



**Auditor of State
Betty Montgomery**

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Montville Township
Medina County
6665 Wadsworth Road
Medina, Ohio 44256

To the Board of Trustees:

We have audited the accompanying financial statements of Montville Township, Medina County, Ohio, (the Township) as of and for the years ended December 31, 2002 and 2001. 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 provide 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.

As further discussed in Note 10, the beginning fund balance of the General Fund and Special Revenue Fund were restated to correct prior period errors.

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, 2002 and 2001, 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 August 7, 2003 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.

Montville Township
Medina County
Independent Accountants' Report
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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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 7, 2003

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$243,357	\$889,864	\$1,133,221
Intergovernmental	204,146	199,233	403,379
Licenses, Permits, and Fees	108,730	3,551	112,281
Fines, Forfeitures, and Penalties		21,324	21,324
Earnings on Investments	7,568	2,740	10,308
Other Revenue	44,150	16,409	60,559
	<u>607,951</u>	<u>1,133,121</u>	<u>1,741,072</u>
Total Cash Receipts			
	<u>607,951</u>	<u>1,133,121</u>	<u>1,741,072</u>
Cash Disbursements:			
Current:			
General Government	396,757	110,009	506,766
Public Safety		604,560	604,560
Public Works		178,939	178,939
Health	30,211		30,211
Conservation - Recreation	4,014		4,014
Debt Service:			
Redemption of Principal	64,331		64,331
Interest and Fiscal Charges	13,317		13,317
Capital Outlay		22,748	22,748
	<u>508,630</u>	<u>916,256</u>	<u>1,424,886</u>
Total Cash Disbursements			
	<u>508,630</u>	<u>916,256</u>	<u>1,424,886</u>
Total Receipts Over Disbursements	<u>99,321</u>	<u>216,865</u>	<u>316,186</u>
Other Financing Receipts:			
Sale of Fixed Assets		2,400	2,400
		<u>2,400</u>	<u>2,400</u>
Total Other Financing Receipts			
		<u>2,400</u>	<u>2,400</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	<u>99,321</u>	<u>219,265</u>	<u>318,586</u>
Fund Cash Balances, January 1	<u>164,353</u>	<u>670,383</u>	<u>834,736</u>
Fund Cash Balances, December 31	<u><u>\$263,674</u></u>	<u><u>\$889,648</u></u>	<u><u>\$1,153,322</u></u>
Reserves for Encumbrances, December 31	<u><u>\$10,610</u></u>	<u><u>\$56,284</u></u>	<u><u>\$66,894</u></u>

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

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$200,249	\$794,759	\$995,008
Intergovernmental	299,028	193,676	492,704
Licenses, Permits, and Fees	66,956	1,530	68,486
Fines, Forfeitures, and Penalties		32,404	32,404
Earnings on Investments	48,663	3,422	52,085
Other Revenue	33,935	6,763	40,698
	<u>648,831</u>	<u>1,032,554</u>	<u>1,681,385</u>
Cash Disbursements:			
Current:			
General Government	397,510	77,915	475,425
Public Safety		693,650	693,650
Public Works		255,142	255,142
Health	32,719		32,719
Conservation - Recreation	10,874		10,874
Debt Service:			
Redemption of Principal	157,870		157,870
Interest and Fiscal Charges	21,356		21,356
Capital Outlay		89,376	89,376
	<u>620,329</u>	<u>1,116,083</u>	<u>1,736,412</u>
Total Receipts Over/(Under) Disbursements	<u>28,502</u>	<u>(83,529)</u>	<u>(55,027)</u>
Other Financing Receipts/(Disbursements):			
Sale of Fixed Assets	<u>6,073</u>	<u>4,483</u>	<u>10,556</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	34,575	(79,046)	(44,471)
Fund Cash Balances, January 1 (Restated)	<u>129,778</u>	<u>749,429</u>	<u>879,207</u>
Fund Cash Balances, December 31	<u><u>\$164,353</u></u>	<u><u>\$670,383</u></u>	<u><u>\$834,736</u></u>

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

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Montville Township, Medina County, (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, fire protection and ambulance services. The Township contracts with the City of Medina to provide fire services, and with Medina General Hospital Life Support Team, for ambulance 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

The Township deposits cash in an interest bearing checking account and repurchase agreements.

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 has 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.

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Police Fund - This fund receives property tax, fine, and federal grant money to provide police protection services.

Fire Fund - This fund receives property tax revenue to provide fire protection and ambulance services.

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 the appropriation measure 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 unencumbered 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 carried over, and need not be reappropriated.

The Township did not encumber all commitments required by Ohio law.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's basis of accounting.

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Township maintains a cash and investment 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:

	2002	2001
Demand deposits	\$298,322	(\$15,264)
Repurchase agreement	855,000	850,000
Total deposits and investments	\$1,153,322	\$834,736

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

Investments: The Township's financial institution transfers securities to the Township's agent to collateralize repurchase agreements. The securities are not in the Township's name.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$607,951	\$607,951
Special Revenue	0	1,135,521	1,135,521
Total	\$0	\$1,743,472	\$1,743,472

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$631,545	\$519,240	\$112,305
Special Revenue	1,680,500	972,540	707,960
Total	\$2,312,045	\$1,491,780	\$820,265

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$654,904	\$654,904
Special Revenue	0	1,037,037	1,037,037
Total	\$0	\$1,691,941	\$1,691,941

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$678,528	\$620,329	\$58,199
Special Revenue	1,531,238	1,116,083	415,155
Total	\$2,209,766	\$1,736,412	\$473,354

4. NONCOMPLIANCE

Contrary to Ohio Rev. Code Section 5705.41(D), the availability of resources to pay expenditure obligations was not always certified prior to incurring expenditure obligations.

Contrary to Ohio Rev. Code Section 5705.36, the Township did not certify ending fund balances to the county. As a result the county was unable to provide a certificate of estimated resources. This resulted in all Township appropriations exceeding certified estimated resources contrary to Ohio Rev. Code Section 5705.39.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the 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 payments, 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.

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
General Obligation Note	\$194,242	5.75%

The General Obligation Notes was issued to construct a Township Maintenance Building.

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. DEBT (Continued)

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

	General Obligation Note
Year ending December 31:	
2003	\$43,531
2004	43,531
2005	131,215
Total	\$218,277

7. RETIREMENT SYSTEM

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS 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.

Contribution rates are also prescribed by the Ohio Revised Code. Law enforcement members contributed 9% of their wages. Other OPERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2002. The Township contributed 16.7% and 15.7% of law enforcement wages to OPERS in 2002 and 2001, respectively.

8. RISK MANAGEMENT

Risk Pool Membership

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

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

8. RISK MANAGEMENT (Continued)

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures losses exceeding \$10,000 if the annual aggregate is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses.

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.

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:

<u>Casualty Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$23,757,036	\$23,703,776
Liabilities	<u>(9,197,512)</u>	<u>(9,379,003)</u>
Retained earnings	<u>\$14,559,524</u>	<u>\$14,324,773</u>
<u>Property Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$6,596,996	\$5,011,131
Liabilities	<u>(1,204,326)</u>	<u>(647,667)</u>
Retained earnings	<u>\$5,392,670</u>	<u>\$4,363,464</u>

9. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

10. RESTATEMENT OF FUND BALANCES

During the prior period, the Township mis-posted various receipts and expenditures, and as a result the General Fund and Special Revenue Funds were overstated.

The correction of these errors had the following net effect on fund balances and Total Cash receipts Over/(Under) Cash Disbursements as previously reported at December 31, 2000:

	Fund Balance Previously Reported	Correction of Error	Restated Fund Balance January 1, 2001	
General	\$154,730	(\$24,952)	\$129,778	
Special Revenue	754,007	(4,578)	749,429	
			General	Special Revenue
Total Cash Receipts Over/(Under) Cash Disbursements as Previously Reported			(\$64,918)	\$143,486
Correction of Error			(24,952)	(4,578)
Total Cash Receipts Over/(Under) Cash Disbursements as Restated			(\$89,870)	\$138,908

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**Auditor of State
Betty Montgomery**

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

Montville Township
Medina County
6665 Wadsworth Road
Medina, Ohio 44256

To the Board of Trustees:

We have audited the accompanying financial statements of Montville Township, Medina County, Ohio, (the Township) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated August 7, 2003, in which we noted the Township restated its General Fund and Special Revenue Fund beginning fund balances. 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 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated August 7, 2003.

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 deficiencies in the design or operation of the internal control over financial reporting 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 2002-003 through 2002-005.

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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, we consider the reportable conditions described above to be material weakness. 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 August 7, 2003.

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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 7, 2003

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such certificate shall be null and void and no warrant shall be issued in payment of any amount due thereto.

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

1. 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 of Trustees 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, if such expenditure is otherwise valid
2. If the amount involved is less than \$1,000 (which was increased to \$3,000 as of April 7, 2003), the Clerk/Treasurer may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid

During 2002 and 2001, 5 of the 39 expenditures tested (12.82%) in 2002 and 22 of the 37 expenditures tested (59.46%) in 2001 were not certified by the Clerk prior to incurring the obligation. It was also found that neither of the two exceptions above was utilized for the items found to be in non-compliance. The Township should inform all Township employees of the requirements of Ohio Rev. Code Section 5705.41(D). The Township should implement the use of Then and Now certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Rev. Code Section 5705.36 requires that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units certify to the County Auditor the total amount from all sources which is available for expenditure from each fund in the tax budget along with any balances that existed at the end of the preceding year.

Ohio Rev. Code Section 5705.39, which requires that total appropriations from each fund not exceed total estimated fund resources from each fund. The Township did not file its certificate of available revenue and ending fund balances for 2002 and 2001 with the County Auditor. As a result the County Auditor did not provide a certificate of estimated resources and all Township appropriations exceeded certified estimated resources.

By not certifying year-end balances to the County Auditor, and subsequently obtaining Certificate of Estimated Resources, the Township could base appropriations on outdated estimates of available resources which could result in negative fund balances. The City should file its certificate of available revenue with the County Auditor on or about the first day of each fiscal year.

FINDING NUMBER 2002-003

Material Weakness

Monitoring comprises regular management and supervisory activities established to determine whether management's financial objectives are being achieved and whether internal control is operating as intended. Monitoring controls generally pertain to the analysis of reports produced by the accounting system and periodic reviews to determine whether established control activities are being performed. When compared to independently established expectations, data from such reports may indirectly provide assurance as to the reliability of financial reporting information.

No evidence was noted to indicate the Board of Trustees is receiving and reviewing periodic financial reports produced by the Township's accounting system, book to bank reconciliations or other similar documents.

On a monthly basis the Board should monitor the activity of the Township to identify unusual or unexpected fluctuations in the Township's activity. Bank reconciliations and monthly fund balance reports from the accounting system should be requested and reviewed by the Board to help ensure the Township's records are reconciled and that all transactions have been entered.

FINDING NUMBER 2002-004

Material Weakness

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records at a specific point in time.

From January 1, 2001 through December 31, 2002, the Township did not reconcile the balance of the bank and the balance of the cash in the accounting records. At December 31, 2002 and 2001 (prior to audit), there were unreconciled differences of \$20,227 and \$14,735, respectively. The annual reports for the fiscal years 2002 and 2001 were filed with and the Auditor of State with adjustments to show reconciled amounts which the Township was unable to support.

Without complete and accurate monthly bank reconciliations, the Township's internal control is significantly weakened which could hinder the timely detection of errors or irregularities by the Township's management. In addition, Township management is not provided with timely fiscal information that is vital to the continued operation and decision making process of the Township.

The Township should perform complete monthly bank reconciliations in a timely manner. Also, a hard copy of monthly bank reconciliations and the listing of outstanding checks should be filed in the bank activity folder with the bank statements and supporting documents for the applicable month. All unreconciled differences should be resolved as quickly as possible so they are not carried forward from month-to-month. All reconciling matters should be appropriately documented.

FINDING NUMBER 2002-005

Material Weakness

The following weaknesses were noted in the Township's accounting records. These conditions resulted in inaccurate accounting records, which compromised management's ability to make sound financial decisions.

- There were three checks in 2002 and 30 checks in 2001 which had been voided or cleared the bank, which were erroneously marked as outstanding in the Warrant Register.
- Withholding payments for the first pay of November and December 2001 were not recorded in the Township's ledger, however these checks cleared the bank.
- Check numbers 14821-14840 dated December 16, 2002, were processed, signed, sent to the vendors, and cashed by the bank. However, our examination of the canceled checks, bank statements, and the Cash Journal determined that the Clerk re-recorded these expenditures as check numbers 14873-14901, dated December 31, 2002 in the accounting records.
- Our examination of canceled checks and bank statements through August of 2003, determined that 12 payroll checks and withholding payments dated December 31, 2002, had not been entered into the payroll accounting system.
- The Township was unable to locate 17 payroll checks which would have been included in the same check sequence as those checks dated December 31, 2002.
- Checks were not issued in an uninterrupted sequence, or they were postdated or predated. We noted 3 checks dated January 3, 2003, and 25 checks dated January 1, 2002, whose numbers fell within the check sequences for fiscal years 2002 and 2001, respectively.
- Canceled checks were not filed in numeric order or any other logical fashion. This made it difficult for the Township to locate individual checks.
- Voided checks were marked "void" without any indication of when they were voided or if they were replaced by another check. This makes it difficult for the Township to compare canceled checks to related adjusting entries or locate specific canceled checks.
- Interest on deposits and investments was not recorded in the accounting system in a timely manner. As many as nine months lapsed between the time the interest was posted to the Township's bank account and the time it was recorded in the accounting system.

We recommend the following to improve cash accounting procedures and provide accurate data for management's review:

- When a check is voided or replaced by a memo entry, the check must be removed from the outstanding check list.
- The Clerk-Treasurer should check all payroll distributions to be sure that the payroll has been accurately recorded in the accounting system.

FINDING NUMBER 2002-005 (Continued)

Material Weakness (Continued)

- All canceled checks returned from the bank should be matched by number and amount to the Cash Journal and Payroll Memo entries in the accounting records.
- All checks should be dated on the date written to properly identify the fiscal period in which they were paid. Check number sequence should follow the date sequence to help ensure proper cutoff, and avoid confusion and potential errors.
- Canceled checks returned in the monthly bank statements and voided checks should be promptly filed in numeric order or another logical fashion to facilitate future reference.
- All voided checks, whether signed or unsigned, should be properly canceled by clearly marked "VOID" and the date voided, and the signature area should be cut off to ensure that the check cannot be improperly used. If the voided check has been replaced by a new check, the check number of the replacement check should be noted on the voided check.
- Interest posted by the bank to the Township's account should be promptly recorded when the bank statement is received.

**MONTVILLE TOWNSHIP
MEDINA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-40952-001	<p>1. Clerk-Treasurer did not accurately reconcile cash</p> <p>2. Township investments could not be accurately identified</p> <p>3. Replacement warrants were written without voiding the original warrant</p> <p>4. Manual warrants were issued, but not recorded in the accounting system</p> <p>5. Payment of debt principal and interest were posted to incorrect accounts</p> <p>6. Payments of real estate tax was classified as a debt service expenditure</p> <p>7. Not all interest income was recorded in the accounting system</p>	<p>No</p> <p>No</p> <p>No</p>	<p>1. Not Corrected. Repeated as Finding Numbers 2002-001 and 2002-006.</p> <p>2. Corrected. Township now uses a Sweep Account at the bank as its main investment. Monthly statements are received.</p> <p>3. Not Corrected. Repeated as Finding Number 2002-004.</p> <p>4. Not Corrected. Unrecorded warrants repeated as Finding Number 2002-004.</p> <p>5. Partially Corrected. Repeated in Management Letter.</p> <p>6. Partially Corrected. Repeated in Management Letter.</p> <p>7. Not Corrected. Repeated as Finding Number 2002-004.</p>



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MONTVILLE TOWNSHIP

MEDINA 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 14, 2003**