted 11 hours documented for the period. At the employee's rate of \$8.50 per hour, this resulted in a variance of \$60.

We could not readily substantiate the causes of the variances above. Furthermore, of the time sheets that were presented for audit, time sheets were not consistently signed by management to document approval of the hours worked. Additional procedures were performed to obtain assurances over payroll disbursements.

We agreed payroll disbursements for employees selected to the listing of payments approved by the Finance Committee or Board of Public Affairs to gain assurance that amounts paid were in accordance with Council's intentions and were for authorized work performed.

The Village Council should approve all pay rates and increases and document this approval in the minutes. We further recommend the Village maintain all supporting documentation for payroll disbursements, including approved time sheets, and take due care in calculating gross pay, deductions, and net pay.

FINDING NUMBER 2014-010

Noncompliance and Material Weakness

Ohio Admin. Code § 117-2-02(A), requires all 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 required by Ohio Admin. Code § 117-2-03.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-010 (Continued)

Noncompliance and Material Weakness – Ohio Admin. Code § 117-2-02(A) (Continued)

The Village's accounting system and accounting records did not enable the Village to document compliance with finance-related legal requirements, including various sections of Ohio Revised Code § 5705 as follows:

- Appropriations were not posted to the appropriation ledger. As a result, there was no method established whereby the Clerk-Treasurer could determine if unencumbered appropriations were available for expenditure. Village management could not monitor the types of expenditures being made and the year-to-date expenditures made for any particular expenditure function.
- Estimated receipts were not posted to the receipts ledger. As a result, there was no method established whereby Village management could compare budgeted receipts to actual receipts and file amended certificates of estimated resources when needed.

The Village Clerk-Treasurer should post appropriation amounts to the appropriation ledger, once appropriations are adopted by the Village Council and certified by the Budget Commission. This would enable the Clerk-Treasurer to utilize the encumbrance method of accounting and document compliance with finance-related legal requirements. Comparisons of budgeted (appropriated) expenditures to actual expenditures should then be presented to Council as a tool to manage the Village.

Furthermore, we recommend budgeted and actual receipts be posted to the receipts ledger as recommended in Ohio Admin. Code § 117-2-02(D)(2), to provide useful monthly budget vs. actual comparisons to assist management in monitoring Village operations. This would enable the Clerk-Treasurer to document compliance with finance-related legal requirements concerning the filing of estimated resources and any amendments thereto.

FINDING NUMBER 2014-011

Noncompliance and Material Weakness

Ohio Revised Code § 5705.39 prohibits total appropriations in each fund from exceeding total estimated resources. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

For 2014, appropriations of \$126,700 exceeded total estimated resources of \$110,084 by \$16,616 for the General Fund. Failure to limit appropriations to total estimated resources could result in deficit spending.

The Village officials should monitor appropriations and estimated resources throughout the year to make sure appropriations do not exceed estimated resources.

FINDING NUMBER 2014-012

Noncompliance and Material Weakness

Ohio Revised Code § 5705.41(B) prohibits the expenditure of funds unless they have been properly appropriated.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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

FINDING NUMBER 2014-012 (Continued)

Noncompliance and Material Weakness – Ohio Rev. Code § 5705.41(B) (Continued)

The Village's legal level of control is at the object level. We noted the expenditures exceeded appropriations at the legal level control for the year ended December 31 as follows:

| Year | Fund-Function-Object | Appropriations | Disbursements | Variance |
|------|---|----------------|---------------|----------|
| 2014 | General-Land & Buildings-Supplies & Materials | \$8,000 | \$8,490 | (\$490) |
| | General-Clerk/Treasurer-Salaries & Wages | 0 | 3,574 | (3,574) |
| | General-Clerk/Treasurer-Supplies & Materials | 0 | 779 | (779) |
| | Street-Street Construction-Salaries & Wages | 8,000 | 15,702 | (7,702) |
| | Street-Street Construction-Supplies & Materials | 13,000 | 15,390 | (2,390) |
| | Water-Land & Buildings-Salaries & Wages | 28,000 | 35,392 | (7,392) |
| | Water-Land & Buildings-Capital Outlay | 70,000 | 72,985 | (2,985) |
| 2013 | General-Clerk/Treasurer-Salaries & Wages | 0 | 3,573 | (3,573) |
| | General-Clerk/Treasurer-Supplies & Materials | 0 | 1,362 | (1,362) |
| | General-Board & Commissions | 500 | 1,129 | (629) |
| | Street-Street Construction-Salaries & Wages | 10,000 | 15,988 | (5,988) |
| | Street-Street Construction-Supplies & Materials | 15,000 | 15,676 | (676) |
| | Water-Land & Buildings-Contractual Services | 15,000 | 16,141 | (1,141) |

The Village should only make expenditures once appropriations have been adopted. The Clerk-Treasurer should deny payment requests where appropriations are not available.

FINDING NUMBER 2014-013

Material Weakness

A well-designed system of internal control will include monitoring of financial reports and information by the governing board in order to compensate for any lack of segregation of duties. The small size of the Village's staff did not allow for an adequate segregation of duties. The Clerk-Treasurer performed all accounting functions, including receipting, depositing, disbursing, and reconciling. It is therefore important for the Village Council to monitor financial activity closely and to follow up on any audit findings.

The results of our audit indicated a weakness in management's role to establish and maintain effective internal controls and to ensure and document the Village is complying with legal requirements as evidenced by the material noncompliance citations and material weaknesses included in our report. The small size of the Village's staff did not allow for an adequate segregation of duties as the Village Clerk-Treasurer performed all accounting functions, including receipting, depositing, disbursing, and reconciling Village monies.

We noted no evidence of the monthly bank reconciliations being presented to the Village Council for approval. Furthermore, various items such as the improperly handling of voided checks in the Village's ledgers, long-outstanding items on the Village's reconciliations, and unusual length of time between the issuance of a check and when the check cleared were noted to have occurred. No evidence was presented for audit to further investigate two checks which were issued in March and October 2014, respectively, noted to be outstanding at December 31, 2014.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

| |
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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-013 (Continued)

Material Weakness (Continued)

Failure to adequately monitor the activities of the Village by Village Council could result in errors or irregularities to occur and remain undetected.

The Village Council should become more actively involved in monitoring the financial activity of the Village. Village Council should assure that the Village Clerk-Treasurer performs a monthly bank reconciliation. Village Council should then review the validity of the computations and reconciling items and attest to the reconciliation's accuracy. Village Council should also assure the Clerk-Treasurer maintains and presents to Council monthly with following records: receipts ledger, appropriations ledger, cash journal, budget vs. actual reports for receipts and disbursements, payroll journal and check register. Supervisory reviews should be performed by members of Village Council and evidenced by the initials of each members performing the review and the date of the review was performed.

The presentation of these records and reviews by Village Council should be noted in the Council's minutes.

Council should make appropriate inquiries to help determine the continued integrity of financial information such as:

- Are current receipts sufficient to cover expenditures?
- Are actual receipts and expenditures in line with the budget?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations occur, is the reason documented, and properly budgeted for?
- Are anticipated receipts being received in a timely manner?

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Village.

FINDING NUMBER 2014-014

Material Weakness

The Village should design and operate a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for its public offices in certain categories. Furthermore, the Village should maintain an accounting system and accounting records sufficient to assure accountability of entity assets. In addition, the Village should have internal controls sufficient to assure that recorded transactions have occurred and are not fictitious.

The Village was unable to provide sufficient appropriate audit evidence supporting amounts recorded for Charges for Services for the Village's Enterprise Fund. The Village had not implemented a method of tracking bulk water sales from a coin operated water dispensing system operated by the Village. In addition, the Clerk-Treasurer did not issue a pay-in order to the individual forwarding monies from bulk sales to the Clerk-Treasurer. Furthermore, The Village Water Clerk maintained a cash journal for the recording of quarterly payments received and forwarded water payments to the Village Clerk-Treasurer on a monthly basis; however, the Clerk-Treasurer did not issue pay-in orders each month to the Water Clerk.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-014 (Continued)

Material Weakness (Continued)

These weaknesses resulted in a lack of accountability between the water department collections and the amounts entered in the Clerk-Treasurer's cashbook. The opinion on the Village's financial statements was modified as a result of this matter.

The Village should implement a process to monitor the bulk water sales of the Village. This could include implementing a system to track consumption from the system and comparing this consumption to receipts deposited with the Village's financial institution. In addition, the Village Clerk-Treasurer should issue a pay-in order to the Water Clerk when water payments are received. We also recommend a pay-in order be issued to the individual forwarding bulk water sales monies to the Clerk-Treasurer.

FINDING NUMBER 2014-015

Material Weakness

The Village should maintain an accounting system and accounting records sufficient to enable the Village 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 in accordance with the accounting basis permitted by the financial reporting provisions of Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(D).

Pay-in orders were not issued by the Clerk-Treasurer for all amounts received by the Village. In addition, we noted multiple instances in which the Clerk-Treasurer either did not post receipts to the accounting records, or did not deposit receipts into the Village depository in a timely manner after they were received.

Additionally, for 2014, we noted five payments, totaling \$5,888, on the State of Ohio Distribution Transaction Listing to the Village of Philo for gasoline taxes and state and local government highway distributions which were not posted to the Cash Journal or Receipts Ledger during 2014 and had not been deposited by the Village as of December 31, 2014. These checks were subsequently voided by the State of Ohio and have not been reissued to the Village.

Furthermore, we noted that the Village Clerk-Treasurer failed to maintain adequate source documentation related to Fines, Licenses, and Permits and Miscellaneous receipts reported within the Village's General Fund. For fiscal year 2014, no supporting documentation was available for Fines, Licenses, and Permits totaling \$3,513. Additionally, for fiscal year 2014, adequate supporting documentation was unavailable for \$2,370 of \$10,241 in Miscellaneous receipts reported by the Village. For fiscal year 2013, adequate supporting documentation was unavailable for \$7,310 of \$12,309 in miscellaneous receipts reported by the Village.

As a result, we modified our opinion on the Village's financial statements related to these receipts. The lack of maintaining adequate source documentation and posting and depositing receipts on a timely basis could also allow errors or fraud to occur and remain undetected by management.

The Clerk-Treasurer should issue a pay-in order when any money is received on behalf of the Village. The pay-in order should be issued in duplicate, with the original given to the person making payment after all the information has been entered in the spaces provided. The duplicate should remain in the binding and be used as a posting source to the cash journal.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-015 (Continued)

Material Weakness (Continued)

All supporting documentation that provides evidence of the amounts received should be maintained on file. Monies should be deposited as soon as possible and the Clerk-Treasurer should properly safeguard monies until the time the deposit is made.

FINDING NUMBER 2014-016

Material Weakness

All local public offices should 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.

Furthermore, Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, requires five fund balance classifications (nonspendable, restricted, committed, assigned, and unassigned) related to constraints placed upon the use of resources reported in governmental funds and clarifies the existing governmental fund type definitions. In addition, Auditor of State Bulletin 2011-004 requires local governments which prepare cash basis financial statements to implement these fund balance classifications and governmental fund type definitions.

Various adjustments were made to the Village's financial statements for 2014 and 2013 including adjustments necessary to report fund balances in accordance with GASB Statement No. 54.

For the fiscal year ending December 31, 2014, the following adjustments and reclassifications were noted:

- Intergovernmental Receipts totaling \$5,973 were improperly classified as Property and Other Taxes in the General Fund.
- Intergovernmental Receipts totaling \$6,562 were improperly classified as Fines, Licences & Permits in the General Fund.
- Ending Fund Balance of \$2,061 in the Street Construction, Maintenance and Repair Fund was improperly classified as Unassigned rather than Restricted Fund Balance.
- Capital Projects Fund activity which was comprised of on-behalf payments processed through Muskingum County was not reported by the Village. An adjustment of \$58,038 was necessary to Intergovernmental Revenue and Capital Outlay expenditures to reflect this activity.
- Earnings on Investment of \$114 were not posted to the Water Fund related to interest earned on certificates of deposits.
- Personal Services expenditures per the accounting system were understated by \$61 in the Water Fund.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-016 (Continued)

Material Weakness (Continued)

For the fiscal year ending December 31, 2013, the following adjustments and reclassifications were noted:

- Intergovernmental Receipts totaling \$5,909 were improperly classified as Property and Other Taxes in the General Fund.
- Intergovernmental Receipts totaling \$10,000 were improperly classified as Fines, Licenses & Permits in the General Fund.
- Intergovernmental Receipts totaling \$13,516 were improperly classified as Miscellaneous Revenue in the General Fund.
- Fund balance of \$22,084 in the General Fund was not classified according to GASB 54; therefore, an adjustment was necessary to properly reflect the fund balance as Unassigned.
- Fund balance of \$7,545 in the Street Construction, Maintenance and Repair Fund was not classified according to GASB 54; therefore, an adjustment was necessary to properly reflect the fund balance as Restricted.

As a result, several entries, with which the Village management agreed, were made and reflected in the accompanying financial statements, and, where applicable, the accounting records, in order to accurately reflect the Village's financial activity.

In addition, we noted the following unadjusted differences for the year ending December 31, 2014:

- Miscellaneous Receipts and General Governmental expenditures in the General Fund were overstated by \$1,525 due to the Village recording a refund of overpayment for its insurance coverage as a receipt rather than a reduction of expenditures.
- Expenditures totaling \$36,770 were improperly classified in the Water Fund as Capital Outlay rather than Contractual Services.
- Expenditures for the Redemption of Principal and Interest and Fiscal Charges of \$500 and \$1,497, respectively, were improperly recorded as Capital Outlay expenditures in the Water Fund.
- Supplies and Materials and Capital Outlay expenditures in the Water Fund were overstated by \$44 and \$1,810, respectively; while Charges for Services were overstated by \$1,854. The Village recorded the voiding of several checks as receipts rather than a reduction of expenditures.
- Expenditures totaling \$915, \$238, and \$1,553 in the Water Fund were improperly classified as Capital Outlay, rather than Other Expenditures, Personal Services and Supplies and Materials expenditures.

We also noted the following unadjusted differences for the year ending December 31, 2013:

- General Government expenditures and Miscellaneous Receipts in the General Fund were overstated by \$587 as the Village recorded a voided check as a receipt rather than a reduction of expenditures.
- Interest and Fiscal Charges of \$1,467 were improperly classified as Redemption of Principal in the Water Fund.
- Capital Outlay expenditures and Charges for Services in the Water Fund were overstated by \$305 due to a voided check which was recorded as a receipt rather than a reduction of expenditures.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-016 (Continued)

Material Weakness (Continued)

Finally, the Village improperly posted the total of all estimated resources to its budgetary presentation in the Notes to the Financial Statements, rather than just the estimated receipts to be received in each fiscal year. These were adjusted accordingly to match the approved budgetary measures.

Failure to properly classify receipts and disbursements as to the appropriate classification could result in the financial statements being misleading.

The Clerk-Treasurer should refer to the Village Officer's Handbook for proper classification and take additional care in posting transactions to the Village's ledgers and annual financial report in order to ensure the Village's year-end financial statements reflect the appropriate sources and uses of the Village's receipts and disbursements, as well as fund balance classification.

FINDING NUMBER 2014-017

Material Weakness

Management is responsible for designing and implementing internal control policies and procedures to reasonably ensure specific financial objectives will be achieved. A sound internal control structure requires documented procedures to provide management with reasonable assurance that recorded transactions occurred and are not fictitious. This includes maintaining sufficient supporting documentation such as invoices and vouchers for all non-payroll disbursements.

We noted the following payments made by the Village which did not contain complete supporting documentation:

- Six payments were noted for purchases made to the Village's credit card company totaling \$1,698 for which no supporting receipts were provided to substantiate the exact items purchased. These payments agreed to the credit card statement, which included the vendor, and the cancelled check images.
- One payment, in the amount of \$79, was made to the Village's credit card company for which only the first page of the credit card statement was provided. Therefore, the vendor with which the credit card transaction occurred was not apparent. Also, no supporting receipts regarding this statement were provided. We were able to agree the amount paid to the cancelled check image for this purchase.
- One payment, in the amount of \$80, was made to the Village's credit card company for which no credit card statement or receipts supporting items purchased were provided. Therefore, the vendor and nature of the transactions which occurred were not apparent. We were able to agree the amount paid to the cancelled check image for this purchase.
- One payment, in the amount of \$38, was made to the Village's credit card company for which supporting receipts of only \$17 were provided. This payment agreed to the credit card statement, which included the vendor, and the cancelled check image.
- Payment of \$547 for workers' compensation was made on May 8, 2014; however, no supporting invoice was included with the voucher jacket. The payment did agree to the cancelled check and approved list of bills signed by the Clerk-Treasurer, Council President, and three members of Village Council.

VILLAGE OF PHILO
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013
(Continued)

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

FINDING NUMBER 2014-017 (Continued)

Material Weakness (Continued)

- Payment of \$204 was made on October 9, 2014 for hot asphalt mix; however, the check had not cleared the bank as of January 31, 2015 and no bank statements subsequent to that date or cancelled checks were provided by the Village to determine if the information and signatures on the cancelled check appeared appropriate.

In addition, the Village lacked original supporting documentation for other disbursements for which we were able to obtain duplicate documentation by contacting the vendors. Also, for 2014, errors noted as a result of our sampling of non-payroll disbursements resulted in unadjusted projected misstatements of \$4,511, \$1,148, and \$4,226 for the General, Street Construction, Maintenance and Repair, and Water Funds, respectively. For 2013, errors noted as a result of our sampling of non-payroll disbursements resulted in unadjusted projected misstatements of \$1,759, \$260, and \$1,205 for the General, Street Construction, Maintenance and Repair, and Water Funds, respectively

As a result, we modified our opinion on the Village's financial statements related to cash disbursements. The lack of maintaining adequate source documentation could also allow errors or fraud to occur and remain undetected by management.

Supporting documentation should be maintained by the Clerk-Treasurer in accordance with record retention policies for each non-payroll disbursement including a voucher with the original invoice attached, and any other supporting documentation applicable to the disbursement. Vouchers should not be approved by the Village Council unless the original invoice is attached in order to ensure amounts paid agree to the applicable supporting documentation and that supporting documentation is present.

Officials' Responses: We did not receive any responses from Officials to the Findings reported above.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

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

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain |
|----------------|--|------------------|---|
| 2012-01 | Ohio Rev. Code § 5705.41B – The Village expended monies in excess of appropriations at the legal level of control. | No. | Repeated as Finding No. 2014-012. |
| 2012-02 | Ohio Admin. Code § 117-2-02(A) – Appropriations and estimated receipts were not posted to the accounting records. | No. | Repeated as Finding No. 2014-010. |
| 2012-03 | Ohio Rev. Code § 5705.41(D) – The Village did not certify monies prior to commitment. | No. | Repeated as Finding No. 2014-008. |
| 2012-04 | Ohio Rev. Code § 2921.42(A)(1) – The Village hired the Clerk/Treasurer’s wife to serve as his assistant. | No. | Repeated as Finding No. 2014-007. |
| 2012-05 | Material Weakness – Village Council should monitor the financial activity of the Village. | No. | Repeated as Finding No. 2014-013. |
| 2012-06 | Material Weakness – Weaknesses were noted regarding the accounting for water sales. | No. | Repeated as Finding No. 2014-014. |
| 2012-07 | Material Weakness – Pay-in issues were not issued and source documentation was not available for various receipts. | No. | Repeated as Finding No. 2014-015. |



Dave Yost • Auditor of State

VILLAGE OF PHILO

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 26, 2016