



Mary Taylor, CPA
Auditor of State

VILLAGE OF SAINT MARTIN
BROWN COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Saint Martin
Brown County
20609 Kelley Road
Lynchburg, Ohio 45142

To the Village Council:

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 10, 2009

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Saint Martin
Brown County
20609 Kelley Road
Lynchburg, Ohio 45142

To the Village Council:

We have audited the accompanying financial statements of the Village of Saint Martin, Brown County, Ohio (the Village), as of and for the years ended December 31, 2008 and 2007. 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 discussed in the following paragraph, 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.

Water charges for services reported in the Enterprise Fund are processed by a service organization independent of the Village. The service organization did not provide us with information we requested regarding the design or proper operation of its internal control. We were therefore unable to satisfy ourselves as to the proper processing of water charges for services. The Water Fund's Charges for Services receipts represent 63% of receipts reported in the Enterprise Fund.

The Village has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2008 and 2007 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, 2008 and 2007, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine certain information regarding the Enterprise Fund charges for services receipts, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Saint Martin, Brown County, as of December 31, 2008 and 2007, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The accompanying financial statements have been prepared assuming that the Village will continue as a going concern. As discussed in Note 10 to the financial statements, the Village has suffered recurring losses from operations and has a fund cash balance deficiency of \$2,643 at December 31, 2008, that raise substantial doubt about its ability to continue as a going concern. Management has no plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 10, 2009, 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.



Mary Taylor, CPA
Auditor of State

November 10, 2009

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Local Taxes	\$971	\$0	\$971
Intergovernmental	2,847	7,514	10,361
Fines, Licenses and Permits	100		100
Earnings on Investments	289	256	545
Miscellaneous	496		496
	<u>4,703</u>	<u>7,770</u>	<u>12,473</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	1,416		1,416
Transportation		791	791
General Government	7,905	534	8,439
	<u>9,321</u>	<u>1,325</u>	<u>10,646</u>
Total Receipts Over/(Under) Disbursements	<u>(4,618)</u>	<u>6,445</u>	<u>1,827</u>
Fund Cash Balances, January 1	<u>1,975</u>	<u>18,600</u>	<u>20,575</u>
Fund Cash Balances, December 31	<u>(\$2,643)</u>	<u>\$25,045</u>	<u>\$22,402</u>

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

VILLAGE OF SAINT MARTIN
BROWN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY TYPE
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$41,029
	<u>41,029</u>
Total Operating Cash Receipts	<u>41,029</u>
Operating Cash Disbursements:	
Contractual Services	18,408
Supplies and Materials	24,147
Other	216
	<u>42,771</u>
Total Operating Cash Disbursements	<u>42,771</u>
Operating (Loss)	<u>(1,742)</u>
Non-Operating Cash Disbursements:	
Capital Outlay	
Redemption of Principal	1,554
Interest and Other Fiscal Charges	1,143
	<u>2,697</u>
Total Non-Operating Cash Disbursements	<u>2,697</u>
Excess of Receipts (Under) Disbursements Before Interfund Transfers and Advances	(4,439)
Fund Cash Balances, January 1	<u>17,549</u>
Fund Cash Balances, December 31	<u><u>\$13,110</u></u>

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

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Local Taxes	\$929	\$0	\$929
Intergovernmental	2,856	7,348	10,204
Earnings on Investments	384	340	724
Miscellaneous	636		636
Total Cash Receipts	4,805	7,688	12,493
Cash Disbursements:			
Current:			
Security of Persons and Property	1,559		1,559
Transportation		6,412	6,412
General Government	6,773		6,773
Total Cash Disbursements	8,332	6,412	14,744
Total Receipts Over/(Under) Disbursements	(3,527)	1,276	(2,251)
Fund Cash Balances, January 1	5,502	17,324	22,826
Fund Cash Balances, December 31	\$1,975	\$18,600	\$20,575

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

VILLAGE OF SAINT MARTIN
BROWN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$40,027
	<u>40,027</u>
Total Operating Cash Receipts	<u>40,027</u>
Operating Cash Disbursements:	
Contractual Services	15,318
Supplies and Materials	17,887
	<u>33,205</u>
Total Operating Cash Disbursements	<u>33,205</u>
Operating Income	<u>6,822</u>
Non-Operating Cash Disbursements:	
Redemption of Principal	1,443
Interest and Other Fiscal Charges	1,244
	<u>2,687</u>
Total Non-Operating Cash Disbursements	<u>2,687</u>
Excess of Receipts Over Disbursements Before Interfund Transfers and Advances	4,135
Fund Cash Balances, January 1	<u>13,415</u>
Fund Cash Balances, December 31	<u><u>\$17,550</u></u>

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

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

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 Saint Martin, Brown County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, and police services.

B. Accounting Basis

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

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

C. Cash and Deposits

The Village deposits all available funds into in a checking account, savings account, and certificate of deposit at local commercial banks. The Village values certificates of deposit at fair value.

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 private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

State Highway Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing State Highways within the Village.

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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.

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2008 and 2007 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

2. Equity in Pooled Cash and Deposits

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

	2008	2007
Demand deposits	\$28,785	\$31,619
Certificates of deposit	6,727	6,506
Total deposits	\$35,512	\$38,125

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2008 and 2007 follows:

2008 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$4,876	\$4,703	(\$173)
Special Revenue	7,462	7,770	308
Enterprise	20,030	41,029	20,999
Total	\$32,368	\$53,502	\$21,134

2008 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$8,700	\$9,321	(\$621)
Special Revenue	5,600	1,325	4,275
Enterprise	20,275	45,468	(25,193)
Total	\$34,575	\$56,114	(\$21,539)

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$4,805	\$4,805
Special Revenue	0	7,688	7,688
Enterprise	0	40,027	40,027
Total	\$0	\$52,520	\$52,520

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

3. Budgetary Activity (Continued)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$8,332	(\$8,332)
Special Revenue	0	6,412	(6,412)
Enterprise	0	35,892	(35,892)
Total	\$0	\$50,636	(\$50,636)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in all funds by \$50,636 for the year ended December 31, 2007. Expenditures exceeded appropriation authority in the General Fund by \$621 and in the Water Fund by \$29,329 for the year ended December 31, 2008. Also contrary to Ohio law, at December 31, 2008, the General Fund had a cash deficit balance of \$2,643 and the Water Fund had a cash deficit balance of \$4,870.

Contrary to Ohio law, the Village did not obtain the certification of the fiscal officer to certify the availability of funds for all purchase commitments.

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. Debt

Debt outstanding at December 31, 2008 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$14,772	7.66%

The Ohio Water Development Authority (OWDA) loan proceeds were used to pay for the cost of improving the Village's water system. The loan is collateralized by water revenues. The Village has agreed to set water rates sufficient to cover the OWDA debt service requirements. Amortization of the above debt, including interest, is scheduled as follows:

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

5. Debt (Continued)

Year ending December 31:	<u>OWDA Loan</u>
2009	2,707
2010	2,718
2011	2,730
2012	2,743
2013	2,756
2014 – 2015	<u>5,558</u>
Total	<u><u>\$19,212</u></u>

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2008 and 2007, OPERS members contributed 10 and 9.5%, respectively, of their gross salaries and the Village contributed an amount equaling 14 and 13.85%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

7. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

8. Related Party Transactions

The Village Councilman, Todd Amiot, was paid to mow at the sewer plant during fiscal year 2008. The Village paid \$300 for this service.

9. Compliance

The Village failed to accurately maintain the Village's books as required by Ohio Revised Code Section 733.28 and Ohio Administrative Code Sections 117-2-01 and 117-2-02 (C)(D).

The Village did not file an annual file report in accordance with Ohio Rev. Code Section 117.38.

The Village did not retain records in accordance with Ohio Rev. Code Section 149.351.

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

9. Compliance (Continued)

The Village failed to maintain a full and accurate record of the Village Council's proceedings as required by Ohio Revised Code Sections 121.22, 731.20 and 149.43.

The Village did not prepare and submit the Certificate of Estimated Resources to the Brown County Auditor during 2007.

10. Subsequent Events

The Village is experiencing financial difficulties. As of December 31, 2008 the General Fund had a cash deficit balance of \$2,643 and the Water Fund had a cash deficit balance of \$4,870. These negative cash fund balances were offset by the \$22,807 cash balance in the Street Construction Maintenance and Repair Fund and the \$17,980 cash balance in the Sewer Fund.



Mary Taylor, CPA

Auditor of State

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

Village of Saint Martin
Brown County
20609 Kelley Road
Lynchburg, Ohio 45142

To the Village Council:

We have audited the financial statements of the Village of Saint Martin, Brown County, Ohio (the Village), as of and for the year ended December 31, 2008 and 2007, and have issued our report thereon dated November 10, 2009, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We qualified our opinion over the Charges for Services in the Enterprise Fund for a lack of evidential matter regarding the design or proper operation of its internal control relative to the processing of the Village's water charges for services. We also noted the Village is experiencing certain financial difficulties and the General Fund had a deficit cash fund balance at December 31, 2008. The Village has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2008-004, 2008-005 and 2008-008.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe findings number 2008-004, 2008-005 and 2008-008 are also material weaknesses.

We noted a certain matter that we reported to the Village's management in a separate letter dated November 10, 2009.

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 2008-001 through 2008-004, 2008-006, 2008-007 and 2008-009.

We did note a certain noncompliance or other matter that we reported to the Village's management in a separate letter dated November 10, 2009.

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



Mary Taylor, CPA
Auditor of State

November 10, 2009

**VILLAGE OF SAINT MARTIN
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

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

FINDING NUMBER 2008-001

Material Noncompliance Citation

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

Fund – 2007	Appropriations	Expenditures	Variance
General	\$0	\$8,332	(\$8,332)
Street Construction, Maintenance and Repair	0	6,348	(6,348)
State Highway	0	64	(64)
Water	0	26,082	(26,082)
Sewer	0	9,810	(9,810)

Fund – 2008	Appropriations	Expenditures	Variance
General	\$8,700	\$9,321	(\$621)
Water	6,275	35,604	(29,329)

The management of the Village should monitor the budgetary receipts and expenditures by having the fiscal officer provide budgetary reports at least quarterly to be reviewed and approved by the Council. By regularly monitoring its budgetary position throughout the year, the Village will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which effect the overall cash position of the Village.

FINDING NUMBER 2008-002

Material Noncompliance Citation

Ohio Rev. Code, Section 5705.41(D)(1), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision’s fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

**FINDING NUMBER 2008-002
(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 purchases tested during 2008 and eighty six percent of the purchases tested during 2007 were initiated without obtaining the prior certification of the fiscal officer and were not subsequently approved by the Village within the aforementioned 30 day time period. In addition, encumbrances were not recorded in the appropriations ledger. Failure to properly encumber could result in overspending funds and negative cash fund balances.

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

We recommend the officials and employees obtain the Fiscal Officer’s certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 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 5705.41(D) are satisfied. The Village should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2008-003

Material Noncompliance Citation

Ohio Rev. Code, Section 117.38, requires each public office to file an annual financial report made in accordance with forms prescribed by the Auditor of State within sixty days after the close of the fiscal year. The Village did not file the 2008 or 2007 report within the required sixty days. If the annual financial reports are not completely and accurately presented, the reports cannot be relied upon by management or others using these reports. The statements and columns of the report that are applicable to the Village should be completed and someone should review the reports to check that they are properly completed before they are filed with the Auditor of State. The reports should be filed within sixty days after the close of the fiscal year. The Village should maintain proof of mailing of the report by the required date.

FINDING NUMBER 2008-004

Material Noncompliance Citation/Material Weakness

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

Ohio Admin. Code, Section 117-2-01(A), provides that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Subsection (D) states that when designing the public office's system of internal control and the specific control activities, management should consider the following:

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

Ohio Administrative Code, Section 117-2-02(C)(1), states that all local 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 balances of appropriations.

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

- Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.

FINDING NUMBER 2008-004
(Continued)

- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- Utilities billing records including:
 - i. Master file of service address, account numbers, billing address, type of services provided, and billing rates;
 - ii. Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and non-cash adjustments, each maintained by date and amount;
 - iii. Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above.
- Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

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

We noted the following conditions:

- Tax receipts of \$109 were recorded at the net amount instead of the gross amount. This caused the receipts and disbursements to be understated;
- A gas tax receipt for 2007 and 2008 in the amount of \$402 was erroneously posted to the General Fund instead of the Street Construction, Maintenance and Repair Fund and the State Highway Fund;
- Cable franchise fees in the amount of \$1,270 were posted to the tax line item instead of miscellaneous receipts line item;
- During 2007, a check from the County Auditor in the amount of \$213.09 and a check from the State Auditor in the amount of \$204.21 were not cashed. A check from the State Auditor in the amount of \$327.16 was not cashed during 2008;
- Interest payments of \$1,244 during 2007 and \$1,143 during 2008 on debt were posted incorrectly to the Redemption of Principal line item;
- Monthly financial reports such as budget and actual and bank reconciliations were not always presented to the Council for their review;

**FINDING NUMBER 2008-004
 (Continued)**

- Invoices were not always attached to the voucher packet to support the validity of the expenditure. We were able to perform alternative audit procedures to determine that expenditures were for a proper public purpose;
- Expenditures were not being approved by Council before the bills are paid;

Additionally, the totals from the appropriations ledger and receipt ledger did not agree to the totals in the cash journal. The Utility billing records did not include a master file with the service addresses, billing addresses, and billing name. As a result, the records maintained by the Fiscal Officer were not an accurate reflection of all moneys received and expended.

The Village financial records contained numerous posting errors resulting in the following net audit adjustments and reclassifications to the 2008 and 2007 financial statements.

Fund	Net Effect of Adjustments on Fund Balance Increase/(Decrease)
General	(\$ 538)
Street Construction, Maintenance and Repair	\$2,352
State Highway	(\$ 120)
Water	(\$ 439)
Sewer	(\$1,255)

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated. We recommend that the fiscal officer review the chart of accounts to assure that items are being posted to the proper funds and account codes.

To help strengthen the Village's internal control structure and reduce the likelihood of undetected errors, we recommend the Village's officials and management implement the following controls:

- Monthly budget and actual financial reports be prepared and submitted to Council. This submission should occur prior to the regular Council meetings so that council members have an opportunity to review the information and ask informed questions at the meetings. Discussion of the monthly financial reports should be documented in the minutes;
- The fiscal officer should provide the Council with detailed budget and actual financial statements, cash balances, checks paid, outstanding encumbrances, receipts and bank reconciliations. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer;
- Reconciliations should be prepared on a monthly basis and reviewed and approved by the officials;
- Officials should periodically review the accounting records and financial statements to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer;

**FINDING NUMBER 2008-004
(Continued)**

- Bills should be approved by Council prior to their payment;

The Fiscal Officer should accurately maintain the Village's accounting records in accordance with the Ohio Administrative Code. Appropriation and receipt ledgers should be maintained to aid in reconciling the cash ledger and bank records. Utility billing records should include master file information including service addresses, billing address, and billing name. Past due balances should be carried forward and added to current month total to show the total amount due at each billing;

- The fiscal officer should review the chart of accounts to determine proper postings of revenue and expenditures.

FINDING NUMBER 2008-005

Material Weakness

The Village has delegated the enterprise fund water billing processing, which is a significant accounting function, to a third-party administrator. The Village has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that billings have not been authorized or completely and accurately processed in accordance with its contract. We recommend the Village help assure the completeness, accuracy and eligibility of water billings processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should provide the Village with reasonable assurance that water billing transactions conform to the contract. We recommend the Village require a Type Two SAS 70 report in its contract with the third-party administrator. The Village should review the SAS 70 report timely. The report should follow the American Institute of Certified Public Accountants' standards and be performed by a firm registered and in good standing with the Accountancy Board of the respective state. If the third-party administrator refuses to furnish the Village with a Type Two SAS 70 report, we recommend the Village contract with a third-party administrator that will provide this report. As an alternative to a SAS 70 Report, the Village may monitor water billing that it processes.

Reports should be prepared and reconciled and management should take an active role in monitoring the activity of the utilities.

FINDING NUMBER 2008-006

Noncompliance Citation

White v. Clinton Cty. Bd. of Comm'rs (1996), 76 Ohio St.3d 416, and Ohio Rev. Code Sections 121.22, and 149.43 impose a duty on the Village to maintain a full and accurate record of their proceedings. Further, minutes of meetings must be promptly recorded and open for public inspection in accordance with State, ex rel. Fairfield Leader v. Ricketts (1990), 56 Ohio St.3d 97.

Ohio Rev. Code, § 121.22(C), states, in part, that all meetings of any public body are to be open to the public at all times. The minutes of a regular or special meeting of any such public body shall be promptly prepared, filed, and maintained and shall be open to public inspection.

FINDING NUMBER 2008-006
(Continued)

Ohio Rev. Code, Section 731.20, states ordinances, resolutions, and bylaws shall be authenticated by the signature of the presiding officer and clerk of the legislative authority of the municipal corporation. Ordinances of a general nature or providing for improvements shall be published as provided by sections 731.21 and 731.22 of the Revised Code before going into operation. No ordinance shall take effect until the expiration of ten days after the first publication of such notice. As soon as a bylaw, resolution, or ordinance is passed and signed, it shall be recorded by the clerk in a book furnished by the legislative authority for that purpose.

While reading the minutes, we noted the following items:

- The Village Official's did not always sign the minute record;
- Minutes were not properly numbered or indexed; and all annual financial data, including appropriations, transfers, required reports, salary increases, etc., were not made a permanent part of the minute records;
- Monthly reconciliations were not always approved;
- Minutes were not recorded and maintained in a pre-numbered permanent bound book;
- Decisions and Village Council business was discussed in general, but no formal action was documented in the monthly Council meetings;

These weaknesses caused the minute records to be incomplete, and make it difficult to locate pertinent information. In addition, this creates the opportunity for the records to be altered, lost, or misplaced. As the Council speaks only through its record of proceedings (minutes), we recommend the following to help ensure that the minutes properly reflect the official actions of the council.

- Minutes should be prepared on a timely basis and presented at the subsequent council meeting and approved by Council. All resolutions and ordinances should be numbered and made a part of a permanent record of proceedings. Each topic, resolution, motion, etc. should be sub-headed or identified either in the margin or at the head of each paragraph for easier reading and referencing;
- All council actions should be indexed under proper headings to provide easy access to all Village resolutions;
- Minutes should be signed by the Village officials affirming their accuracy;
- The Fiscal Officer should present the Council Members with a detailed list of bills to be paid by the Village. After review of bills the Council Member should include and document approval to pay bills in the minutes;
- Review of the annual financial data, including budgets, appropriations, transfers, salaries, required reports, and any advertisements for the same, should be documented as a permanent part of the minute records.

Prompt review of the minutes allows the Council the ability to make any necessary changes in a timely fashion. Implementation of these procedures would aid in ensuring that the minute record would be an accurate reflection of the Council's actions and would assist in locating specific actions of the Council.

FINDING NUMBER 2008-007

Noncompliance Citation

Ohio Rev. Code, Section 5705.10(H), provides that money paid into a fund must be used only for the purposes for which such fund was established. The General Fund had a negative fund balance of \$2,643 and the Water Fund had a negative fund balance of \$4,870 at December 31, 2008. These deficit balances indicates money from one fund were used to cover the expenditures of other funds.

We recommend the Village Fiscal Officer and Council monitor fund balances to properly ensure that monies from one fund are not utilized to pay the obligations of another fund. To cover temporary cash flow shortages, the Village may be able to advance money from other funds. The Village can refer to Auditor of State Bulletin 97-003 to determine if an advance of funds to prevent a deficit cash balance would be appropriate.

FINDING NUMBER 2008-008

Material Weakness

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

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

We noted the following conditions in the Village's utility collection process:

- The Village did not maintain an accurate detailed accounting system for sewer receipts. The utility subsidiary ledger did not contain totals, and no summary was prepared that reconciles the monthly usage, billing amount, receipts and outstanding balances;
- The Village contracted with Highland County Water, Inc. (HCW) to bill and collect for the water. The revenue less the amount billed to the Village for their consumption was collected by HCW and remitted to the Village. The Village only recorded the net revenue on their ledgers. As a result, the revenue and expenditures were understated in 2007 by \$20,170 and by \$19,907 during 2008. Audit adjustments have been made to the financial statements to properly record the activity;
- The Village did not review usage reports provided by HCW reports. During the audit period, the Village incurred a water leak in the system; as a result the revenue received did not exceed the cost of supplying the water to the Village. Water usage reports provided by HCW showed a loss of 970,000 gallons of water. The Village had to purchase water in excess of the amount billed from HCW, their water supplier. The Village did not charge or collect enough revenue to offset the additional cost of supplying water to the Village residents;

FINDING NUMBER 2008-008
(Continued)

- Late fees were not properly charged in accordance with the approved policy.
- Receipts were held for up to two weeks before being deposited into the Village's bank account.

Lack of controls and poor recordkeeping increases the risk that theft, fraud or errors could occur and not be detected in a timely manner. To improve accountability in the collection of utility receipts we recommend the following:

- A subsidiary ledger should be maintained to account for daily utility receipts. This ledger should include the customer's name, amount paid, date paid, and the receipt number. The ledger should be totaled daily. Daily collections should be counted, agreed with the ledger total and duplicate receipts written, deposited in the Village bank depository, and a pay-in to the Village prepared.

Monthly and year-to-date totals should be made and reconciled with the postings made in the Village cash journal. Establishing this subsidiary ledger for the utility receipts would lessen the risk that errors or theft could occur and remain undetected;

- Total revenue along with the corresponding expenditure should be recorded on the Village ledgers instead of the net revenue. This will provide a more accurate account of the Village's revenue and expenditures;
- The officials must review the cost of maintaining and supplying water to the residents and establish rates based on the cost of maintaining the water system. The Village should continue to monitor their water usage and to work towards a solution to correct the water consumption;
- The Village officials should review the reports prepared by the Highland County Water, Inc. and officials' should determine if a SAS 70 report should be required as part of their contract with Highland County Water Inc;
- Late fees should be charged in accordance with the approved policy and should be applied to all delinquent accounts; and
- Receipts should be deposited on a timely basis.

FINDING NUMBER 2008-009

Noncompliance Citation

Ohio Rev. Code, Section 5705.36(A)(1), provides in part that on or about the first day of each fiscal year, the Fiscal Officer of each subdivision and other taxing unit shall certify to the county auditor the total amount from all sources available for expenditures from each fund set up in the tax budget. This certified amount shall include any unencumbered balances that existed at the end of the preceding year.

Ohio Rev. Code, Section 5705.36(A)(2), states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater or less than the amount included in an official certificate, the fiscal officer may certify the amount of the deficiency or excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the deficiency or excess.

**FINDING NUMBER 2008-009
(Continued)**

During 2007, the Village did not complete and submit a certificate of estimated resources to the County Auditor. Failure of the Village to monitor budgetary activity resulted in overspending and negative fund balances. We recommend the Village use due care in monitoring their budgetary documents since these documents are an integral part of the budgetary control process. The Village should integrate the budgetary documents into their budgetary system. We recommend that the Village monitor budgetary activity on a regular basis and obtain amended certificates as needed.

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

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	ORC 5705.41(B) expenditures exceeded appropriations.	No	Reissued as Finding 2008-001.
2006-002	ORC 5705.41(D) prior certification for expenditures	No	Reissued as Finding 2008-002
2006-003	ORC 117.38 annual financial reports not completed or filed	No	Reissued as Finding 2008-003
2006-004	Ohio Rev. Code Section 733.28 and Ohio Adm. Code 117-2-02 the fiscal officer did not maintain accurate records.	No	Reissued as Finding 2008-004
2006-005	Ohio Rev. Code Section 149.352 the Village did not maintain records.	Yes	
2006-006	<u>White v. Clinton Cty. Bd. of Comm'rs</u> (1996), 76 Ohio St.3d 416 and Ohio Rev. Code Sections 121.22 and 149.43,, the Village did not maintain minutes.	No	Reissued as Finding 2008-006
2006-007	Ohio Admin. Code, Section 117-2-01(A), the Village did not maintain an adequate system of internal controls.	No	Reissued as Finding 2008-004
2006-008	No SAS 70 report	No	Reissued as Finding 2008-005



Mary Taylor, CPA
Auditor of State

VILLAGE OF SAINT MARTIN

BROWN 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
DECEMBER 10, 2009**