



**Auditor of State
Betty Montgomery**

VILLAGE OF MCARTHUR
VINTON COUNTY

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**Auditor of State
Betty Montgomery**

Village of McArthur
Vinton County
124 West Main Street
McArthur, Ohio 45651

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

November 6, 2006

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of McArthur
Vinton County
124 West Main Street
McArthur, Ohio 45651

To the Village Council:

We have audited the accompanying financial statements of the Village of McArthur, Vinton County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in paragraph seven, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

The accompanying financial statement for the year ended December 31, 2004 presents receipts and disbursements by the fund and combined fund type totals. Ohio Administrative Code Section 117-2-02 (A) requires governments to classify receipt and disbursement transactions.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the third following paragraph.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

In our opinion, because of the effects of the matter discussed in the proceeding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

The basis of accounting prescribed by the Auditor of State requires the Village to report outstanding encumbrances at year end as budgetary expenditures. The Village did not record encumbrances for the years ended December 31, 2005 and 2004. Accordingly, budgetary expenditures in Note 3 do not include encumbrances. It was not practical for us to determine the amount of unrecorded encumbrances for the years ended December 31, 2005 and 2004. In addition, the Village did not maintain sufficient records, documents or evidential matter to support the completeness of certain 2005 and 2004 Agency Fund receipts, which were recorded as \$45,076 (4% of total receipts) and \$67,010 (6% of total receipts), respectively, as reflected in the accompanying financial statements.

Also, in our opinion, except for the omission of receipt and disbursement classifications for the year ended December 31, 2004 as discussed in paragraph three above and the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence supporting Agency Fund receipts and had we performed a search for unrecorded year end outstanding encumbrances as discussed in paragraph seven above, for the years ended December 31, 2005 and 2004, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of McArthur, Vinton County, as of December 31, 2005, and its combined cash receipts and disbursements for the year then ended; and the fund cash balances of the Village of McArthur, Vinton County, as of December 31, 2004, and its unclassified cash receipts and unclassified cash disbursements for the year then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

November 6, 2006

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$69,391	\$121,077	\$190,468
Intergovernmental Receipts	66,342	150,304	216,646
Charges for Services		58,139	58,139
Fines, Licenses, and Permits	38,648	504	39,152
Earnings on Investments	371	535	906
Miscellaneous	589	950	1,539
	<u>175,341</u>	<u>331,509</u>	<u>506,850</u>
Total Cash Receipts			
	<u>175,341</u>	<u>331,509</u>	<u>506,850</u>
Cash Disbursements:			
Current:			
Security of Persons and Property		193,164	193,164
Public Health Services	538		538
Leisure Time Activities		10,570	10,570
Basic Utility Services		17,108	17,108
Transportation		131,159	131,159
General Government	139,416	17,592	157,008
Debt Service:			
Principal Payments	49,408		49,408
Interest Payments	7,551		7,551
	<u>196,913</u>	<u>369,593</u>	<u>566,506</u>
Total Cash Disbursements			
	<u>196,913</u>	<u>369,593</u>	<u>566,506</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(21,572)</u>	<u>(38,084)</u>	<u>(59,656)</u>
Other Financing Receipts/(Disbursements):			
Other Debt Proceeds	113,880		113,880
Other Financing Sources	127	5,515	5,642
Transfers-In		6,904	6,904
Transfers-Out	(6,904)	0	(6,904)
	<u>107,103</u>	<u>12,419</u>	<u>119,522</u>
Total Other Financing Receipts/(Disbursements)			
	<u>107,103</u>	<u>12,419</u>	<u>119,522</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>85,531</u>	<u>(25,665)</u>	<u>59,866</u>
Fund Cash Balances, January 1	<u>17,544</u>	<u>116,380</u>	<u>133,924</u>
Fund Cash Balances, December 31	<u><u>\$103,075</u></u>	<u><u>\$90,715</u></u>	<u><u>\$193,790</u></u>

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

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$442,572	\$	\$442,572
Fines, Licenses, and Permits	\$10,257		\$10,257
Earnings of Investments	\$140		\$140
Miscellaneous	27,534		27,534
Total Operating Cash Receipts	480,503	0	480,503
Operating Cash Disbursements:			
Personal Services	204,043		204,043
Travel Transportation	5,935		5,935
Contractual Services	100,223		100,223
Supplies and Materials	24,423		24,423
Capital Outlay	5,490		5,490
Total Operating Cash Disbursements	340,114	0	340,114
Operating Income/(Loss)	140,389	0	140,389
Non-Operating Cash Receipts:			
Other Financing Sources		45,076	45,076
Total Non-Operating Cash Receipts	0	45,076	45,076
Non-Operating Cash Disbursements:			
Redemption of Principal	154,463		154,463
Interest and Fiscal Charges	22,820		22,820
Other Financing Uses		44,741	44,741
Total Non-Operating Cash Disbursements	177,283	44,741	222,024
Net Receipts Over/(Under) Disbursements	(36,894)	335	(36,559)
Fund Cash Balances, January 1	58,766	5,951	64,717
Fund Cash Balances, December 31	\$21,872	\$6,286	\$28,158

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

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Receipts	Disbursements	Balance December 31
Funds:				
General Fund	(\$43,983)	\$248,281	\$186,754	\$17,544
Special Revenue Funds:				
Street Construction, Maintenance and Repair	52,715	122,397	89,966	85,146
State Highway Improvement	4,070	6,898	1,244	9,724
Police	34	43,644	78,272	(34,594)
Park	5,942	10,500	9,307	7,135
Street Light	10,031	22,802	20,429	12,404
Fire	13,851	131,166	112,300	32,717
Indigent	3,513	335		3,848
Total Special Revenue Funds	<u>90,156</u>	<u>337,742</u>	<u>311,518</u>	<u>116,380</u>
Enterprise Funds:				
Water	(1,200)	182,610	165,386	16,024
Sewer	47,936	265,942	271,136	42,742
Total Enterprise Funds	<u>46,736</u>	<u>448,552</u>	<u>436,522</u>	<u>58,766</u>
Agency Funds:				
Mayor's Court	3,231	67,010	64,290	5,951
Total All Funds	<u><u>\$96,140</u></u>	<u><u>\$1,101,585</u></u>	<u><u>\$999,084</u></u>	<u><u>\$198,641</u></u>

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

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**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

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 McArthur, Vinton County (the Village), as a body corporate and politic. A publicly-elected six-member Council and an elected Mayor and appointed Clerk govern the Village. The Village provides maintenance of streets, water and sewer utilities, park operations, and police and fire services.

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

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

The Village Clerk invests all available funds of the Village in an interest-bearing checking account.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

Police Fund- This fund receives money from the General Fund and provides police protection for the Village.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Fire Fund -This fund receives property tax and contractual charges to provide fire protection for the Village and surrounding townships.

3. Enterprise Funds

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

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

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

4. Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Fund:

Mayor's Court Fund – This fund accounts for the financial activity of the Mayor's Court.

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 level of control, and appropriations may not exceed estimated resources. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2005	2004
Demand deposits	\$221,948	\$198,641

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$346,220	\$289,348	(\$56,872)
Special Revenue	306,918	343,928	37,010
Enterprise	447,000	480,503	33,503
Total	\$1,100,138	\$1,113,779	\$13,641

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$183,000	\$203,817	(\$20,817)
Special Revenue	451,799	369,593	82,206
Enterprise	447,000	517,397	(70,397)
Total	\$1,081,799	\$1,090,807	(\$9,008)

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$181,917	\$248,281	\$66,364
Special Revenue	316,912	337,742	20,830
Enterprise	510,736	448,552	(62,184)
Total	\$1,009,565	\$1,034,575	\$25,010

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$222,037	\$186,754	\$35,283
Special Revenue	311,795	311,518	277
Enterprise	442,000	436,522	5,478
Total	\$975,832	\$934,794	\$41,038

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$20,817, in the Fire Fund by \$22,770, in the Water Fund by \$12,488, and in the Sewer Fund by \$57,909 for the year ended December 31, 2005. Budgetary expenditures exceeded appropriation authority in the Police Fund by \$49,232 and in the Fire Fund by \$32,066, for the year ended December 31, 2004. Also contrary to Ohio law, at December 31, 2005, appropriations exceeded estimated resources by \$56,721 in the Police Fund and at December 31, 2004, appropriations exceeded estimated resources by \$84,103 in the General Fund, \$4,836 in the Fire Fund, and \$272 in the Police Fund. Also contrary to Ohio law, at December 31, 2005, the Police Fund had a cash deficit balance of \$59,664 and the Sewer Fund had a cash deficit balance of \$22,907. At December 31, 2004, the Police Fund had a cash deficit balance of \$34,594.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

4. PROPERTY TAX (Continued)

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

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

5. DEBT

Long-Term debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$725,245	2.00%

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant expansion project the Ohio Environmental Protection Agency mandated. The total amount financed for this project was \$1,926,606. The loans will be repaid in semiannual installments of \$59,773, including interest, over 20 years. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

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

Year ending December 31:	OWDA Loan
2006	\$119,546
2007	119,546
2008	119,546
2009	119,546
2010	119,546
Subsequent	239,092
Total	\$836,822

A Line of Credit was established in April 2005 with the Vinton County Bank to cover general operating expenses and pay off loans incurred by the Village.

Short-term debt activity for the year ended December 31, 2005, was as follows:

	Beginning Balance		Draws		Repayments		Ending Balance
Line of Credit	\$ 0	\$	113,880	\$	1,595	\$	112,285

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

6. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Property

8. CONTINGENT LIABILITIES

The Village is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the Village's financial condition

9. SUBSEQUENT EVENTS

On September 28, 2006, the Village issued a general obligation note in the amount of \$115,812 at an interest rate of 4.75% to pay off the line of credit. This note is to be paid in semiannual installments of \$9,784, including interest, with a final payment due March 30, 2013.



**Auditor of State
Betty Montgomery**

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

Village of McArthur
Vinton County
124 West Main Street
McArthur, Ohio 45651

To the Village Council:

We have audited the financial statements of the Village of McArthur, Vinton County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated November 6, 2006, wherein we noted the Village did not classify receipts and disbursements in its financial statements for the year ended December 31, 2004. We also noted the Village did not provide sufficient documentation to support Agency Fund receipts and the Village did not properly record encumbrances in its budgetary presentation. We also noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. Except regarding the lack of evidential matter for Agency Fund receipts and encumbrances, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-003, 2005-011 and 2005-012.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2005-003, 2005-011 and 2005-012 listed above to be material weaknesses. In a separate letter to the Village's management dated November 6, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2005-001 through 2005-012. In a separate letter to the Village's management dated November 6, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and the Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

November 6, 2006

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 133.03 (D) provides that a municipal corporation may not issue securities for the purpose of paying current expenses except for securities authorized to be issued for that purpose by this chapter or other laws. Ohio Rev. Code Section 133.01(I) defines current expenses as the lawful expenditures of a subdivision, except those for permanent improvements and for payments of debt charges of the subdivision.

The Village established a line of credit to pay off certain bills of the Village. Among other things, Public Employees' Retirement System and Bureau of Workers' Compensation were paid. These, being lawful expenditures, would easily fit into the definition of "current expenses". Therefore, the Village exceeded its statutory authority by incurring such debt.

We recommend the Village only incur debt authorized by Ohio Law.

Client Response:

The Village paid off the line of credit on Sept. 28, 2006 by issuing a General Obligation Note.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Rev. Code Section 149.351(A) requires all records which are the property of the public office shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided under section 149.38 to 149.42 of the Ohio Revised Code.

The Police Department could not locate any duplicate receipts for January through May 2004. This could allow errors and /or irregularities to occur and remain undetected for an extended period of time.

We recommend the Village require all supporting documentation to be maintained.

Client Response:

The Village is requiring the Police Department to maintain all supporting documentation.

FINDING NUMBER 2005-003

Noncompliance Citation/Material Weakness

Ohio Rev. Code Section 1905.21 states the mayor of a municipal corporation and a mayor's court magistrate shall keep a docket. Ohio Rev. Code Section 2335.25 states each clerk of courts must maintain a journal or cashbook.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-003 (Continued)

Noncompliance Citation/Material Weakness - Ohio Rev. Code Section 1905.21 (Continued)

A docket was maintained; however, it was not kept up-to-date or accurate. During 2005, 8% of cases tested did not list the fine amount charged in the docket. 82% of cases tested listed different case numbers in the docket than that listed on the actual ticket. During 2004, 5% of cases tested were not posted to the docket. 92% of cases tested listed a different case number in the docket than that listed on the actual ticket.

A cashbook was maintained; however, it was not kept up-to-date or accurate. During 2005, case numbers were not posted to the cashbook during February and April. Also, 78% of cases tested listed different case numbers in the cashbook than that listed on the actual ticket. During 2004, check information was not posted to the cashbook for May through October. Various receipts received in November 2004 were not posted to the cashbook until April, 2005. Also, 92% of cases tested listed different case numbers in the cashbook than that listed on the actual ticket.

As of December 31, 2005, the Village Mayor's Court had a balance of \$1,892 in excess of the December 31, 2005 receipts.

In addition, the Village did not maintain sufficient Mayor's Court records, documents or evidential matter to support the completeness of certain 2005 and 2004 Agency Fund receipts, which were recorded as \$45,076 (4% of total receipts) and \$67,010 (6% of total receipts), respectively, as reflected in the Village's financial statements.

Lack of adequate supporting documentation eliminates a significant control point, obscures the audit trail and provides for the opportunity for errors and/or irregularities to occur and remain undetected for an extended period of time. In addition, failure to retain and/or obtain such documentation has resulted in the inability to determine that all receipts collected were accounted for on the Village's financial statements which has resulted in a qualified audit opinion regarding the Village's Agency Fund receipts.

We recommend the Village review each receipt collected/deposited for Mayor's Court and determine whether excess monies were due to the State or the Village General Fund. We further recommend the docket and cashbook be appropriately completed and kept up-to-date.

Client Response:

During 2004-2005, five people were, at different times, responsible for records and receipts. We now have one person responsible. The Solicitor is preparing an opinion for dispersal of excess funds in the Mayor's Court account.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

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

FINDING NUMBER 2005-004

Noncompliance Citation

Ohio Rev. Code Section 5705.10 (H) states that money paid into any fund shall be used only for the purposes for which such fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The Police Fund had a deficit fund balance of \$59,654 and the Sewer Fund had a deficit balance of \$22,907 at December 31, 2005. At December 31, 2004, the Police Fund had a deficit fund balance of \$34,594.

We recommend that money paid into a fund be used only for the purposes for which such fund was established. Expenditures should not be permitted from funds with no balance or with a negative balance.

Client Response:

The General Fund transferred funds to cover the deficit balance in the Police Fund. The Board of Public Affairs has been taking steps to reduce Sewer Fund expenses and have raised the utility rates in 2006.

FINDING NUMBER 2005-005

Noncompliance Citation

Ohio Rev. Code Section 5705.39 states in part, total appropriations from each fund shall not exceed the total estimated resources.

As of December 31, 2005, appropriations exceeded estimated resources as follows:

Fund	Estimated Resources	Appropriation	Variance	Percent Variance
Police Fund	\$64,828	\$121,548	(\$56,721)	-87%

Also, at December 31, 2004, appropriations exceeded estimated resources in the following funds:

Fund	Estimated Resources	Appropriation	Variance	Percent Variance
General	\$137,934	\$222,037	(\$84,103)	-61%
Fire	75,398	80,234	(4,836)	-6%
Police	28,768	29,040	(272)	-1%

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

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

FINDING NUMBER 2005-005 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.39 (Continued)

This could allow the Village to expend monies which may not be available as indicated in finding number 2005-004 above.

We recommend the Village closely monitor estimated resources vs. appropriations to ensure that appropriated amounts are within the amount of estimated resources.

Client Response:

The Village now has an experienced clerk and this has been resolved. An estimated resources vs. appropriations report is provided to Council on a monthly basis for governmental funds. This information will be provided to Council and the Board of Public Affairs for the enterprise funds beginning in October 2006.

FINDING NUMBER 2005-006

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

Expenditures exceeded appropriations at December 31, 2005 and 2004 as follows:

At December 31, 2005:

Fund	Appropriations	Expenditures	Variance	Percent Variance
General Fund	\$183,000	\$203,817	(\$20,817)	-11%
Special Revenue Fund:				
Fire	76,210	98,980	(22,770)	-30%
Enterprise Funds:				
Water	170,000	182,488	(12,488)	-7%
Sewer	277,000	334,909	(57,909)	-21%

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

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

FINDING NUMBER 2005-006 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(B) (Continued)

At December 31, 2004:

Fund	Appropriations	Expenditures	Variance	Percent Variance
Special Revenue Funds:				
Police	\$29,040	\$78,272	(\$49,232)	-170%
Fire	80,234	112,300	(32,066)	-40%

We recommend the Village certify appropriations as further detailed in Ohio Revised Code Section 5705.38. When a permanent appropriation measure is in place, the Village Clerk/Treasurer should deny payment requests exceeding appropriations, as required by Ohio Revised Code Section 5705.41(D). In addition, we recommend the Village Clerk/Treasurer and Village Council compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations.

Client Response:

The Village now has an experienced clerk. Expenditures are compared to appropriations and provided to Council on a monthly basis for governmental funds. This information will be provided to Council and the Board of Public Affairs for the enterprise funds beginning in October 2006.

FINDING NUMBER 2005-007

Noncompliance Citation

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

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

VILLAGE OF MCARTHUR
VINTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)

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

FINDING NUMBER 2005-007 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

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

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

One hundred percent of the transactions tested during 2005 and 2004 were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-007 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

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

Client Response:

Purchase orders are now being utilized for governmental funds. The Village Clerk signs the certification. Purchase orders were used during 2004-2005 for enterprise funds but were signed by the Utility clerk. Beginning in October 2006, enterprise fund purchase orders will be certified by the Village Clerk.

FINDING NUMBER 2005-008

Noncompliance Citation

Ohio Admin. Code Section 117-2-02(C)(1) states in part, all public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted appropriation balances.

Budgeted information was not entered into the accounting system for 2005 or 2004. No appropriation ledger or receipt ledger was maintained. There was no process in place for the Village to monitor budget vs. actual information. The lack of budgetary controls allowed expenditures to exceed appropriations and resulted in negative fund balances.

We recommend budget information be entered into the available accounting system. This will enable the Village to easily compare budget vs. actual information at any point during the year. In addition, budget vs. actual data should be provided to Village Council for review to ensure the Village is meeting budgetary targets or to determine if amendments to budgetary figures are necessary. Village Council should determine the frequency that such budgetary information should be provided, (such as monthly), and indicate their review/approval within the Village Council minute record.

Client Response:

The Village now has an experienced clerk and budgetary information is given to Council on a monthly basis for governmental funds. This information will be provided to Council and the Board of Public Affairs for the enterprise funds beginning in October 2006.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-009

Noncompliance Citation

Ohio Rev. Code Section 733.28 requires the Village Clerk to maintain the books of the Village and exhibit accurate statements of all monies received and expended.

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

Per Ohio Admin. Code Section 117-2-02(D), accounting records that can help achieve these objectives include the following:

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund.
3. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.
4. In addition, all local public offices should maintain or provide a report similar to the following accounting records:
 - a. Payroll records including:
 - i. W-2's, W-4's and other withholding records and authorizations;
 - ii. Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments;
 - iii. Check register that includes, in numerical sequence, the check number, payee, net amount, and the date;
 - iv. Information regarding no monetary benefits such as car usage and life insurance; and
 - v. Information, by employee, regarding leave balances and usage.

Using these accounting records will provide the Village with information required to monitor compliance with the budget and prepare annual reports in the format required by the Auditor of State.

Ohio Rev. Code Section 117.38 states that cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. These reports must be filed on forms prescribed by the Auditor of State. Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfilled, not to exceed seven hundred fifty dollars. The report shall contain the following: 1) amount of collections and receipts, and accounts due from each source; 2) amount of expenditures for each purpose; 3) income of any public service industry that the entity owns or operates, as well as the costs of ownership or operation; and 4) amount of public debt of each taxing district, the purpose of the debt, and how the debt will be repaid. Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-009 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 733.28 (Continued)

During 2004 and 2005, the Village did not maintain a cash journal, receipts ledger or appropriation ledger and the payroll journal was incomplete. As a result, the Village was unable to classify receipts by source or disbursements by purpose in its December 31, 2004 annual report, as required by Ohio Rev. Code Section 117.38. Although the Village obtained a new Fiscal Officer during 2006 who reconstructed a cash journal for 2005, they did not provide ongoing information on unrealized budgetary receipts and remaining uncommitted balances of appropriations. This resulted in errors occurring and remaining undetected for an extended period of time.

We recommend the Village maintain a cash journal, receipts ledger and appropriation ledger. Also, we recommend the Village's annual report include all of the information required by Ohio Law. Further, we recommend the Village file the annual report with the Auditor of State within 60 days of the fiscal year end and also publish notice in the local newspaper stating the financial reports are available for public inspection.

Client Response:

The Village now maintains a cash journal, receipts ledger, and appropriation ledger. The annual report will include all information required by law. A notice will be published for the financial report.

FINDING NUMBER 2005-010

Noncompliance Citation

Section 4.3(a,b) of the Water Pollution Control Loan Fund (WPCLF) Agreement between the Village of McArthur and the Ohio Water Development Authority (OWDA) requires that the Village, at all times prescribe and charge such rates, after meeting (1) operation and maintenance expenses therefore, and, (2) if required by the Director pursuant to Ohio Revised Code Section 6111.036, a contribution to the LGA's Capital Improvement Fund and (3) the payment of all amounts required by any Mortgage, Indenture of Mortgage, Trust Indenture or other instrument heretofore or hereafter granted by the LGA, or contractual obligations between the LGA and the State, payable solely from revenues of the Wastewater Service Charges, as shall result in revenues at least adequate, to provide for the payments required by Section 4.1, further, for the Contract period years, furnish annually to the State, reports of the operation and income of the Project Facilities and also an annual report of the accounts and operations of the Project Facilities and permit the designated representative of the state to inspect all records, accounts and data of the Project Facilities at all reasonable times. Further Article IV, section 4.2 requires that no later than the fifteenth day of June and December, the OWDA shall invoice the Village for the sum owing by the Village, and that payment of each such invoice shall be made by the Village to the OWDA not later than the first day of the following July or January. An amortization schedule is furnished by OWDA which lists the dates the payments are to be made.

The Village made all payments due for the years tested; however, they were not made timely according to the schedule prepared by OWDA and resulted in the Village paying late fees. The Village did not charge such rates to result in revenues to provide payments for the loan. Further, the Village did not file the required annual reports.

**VILLAGE OF MCARTHUR
VINTON COUNTY**
**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-010 (Continued)

Noncompliance Citation – Section 4.3(a,b) of the Water Pollution Control Loan Fund Agreement

We recommend the Village comply with OWDA debt covenants by charging sufficient rates to provide revenue to pay payments, paying debt payments on time and submitting required annual reports.

Client Response:

Timely payments have been made. The Village is presently in good standing with OWDA.

FINDING NUMBER 2005-011

Noncompliance Citation/Material Weakness

Ohio Admin. Code Section 117-2-01(D)(4) states, in part, when designing the public office's system of internal control and the specific control activities, management should plan for adequate segregation of duties or compensating controls.

The size of the Village's staff did not allow for an adequate segregation of duties; the Village Clerk performed all accounting functions, including receipting, depositing, disbursing, and reconciling. It is therefore important that the Village Council monitor financial activity closely.

Council's review of financial reports was limited. No ledgers were maintained during the audit period. Bank reconciliations were not reviewed by anyone other than the preparer. There were no processes or procedures in place to ensure transactions were posted in the proper period. No processes exist to identify unusual fluctuations between accounts or between fiscal years.

We recommend Council review detailed financial reports, budget versus actual information, and bank reconciliations on a monthly basis. This should be documented in the minute record. Also, we recommend the Village create and enforce policies and procedures such as review of monthly financial reports and reconciliations by an individual other than the preparer. This should be indicated by initialing and dating the reports and reconciliations. This will ensure that transactions are posted timely and unusual fluctuations would be identified. We also recommend Council make appropriate inquiries to help determine the continued integrity of financial information. Appropriate inquiries would include:

- Are current receipts sufficient to cover expenditures?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood?
- 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.

Client Response:

Council now reviews financial information, including budget vs. actual information, and reconciliations on a monthly basis for governmental funds. This review is documented in the minutes. This information will also be provided to Council and the Board of Public Affairs for the enterprise funds beginning in October 2006.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-012

Noncompliance Citation/Material Weakness

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

As stated in Finding 2005-002, Ohio Rev. Code Section 149.351(A) requires all records which are the property of the public office shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided under section 149.38 to 149.42 of the Ohio Rev. Code.

We noted the following errors during our testing of expenditures posted in the check registers:

During 2005:

- 6% of expenditures tested had no supporting documentation;
- 8% of expenditures could not be determined to be a proper public purpose due to lack of supporting documentation;
- 53% of canceled checks tested had dates which differed from that posted to ledgers. 49% was due to the governmental cashbook not listing any check dates. 4 out of 90 (4%) of the canceled checks' discrepancy was due to the enterprise check register listing dates which differed from those on the canceled checks; and
- 10% of vouchers tested had copies of invoices attached, not the original invoice.

During 2004:

- 8.6% of vouchers tested could not be found;
- 8.3% of expenditures had no supporting documentation to verify whether payment allocation was correct;
- 10% of expenditures could not be determined to be a proper public purpose due to lack of supporting documentation;
- 59% of canceled checks tested had dates which differed from that posted to ledgers. 48% was due to the governmental check register not listing check dates. 11% was due to the enterprise check register listing dates which differed from those on the canceled check; and
- 6% of canceled checks tested listed amounts which differed from the amount due per the invoice.

Additionally, we noted the Village did not maintain an Appropriation Ledger. We were unable to determine line-items for expenditures. We noted various expenditures throughout testing which were paid from funds authorized to make the purchase; however, other funds could have also made the purchase and no cost allocation plan was in place to determine whether fund allocation was correct.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-012 (Continued)

**Noncompliance Citation/Material Weakness - Ohio Admin. Code Sections 117-2-01(D)(3) and (5)
(Continued)**

The lack of adequate supporting documentation eliminates a significant control point, obscures the audit trail and provides for the opportunity for errors and/or irregularities to occur and remain undetected for an extended period of time. In addition, failure to retain and/or obtain such documentation could result in the inability to determine that receipts and/or disbursements were fairly stated on the Village's financial statements.

In order to ensure that all expenditures are accurately and timely posted as well as properly approved, we recommend the following procedures be implemented:

- The Village should require all supporting documentation be maintained in order to ensure that all expenditures are accurate and appropriate;
- The Village Clerk should obtain detailed invoices and attach invoices and other supporting documentation to voucher packets;
- The purchaser should initial invoices and indicate the department for which the items were purchased;
- Invoices should be marked "ok to pay" by an employee receiving the goods, to indicate that all items ordered were actually received;
- Check dates should be posted to the check registers as of the same date for which the checks are written;
- Someone other than the Village Clerk should perform a comparison of checks to the check register and should evidence this review by initials/date; and.
- The Village Council should adopt a cost allocation plan to determine percentages each fund would be responsible to pay for various expenses, such as utility bills, postage, and other joint expenses.

Client Response:

The Village now has an appropriation ledger. All supporting documentation is maintained and attached to voucher packets. Invoices are marked by employees receiving goods. The Water/Sewer Clerk or Mayor will perform a comparison of checks to the register for governmental funds and the Village Clerk will do the same for enterprise funds.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for public money collected but unaccounted for	Yes	No longer valid. The Village pursued legal action and the former Utility Clerk was sentenced.
2003-002	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of the Clerk/Utility Clerk position	Yes	No longer valid. The Village pursued legal action and the former Utility Clerk was sentenced.
2003-003	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of the Street Employee #2	Yes	Fully Corrected
2003-004	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of the Street Foreman	Yes	Fully Corrected
2003-005	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of the Water Superintendent	Yes	Fully Corrected
2003-006	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of the Water Employee #2	Yes	Fully Corrected
2003-007	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of the Water Employee #3	Yes	Fully Corrected
2003-008	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of a Village Patrolman	Yes	Fully Corrected
2003-009	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of an auxiliary police officer	Yes	Fully corrected

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-010	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of an auxiliary police officer	Yes	Fully corrected
2003-011	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of an auxiliary police officer	Yes	Fully corrected
2003-012	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for overpayment of the Park Manager	Yes	Fully Corrected
2003-013	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for Mayor's Court receipts not deposited with the bank	No	No longer valid. The Mayor's Court Clerk who held position during the prior audit period is no longer employed by the Village. Village has referred this issue to their Solicitor to address.
2003-014	A finding for recovery was issued under Ohio Rev. Code Section 117.28 for utility receipts collected, but not accounted for	Yes	No longer valid. The Village pursued legal action and the former Utility Clerk was sentenced.
2003-015	A noncompliance citation was issued under Ohio Rev. Code Section 9.38 for not depositing utility or mayor's court monies timely	No	Partially Corrected. This issue has been referred to management of the Village in a separate letter dated November 6, 2006.
2003-016	A noncompliance citation was issued under Ohio Rev. Code Section 5705.09 for establishing un-authorized funds	Yes	Fully Corrected
2003-017	A noncompliance citation was issued under Ohio Rev. Code Section 5705.10 for deficit fund balances	No	Not Corrected, refer to finding 2005-004.
2003-018	A noncompliance citation was issued under Ohio Revised Code Section 5705.36 appropriations exceeding actual resources	No	Partially Corrected. This issue has been referred to management of the Village in a separate letter dated November 6, 2006.

**VILLAGE OF MCARTHUR
VINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-019	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations	No	Not Corrected, refer to finding 2005-006
2003-020	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D) for not properly encumbering	No	Not Corrected, refer to finding 2005-007
2003-021	A reportable condition was issued for computer accessibility, passwords, etc.	Yes	Fully Corrected
2003-022	A reportable condition was issued for multiple deficiencies in the computerized accounting system	Yes	Fully Corrected
2003-023	A material weakness was issued for expenditures, as posted, not being able to be relied upon	No	Not Corrected, refer to finding 2005-012
2003-024	A material weakness was issued for the Village not monitoring budgetary information	No	Not Corrected, refer to finding 2005-009
2003-025	A material weakness was issued for segregation of duties	No	Not Corrected, refer to finding 2005-011



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF MCARTHUR

VINTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 21, 2006**