



**HARLAN TOWNSHIP
WARREN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

HARLAN TOWNSHIP

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REPORT OF INDEPENDENT ACCOUNTANTS

Harlan Township
Warren County
9009 Morrow-Rossburg Road
Pleasant Plain, Ohio 45162

To the Township Trustees:

We have audited the accompanying financial statements of Harlan Township, Warren County, Ohio (the Township), as of and for the years ended December 31, 2000, and 1999. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements for the year ended December 31, 2000, present receipts and disbursements by fund type totals only. Ohio Administrative Code Section 117-2-02(A) requires governments to classify receipt and disbursement transactions.

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

In our opinion, except for the omission of receipt and disbursement classifications for the year ended December 31, 2000, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Township as of December 31, 2000, and 1999, and its combined unclassified cash receipts and unclassified disbursements for the year ended December 31, 2000 and its combined cash receipts and disbursements for the year ended December 31, 1999, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2001, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Harlan Township
Warren County
Report of Independent Accountants
Page 2

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

Jim Petro
Auditor of State

October 9, 2001

**HARLAN TOWNSHIP
WARREN COUNTY**

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

| | General | Special Revenue | Capital Projects | Totals (Memorandum Only) |
|---|------------------|----------------------------|-----------------------------|---|
| Cash Receipts: | | | | |
| Total Cash Receipts | 214,473 | 483,636 | 10,020 | 708,129 |
| Cash Disbursements: | | | | |
| Total Cash Disbursements | 150,888 | 360,951 | 150,289 | 662,128 |
| Total Cash Receipts Over/(Under) Cash Disbursements | 63,585 | 122,685 | (140,269) | 46,001 |
| Other Financing Receipts | | | | |
| Proceeds of Bonds | 0 | 0 | 1,265,000 | 1,265,000 |
| Total Other Financing Receipts | 0 | 0 | 1,265,000 | 1,265,000 |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements | 63,585 | 122,685 | 1,124,731 | 1,311,001 |
| Fund Cash Balances, January 1 | 223,016 | 342,344 | 0 | 565,360 |
| Fund Cash Balances, December 31 | \$286,601 | \$465,029 | \$1,124,731 | \$1,876,361 |
| Reserves for Encumbrances, December 31 | \$20,637 | \$10,996 | \$0 | \$31,633 |

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

**HARLAN TOWNSHIP
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

| | General | Special Revenue | Totals (Memorandum Only) |
|---|------------------|--------------------|--------------------------------|
| Cash Receipts: | | | |
| Taxes | 57,309 | 286,615 | 343,924 |
| Intergovernmental Receipts | 101,617 | 126,085 | 227,702 |
| Earnings on Investments | 12,100 | 883 | 12,983 |
| Miscellaneous Receipts | 2,203 | 58,276 | 60,479 |
| Total Cash Receipts | 173,229 | 471,859 | 645,088 |
| Cash Disbursements: | | | |
| General Government | 151,827 | | 151,827 |
| Public Safety | 0 | 89,053 | 89,053 |
| Public Works | 91,000 | 104,878 | 195,878 |
| Health | 4,140 | 3,193 | 7,333 |
| Recreation | 3,315 | | 3,315 |
| Debt Service: | | | |
| Redemption of Principal | 0 | 33,750 | 33,750 |
| Interest and Fiscal Charges | 0 | 1,856 | 1,856 |
| Capital Outlay | 0 | 169,339 | 169,339 |
| Total Cash Disbursements | 250,282 | 402,069 | 652,351 |
| Total Cash Receipts Over/(Under) Cash Disbursements | (77,053) | 69,790 | (7,263) |
| Other Financing Receipts | | | |
| Proceeds of Notes | 0 | 22,500 | 22,500 |
| Total Other Financing Receipts | 0 | 22,500 | 22,500 |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements | (77,053) | 92,290 | 15,237 |
| Fund Cash Balances, January 1 | 299,267 | 250,856 | 550,123 |
| Fund Cash Balances, December 31 | \$222,214 | \$343,146 | \$565,460 |
| Reserves for Encumbrances, December 31 | \$291 | \$4,663 | \$4,954 |

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

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Harlan Township, Warren County, Ohio (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general governmental services, including road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

The Township did not classify its receipts or disbursements in the accompanying financial statements for the year ended December 31, 2000. This is a material departure from the requirements of Ohio Administrative Code Section 117-02-02(A) (effective July 1, 2000) and Ohio Administrative Code Section 117-3-11 (effective through June 30, 2000). These Ohio Administrative Code Sections require classifying receipts and disbursements.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

During the fiscal years 2000 and 1999, the Township's funds were held in an interest bearing checking account, money market accounts and U.S. government securities.

Investments are included in fund cash balances. Accordingly, purchase of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

U.S. government securities are valued at cost, and money market accounts are recorded at share values reported by the mutual fund.

D. Fund Accounting

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

1. General Fund

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

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Special Revenue Funds

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

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

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

3. Capital Project Fund

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

Fire Station Fund - This fund received proceeds of bonds. The proceeds are being used for the new fire station.

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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end can be carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law. The financial statements and budgetary activity (Note 3) have been adjusted to include material items that should have been encumbered.

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of 2000 and 1999 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Township.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

| | 2000 | 1999 |
|--------------------------------|-------------|-----------|
| Demand deposits | \$665,655 | \$565,360 |
| Money Market Mutual Fund | 523,694 | 0 |
| U.S. Government Securities | 687,012 | 0 |
| Total investments | 1,210,706 | 0 |
| Total deposits and investments | \$1,876,361 | \$565,360 |

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by securities specifically pledged by the financial institution to the Township. At December 31, 2000, \$79,951 of deposits were not insured or collateralized, contrary to Chapter 135, Ohio Revised Code; at December 31, 1999, \$217,523 of deposits were not insured or collateralized, contrary to Chapter 135, Ohio Revised Code.

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

U.S. Agency Notes are held in book-entry form by the Federal Reserve, in the name of the Township's financial institution. Lebanon Citizens maintains records identifying the Township as owner of these securities.

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2000, and 1999 follows:

| 2000 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|--------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$ 196,450 | \$ 214,473 | \$ 18,023 |
| Special Revenue | 489,100 | 483,636 | (5,464) |
| Capital Projects | 0 | 1,275,020 | 1,275,020 |
| Total | \$ 685,550 | \$ 1,973,129 | \$ 1,287,579 |

| 2000 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$ 292,595 | \$ 171,525 | \$ 121,070 |
| Special Revenue | 781,444 | 371,947 | 409,497 |
| Capital Projects | 0 | 150,289 | (150,289) |
| Total | \$ 1,074,039 | \$ 693,761 | \$ 380,278 |

| 1999 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$ 177,085 | \$ 173,229 | \$ (3,856) |
| Special Revenue | 467,180 | 494,359 | 27,179 |
| Total | \$ 644,265 | \$ 667,588 | \$ 23,323 |

| 1999 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$ 486,109 | \$ 250,573 | \$ 235,536 |
| Special Revenue | 706,837 | 406,732 | 300,105 |
| Total | \$ 1,192,946 | \$ 657,305 | \$ 535,641 |

Contrary to the Revised Code, the Township did not properly certify the availability of funds for purchase commitments for most expenditures during the audit period. The Township did not increase the certificate of estimated resources when they received bond proceeds of \$1,650,000 in 2000. Moneys were not appropriated for the capital projects fund or the parks fund in 2000.

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

4. PROPERTY TAX

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

5. DEBT

Debt outstanding at December 31, 2000 was as follows:

| | Principal | Interest Rate |
|------------------------------------|--------------------|------------------|
| Harlan Township Fire Station Bonds | <u>\$1,265,000</u> | 6% |

The Harlan Township Fire Station Bonds were acquired for the construction of a new fire station. The bonds are collateralized solely by the Township's taxing authority.

Amortization of the Fire Station Bonds, including interest, is scheduled as follows:

| Year Ending December 31: | | Fire Station Bonds |
|-----------------------------|----|-----------------------|
| 2001 | \$ | 123,617 |
| 2002 | | 113,592 |
| 2003 | | 114,350 |
| 2004 | | 113,913 |
| 2005 | | 113,345 |
| 2010* | | 569,038 |
| 2015* | | 569,845 |
| 2020* | | 572,415 |
| Total | \$ | 2,290,115 |

*In five year increments

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2000 and 1999, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries in 1999 and 10.84% in 2000.

7. RISK MANAGEMENT

The Township has obtained commercial insurance for the following risks:

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

8. COMPLIANCE

Contrary to the Ohio law the Township:

1. Prepared unclassified financial statements for receipts and disbursements for the year ended December 31, 2000.
2. Did not establish a special fund for the capital project to construct and equip the firehouse or record this activity on the Township books.
3. Invested in U.S. Government Agencies during the audit period, but did not approve a written investment policy.



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

Harlan Township
Warren County
9009 Morrow-Rossburg Road
Pleasant Plain, Ohio 45162

To the Township Trustees:

We have audited the accompanying financial statements of Harlan Township, Warren County, Ohio (the Township), as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated October 9, 2001, which was qualified since the Township did not classify receipts and disbursements in its financial statements for the year ended December 31, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-40483-001, 2000-40483-003, 2000-40483-004, and 2000-40483-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated October 9, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2000-40483-001 through 2000-40483-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated October 9, 2001.

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

Jim Petro
Auditor of State

October 9, 2001

**HARLAN TOWNSHIP
WARREN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2000 AND 1999**

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

FINDING NUMBER 2000-40483-001

Material Noncompliance/Material Weakness - Record Keeping

Ohio Rev. Code, Section 507.04 requires the Township Clerk to keep an accurate record of the Township's accounts and transactions. The Township's fiscal officer did not maintain an accurate receipt ledger, appropriation ledger or cash journal for the year ended December 31, 2000. The Township did not always properly classify receipt and disbursement transactions for the same period. The Township was therefore unable to monitor compliance with its appropriation resolution for the year ended December 31, 2000. The Township fiscal officer did not complete an annual financial report for the year ended December 31, 2000 as required by Ohio Rev. Code, Section 117.38.

Ohio Admin. Code, Section 117-2-02(A) * requires governments to maintain an accounting system and accounting records sufficient to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements. Per Ohio Admin. Code Section 117-2-02(C), accounting records that can help achieve these objectives include:

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund.
3. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.

Ohio Admin. Code, Section 117-7-01 * provides suggested account classifications. These accounts classify receipts by source (taxes or charges for services, for example) and classify disbursements by program (security of persons and property, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Township with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

Ohio Rev. Code, Section 5705.09 requires each subdivision to establish a special fund for each special levy. The Township did not establish a fund for the levy to construct and equip the fire house. All activity of this fund was not recorded on the books. Activity during 2000 included the receipt of \$1,265,000 in bond proceeds, interest revenue, payments to contractors, other moneys received and an interest payment.

The failure to establish the proper funds and record all transactions of the Township does not allow for the true financial status of the Township to be reported as required. We recommend the Township establish funds and record all Township transactions as required.

*Prior to July 1, 2000, these requirements were included in Ohio Administrative Code Section 117-3.

FINDING NUMBER 2000-40483-002

Internal Control Material Weakness - Cash Reconciliations

The Township Clerk did not accurately reconcile the bank accounts/fund balances during 2000.

Accurate reconciliations are a basic and essential internal control component for sound fiscal management. Errors could go undetected and Township officials who rely on accurate financial information could make decisions that could put the Township's financial health at risk.

Accordingly, we recommend the Township establish written procedures for cash reconciliations. These procedures should address (but not be limited to) how to handle unrecorded interest, to review bank statements for service charges, making sure the outstanding checklist is accurate and to compensate for utility charges collected by the bank which have not been posted to the cash journal. Additional procedures should include the approval of the reconciliations by a member of the Township Trustees. Such approval should be documented by his/her initialing the reconciliations.

FINDING NUMBER 2000 - 40483 - 003

Material Noncompliance /Material Weakness - Certification of Funds

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

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

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

Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. The Township did not properly certify the availability of funds for purchase commitments for 95% of expenditures tested.

We recommend the Township obtain approved purchase orders, which contain the Clerk's certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2000-40483-004

Material Noncompliance /Material Weakness - Budgetary Requirements

Ohio Rev. Code, Section 5705.36 states that an increased amended certificate of estimated resources must be obtained from the budget commission if the legislative authority intends to expend the excess revenue.

Contrary to this requirement, in 2000, the Township did not amend the certificate when they received bond proceeds of \$1,265,000, but did expend \$150,289 of the proceeds.

Ohio Rev. Code, Section 5705.41(B) states that no subdivision is to expend money unless it has been appropriated.

Contrary to this requirement, in 2000, the Township expended \$150,289 from the Capital Projects Fund and \$2,917 from the Parks Fund, but failed to appropriate any moneys from these funds.

Failure to monitor budgetary accounts and make necessary budgetary amendments could result in deficit fund balances and the misappropriation of funds. The Township should exercise due care in establishing and monitoring the yearly budget measures.

FINDING NUMBER 2000-40483-005

Material Noncompliance /Material Weakness - Investing

Ohio Rev. Code, Section 135.14,(O) states: Except as otherwise provided, no treasurer or governing board shall make an investment or deposit under this section, unless there is on file with the auditor of state a written investment policy approved by the treasurer or governing board. The policy shall require that all entities conducting investment business with the treasurer or governing board shall sign the investment policy of that subdivision. All brokers, dealers, and financial institutions, initiating transactions with the treasurer or governing board by giving advice or making investment recommendations shall sign the treasurer's or governing board's investment policy thereby acknowledging their agreement to abide by the policy's contents. All brokers, dealers, and financial institutions, executing transactions initiated by the treasurer or governing board, having read the policy's contents, shall sign the investment policy thereby acknowledging their comprehension and receipt.

If a written investment policy described above is not filed on behalf of the subdivision with the auditor of state, the treasurer or governing board of that subdivision shall invest the subdivision's interim moneys only in interim deposits, no-load money market mutual funds or the Ohio subdivision's fund.

This section does not apply to a subdivision whose average annual portfolio of investments held pursuant to this section is one hundred thousand dollars or less, provided that the treasurer or governing board certifies, on a form prescribed by the Auditor of State, that the treasurer or governing board will comply and is in compliance with the provisions of the applicable revised code sections.

Contrary to this requirement, the Township did not approve a written investment policy, invested more than \$100,000, and invested in U.S. Government Agencies during the audit period.

We recommend the Township approve an investment policy and follow the procedures required or limit investments to interim deposits, no-load money market mutual funds or the Ohio subdivision's fund.

FINDING NUMBER 2000-40483-006

Internal Control /Material Weakness - Oversight

Ohio Administrative Code, Section 117-2-01 (effective 7/1/00) states in regard to Internal Control:

- (A) 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.
- (A) "Internal control" means 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.
- (C) Internal control consists of the following five interrelated components:
 - 1. Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
 - 2. Risk assessment, which is the entity's identification and analysis of relevant risks to the achievement of its objectives, forming a basis for determining how the risks should be managed.
 - 3. Control activities, which are policies and procedures that help ensure management directives are carried out.
 - 4. Information and communication, which are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
 - 5. Monitoring, which is a process that assesses the quality of internal control performance over time.
- (D) 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 accounting records are properly designed.
 - 3. Ensure adequate security of assets and records.

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(Continued)

4. Plan for adequate segregation of duties or compensating controls.
 5. Verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.
 6. Perform analytical procedures to determine the reasonableness of financial data.
 7. Ensure the collection and compilation of the data needed for the timely preparation of financial statements.
 8. Monitor activities performed by service organizations.
- (E) Consideration should be given to the cost benefit of the controls. The cost of controls should not exceed their benefit.

The Township's financial institution requested an interest payment on bonded debt of the Township in error, which was also authorized by the Township in error. The Township authorized the payment of \$39,531 in interest 12/7/00. The Township received the proceeds of the Bonds 10/19/00 and per the debt agreement no interest was due until June 1, 2001. Actual interest accrued from 10/19/00 was \$9,912. This amount should have been included in the 6/1/01 payment. Internal controls of the Township were not sufficient to detect this error.

The Township Clerk in office from March of 2000 through the end of the audit period did not perform many of his duties with due care or communicate necessary information to the Township Trustees. Therefore, the Township Trustees were unable to ensure the internal control system operated adequately to provide reasonable assurance regarding the achievement of objectives for the Township. The Trustees recognized the problem, communicated the problem to the appropriate forums and took what actions they could to prevent harm to the Township. The Clerk is no longer in office.

We recommend the Township Trustees review the internal control system of the Township and monitor all Township activities. We have also recommended that the Township appoint an audit committee.



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OFFICE OF THE AUDITOR

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HARLAN TOWNSHIP

WARREN 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
DECEMBER 11, 2001**