



Dave Yost • Auditor of State

**JEFFERSON TOWNSHIP
CLINTON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Jefferson Township
Clinton County
13505 US 68 South
Midland, Ohio 45148

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Jefferson Township, Clinton County, Ohio (the Township), as of and for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Government as of December 31, 2012, or changes in financial position thereof for the year then ended.

Basis for Qualified Opinion

The Township did not provide sufficient documentation supporting the Miscellaneous Receipts line item as recorded in the Special Revenue Fund Type. Without the evidential matter, we were not able to obtain sufficient assurances over completeness of the Special Revenue Fund Type Miscellaneous receipts nor were we able to satisfy ourselves through other auditing procedures. Miscellaneous receipts represent 5% each of Special Revenue total cash receipts for the year ending December 31, 2012. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We were unable to obtain sufficient audit evidence to determine the accuracy of the financial statement disbursement function classifications on the financial statements except the Debt Service - Redemption of Principal and Debt Service – Interest and Other Fiscal Charges line items in the Special Revenue Fund Type. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded in the expenditure line items. The remaining functions comprise 92% for 2012 of total disbursements. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

The Township did not present fund balances in accordance with Governmental Accounting Standards Board Statement No. 54 on the statement for the year ending December 31, 2012. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* paragraphs, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Jefferson Township, Clinton County as of December 31, 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2013, on our consideration of the Government'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

July 18, 2013

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**JEFFERSON TOWNSHIP
CLINTON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Permanent	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$10,722	\$79,550		\$90,272
Licenses, Permits and Fees		2,500		2,500
Intergovernmental	23,318	103,112		126,430
Earnings on Investments	450		228	678
Miscellaneous	74	8,861		8,935
<i>Total Cash Receipts</i>	<u>34,564</u>	<u>194,023</u>	<u>228</u>	<u>228,815</u>
Cash Disbursements				
Current:				
General Government	25,770			25,770
Public Safety	45,610	82,354		127,964
Public Works		56,873		56,873
Health		9,814		9,814
Debt Service:				
Principal Retirement		16,651		16,651
Interest and Fiscal Charges		3,059		3,059
<i>Total Cash Disbursements</i>	<u>71,380</u>	<u>168,751</u>	<u>0</u>	<u>240,131</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(36,816)</u>	<u>25,272</u>	<u>228</u>	<u>(11,316)</u>
Other Financing Receipts (Disbursements)				
Other Financing Uses	(426)			(426)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(426)</u>	<u>0</u>	<u>0</u>	<u>(426)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(37,242)</u>	<u>25,272</u>	<u>228</u>	<u>(11,742)</u>
<i>Fund Cash Balances, January 1</i>	<u>125,163</u>	<u>359,871</u>	<u>10,850</u>	<u>495,884</u>
Fund Cash Balances, December 31				
Unassigned (Deficit)	87,921	385,143	11,078	484,142
<i>Fund Cash Balances, December 31</i>	<u>\$87,921</u>	<u>\$385,143</u>	<u>\$11,078</u>	<u>\$484,142</u>

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

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**JEFFERSON TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, Clinton 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, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Blanchester Community Services to provide ambulance services.

The Township participates in the Ohio Township Risk Management public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool:

The Township participates in the Ohio Township Risk Management Authority (OTARMA) public entity risk pool, which is available to Ohio townships. OTARMA provides property and casualty coverage for its members.

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. Deposits 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 accounts for and reports all financial resources not accounted for and reported in another fund.

**JEFFERSON TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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.

Emergency Levy Fund - This fund receives tax money to provide ambulance services.

Fire Levy Fund - This fund receives proceeds from the property tax fire levy for providing fire protection to the Township's residents.

3. Permanent Funds

These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Township had the following significant permanent fund:

Cemetery Bequest Fund – This fund receives interest earned on the nonexpendable corpus. 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 fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

JEFFERSON TOWNSHIP
CLINTON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)

1. Summary of Significant Accounting Policies (Continued)

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2012 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

**JEFFERSON TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The Township adopted the fund classifications above in fiscal year 2011, but did not present the fund balance classifications in Fiscal Year 2012.

G. 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 Deposits and Investments

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

	2012
Demand deposits	\$10,824
Certificates of deposit	10,200
Other time deposits (savings and NOW accounts)	463,118
Total deposits	\$484,142

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

3. Budgetary Activity

Budgetary activity for the years ending follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$34,659	\$34,564	(\$95)
Special Revenue	173,267	194,023	20,756
Permanent	1,700	228	(1,472)
Total	\$209,626	\$228,815	\$19,189

**JEFFERSON TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

3. Budgetary Activity (Continued)

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$36,100	\$71,805	(\$35,705)
Special Revenue	326,500	168,752	157,748
Total	\$362,600	\$240,557	\$122,043

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General fund by \$35,705 for the year ended December 31, 2012.

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, 2012 was as follows:

	Principal	Interest Rate
Tanker and Fire Truck Note	\$22,872	8%
Total	\$22,872	

On September 13, 2006, the former Clinton South Joint Fire District entered into a loan with the National Bank and Trust for the purchase of a fire truck. The District also had entered into a loan during 2004 for the purchase of a new tanker truck. These two loans were combined on September 13, 2006 and a new note was issued for the debt. The Township assumed this debt from the Clinton South Joint Fire District. The equipment collateralized the note contrary to Ohio law.

**JEFFERSON TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

5. Debt (Continued)

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

Year ending December 31:	Tank and Fire Truck Note
2013	<u>\$15,186</u>
2014	<u>9,818</u>
Total	<u><u>\$25,004</u></u>

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 these plan benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012, OPERS members contributed 12%, of their gross salaries and the Township contributed an amount equaling 14%, of participants' gross salaries. The Township has paid all contributions required through December 31, 2012.

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. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. 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 and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2012, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

**JEFFERSON TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

7. Risk Management (Continued)

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, 2012 and 2011 (the latest information available):

	<u>2012</u>	<u>2011</u>
Assets	\$34,771,270	\$35,086,165
Liabilities	<u>(9,355,082)</u>	<u>(9,718,792)</u>
Net Position	<u>\$25,416,188</u>	<u>\$25,367,373</u>

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$8.7 and \$9.1 million of estimated incurred claims payable. The assets above also include approximately \$7.96 and \$8.6 million of unpaid claims to be billed to approximately 944 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Township's share of these unpaid claims collectible in future years is approximately \$5,000.

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>	
<u>2012</u>	<u>2011</u>
8,395	8,306

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's 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. Restated Beginning Fund Balance

Beginning General Fund balance was decreased \$29,675 and Special Revenue fund balance was increased by \$29,675. This was a result of prior audit findings for adjustment being posted to the Township records.

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Dave Yost • Auditor of State

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

Jefferson Township
Clinton County
13505 US 68 South
Midland, Ohio 45148

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Jefferson Township, Clinton County, Ohio (the Township), as of and for the year ended December 31, 2012, and the related notes to the financial statements and have issued our report thereon dated July 18, 2013, wherein we noted the Government followed accounting financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1. We qualified our opinion due to the lack of sufficient appropriate audit evidence supporting the amounts recorded as miscellaneous receipts, classification of disbursements except the Debt Service – Principal Retirement and Debt Service – Interest and Other Fiscal Charges line items in the Special Revenue Fund Type, and fund balance presentation.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Government's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Government's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Government's financial statements. We consider findings 2012-001, 2012-002, 2012-003, and 2012-004 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Government'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, opining 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 instance of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001, 2012-002, 2012-004, 2012-005, and 2012-006.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Government's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Government's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

July 18, 2013

JEFFERSON TOWNSHIP
CLINTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012

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

FINDING NUMBER 2012-001

Material Weakness and Noncompliance Citation

Ohio Administrative Code § 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code

Ohio Administrative Code § 117-2-02(C) (1) states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Ohio Revised Code, § 5705.41(B), states that no subdivision or taxing unit is allowed to expend money unless it has been appropriated.

Ohio Administrative Code § 117-2-02(C) (2) Purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s), as required by section 5705.41 (D) of the Revised Code.

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

- Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payer, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

The Township maintained the cash journal as an electronic spreadsheet. Cash journal headings did not agree to the detail. In August 2012 the cash journal *certificate* column included account codes. July, September, November and December cash journals did not have any account codes listed to classify the transactions. During payroll testing we noted a transaction where the payee in the cash journal did not agree to the actual payee. (OPERS was recorded as OTARMA) Testing identified two receipt and two expenditure transactions where the account codes that did not agree to the fund column.

**FINDING NUMBER 2012-001
(Continued)**

The Township maintained a receipts ledger as an electronic spreadsheet. The receipts ledger did not have sufficient data to assemble or classify receipts for financial statement presentation. The ledger did not integrate budgetary data allow the Township to monitor budget to actual receipts.

The Township used a separate form for each appropriation line item. The Township utilized the form as both the appropriation ledger and a super blanket PO. The form indicated the amount of the appropriation and the expenditures that were charged against that appropriation. These forms were initiated as of April 2012, but were not updated to include the transactions from January through March 2012. Without recording all transactions, there was no way for the Township to complete a budget to actual comparison. The Township expenditures exceeded appropriations by \$35,705 in the General fund for fiscal year 2012.

The Township did not maintain supporting detail for expenditures and receipts. During testing we noted that there were transactions for which there was no support for the funds charged.

The fiscal year 2012 financial statement ending balance did not agree to the balance recorded in the cash journal or the bank reconciliation.

We identified the following adjustments required to correct inaccurate posting of transactions by the Township. The Township did record these adjustments on the financial statements.

Amount	Fund	Line Item	Description
\$(23,127)	General	Property and Other Local Taxes Revenue	All revenue was rolled to the taxes line item in the general fund statement. This reclassified the intergovernmental and misc. revenue and removed the voided check that was shown as revenue.
\$23,318	General	Intergovernmental Revenue	To reclassify the intergovernmental revenue that was shown as taxes and to increase revenue for Local Government funding that was posted to the wrong fund.
\$74	General	Misc. Revenue	To reclassify Misc. receipts that were recorded as tax revenue
\$8,837	General	General Government Expenditures	To adjust for expenditures not posted to the proper fund.
\$10,034	Motor Vehicle License	Intergovernmental Revenue	To reclassify revenues and expenditures due to expenditures and revenues being transposed when statements were prepared
\$16,784	Motor Vehicle License Fund	Public Works Expenditures	To reclassify revenues and expenditures due to expenditures and revenues being transposed when statements were prepared and to adjust for an expenditure not posted to the proper fund.
\$(2,228)	Gas Tax Fund	Intergovernmental Revenue	To adjust for receipts posted to the wrong fund, reduce the amount of voided check that was posted as revenue, and reclassify misc. receipts that were presented as intergovernmental.
\$582	Gas Tax Fund	Misc. Revenue	To reclassify misc. receipts that were posted as intergovernmental receipts

FINDING NUMBER 2012-001
(Continued)

\$(12,035)	Gas Tax Fund	Public Works Expenditures	To reduce expenditures by the amount of a voided check, and adjust for expenditures that did not have support showing allowable purpose.
\$12,685	Road and Bridge Fund	Property and Other Local Taxes Revenue	To reclassify tax receipts that were presented as intergovernmental revenue.
\$13,612	Road and Bridge Fund	Intergovernmental Revenue	To reclassify tax revenue, and adjust FY2011 audit reclassifications that were posted in FY2012
\$3,556	Road and Bridge Fund	Public Works Expenditures	To remove FY2011 audit reclassifications that were posted in FY2012 and adjust for expenditures that did not have support showing allowable purpose.
\$(11,952)	Cemetery	Licenses, Permits, and Fees	To adjust for receipts posted to the cemetery bequest, removed FY2011 audit reclassifications that were posted in FY2012, and reclassify line item presentation.
\$(4,450)	Cemetery	Fines and Forfeitures	To reclassify line item presentation.
\$(1,800)	Cemetery	Earnings on Investments	To reclassify line item presentation of donations.
\$5,612	Cemetery	Miscellaneous Revenue	To reclassify line item presentation and adjust for receipts posted to cemetery bequest fund.
\$(15,286)	Cemetery	Health Expenditures	To remove FY2011 audit reclassifications that were posted in FY2012 and adjust for items that did not have support showing an allowable purpose.
\$(66,865)	Fire	Property and Other Local Taxes Revenue	To reclassify revenue from the property tax levy that was rolled to the special assessments line item.
\$(9,136)	Fire	Intergovernmental Revenue	To reclassify intergovernmental revenue that was rolled to the special assessments line item.
\$(195,890)	Fire	Special Assessments	To remove FY2011 audit reclassification that was posted in FY2012 and reclassify Tax, Intergovernmental and Miscellaneous revenue.
\$(136,953)	Fire	Public Safety Expenditures	To remove FY2011 audit reclassification that was posted in FY2012 and reclassify debt payments
\$16,652	Fire	Debt Service: Principal Retirement	To reclassify debt payments.
\$3,059	Fire	Debt Service: Interest and Fiscal Charges	To reclassify debt payments.
\$(750)	Cemetery Bequest	None	Receipts that were posted to the Cemetery bequest fund on the cash journal, but were not rolled to the statements.
\$(213)	EMS	Public Safety	To adjust expenditures to agree to support.

FINDING NUMBER 2012-002

Material Weakness and Noncompliance Citation

Ohio Revised Code, § 505.24(C), allows that by unanimous vote, a board of township trustees may adopt a method of compensation consisting of an annual salary to be paid in equal monthly payments. The amount of the annual salary approved by the board shall be paid from the township general fund or from other township funds in such proportions as the board may specify by resolution. Each trustee shall certify the percentage of time spent working on matters to be paid from the township general fund and from other township funds in such proportions as the kinds of services performed. Auditor of State Bulletin 2011-07 provides additional guidance for the certification process and a sample certification.

The Township trustees did not complete the certifications until August 2012, but salaries were paid from funds other than the General Fund. We also determined that the Township did not allocate the withholdings and fringe benefits in the same manner as the certifications that were completed in 2012. Failure to complete the certifications and not properly allocating withholdings and fringe benefits resulted in the following adjustments:

Amount	Fund	Line Item	Description
\$16,932	General	General Government	To adjust payroll and withholding expenditures so they agree to the supporting documentation.
\$(18,238)	Gas Tax	Public Works	To adjust payroll and withholding expenditures so they agree to the supporting documentation.
\$1,306	Road and Bridge	Public Works	To adjust payroll and withholding expenditures so they agree to the supporting documentation.

We recommend that the Township complete the compensation resolution as required. The resolution should indicate the proportions to be paid. We also recommend that the Trustees complete certifications of the actual work completed prior to paying Trustee salary from restricted funds. The Trustees should take due care when completing the certifications to ensure that the proper funds are charged in accordance with the approved resolution and the activities that were performed.

FINDING NUMBER 2012-003

Material Weakness

The Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, introduces five fund balance classifications and clarifies the existing governmental fund type definitions. The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are nonspendable, restricted, committed, assigned and unassigned.

Nonspendable Fund Balance- The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. (GASB 54 ¶6)

Restricted Fund Balance- The restricted classification is used when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments (i.e., State Statutes); or (b) imposed by law through constitutional provisions (City Charter) or enabling legislation. (GASB 54 ¶8)

Committed Fund Balance- The committed fund balance classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. (GASB 54 ¶10)

**FINDING NUMBER 2012-003
(Continued)**

Assigned Fund Balance- Assigned fund balance includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed (GASB 54 ¶13).

Unassigned Fund Balance- Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund (GASB 54 ¶17).

The Township did not have a system in place to properly present the fund balances in accordance with GASB54 when the 2012 financial statements were prepared.

We recommend that the Township review the GASB 54 statement and classify fund balances in accordance with the GASB 54 statement when preparing the financial statements. Auditor of State Bulletin 2011-004 clarifies the impact of GASB 54 on Ohio governmental units and provides guidance on implementation.

FINDING NUMBER 2012-004

Material Weakness and Noncompliance Citation

Ohio Administrative Code § 117-2-01(A) requires that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories.

Ohio Administrative Code § 117-2-01(B) defines "Internal control" as a process effected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Reliability of financial reporting;
2. Effectiveness and efficiency of operations;
3. Compliance with applicable laws and regulations; and
4. Safeguarding of assets.

Ohio Administrative Code, § 117-2-01(D) explains, in part, that when designing the public office's system of internal control and the specific control activities, management should consider the following:

1. Ensure that all transactions are properly authorized in accordance with management's policies.
2. Ensure that records are properly designed and maintained.
3. Ensure adequate security of records.
4. Plan for adequate segregation of duties and compensating controls.
5. Verify the existence and valuation of receipts and periodically reconcile them to the accounting records.

**FINDING NUMBER 2012-004
(Continued)**

The Township did not have internal controls in place to ensure that financial statements were accurate, complete and in compliance with current GASB standards, including, but not limited to, GASB 54 and 63. The lack of an internal control procedure to ensure that applicable pronouncements are followed allowed for submission of statements that did not agree fund balances to the cash journal, did not have proper line item descriptions, and did not implement the required Governmental Accounting Standards Board pronouncements.

The Township did not present records for all miscellaneous receipts in the Special Revenue Fund. For cemetery receipts, the Township did not provide duplicate receipts or other documentation of recording lot sales and grave openings. Accordingly, we were unable to obtain assurances for completeness of Miscellaneous Receipts. Miscellaneous Receipts, which include cemetery related revenues, accounted for 5% of the Special Revenue receipts for the year ended December 31, 2012.

Lack of controls and poor recordkeeping increase the risk that theft, fraud or errors could occur and not be detected in a timely manner.

We recommend the Township keep accurate and complete records of Miscellaneous Receipts, including cemetery lots that are sold, use duplicate receipts books, and institute internal control policies, including proper supervision. The Township should also develop and implement a system of controls that will ensure that the financial statements are presented accurately and in conformance with applicable accounting standards.

FINDING NUMBER 2012-005

Noncompliance Citation

Ohio Revised Code § 517.07 states, in part, that upon application, the board of township trustees shall sell at a reasonable price the number of lots as public wants demand for burial purposes. Purchasers of lots, upon complying with the terms of sale, may receive deeds for the lots which the board shall execute and which shall be recorded by the township fiscal officer in a book for that purpose. The Township recorded only two deeds in Cemetery Deed Record book, but there were more than two lot sales per receipt records. We also noted the deeds were not timely issued. Failure to record deeds could allow for the duplicate lot sales. We recommend the Township maintain a system to issue and record deeds.

FINDING NUMBER 2012-006

Noncompliance Citation

Ohio Rev. Code, § 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 any 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. 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.

FINDING NUMBER 2012-006
(Continued)

1. “Then and Now” Certificate – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the Fiscal Officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the 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. 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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 Township did not properly certify the availability of funds for purchase commitments for 28 of 30 or 93% of expenditures tested and none of the exceptions above applied. Failure to properly certify the availability of funds can result in overspending 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. “Then and Now” certificates over \$3,000 should be approved by ordinance or resolution. We recommend the Township certify all purchases to which section 5705.41(D) applies. The Fiscal Officer should sign the certification at the time the Fire District 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.

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**JEFFERSON TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	ORC 117-2-1, Failure to have internal controls over Miscellaneous Revenue	No	Reissued as 2012-005 added lack of controls over financial reporting.
2011-002	ORC 507.09 Fiscal officer compensation allocation	Yes	Corrected
2011-003	ORC 505.24C Township Trustee compensation allocation	No	Reissued as 2012-002

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Dave Yost • Auditor of State

JEFFERSON TOWNSHIP

CLINTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 20, 2013**