



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

LIBERTY TOWNSHIP
CLINTON COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Liberty Township
Clinton County
316 Walnut Street
Port William, Ohio 45164

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Clinton County, Ohio (the Township), as of and for the years ended December 31, 2001 and December 31, 2000. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Township as of December 31, 2001 and December 31, 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2002 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

October 3, 2002

LIBERTY TOWNSHIP
CLINTON COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fiduciary Fund</u>	
Cash Receipts:					
Local Taxes	\$16,984	\$100,239	\$0	\$0	\$117,223
Intergovernmental	46,445	70,727			117,172
Special Assessments		989			989
Licenses, Permits, and Fees		4,715			4,715
Earnings on Investments	5,621	2,255			7,876
Other Revenue	1,255	2,642			3,897
	<u>70,305</u>	<u>181,567</u>	<u>0</u>	<u>0</u>	<u>251,872</u>
Total Cash Receipts					
	<u>70,305</u>	<u>181,567</u>	<u>0</u>	<u>0</u>	<u>251,872</u>
Cash Disbursements:					
Current:					
General Government	55,458				55,458
Public Safety		41,782			41,782
Public Works	2,500	84,151			86,651
Health		4,455			4,455
Capital Outlay	1,000	21,615	2,879		25,494
	<u>58,958</u>	<u>152,003</u>	<u>2,879</u>	<u>0</u>	<u>213,840</u>
Total Cash Disbursements					
	<u>58,958</u>	<u>152,003</u>	<u>2,879</u>	<u>0</u>	<u>213,840</u>
Total Receipts Over/(Under) Disbursements	<u>11,347</u>	<u>29,564</u>	<u>(2,879)</u>	<u>0</u>	<u>38,032</u>
Other Financing Receipts and (Disbursements):					
Transfers-In			100,000		100,000
Transfers-Out	(100,000)	0	0	0	(100,000)
	<u>(100,000)</u>	<u>0</u>	<u>100,000</u>	<u>0</u>	<u>0</u>
Total Other Financing Receipts/(Disbursements)					
	<u>(100,000)</u>	<u>0</u>	<u>100,000</u>	<u>0</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(88,653)	29,564	97,121	0	38,032
Fund Cash Balances, January 1	<u>128,090</u>	<u>137,886</u>	<u>100,000</u>	<u>1,523</u>	<u>367,499</u>
Fund Cash Balances, December 31	<u>\$39,437</u>	<u>\$167,450</u>	<u>\$197,121</u>	<u>\$1,523</u>	<u>\$405,531</u>
Reserve for Encumbrances, December 31	<u>\$13,000</u>	<u>\$20,771</u>	<u>\$0</u>	<u>\$0</u>	<u>\$33,771</u>

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

LIBERTY TOWNSHIP
CLINTON COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fiduciary Fund</u>	
Cash Receipts:					
Local Taxes	\$15,970	\$91,371	\$0	\$0	\$107,341
Intergovernmental	19,298	75,787			95,085
Special Assessments		1,074			1,074
Licenses, Permits, and Fees		4,620			4,620
Earnings on Investments	10,334	5,994			16,328
Other Revenue	209	2,475			2,684
	<u>45,811</u>	<u>181,321</u>	<u>0</u>	<u>0</u>	<u>227,132</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
General Government	44,405				44,405
Public Safety		45,000			45,000
Public Works	2,872	98,029			100,901
Health		1,833			1,833
Capital Outlay	999	13,535			14,534
	<u>48,276</u>	<u>158,397</u>	<u>0</u>	<u>0</u>	<u>206,673</u>
Total Cash Disbursements					
Total Receipts Over/(Under) Disbursements	(2,465)	22,924	0	0	20,459
Fund Cash Balances, January 1	130,555	114,962	100,000	1,523	347,040
Fund Cash Balances, December 31	<u>\$128,090</u>	<u>\$137,886</u>	<u>\$100,000</u>	<u>\$1,523</u>	<u>\$367,499</u>
Reserve for Encumbrances, December 31	<u>\$2,941</u>	<u>\$6,688</u>	<u>\$0</u>	<u>\$0</u>	<u>\$9,629</u>

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

**LIBERTY TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Liberty Township, Clinton County, Ohio (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general governmental services, including road and bridge maintenance and cemetery maintenance. The Township contracts with the Village of Port William to provide fire services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

Road and Bridge Fund

This fund receives property tax money for constructing, maintaining and repairing Township roads and bridges.

**LIBERTY TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gasoline Tax Fund

This fund receives gasoline tax money to pay for constructing, maintaining and repairing Township roads.

Fire Contract Fund

This fund receives proceeds from a levy to provide fire services to Township residents.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project funds:

Permanent Improvement Fund

This fund was established to account for future permanent improvements of Township property.

5. Fiduciary Fund (Nonexpendable Trust Fund)

This fund is used to account for resources restricted by legally binding trust agreements. The Township had the following significant fiduciary fund:

Cemetery Bequest Fund

This fund is used to account for the funds bequeathed to the Township for cemetery care.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees 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 unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**LIBERTY TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments during the years ended December 31, 2001 and 2000 as required by Ohio law.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2001	2000
Demand deposits	\$37,433	\$37,418
Total deposits	37,433	37,418
Repurchase agreement		
Total investments	368,098	330,081
Total deposits and investments	\$405,531	\$367,499

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

Investments: The Township maintains a repurchase agreement which is an uninsured and unregistered investment for which the securities are held by the counter party or by its department or agent, but not in the Township's name.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2001 and December 31, 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$33,000	\$70,305	\$37,305
Special Revenue	159,647	181,567	21,920
Capital Projects	100,000	100,000	0
Total	\$292,647	\$351,872	\$59,225

**LIBERTY TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$179,725	\$171,958	\$7,767
Special Revenue	226,250	172,774	53,476
Capital Projects	200,005	2,879	197,126
Total	<u>\$605,980</u>	<u>\$347,611</u>	<u>\$258,369</u>

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$32,427	\$49,216	\$16,789
Special Revenue	150,497	177,916	27,419
Fiduciary	45	0	(45)
Total	<u>\$182,969</u>	<u>\$227,132</u>	<u>\$44,163</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$66,650	\$51,217	\$15,433
Special Revenue	215,800	165,085	50,715
Total	<u>\$282,450</u>	<u>\$216,302</u>	<u>\$66,148</u>

4. PROPERTY TAX

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

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 Township.

5. RETIREMENT SYSTEMS

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

**LIBERTY TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

5. RETIREMENT SYSTEMS (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contribution rate to 8.13%, effective July 1, 2000 through December 31, 2000. The Township has not paid \$7,222 of employer contributions required through December 31, 2001.

6. RISK MANAGEMENT

Commercial Insurance

The Township has obtained commercial insurance for the following risks:

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

7. RELATED PARTY TRANSACTIONS

During 2000 and 2001, the Township purchased supplies totaling \$3,436 from M&J Trustworthy Hardware. M&J Trustworthy Hardware is owned and operated by the current Clerk's parents.

8. NONCOMPLIANCE

Contrary to Ohio law:

- The Township invested in a repurchase agreement without having a written investment policy. Also, the Clerk had not completed the required continuing education.
- The Clerk did not deposit any Township receipts by the next business day.
- The Township did not remit the required employee and employer Federal tax and Medicare withholding amounts.
- The Township did not remit the required employer share of PERS.
- The Township did not encumber all funds.

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Liberty Township
Clinton County
316 Walnut Street
Port William, Ohio 45164

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Clinton County, Ohio (the Township), as of and for the years ended December 31, 2001 and December 31, 2000, and have issued our report thereon dated October 3, 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2001-40414-001 through 2001-40414-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated October 3, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-40414-002 through 2001-40414-009.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of 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 to be material weaknesses. However, of the reportable conditions described above, we consider items 2001-40414-005 and 2001-40414-006 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated October 3, 2002.

This report is intended solely for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

October 3, 2002

**LIBERTY TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

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

FINDING NUMBER 2001-40414-001

Finding For Recovery – Federal Taxes

26 U.S.C., Sections 3402(a), 3101 and 3102, requires the Township to withhold and remit federal and employment-related taxes (such as Medicare). The Township collected but did not remit the required employee Federal tax and Medicare withholding amounts and the required employer share of Medicare taxes. The Township owed \$3,829.59 at December 31, 2001. In accordance with the forgoing facts, and pursuant to Ohio Rev. Code, Section 117.28, a Finding for Recovery for public money converted and misappropriated is hereby issued against Liberty Township and its bonding company, Government Risk Management, jointly and severally, in the amount of three thousand eight hundred twenty-nine dollars and fifty-nine cents (\$3,829.59) in favor of the Internal Revenue Service.

FINDING NUMBER 2001-40414-002

Reportable Condition and Noncompliance Citation – Public Employees Retirement System

Ohio Rev. Code, Section 145.48, requires each employer to pay the public employees retirement system (PERS) an amount that shall be a certain per cent of the earnable salary of all contributors to be known as the "employer contribution". The Township did not remit \$7,222 to PERS as of December 31, 2001. Failure to remit employer contributions to PERS may subject the Township to penalties and interest for failing to remit such amounts. We recommend that the Township remit the required PERS liability.

FINDING NUMBER 2001-40414-003

Reportable Condition and Noncompliance Citation – Certification of Purchase Orders

Ohio Rev. Code, Section 5705.41(D), 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.

This section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 dollars, the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Board, if such expenditure is otherwise valid.

**FINDING NUMBER 2001-40414-003
 (Continued)**

The Township did not properly certify the availability of funds for purchase commitments for thirty percent of expenditures tested. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Effort should be made by the Township to properly utilize the encumbrance method of accounting by certifying the availability funds on properly approved purchase orders. We recommend the Township obtain approved purchase orders, which contain the Clerk's certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2001-40414-004

Reportable Condition and Noncompliance Citation – Investments

Ohio Rev. Code, Section 135.14, provides that if subdivision's annual portfolio of investments is greater than one hundred thousand dollars, a subdivision treasurer may not invest in any instrument other than interim deposits, certain no-load money market mutual funds or STAR Ohio. The investment policy must be filed with the Auditor of State and signed by any financial institutions with which the Township invests its funds. The Township invested in a repurchase agreement exceeding one hundred thousand dollars annually without having a written investment policy on file. Ohio Rev. Code, Section 135.22, requires the township clerk to annually complete continuing education programs provided by the State Treasurer's Office. If the clerk fails to complete these programs, the township is limited to investing and depositing in interim deposits, certain no-load money market mutual funds or STAR Ohio. In violation of these requirements, the Clerk invested in a repurchase agreement without completing the required continuing education. Investing in items not allowed by an approved investment policy could cause the Township to put its funds at risk of loss. We recommend the Township either invest in only interim deposits, STAR Ohio, and no-load money market mutual funds or adopt an approved written investment policy and have the Clerk attend necessary training. If the Township approves an investment policy, it must be filed with the Auditor of State and signed by any financial institutions with which it invests its funds.

FINDING NUMBER 2001-40414-005

Material Weakness and Noncompliance Citation – Deposits of Public Money

Ohio Rev. Code, Section 9.38, states that public money must be deposited with the Treasurer of the public office or to a designated depository on the business day following the day of receipt. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive money to hold it past the next business day, but the deposit must be made not later than 3 business days after receiving it. Only the legislative authority may adopt this policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

The Clerk did not deposit any Township receipts by the next business day as the following table illustrates:

Number of Days Before the Receipt Was Deposited	Number of Receipts	Amount of Receipts
6 through 20	47	\$50,746
21 through 40	39	34,211
41 through 60	33	33,756
61 through 80	20	47,939
81 through 100	62	88,247
101 through 120	33	57,814
121 through 147	15	69,641

**FINDING NUMBER 2001-40414-005
(Continued)**

Not depositing funds properly could allow for the misappropriation of Township funds and a loss of interest income. We recommend the Clerk deposit all funds received by the next business day and the Trustees monitor deposits to ensure they are timely.

FINDING NUMBER 2001-40414-006

Material Weakness – Bank Reconciliations

The Township did not prepare complete or accurate reconciliations to reconcile the bank balance to the Township's fund balances. The reconciliations contained modified numbers for deposits in transit, bank statement ending balances, and ending fund balances rather than actual numbers. The reconciliations for August 2000, September 2000, November 2000, December 2000, January 2001, February 2001, May 2001, June 2001, August 2001, September 2001, and October 2001 contained deposit in transit amounts with no supporting documentation. In addition, the deposits in transits for these months were not always deposited in the bank in the following month as evidenced by the lack of timely depositing. The bank statement balance on the Township's reconciliations for April 2000, June 2000, September 2000, October 2000, March 2001, April 2001, July 2001, November 2001, and December 2001 did not agree to the bank statements for those months. Also, the fund balance on the December 2000 reconciliation did not match the Township's actual fund balance.

Failure to accurately prepare and reconcile the account records reduces the accountability over Township funds, reduces the Trustees' ability to monitor financial activity, increases the likelihood that monies will be misappropriated and not detected and increases the likelihood that the Township's financial statements will be misstated. Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well as, ensure that all recorded transactions have been deposited with the financial institution. Inaccurate reconciliations can cause fund balances to be overstated or understated.

We recommend the Township properly reconcile its accounts on a monthly basis. The reconciled checking account balance (bank balance less outstanding checks plus deposits in transit) plus all investment amounts should equal the total fund balance. The actual ending bank statement amount and ending fund balance amount should be used for the reconciliations. Also, deposits in transit should be reflected on the following month's bank statement. Any variances should be immediately investigated and justified. The Trustees should approve reconciliations at the monthly meetings and document approval in the minutes. We also recommend that a Trustee review and sign off on the reconciliation thereby indicating approval and ensuring timeliness of reconciliations.

FINDING NUMBER 2001-40414-007

Reportable Condition – Segregation of Duties

The small size of the Township's staff does not allow for an adequate segregation of duties. The Clerk handles all the financial record keeping including receipting, depositing, check writing and posting. The weakness of this system is that it allows for possible diversion of funds through alteration of source documents. Also, bookkeeping errors may occur without detection in a timely manner.

We believe the following conditions indicate a need for increased oversight of management by the Trustees:

- The Township had bank reconciliations that were not prepared properly for 19 out of the 24 months audited, see finding 2001-40414-006;

**FINDING NUMBER 2001-40414-007
(Continued)**

- Receipts for the audit period were not deposited by the next business day as required by the Ohio Revised Code, see finding 2001-40414-005;
- Numerous receipts were posted to incorrect line items, for the incorrect amount, or not posted at all;
- Numerous disbursements were posted to incorrect line items, for the incorrect amount or not posted at all.

To ensure accountability and to strengthen internal accounting controls, officials should periodically review the records, (i.e. reconciliations, etc), to determine accuracy and to verify that proper procedures were followed by the fiscal officer. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

FINDING NUMBER 2001-40414-008

Reportable Condition – Disbursements

The Township did not have adequate control procedures over the disbursement process. The following conditions were noted concerning disbursements.

- Seven percent of expenditures tested did not include supporting documentation, such as invoices, packing slips, etc;
- All expenditures tested did not show indication they were reviewed by the Clerk, such as indication on the invoices that goods and/or services were received;
- Eighteen percent of the warrant numbers for expenditures tested did not match the check number in the UAN system;
- Eleven percent of the purchase orders tested were not signed by the Clerk;
- Two percent of the purchase orders tested could not be located;
- Three percent of the blanket certificates tested could not be located;
- The Trustees did not approve expenditures at 2 of the regular meetings.

By not retaining and/or reviewing the above documents, cash could be overspent and the financial statements could be overstated or understated. In order to strengthen internal controls over the disbursement process and ensure all disbursements are properly paid, we recommend the Township implement the following procedures:

- The Township should retain invoices and other supporting documentation with vouchers to support the payment;
- The Clerk should review all invoices and sign them to indicate the review. A review of invoices includes such procedures as recalculating payments; ensuring sales tax is not assessed; and ensuring discounts are taken when applicable;

**FINDING NUMBER 2001-40414-008
(Continued)**

- The Township should ensure all goods and services have been received before payment. Individuals should sign off on the invoice or packing slip that it is acceptable to pay the bill when they receive any goods and/or services. If the bill comes directly to the Clerk, the Clerk should verify the packing slip is in agreement with the invoice. If a packing slip does not accompany the shipment, the Clerk should contact the individual receiving the goods and/or services to ensure the goods and/or service were received prior to payment and indicate it on the invoice;
- The Clerk should ensure that the number of the check written matches the warrant number in the system;
- The Clerk should sign all purchase orders;
- The Township should maintain a copy of all purchase orders with the vouchers;
- The Trustees should approve expenditures at all board meetings and document the approval in the minutes.

FINDING NUMBER 2001-40414-009

Reportable Condition – Receipts

The Township did not maintain an accurate record for all moneys received. The following errors were noted:

- the Township improperly recorded manufactured home tax homestead and rollback receipts as taxes rather than intergovernmental revenue in 2000;
- the Township recorded homestead and rollback receipts in the general fund rather than allocating among the general fund, road and bridge fund, and fire fund in 2000 and 2001;
- the Township classified the \$10,000 personal property tax exemption as taxes rather than intergovernmental revenue in 2000;
- the Township recorded a federal tax refund as taxes rather than other revenue in 2000;
- the Township recorded auto license tax receipts in the permissive motor vehicle fund and the gas tax fund rather than the motor vehicle tax fund in 2000 and 2001;
- the Township recorded permissive tax as taxes rather than intergovernmental receipts in 2000 and recorded permissive tax in the general fund rather than in the permissive motor vehicle fund in 2001;
- the Township recorded manufactured home tax for the incorrect amount in 2001;
- the Township recorded personal property tax at net rather than gross in 2001;
- the Township recorded a refund from the Bureau of Worker's Compensation as taxes rather than other revenue in 2001;
- the Township recorded motel taxes as other revenue rather than taxes in 2001;

FINDING NUMBER 2001-40414-009
(Continued)

- the Township recorded an overpayment refund from a contractor as taxes rather than other revenue in 2001; and
- the Township deposited a check for \$24 from the County Auditor that was written to the Village of Port William.

Failure to accurately record receipts could cause receipts and fund balances to be overstated or understated. These errors were corrected on the financial statements. We recommend the Township take due care when posting receipts to ensure receipts are posted to the proper fund, line item, and for the correct amount. In addition, we recommend the Township receipt the amount onto its books and subsequently write a check to the Village of Port William for the check deposited in error.

**LIBERTY TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END DECEMBER 31, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-40414-001	The Township did not certify purchase orders.	No	Not corrected, reissued as finding 2001-40414-003
1999-40414-002	The Township invested in repurchase agreements without an investment policy and without the proper training.	No	Not corrected, reissued as finding 2001-40414-004



STATE OF OHIO
OFFICE OF THE AUDITOR

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LIBERTY TOWNSHIP

CLINTON 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 14, 2002**