



**JEFFERSON TOWNSHIP
KNOX COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2007-2006



Mary Taylor, CPA
Auditor of State

JEFFERSON TOWNSHIP
KNOX COUNTY

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Mary Taylor, CPA
Auditor of State

Jefferson Township
Knox County
21520 Jefferson Road
Glenmont, Ohio 44628

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 Township to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 1, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Jefferson Township
Knox County
21520 Jefferson Road
Glenmont, Ohio 44628

To the Board of Trustees:

We have audited the accompanying financial statements of Jefferson Township, Knox 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.

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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 Jefferson Township, Knox County, Ohio, 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.

The Township is experiencing certain financial difficulties. Those difficulties and management's plans are discussed in Note 9.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 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

August 1, 2008

**JEFFERSON TOWNSHIP
KNOX 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**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Permanent	
Cash Receipts:				
Property and Other Local Taxes	\$5,382	\$21,165	\$0	\$26,547
Licenses, Permits, and Fees	605	2,835	0	3,440
Intergovernmental	17,873	117,732	0	135,605
Earnings on Investments	121	50	344	515
Miscellaneous	193	10,585	0	10,778
Total Cash Receipts	24,174	152,367	344	176,885
Cash Disbursements:				
Current:				
General Government	40,548	0	0	40,548
Public Safety	0	1,155	0	1,155
Public Works	1,100	113,495	0	114,595
Health	571	2,352	205	3,128
Capital Outlay	0	635	0	635
Debt Service:				
Redemption of Principal	0	11,858	0	11,858
Interest and Other Fiscal Charges	0	2,996	0	2,996
Total Cash Disbursements	42,219	132,491	205	174,915
Total Receipts Over/(Under) Disbursements	(18,046)	19,876	139	1,969
Other Financing Receipts / (Disbursements):				
Transfers-In	0	9,460	0	9,460
Transfers-Out	0	(9,460)	0	(9,460)
Total Other Financing Receipts / (Disbursements)	0	0	0	0
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	(18,046)	19,876	139	1,969
Fund Cash Balances, January 1	(13,266)	53,840	10,581	51,155
Fund Cash Balances, December 31	(\$31,312)	\$73,716	\$10,720	\$53,124

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

**JEFFERSON TOWNSHIP
KNOX 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>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Cash Receipts:				
Property and Other Local Taxes	\$5,393	\$20,922	\$0	\$26,315
Licenses, Permits, and Fees	490	2,310	0	2,800
Intergovernmental	19,270	108,208	0	127,478
Earnings on Investments	105	43	348	496
Miscellaneous	305	7,339	0	7,644
	<u>25,563</u>	<u>138,822</u>	<u>348</u>	<u>164,733</u>
Total Cash Receipts				
	<u>25,563</u>	<u>138,822</u>	<u>348</u>	<u>164,733</u>
Cash Disbursements:				
Current:				
General Government	44,695	0	0	44,695
Public Works	962	128,978	0	129,940
Health	563	1,720	325	2,608
Capital Outlay	0	5,635	0	5,635
Debt Service:				
Redemption of Principal	0	5,600	0	5,600
Interest and Other Fiscal Charges	0	1,212	0	1,212
	<u>46,220</u>	<u>143,145</u>	<u>325</u>	<u>189,690</u>
Total Cash Disbursements				
	<u>46,220</u>	<u>143,145</u>	<u>325</u>	<u>189,690</u>
Total Receipts Over/(Under) Disbursements	<u>(20,657)</u>	<u>(4,323)</u>	<u>23</u>	<u>(24,957)</u>
Other Financing Receipts:				
Sale of Notes	0	24,900	0	24,900
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements	<u>(20,657)</u>	<u>20,577</u>	<u>23</u>	<u>(57)</u>
Fund Cash Balances, January 1	<u>7,391</u>	<u>33,263</u>	<u>10,558</u>	<u>51,212</u>
Fund Cash Balances, December 31	<u><u>(\$13,266)</u></u>	<u><u>\$53,840</u></u>	<u><u>\$10,581</u></u>	<u><u>\$51,155</u></u>

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

**JEFFERSON TOWNSHIP
KNOX 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 Jefferson Township, Knox 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 Eastern Knox County Joint Fire District to provide fire services and emergency medical services. The Knox County Sheriff's Office provides general police patrol.

The Township participates in one jointly governed organization and the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Notes 7 and 8 to the financial statements provide additional information for these entities.

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.

The Township values certificates of deposit at cost.

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.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

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:

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.

3. Permanent Fund

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following significant Permanent Fund:

Cemetery Endowment Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's cemetery.

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 did not encumber all commitments required by Ohio law.

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

**JEFFERSON TOWNSHIP
KNOX COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

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.

2. Equity in Pooled Cash and Investments

The Township maintains a cash and investments pool all funds use, except for the Permanent Fund which is invested in certificates of deposit. 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	\$42,624	\$40,655
Investments	10,500	10,500
Total deposits and investments	\$53,124	\$51,155

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

3. Budgetary Activity

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

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$59,400	\$24,174	(\$35,226)
Special Revenue	133,040	161,827	28,787
Permanent	594	344	(250)
Total	\$193,034	\$186,345	(\$6,689)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$46,133	\$42,219	\$3,914
Special Revenue	170,723	141,951	28,772
Permanent	675	205	470
Total	\$217,531	\$184,375	\$33,156

**JEFFERSON TOWNSHIP
KNOX COUNTY**

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

3. Budgetary Activity (Continued)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$44,379	\$25,563	(\$18,816)
Special Revenue	154,751	163,722	8,971
Permanent	577	348	(229)
Total	\$199,707	\$189,633	(\$10,074)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$51,770	\$46,220	\$5,550
Special Revenue	169,732	143,145	26,587
Permanent	635	325	310
Total	\$222,137	\$189,690	\$32,447

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.

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
General Obligation Note	\$19,859	5.5%

**JEFFERSON TOWNSHIP
KNOX COUNTY**

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

5. Debt (Continued)

In 2002, the Township issued general obligation notes for a backhoe and truck. The notes were fully repaid in 2006. In 2006, the Township issued general obligation note which were used to finance the purchase of a new truck to be used for Township road maintenance. The note is collateralized solely by the equipment.

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

Year ending December 31:	Equipment Note
2008	\$0
2009	7,427
2010	7,427
2011	7,427
Total	<u><u>\$22,281</u></u>

The Township made the 2008 note payment in 2007.

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 this plan benefits, which include post retirement healthcare and survivor and disability benefits.

Contribution rates are also prescribed by the Ohio Revised Code. For 2006, OPERS members contributed 9% of their gross salaries and for 2007 members contribute 9.5% of their gross salaries. The Township contributed an amount equaling 13.70% and 13.85%, 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.

JEFFERSON TOWNSHIP
KNOX COUNTY

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

7. Risk Management (Continued)

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.

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.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

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

7. Risk Management (Continued)

	<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 \$4,096. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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	\$4,117
2006	\$4,200
2007	\$4,357

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.

8. Jointly Governed Organizations

The Eastern Knox County Joint Fire District (The District) is a jointly governed organization pursuant to Ohio Revised Code section 505.371. The District was formed in 2001 and consists of Brown, Butler, Harrison, Howard, Jefferson, and Union Townships and the Villages of Brinkhaven and Danville. The Board consists of a trustee from each township and village and an at large member appointed by the District Board.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

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

9. Management Plan

As a result of Finding 2007-001, and the lack of documentation for Trustee salaries, audit adjustments were made by the Fiscal Officer to record the salaries paid from the Gas Tax Fund to the General Fund. Moving the salary expenditures to the General Fund resulted in a deficit balance at December 31, 2006 and 2007 in the amount of \$13,266 and \$31,312, respectively. If the adjustments had not been required, the General Fund balance would have been \$3,340 and \$1,342 in 2006 and 2007, respectively.

At July 31, 2008 the Village's General Fund had a cash deficit balance of \$3,931. Moving forward, the Township Officials plan to review various expenditures made from the General Fund and Gas Tax Fund to assure that all road related expenditures are made from the Gas Tax Fund, including documenting the Trustee's salary paid from the Gas Tax Fund to assure future adjustments of this nature are not required. Additionally, the Fiscal Officer will review Uniform Accounting Network's (UAN) fund and line item description categories to assure proper classification of expenditures by fund and line item. The Officials will continue to monitor the deficit balance in the General Fund and seek additional ways to address the deficit situation.



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*

Jefferson Township
Knox County
21520 Jefferson Road
Glenmont, Ohio 44628

To the Board of Trustees:

We have audited the financial statements of Jefferson Township, Knox County, Ohio, (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated August 1, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America and we noted the Township is experiencing certain financial difficulties. We also noted 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. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because of Ohio Revised Code §117.101 requires the Auditor of State to provide UAN services, and the Ohio Revised Code §§ 117.11 (B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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 control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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.

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We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-003.

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 that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weakness. However, we believe finding numbers 2007-001 and 2007-003 are also material weaknesses.

We also noted a certain internal control matter that we reported to the Township's management in a separate letter dated August 1, 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 2007-001 and 2007-002.

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township's response and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

August 1, 2008

**JEFFERSON TOWNSHIP
KNOX 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

**Trustees Compensation Documentation – Noncompliance/Significant Deficiency/
Material Weakness**

Ohio Rev. Code 505.24(C) permits trustees to receive annual salaries instead of per diem payments. When paid by salary, ORC 505.24(C) does not prescribe a “documentation of time spent” requirement. However, for salaries not paid from the general fund, 2004 Op. Att’y Gen. No. 2004-036 requires trustees to establish administrative procedures to document the proportionate amount chargeable to other Township funds based on 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 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 informed of this requirement in the 2005/2004 management letter.

For 2007 and 2006, Trustees salaries in the amount of \$16,017 and \$16,608, respectively, were paid from the Gasoline Tax Fund. However, no documentation was maintained to support the salary allocation to this fund. As a result, adjustments were made to the Township’s accounting system to report the above expenditures to the Township’s General Fund and are reflected in the financial statements.

Resolutions to pay Trustees by salary should specify that the Township will allocate salaries based on documentation the Trustees submit, not based on percentages a resolution specifies. In addition, the Trustees should submit, at least on an annual basis, documentation indicating the hours and type of service performed to support their salary allocation.

Officials’ Response:

Commencing in 2008, the Trustees are providing documentation for salary amounts paid from the Gasoline Tax Fund.

FINDING NUMBER 2007 – 002

Prior Certification of Funds – Noncompliance Finding

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due therein.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007 – 002 (Continued)

Prior Certification of Funds – Noncompliance Finding (Continued)

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

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 – The fiscal officer 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.

The Fiscal Officer did not properly certify the availability of funds prior to purchase commitment for twenty percent (20%) of the expenditures tested in 2007 and for sixty percent (60%) of expenditures tested in 2006 and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the 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.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007 – 002 (Continued)

Prior Certification of Funds – Noncompliance Finding (Continued)

We recommend the Fiscal Officer 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.

Officials' Response:

The Township will operate in compliance with the Ohio Revised Code.

FINDING NUMBER 2007 – 003

Financial Statement Presentation – Significant Deficiency/ Material Weakness

A monitoring system should be in place to prevent or detect material misstatements for the accurate presentation of the Township's financial statements.

The Fiscal Officer did not always accurately post receipts and disbursements to the Township's accounting system and financial statements. The following posting errors were noted:

Posting Errors	2007	2006
Sale of Notes were posted to Miscellaneous in the Road and Bridge Fund	\$0	\$24,900
Debt payments were posted as Capital Outlay in the Gasoline Tax Fund	\$14,854	\$8,262
Intergovernmental receipts were posted to Taxes in the General Fund	\$720	\$0
Intergovernmental receipts were posted to Taxes in the Road and Bridge Fund	\$2,882	\$0
Intergovernmental receipts were posted to Taxes in the Gas Tax Fund	\$460	\$0
Intergovernmental receipts were posted to Taxes in the Road and Bridge Fund	\$0	\$651
Receipts from Federal Emergency Management Agency (FEMA) was posted to Gasoline Tax Fund instead of a separate FEMA fund	\$5,150	\$0
Receipts from Federal Emergency Management Agency (FEMA) was posted to Road and Bridge Fund instead of a separate FEMA fund	\$0	\$4,310

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007 – 003 (Continued)

In addition, budgetary receipts and disbursements were not always posted to the accounting system to correspond with amounts approved by the Board of Trustees and filed with the County Auditor resulting in adjustments to the budgetary schedules in the footnotes to increase / decrease estimated receipts and appropriations as follows:

	2007	2006
Fund	Estimated Receipts	Estimated Receipts
Gasoline Tax	\$6,610	(\$20,288)
Road and Bridge	(\$30,528)	\$21,276
General	\$0	\$3,623

Not posting receipts, disbursements and budgetary amounts accurately to the ledgers resulted in the financial statements requiring numerous audit reclassification and adjusting entries; furthermore, inaccurate accounting records could make it difficult for the Board of Trustees to effectively manage and budget for the Township's activities, including budgetary totals posted to the Township's ledgers.

We recommend the Township's Fiscal Officer take steps to ensure the accurate posting of all transactions, including budgeted totals to the ledgers. Cash receipts and disbursements should be posted in accordance with procedures and posting guidelines established in the Uniform Accounting Network line item descriptions. By exercising accuracy in recording financial activity, the Township can reduce posting errors and increase the reliability of the financial data throughout the year.

We also recommend the Township implement additional procedures over the completeness and accuracy of financial information reported within the annual financial report. Such procedures may include review of the financial statements and related components with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions.

The Township's financial statements and budgetary note have been adjusted to accurately reflect the proper receipt line item classifications and approved budgeted amounts.

Officials' Response:

The Fiscal Officer will more closely monitor the posting of receipts and disbursements.

**JEFFERSON TOWNSHIP
KNOX 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	Prior Certification of Township funds	No	Not corrected, reissued as finding 2007 – 002



Mary Taylor, CPA
Auditor of State

JEFFERSON TOWNSHIP

KNOX 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 9, 2008**