



Mary Taylor, CPA
Auditor of State

**MONROE TOWNSHIP
PREBLE COUNTY**

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Mary Taylor, CPA
Auditor of State

Monroe Township
Preble County
2159 Kimmel Rd.
Eldorado, Ohio 45321

To the Board of Trustees:

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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 19, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Monroe Township
Preble County
2159 Kimmel Rd.
Eldorado, Ohio 45321

To the Board of Trustees:

We have audited the accompanying financial statements of Monroe Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006. 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 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. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township 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 Township's larger (i.e. major) funds separately. While the Township 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 townships to reformat their statements. The Township 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, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Monroe Township, Preble County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township 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 September 19, 2008, 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 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

September 19, 2008

**MONROE TOWNSHIP
PREBLE 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 Other Local Taxes	\$20,082	\$121,721	\$141,803
Licenss, Permits, and Fees	7,243		7,243
Intergovernmental	56,079	121,487	177,566
Earnings on Investments	5,213	2,624	7,837
Miscellaneous	611	2,972	3,583
Total Cash Receipts	89,228	248,804	338,032
Cash Disbursements:			
Current:			
General Government	67,992	2,787	70,779
Public Safety		88,355	88,355
Public Works		156,266	156,266
Health	18,339	367	18,706
Capital Outlay	8,566	2,336	10,902
Total Cash Disbursements	94,897	250,111	345,008
Total Receipts (Under) Disbursements	(5,669)	(1,307)	(6,976)
Other Financing Receipts / (Disbursements):			
Advances-In	1,200	3,700	4,900
Advances-Out	(3,700)	(1,200)	(4,900)
Total Other Financing Receipts / (Disbursements)	(2,500)	2,500	0
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	(8,169)	1,193	(6,976)
Fund Cash Balances, January 1	51,911	105,438	157,349
Fund Cash Balances, December 31	\$43,742	\$106,631	\$150,373

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

**MONROE TOWNSHIP
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Other Local Taxes	\$15,509	\$124,470	\$139,979
Licenses, Permits, and Fees	6,422		6,422
Intergovernmental	24,508	118,309	142,817
Earnings on Investments	4,913	2,146	7,059
Miscellaneous	711	2,462	3,173
	<u>52,063</u>	<u>247,387</u>	<u>299,450</u>
Cash Disbursements:			
Current:			
General Government	66,490	2,552	69,042
Public Safety		82,094	82,094
Public Works		147,854	147,854
Health	21,250	332	21,582
Capital Outlay	6,320	1,817	8,137
	<u>94,060</u>	<u>234,649</u>	<u>328,709</u>
Total Receipts Over/(Under) Disbursements	<u>(41,997)</u>	<u>12,738</u>	<u>(29,259)</u>
Other Financing Receipts / (Disbursements):			
Transfers-In		2,097	2,097
Transfers-Out		(2,097)	(2,097)
	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	(41,997)	12,738	(29,259)
Fund Cash Balances, January 1	<u>93,908</u>	<u>92,700</u>	<u>186,608</u>
Fund Cash Balances, December 31	<u>\$51,911</u>	<u>\$105,438</u>	<u>\$157,349</u>

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

**MONROE TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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 Monroe Township, Preble County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance and cemetery maintenance. The Township contracts with the Villages of Eldorado and West Manchester to provide fire protection services to Township residents.

The Township participates in Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. OTARMA provides property and casualty coverage for its members. Note 7 to the financial statements provides additional information for this entity.

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

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 Township 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 Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Investments in STAR Ohio are recorded at share values that STAR Ohio reports.

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 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 Township had the following significant Special Revenue Funds:

**MONROE TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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

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

Special Fire Levy Fund – This fund receives property tax money to pay for fire protection for Township residents.

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 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 cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township canceled \$674 in encumbrances at December 31, 2007 and \$435 in encumbrances at December 31, 2006 and re-encumbered these amounts in the subsequent years against current appropriations. The Township did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

**MONROE TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

2. Equity in Pooled Cash and Investments

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

	2007	2006
Demand deposits	(\$7,511)	\$18,095
STAR Ohio	157,884	139,254
Total deposits and investments	\$150,373	\$157,349

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

At May 31, 2006, \$36,999 of deposits were not insured or collateralized, contrary to Ohio law. At April 30, 2007, \$9,134 of deposits were not insured or collateralized, contrary to Ohio law. The Township did not designate a depository during the audit period nor execute a depository agreement.

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$50,000	\$89,228	\$39,228
Special Revenue	199,000	248,804	49,804
Total	\$249,000	\$338,032	\$89,032

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$118,957	\$94,897	\$24,060
Special Revenue	287,286	250,111	37,175
Total	\$406,243	\$345,008	\$61,235

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$50,000	\$52,063	\$2,063
Special Revenue	199,000	249,484	50,484
Total	\$249,000	\$301,547	\$52,547

**MONROE TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. Budgetary Activity (Continued)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$149,902	\$94,060	\$55,842
Special Revenue	285,601	236,746	48,855
Total	\$435,503	\$330,806	\$104,697

Contrary to Ohio law, at December 31, 2007 and 2006, expenditures exceeded appropriations for various line-items for the General Fund, Motor Vehicle License Tax Fund, Gasoline Tax Fund, Road and Bridge Fund, and Permissive Motor Vehicle License Tax Fund.

Contrary to Ohio law, appropriations exceeded estimated resources for 2007 in the General Fund by \$17,046 and the Road and Bridge Fund by \$99. Appropriations exceed estimated resources for 2006 in the General Fund by \$5,994 and the Road and Bridge Fund by \$5,595.

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees 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 Township.

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. Debt

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Backhoe Lease	\$25,024	8%

The Township entered into a lease purchase agreement for the purchase of a backhoe on January 15, 2007 with Case Credit. The lease will be paid in five annual installments of \$6,267 with the option of purchasing the backhoe at the end of the lease for \$1.

**MONROE TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

5. Debt (Continued)

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

Year ending December 31:	Backhoe Lease
2008	\$6,267
2009	6,267
2010	6,267
2011	6,267
2012	6,267
Total	\$31,335

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006 OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

7. Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006, OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

**MONROE TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. Risk Management (Continued)

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Assets	\$43,210,703	\$42,042,275
Liabilities	<u>(13,357,837)</u>	<u>(12,120,661)</u>
Net Assets	<u>\$29,852,866</u>	<u>\$29,921,614</u>

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$7,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

**MONROE TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. Risk Management (Continued)

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<u>Contributions to OTARMA</u>	
2005	\$7,851
2006	\$7,768
2007	\$7,212

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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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*

Monroe Township
Preble County
2159 Kimmel Rd.
Eldorado, Ohio 45321

To the Board of Trustees:

We have audited the financial statements of Monroe Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated September 19, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 Township'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 Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal controls 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 to be 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 Township'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 Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-006.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township'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 in the internal control that might be significant deficiencies or material weaknesses. We believe findings 2007-001 and 2007-006 are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated September 19, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Township'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 we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2007-002 through 2007-006.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated September 19, 2008.

We intend this report solely for the information and use of the audit committee, management and the Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

September 19, 2008

**MONROE TOWNSHIP
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Township lacks management oversight in the cash reconciliation process. This lack of oversight is illustrated by the following:

- The Township did not record February 2007 STAR Ohio interest of \$488.
- The STAR Ohio balance was incorrectly reported in the UAN system for the audit period. For 2006, the biggest variance between the actual STAR Ohio balance and the amount in the UAN system was \$33,661 in October 2006. For 2007, the biggest variance between the actual STAR Ohio balance and the amount in the UAN system was \$50,289 in September 2007.
- The fund balance adjustments proposed and posted by the Township for the 2004-2005 audit were reversed on October 2006.
- At September 30, 2007, October 31, 2007, and December 31, 2007, the Township's primary checking account had a negative reconciled balance as follows:

Date	Bank Balance	Outstanding Checks	Reconciled Balance
9/30/2007	\$44,658	\$(85,292)	\$(40,634)
10/31/2007	48,734	(50,577)	(1,843)
12/31/2007	31,803	(39,314)	(7,511)

The Township also lacks management oversight in the posting of receipts. This lack of oversight is illustrated by the following:

For 2006:

- Tangible tax replacement revenue of \$1,797 was posted to taxes rather than intergovernmental revenue.
- Manufactured Home Tax settlements of \$43 were posted to intergovernmental revenue rather than tax revenue.
- Public Utility Reimbursement receipts of \$4,848 were posted to miscellaneous revenue rather than intergovernmental revenue.
- Homestead and Rollback receipts were not properly allocated to the funds.
- Manufactured Home Homestead and Rollback receipts of \$5 were posted entirely to the General Fund.

**FINDING NUMBER 2007-001
(Continued)**

For 2007:

- Tangible Tax replacement revenue of \$3,308 was posted to taxes rather than intergovernmental revenue.
- One Manufactured Home Tax settlement was posted at net and entirely to the General Fund.
- A Trailer Homestead settlement of \$23 was posted to taxes rather than intergovernmental revenue.
- Public Utility Reimbursement settlements of \$2,105 were posted to miscellaneous revenue rather than intergovernmental revenue.
- A receipt for driveway pipe installation for \$309 was posted to licenses, permits, and fees rather than miscellaneous revenue.
- Homestead and Rollback settlements were not properly allocated to the funds.
- Manufactured Home Homestead and Rollback settlements were posted entirely to the General Fund.

Adjustments were posted to the financial statements and Township ledgers, where applicable, to correct the above classifications.

The lack of proper management oversight could result in material misstatement relating to financial data. To improve record keeping we recommend that all reconciliations be properly reviewed to ensure all transactions are posted and that there is a sufficient balance in the account to cover all outstanding obligations. To improve record keeping and accountability of receipts we recommend that all receipts be posted properly.

FINDING NUMBER 2007-002

Material Noncompliance

Ohio Revised Code, § 5705.41(D)(1), states that no subdivision or taxing entity 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. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a 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.

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 Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

**FINDING NUMBER 2007-002
(Continued)**

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 Township.

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 Township 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.

43% percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred. A resolution or ordinance was not authorized for fourteen “then and now” certificates used exceeding \$3,000. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

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

FINDING NUMBER 2007-003

Material Noncompliance

Ohio Revised Code, § 5705.41(B) states no taxing authority shall make any expenditure of money unless it has been appropriated as provided in such chapter.

Expenditures exceeded appropriations as noted below:

Line-item	Date	Expenditures	Appropriations	Variance
1000-110-314-0000	12/31/07	\$2,596	\$1,000	(\$1,596)
1000-110-599-0000	12/31/07	3,742	3,000	(742)
1000-410-420-0000	12/31/07	4,141	2,000	(2,141)
2031-330-389-0000	12/31/07	19,729	15,000	(4,729)
2231-330-360-0000	12/31/07	9,868	9,618	(250)
2011-330-360-0000	12/31/06	15,319	12,919	(2,400)
2021-330-360-0000	12/31/06	61,775	56,775	(5,000)

Failure to modify appropriations may result in negative fund balances. We recommend the Township take steps to ensure appropriations are being properly monitored and recorded in the ledgers. No expenditure should be made unless funds have been sufficiently appropriated.

FINDING NUMBER 2007-004

Material Noncompliance

Ohio Revised Code, § 5705.39, states that total appropriations from each fund shall not exceed the total estimated resources.

Appropriations exceeded total estimated resources as noted below:

Fund	Year	Appropriations	Estimated Resources	Variance
General Fund	2007	\$118,957	\$101,911	(\$17,046)
Road and Bridge Fund	2007	60,594	60,495	(99)
General Fund	2006	149,902	143,908	(5,994)
Road and Bridge Fund	2006	54,993	49,398	(5,595)

Failure to limit appropriations to the amount of estimated resources can result in overspending and negative fund balances. We recommend the Township limit appropriations to the amount of the estimated resources.

FINDING NUMBER 2007-005

Material Noncompliance

Ohio Revised Code, § 135.18, states that the treasurer, before making the initial deposit in a public depository pursuant to an award made under sections 135.01 to 135.21 of the Revised Code, except as provided in section 135.144 of the Revised Code, shall require the institution designated as a public depository to pledge to and deposit with the treasurer, as security for the repayment of all public moneys to be deposited in the public depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess of the amount of public moneys to be at the time so deposited, over and above the portion or amount of such moneys as is at that time insured by the federal deposit insurance corporation or by any other agency or instrumentality of the federal government. In the case of any deposit other than the initial deposit made during the period of designation, the amount of the aggregate market value of securities required to be pledged and deposited shall be equal to the difference between the amount of public moneys on deposit in such public depository plus the amount to be so deposited, minus the portion or amount of the aggregate as is at the time insured as provided in this section. The treasurer may require additional eligible securities to be deposited to provide for any depreciation which may occur in the market value of any of the securities so deposited. Such security may consist of federal deposit insurance, surety company bonds, or pledge securities.

The Township's deposits were not adequately covered by collateral at all times during the audit period. Deposits exceeded legal security (FDIC) by up to \$36,999 in May 2006 and \$9.134 in April 2007. Failure to secure adequate collateral could result in a loss of assets by the Township. We recommend the Township secure adequate collateral to cover its deposits. The Township should obtain a depository agreement with the bank.

Further, **Ohio Revised Code, § 135.12**, states, in part, that each governing board other than the state board of deposit shall meet every five years on the third Monday or such regularly scheduled meeting date of the month preceding the date of the expiration of its designation of depositories for the purpose of designating the public depositories of the public moneys of the subdivision, and at such meeting or any adjourned session thereof, shall designate such public depositories and award the public moneys of the subdivision to and among the public depositories so designated for the period of five years commencing on the date of the expiration of the next preceding designation. The Township did not designate a depository during the audit period nor execute any depository agreements. A depository agreement should include a requirement that a pledge of collateral: (1) be in writing, (2) be executed contemporaneously with the acquisition of the asset by the depository institution, (3) be approved by the financial institution's board of directors or loan committee and the approval must be reflected in the minutes of the financial institution's board or committee, and (4) be an official record of the depository institution continuously since it was executed. Requirements (1) through (4) are necessary under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), to assure the pledge would be valid in the event of a claim under FDIC.

Entities not having a depository agreement with a depository could risk public funds not being covered by collateral if the depository ceases to exist. We recommend that the Township approve the official designation of a depository.

FINDING NUMBER 2007-006

Material Noncompliance / Material Weakness

Ohio Revised Code, § 505.24(C), sets forth the method by which township trustees' compensation should be allocated. This section is amplified by Ohio Attorney General (OAG) Opinion 2004-036. This section requires that compensation of a township trustee must be paid from the Township General Fund or from such other restricted township funds, in such proportions based on the amount of time spent on matters related to the services rendered. In addition, OAG Opinion 2004-036 indicates trustees should establish administrative procedures to document the proportionate amount of trustees' salaries chargeable to other township funds based on the portion of time spent on matters related to the services rendered. There is no one method for documenting time and the kinds of services rendered. The "administrative procedures" can be timesheets or a similar method of record keeping, as long as the trustees document all time spent on township business and the type of service(s) performed, in a manner similar to trustees paid per diem compensation. If trustees do not document their time, then no part of salaries may be paid from these other funds. The Township was notified of the requirements of Ohio Revised Code Section 505.24(C) in their management letter dated June 19, 2006.

Throughout the audit period the Township paid the Trustees from the General, Gas Tax, and Road and Bridge Funds. However, the Township did not maintain documentation to support Trustee time spent on activities to be paid from the Gas Tax and Road and Bridge Funds. It is necessary for township trustees to document their time in order to substantiate that salaries and insurance benefits were allocated to the proper funds. For 2006, \$5,542 was paid from the Road and Bridge Fund and \$5,542 was paid from the Gas Tax Fund. For 2007, \$5,605 was paid from the Road and Bridge Fund and \$4,671 was paid from the Gas Tax Fund. Due to lack of documentation to support these payments, \$21,360 has been reclassified in the Township ledgers and the 2007 and 2006 financial statements as General Fund expenditures. Failure to maintain documentation on time spent on Township business can result in expenditures being paid from improper funds.

We recommend the Township adopt formal administrative procedures regarding documenting the time spent by Township Trustee's on various duties. Once these administrative procedures are established trustee salaries and related benefits should be charged to the applicable funds in accordance with the timesheets or other similar method of record keeping.

We did not receive a response from Officials on the findings reported above.

MONROE TOWNSHIP
PREBLE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Revised Code 5705.41(D), failure to properly certify the availability of funds	No	Not corrected – reissued as Finding 2007-002.



Mary Taylor, CPA
Auditor of State

MONROE TOWNSHIP

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 7, 2008**