



**Auditor of State
Betty Montgomery**

MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2001	3
Notes to the Financial Statement.....	5
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	11
Schedule of Findings	13
Schedule of Prior Audit Findings	24

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Muskingum Township
Muskingum County
PO Box 2940
Zanesville, Ohio 43701

To the Board of Trustees:

We have audited the accompanying financial statement of Muskingum Township, Muskingum County, Ohio (the Township), as of and for the year ended December 31, 2001. This financial statement is the responsibility of the Township's management. Our responsibility is to express an opinion on this 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.

As discussed in Note 1, the Township prepares its financial statement 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.

The basis of accounting prescribed by the Auditor of State requires the Township to report outstanding encumbrances at year end as budgetary expenditures. The Township did not properly record encumbrances. Accordingly, budgetary expenditures in Note 3 do not include encumbrances. It was not practical for us to determine the amount of unrecorded encumbrances at year end.

In our opinion, except for the effects of not recording year end outstanding encumbrances as discussed in the preceding paragraph, the financial statement referred to above presents fairly, in all material respects, the combined fund cash balances of Muskingum Township, Muskingum County, as of December 31, 2001, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2003 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

July 15, 2003

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

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

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Local Taxes	\$54,352	\$125,622	\$4,759	\$	\$184,733
Intergovernmental	140,592	92,862			233,454
Earnings on Investments	1,777	1,707			3,484
Other Revenue	5,857				5,857
Total Cash Receipts	<u>202,578</u>	<u>220,191</u>	<u>4,759</u>	<u>0</u>	<u>427,528</u>
Cash Disbursements:					
Current:					
General Government	134,771				134,771
Public Safety		17,353			17,353
Public Works	205,498	119,762			325,260
Debt Service:					
Redemption of Principal	6,900	10,269	11,400		28,569
Interest and Fiscal Charges	978	7,438	847		9,263
Capital Outlay				187,258	187,258
Total Cash Disbursements	<u>348,147</u>	<u>154,822</u>	<u>12,247</u>	<u>187,258</u>	<u>702,474</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(145,569)</u>	<u>65,369</u>	<u>(7,488)</u>	<u>(187,258)</u>	<u>(274,946)</u>
Other Financing Receipts/(Disbursements):					
Sale of Fixed Assets	3,117				3,117
Total Other Financing Receipts/(Disbursements)	<u>3,117</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,117</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(142,452)	65,369	(7,488)	(187,258)	(271,829)
Fund Cash Balances, January 1	170,438	84,521	7,490	187,258	449,707
Fund Cash Balances, December 31	<u>\$27,986</u>	<u>\$149,890</u>	<u>\$2</u>	<u>\$0</u>	<u>\$177,878</u>

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

This page intentionally left blank.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Muskingum Township, Muskingum County (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Muskingum Township Volunteer Fire Department to provide fire protection services and Community Ambulance Services to provide ambulance services.

The Township's management believes this financial statement presents all activities for which the Township is financially accountable.

B. Basis of Accounting

This financial statement follows 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.

This statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township 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 for constructing, maintaining and repairing Township roads.

Fire Levy Fund – This fund receives property tax money for fire protection and emergency management services.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

3. Debt Service Funds

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness. The Township had the following significant Debt Service Fund:

Note Retirement Fund – This fund is used to accumulate resources for the payment of debt related to the purchase of equipment.

4. Capital Project Funds

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 significant Capital Projects Fund:

Fire Truck Fund – The Township received money from note proceeds and private donations from the 200 Club to purchase a new fire truck during 2000.

D. 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 and subsequent amendments. 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 properly encumber all commitments required by Ohio law.

A summary of 2001 budgetary activity appears in Note 3.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement.

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Township maintains a cash and investments 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:

	2001
Demand deposits	\$177,878

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2001 as follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$91,076	\$205,695	\$114,619
Special Revenue	224,137	220,191	(3,946)
Debt Service	4,759	4,759	0
Capital Projects	40,000	0	(40,000)
Total	\$359,972	\$430,645	\$70,673

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$273,417	\$348,147	(\$74,730)
Special Revenue	274,969	154,822	120,147
Debt Service	12,249	12,247	2
Capital Projects	228,091	187,258	40,833
Total	\$788,726	\$702,474	\$86,252

Contrary to Ohio law, budgetary expenditures exceeded appropriations in the General Fund. Also contrary to Ohio law, the Clerk did not record budgeted receipts in the Township's accounting system during 2001.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2001
(Continued)**

4. PROPERTY TAX

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

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, 2001 was as follows:

	Principal	Interest Rate
2000 - Equipment Lease Purchase Agreement	\$122,564	5.60%

The 2000 equipment lease purchase agreement was entered into to obtain a fire truck to be used for Township fire protection. The lease is collateralized by the fire truck. The lease is being paid from the Fire Levy Fund in annual installments of \$17,707 which includes principle and interest.

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

	Equipment Lease Purchase Agreement
Year ending December 31:	
2002	\$17,707
2003	17,707
2004	17,707
2005	17,707
2006 – 2010	88,535
Total	\$159,363

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2001
(Continued)**

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2001PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2001. The Township has not paid all contributions required through December 31, 2001.

7. RISK MANAGEMENT

The Township is a member of the Ohio Township Association Risk Management Authority (the Pool) which is a risk pool discussed at Note 8. The following risks are covered by the Pool:

- Legal Liability, third party claims coverage
- Automobile Liability
- Automobile Physical Damage
- Wrongful Acts
- Property, including building and contents and inland marine

8. RISK POOL MEMBERSHIP

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

Casualty Coverage

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

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

Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2001
(Continued)**

8. RISK POOL MEMBERSHIP (Continued)

Financial Position

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

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$23,703,776	\$22,684,383
Liabilities	<u>9,379,003</u>	<u>8,924,977</u>
Retained earnings	<u>\$14,324,773</u>	<u>\$13,759,406</u>

<u>Property Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$5,011,131	\$4,156,784
Liabilities	<u>647,667</u>	<u>497,831</u>
Retained earnings	<u>\$4,363,464</u>	<u>\$3,658,953</u>

9. CONTINGENCIES

The Township did not remit in a timely manner employee and employer contributions for retirement and taxes or, in some instances, did not remit contributions at all. During 2001, the Township's contributions included penalties and interest from past years for failure to remit contributions timely, as indicated in the Independent Accountants' Report on Compliance and on Internal Control Required by *Government Auditing Standards*, Finding No. 2001-013. It was not practical to determine the amount of unpaid contributions, and penalties and interest, at December 31, 2001.



**Auditor of State
Betty Montgomery**

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

Muskingum Township
Muskingum County
PO Box 2940
Zanesville, Ohio 43701

To the Board of Trustees:

We have audited the accompanying financial statement of Muskingum Township, Muskingum County, Ohio (the Township), as of and for the year ended December 31, 2001, and have issued our report thereon dated July 15, 2003, wherein we noted the Township did not properly record encumbrances in its budgetary presentation. 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 statement is 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 2001-001 through 2001-011. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated July 15, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2001-005 through 2001-016.

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 statement 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. Material weaknesses are described in the accompanying Schedule of Findings as items 2001-008 through 2001-015. 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 July 15, 2003.

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

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

Betty Montgomery
Auditor of State

July 15, 2003

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001**

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

FINDING NUMBER 2001-001

Finding for Recovery Repaid Under Audit – Overcompensation of Officials

Ohio Rev. Code § 505.24 sets the salary of the trustees based on the township budget and Ohio Rev. Code § 507.09 sets the salary of the clerk based on the township budget. For purposes of determining salaries, the township's budget is the certificate of estimated resources. Ohio Rev. Code § 5705.36 requires the fiscal officer of each subdivision, on or about the first day of each year, to certify to the county auditor the total amount from all sources available for expenditures from each fund. The amount certified shall include any unencumbered balances that existed at the end of the preceding year.

For 2001, the Township Clerk certified to the County Auditor both the unencumbered and the encumbered balances, thereby overstating the Township budget by \$201,983. As a result, Township officials were compensated based on the \$750,000-\$1,500,000 budget range, rather than being compensated based on the \$500,000-\$750,000 budget range. The officials' salaries were computed based on the overstated budget, resulting in the officials being overcompensated as follows:

	Amount Paid	Amount Authorized	Overcompensation
Byron J. Vandebark, Clerk	\$14,424.00	\$12,020.00	\$2,404.00
Harold Newell, Trustee	8,742.00	7,649.09	1,092.91
Steve Fusner, Trustee	8,742.00	7,649.09	1,092.91
John Bunting, Trustee	8,742.00	7,649.09	1,092.91

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code §117.28, a finding for recovery for public money illegally expended is hereby issued against each of the aforementioned officials and their surety, the Personal Service Insurance Company, jointly and severally, in the aforementioned amounts, in favor of Muskingum Township, Muskingum County.

The Township's officials were in agreement with this finding and each repaid their respective overpayments as of the date of this report.

FINDING NUMBER 2001-002

Finding for Recovery – Unauthorized Life Insurance Policies

Ohio Rev. Code § 505.602 states "A board of township trustees may procure and pay all or any part of the cost of group life insurance to insure the lives of officers and full-time employees of the township. The amount of group life insurance coverage provided by the board to insure the lives of officers of the township shall not exceed fifty thousand dollars per officer."

During 2001, Muskingum Township paid group life insurance policy premiums for two separate group policies for Township officials and employees. However, four individual life insurance policies were in effect during 2001, for which the Township had previously paid premiums. Former Township Clerk Byron Vandebark's individual policy had a cash value of \$637 at February 25, 2003, when he redeemed the policy and retained its cash value. Byron Vandebark would not be entitled to the cash value of this individual policy since premiums were paid by the Township and the policy was not permitted by law, as the statute allows only group plans and this was an individual plan.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

FINDING NUMBER 2001-002 (Continued)

Finding for Recovery – Unauthorized Life Insurance Policies (Continued)

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code § 117.28, a finding for recovery for public money illegally expended is hereby issued against Byron Vandenburg, and his surety, The Personal Service Insurance Company, jointly and severally, in the amount of \$637, in favor of Muskingum Township, Muskingum County.

We recommend the Board of Township Trustees consult with legal counsel for the appropriate action to be taken on the remaining individual life insurance policies, including those policies that have cash values covering Trustees Steven Fusner and Harold Newell. The Board should adopt by resolution the maximum amount of life insurance to be offered, not to exceed \$50,000 per officer, and procure a group policy to provide the coverage.

FINDING NUMBER 2001-003

Noncompliance Citation – Failure to Obtain Bids

Ohio Rev. Code § 5575.01 states in part “In the maintenance and repair of roads the board of township trustees may proceed either by contract or force account. Except as otherwise provided in sections 505.08 and 505.101 of the Revised Code, when the board proceeds by contract the contract shall, if the amount involved exceeds fifteen thousand dollars, be let by the board to the lowest responsible bidder after advertisement for bids once, not later than two weeks prior to the date fixed for the letting such contract, in a newspaper published in the county and of general circulation within the township...”

On April 30, 2001, the Township issued a purchase order in the amount of \$222,597.16 to The Shelly Company for paving various roads. On July 31, 2001, the Township issued another purchase order in the amount of \$6,746.95 to The Shelly Company for paving. On July 31, 2001, the Township issued a check to The Shelly Company in the amount of \$229,344.11. However, only two portions of this project, the paving of Conn Road and Woodcrest Subdivision, in the sum of \$104,943, were noted in the minutes as being advertised for bids. Bids were presented for these roads and work appears to have been awarded to the lowest bidder, The Shelly Company. For the remainder of the project, there were no contracts presented for audit purposes. As a result, there is no evidence to indicate the Township complied with bidding requirements for the remainder of the roads paved by The Shelly Company.

We recommend the Township advertise, accept bids and select the lowest responsible bidder for every project exceeding \$15,000, and retain the contract documentation on file according to the requirements of the Ohio Revised Code.

FINDING NUMBER 2001-004

Noncompliance Citation – Expenditures Exceeding Appropriations

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

For the year ended December 31, 2001, the General Fund expenditures exceeded appropriations by \$74,730.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

FINDING NUMBER 2001-004 (Continued)

Noncompliance Citation – Expenditures Exceeding Appropriations (Continued)

Ohio Revised Code § 5705.41(B) (Continued)

We recommend the Board of Trustees and Clerk compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then the Board should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations. Once the Board has adopted additional appropriations, the County Budget Commission (County Auditor) should certify that appropriations do not exceed estimated resources. The Clerk should not make any expenditure unless appropriations are available.

FINDING NUMBER 2001-005

Noncompliance Citation and Reportable Condition – Posting Property Taxes

Ohio Rev. Code § 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received.

During 2001, tangible personal property tax receipts were posted entirely to the Township's General Fund instead of being properly divided between the General, Road and Bridge, and Fire Levy funds. As a result of the foregoing facts, an adjustment reducing the General Fund receipts by \$855, and increasing the Road and Bridge and Fire Levy funds receipts by \$593 and \$262, respectively, was necessary.

In addition, during 2001, the second half homestead and rollback reimbursement was not posted in accordance with the County Auditor property tax settlement sheets. As a result of the foregoing facts, an adjustment decreasing the General and Fire Levy funds receipts by \$391 and \$813, respectively, and increasing the Road and Bridge Fund receipts by \$1,204 was necessary.

These adjustments, with which management agrees, have been posted to the Township's books and are reflected in the accompanying financial statements. We recommend the Township Clerk properly post all personal property tax and homestead and rollback reimbursements in the proper funds in accordance with the distribution provided on the County Auditor property tax settlements.

FINDING NUMBER 2001-006

Noncompliance Citation and Reportable Condition – Posting and Distribution of Interest

Ohio Rev. Code §§ 5705.10 and 135.21 require interest earned to be credited to the general fund. There are a number of exceptions to this general rule, such as, interest earned on money derived from a motor vehicle license or fuel tax must follow the principle and interest earned on money derived from a nonexpendable trust fund must follow the principle.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

FINDING NUMBER 2001-006 (Continued)

**Noncompliance Citation and Reportable Condition – Posting and Distribution of Interest
(Continued)**

Ohio Rev. Code §§ 5705.10 and 135.21 (Continued)

Of the interest posted during 2001, the Clerk posted a disproportionate amount of interest earned on the Township's checking account to the Gasoline Tax Fund without any consideration of the Gasoline Tax Fund's balance available to be invested. In addition to the improper distribution of interest, \$1,284 in interest earnings was not posted to the Township's records. As a result of the foregoing facts, an adjustment was necessary to reduce receipts in the Gasoline Tax Fund by \$343 and increase receipts in the Motor Vehicle License and General funds by \$862 and \$765, respectively.

As of the date of this report, Township management was in agreement with the aforementioned adjustment and this adjustment has been posted to the Township's records and is reflected in the accompanying financial statements.

We recommend the Clerk allocate interest as required by law, based on each fund's balance. We further recommend the Clerk record all interest earned on investments in the Township's ledgers.

FINDING NUMBER 2001-007

Noncompliance Citation and Reportable Condition – Bank Debits

Ohio Rev. Code § 5705.41(C) and § 507.11(B) provide that no subdivision is to expend money except by a proper warrant drawn against an appropriate fund and that no money belonging to a Township is to be paid out except upon an order signed by a least two of the Township Trustees and countersigned by the Township Clerk.

In March and May 2001, the Clerk permitted Ameritech Telephone Company to directly debit the Township's checking account in the amounts of \$245.48 and \$221.88 respectively, without Township warrants being issued. As a result, the signatures of at least two Township Trustees and the Clerk could not be obtained. These expenses were not posted to the accounting records.

We recommend that all payments be made by a warrant signed by at least two trustees and countersigned by the clerk.

FINDING NUMBER 2001-008

Noncompliance Citation and Material Weakness – Destruction of Records

Ohio Rev. Code § 149.351 indicates that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission.

Numerous documents requested for audit could not be located by the Township, including, but not limited to: original invoices to support checks issued, checks issued but never mailed, contract documents, insurance policies, and receipt documentation such as remittance advices accompanying checks received by the Township.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
--

FINDING NUMBER 2001-008 (Continued)

Noncompliance Citation and Material Weakness – Destruction of Records (Continued)

Ohio Rev. Code § 149.351 (Continued)

As a result, numerous Township records were not available for audit or for future reference by interested parties. Extensive time was spent to arrive at an accurate outstanding checklist. Had voided checks and checks prepared but never mailed been kept on file, the reconciliation process would have been much easier.

We recommend the Clerk maintain all Township records in accordance with law. Records should be disposed of in accordance with a records retention schedule only after the schedule has been approved. A comprehensive filing system would assist the Clerk in the maintenance of Township records and help assure the records are presented when requested for audit or other purposes.

FINDING NUMBER 2001-009

Noncompliance Citation and Material Weakness – Posting Appropriations

Ohio Rev. Code § 5705.40 provides that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation.

The appropriations as approved by the Board did not agree to the appropriations entered into the appropriations ledger. The following schedules compare approved appropriations to those posted to the appropriations during 2001.

	Appropriations Posted to the UAN system	Approved Appropriations	Variance
General Fund	\$381,498	\$273,417	\$108,081
Fire Levy Fund	70,601	60,601	10,000
Capital Projects Fund	188,833	228,091	(39,258)

Appropriations reported in Note 3 to the financial statements have been adjusted to reflect only those appropriations adopted by the Board, as noted in the Board's minutes.

We recommend the Board approve all appropriation amendments and note the approval in the Board's minutes. We also recommend the Clerk file all appropriation amendments with the County Auditor in order to receive certification from the County Auditor that appropriations do not exceed estimated resources. Appropriation amendments should be posted to the accounting system only after both the Board and the County Auditor have approved and certified the amendments.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

FINDING NUMBER 2001-010

Noncompliance Citation and Material Weakness – Clerk’s Certification of Funds

Ohio Rev. Code § 5705.41(D) states 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 (Township Clerk) 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 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 two “exceptions” to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that, both at the time the contract or order was made and at the time he is completing his certification, a sufficient sum was appropriated and free of any previous encumbrances, the taxing authority (Township Board of Trustees) may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is other wise valid.
- B. If the amount involved is less than one thousand dollars (which was increased to \$3,000 on April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the taxing authority, upon completion of the then and now certificate, provided the expenditure is otherwise lawful.

The Township included certification language as part of its purchase order. However, the Clerk’s prior certification was not obtained for 54% of the expenditures tested and the aforementioned exceptions were not followed.

We recommend Township personnel obtain proper certification from the Clerk prior to incurring any obligations on behalf of the Township.

FINDING NUMBER 2001-011

Noncompliance Citation and Material Weakness – Budgeted Receipts

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

During 2001, the Township Clerk did not post any budgeted receipts to the receipt ledger and there was no other method developed to provide accounting information related to budgetary receipts. Because no information was entered into the accounting system, the Township management was unable to effectively monitor budget versus actual activity. In addition, the annual financial report was materially misstated as there were no budgeted receipts reported.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

FINDING NUMBER 2001-011 (Continued)

Noncompliance Citation and Material Weakness – Budgeted Receipts (Continued)

Ohio Admin. Code § 117-2-02(C)(1) (Continued)

We recommend the Clerk post estimated receipts directly from the certificate of estimated resources and any amendments thereto to the accounting system. This would ensure useful comparisons of estimated to actual receipts are made throughout the year and help indicate when an amended certificate should be obtained.

FINDING NUMBER 2001-012

Material Weakness – Cash Reconciliations

The Township Clerk did not prepare detailed reconciliations of the book balances to the bank balances. The Clerk utilized an item referred to as “adjusting factors” to reconcile but no supporting documentation was presented to determine what the adjusting factors were comprised of. There were three factors which attributed to the book balances not reconciling to the bank balances:

1. Money was deposited in the bank but not recorded in the accounting system or was deposited in the bank anywhere from a few days to five months after receipt.
2. Direct debits were made from the checking account and not recorded in the accounting system.
3. Outstanding checks lists were not properly updated. There were numerous checks on the outstanding check list which had either cleared the bank, been voided, or prepared but never mailed.

As a result of the insufficient reconciliations, we performed extensive detailed reconciliations comparing cash activity recorded on the bank statements to the activity recorded on the Township’s records to arrive at more accurate activity and balances. Numerous adjustments and reclassifications of which Township management agree have been posted to the Township’s books and are reflected in the financial statements.

Without timely, accurate reconciliations, numerous errors occurred and went undetected and/or uncorrected. Without accurate financial activity and balances, management could make improper decisions concerning the Township’s affairs.

We recommend the Township Clerk perform accurate reconciliations in a timely manner. If the Clerk is uncertain as the proper procedures to follow when performing this reconciliation, then he should obtain assistance from the Auditor of State or any other consultant the Township chooses. In any event, the Township should assure that adequate documentation is prepared and maintained to document the reconciliation. Adequate documentation would include a detail of outstanding checks, deposits in transit, and interest and bank fees. We recommend the Clerk present to the Trustees the detailed bank reconciliations for their review and approval each month. The timely deposit of Township funds would also help simplify the reconciliation process and assure receipts are recorded in the year in which they were received.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

FINDING NUMBER 2001-013

Material Weakness – Payroll System and Supporting Documentation

During our review of the Township's payroll system, we noted the following conditions:

1. Personnel files were not established for each employee.
2. Vacation and sick leave records were not maintained.
3. There was no personnel policy addressing leave earnings, usage, and accruals.
4. Employee and employer shares of PERS and Medicaid were not remitted to the applicable agencies by the required deadlines.
5. Copies of quarterly or monthly returns (941s) completed for remittance of withholdings were not always attached to the pay voucher or maintained on file by the Township.

These conditions could result in incorrect compensated leave being taken by an employee and/or incorrect payment of accumulated leave to an employee upon termination of employment. These conditions did result in late penalties, interest and fees being incurred by the Township and in errors occurring concerning withholdings amounts remitted. The lack of vacation and sick leave records and a lack of a written policy addressing the Township's procedures did not allow us to determine if vacation and sick leave benefits were in accordance with the Board's intentions.

We recommend the following:

1. Personnel files should be established and maintained for each employee and should contain pertinent information including, but not limited to, tax withholding forms, retirement forms, voluntary deduction forms, approved pay rate information, approved employee contracts, policy acknowledgement forms, and evaluations.
2. Vacation and sick leave records should be maintained for each employee. These records should document the leave balances at the end of each pay period, the amount of leave earned during the pay period, and the amount of leave used during the period. A leave use authorization form should be completed each time an employee uses leave. Approved leave forms should be maintained for future reference. Since existing leave balances may be in question, the Board should determine a method to calculate the existing balances and approve all beginning balances that have been posted to the leave records.
3. A formal written payroll policy should be developed addressing the Township policies on leave earnings, usage, and the carrying forward of any unused balances.
4. Taxes, retirement contributions, and other withholdings should be remitted to the applicable agencies promptly at the end of each month or quarter, depending on the requirements of the individual agency. The Township should attach copies of the remittance forms (ie: 941's) to the voucher packages to support those payments.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

FINDING NUMBER 2001-014

Material Weakness – Vouchered Disbursements

During our review of the Township's disbursement system, we noted that approximately 10% of the checks did not have adequate supporting documentation. Approximately 8% of the checks issued were for amounts different from the amounts shown on invoices/billing statements. Rather than paying bills in a timely manner, the Township Clerk often entered disbursement transactions in the accounting system in order to issue checks, but checks generated by the accounting system would not be mailed. Additional invoices, including late notices, would be sent, generally without adequate detail, and second checks would be issued, although the second checks were not always mailed. In certain instances where the second checks were mailed, the original checks were subsequently mailed, resulting in overpayments to vendors. We also noted instances where invoices were dated after the check issue dates, indicating that checks were backdated. Furthermore, in certain instances, trustees have indicated that checks and other documents were issued where trustees' signatures were not authentic.

These conditions did not allow for proper documentation of all disbursements and resulted in payments being made in error to several vendors as well as late fees in the amount of \$2,157 being charged to the Township. These conditions also resulted in the overstatement of expenditures and outstanding checks for those checks generated by the accounting system but never mailed.

We recommend the following:

1. Checks should not be approved unless invoices which support the amount, vendor, and date goods or services were provided are attached.
2. All checks should be signed by the Clerk and at least two Trustees.
3. When goods are received by the Clerk, Trustees, or employees, the invoice or other document should be initialed to indicate goods were received as ordered.
4. Invoices should be canceled with some indication of "paid" when payment is made.
5. Checks should be issued in numerical order and payments should be made in a timely manner.
6. Manual checks should not be issued. In those rare instances where a manual check may need to be issued, it should be promptly posted to the accounting system and include the required signatures.
7. Any "voided" transactions or checks should be promptly voided in the UAN system and maintained on file.
8. Payments for goods and services should be remitted timely based on the due date. This would eliminate late fees and assure good credit with local vendors.

MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)

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

FINDING NUMBER 2001-015

Material Weakness – Monitoring by Board of Trustees

The Board has a key role to play in ensuring the Township establish and maintain effective internal controls. Accordingly, the Board must establish procedures to ensure and document that the Township is complying with applicable legal requirements.

The results of our audit indicated a weakness in the Board's role to establish and maintain effective internal controls and to ensure and document the Township is complying with legal requirements as evidenced by the material noncompliance citations and material weaknesses included in our report. The small size of the Township's staff did not allow for an adequate segregation of duties as the Township Clerk performed all accounting functions, including receipting, depositing, disbursing, and reconciling Township monies. Monitoring controls could be implemented where the Board of Trustees could function as a finance and audit committee to monitor financial activity closely and to follow up on any audit findings.

We recommend the Board become more actively involved in monitoring financial activity of the Township. The Board should assure that the Township Clerk performs a monthly bank reconciliation that includes total fund balances being reconciled to total deposits and investments, detailing outstanding checks and any other reconciling items. The Board should then review the validity of the computations and attest to the reconciliation's accuracy. The Board should also assure the Clerk maintains and presents to the Board monthly, the following records; receipts ledger, appropriations ledger, cash journal, budget vs. actual reports for receipts and disbursements, payroll journal and check register. Supervisory reviews should be performed by members of the Board and evidenced by the initials of each member performing the review and the date the review was performed.

The presentation of these records and reviews by the Board should be noted in the Board's minutes. The Board should make appropriate inquiries to help determine the continued integrity of financial information such as:

- ***Are current receipts sufficient to cover expenditures?***
- ***Are actual receipts and expenditures in line with the budget?***
- ***Are receipts and expenditures in line with prior years?***
- ***If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted for?***
- ***Are anticipated receipts being received in a timely manner?***

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Township. The Clerk and the Board should become familiar with the Ohio Compliance Supplement, which has been provided to the Township, and use this as a tool to assure the Township is in compliance with applicable Ohio laws and regulations.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

FINDING NUMBER 2001-016

Reportable Condition - Cellular Phones

The audit of Muskingum Township for the years ended December 31, 1999 and 2000 included a recommendation for the Clerk and Township Trustees to obtain and review cellular phone bills to determine those calls made for personal business and to reimburse the Township for the personal calls. During 2002, the Trustees and Clerk reimbursed the Township for calls made during 1999 and 2000 that they believe to be for personal business. Trustee Harold Newell's reimbursements also included calls made during 2001. Former Township Clerk Byron Vandembark's reimbursement was without any supporting documentation to indicate which calls were being reimbursed and on what rate he based his reimbursement. The recommendation also suggested the Township adopt a cellular phone policy. No such policy has been adopted as of the date of this report.

We recommend the Township establish a formal written policy addressing the use of cellular phones. The policy should address who is authorized to have a cellular phone, the rate and frequency which the Township will be reimbursed for personal calls, and the manner in which cellular phone usage will be monitored to assure authorized usage. The Township's policy should indicate that cell phones should be used for Township business and for personal business on rare occasions only. The Township officials should implement the policy immediately and reimburse the Township for personal phone calls made. Findings for recovery may be issued against employees and officials who utilize cellular phones for personal business without reimbursing the Township.

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-41060-001	Ohio Const. Art. XII, § 5a, Ohio Rev. Code § 135.21, § 135.351, and § 5705.10, and 1982 Op. Atty. Gen. No. 82-031 for failure to credit interest to the proper funds	No	Not corrected; reissued as finding 2001-006
2000-41060-002	Ohio Rev. Code § 4503.02, improper expensing of Motor Vehicle License funds	Yes	Corrected
2000-41060-003	Ohio Rev. Code § 5705.10, failure to credit the proper fund for monies designated to be received for that fund	No	Not corrected; reissued as finding 2001-005
2000-41060-004	Ohio Rev. Code § 5705.41(B) expending money that was not appropriated	No	Not corrected; reissued as finding 2001-004
2000-41060-005	Ohio Rev. Code § 5705.41(D), failure to properly certify availability of funds	No	Not corrected; reissued as finding 2001-010
2000-41060-006	Ohio Rev Code § 5705.40, failure to properly amend appropriations	No	Not corrected; reissued as finding 2001-009
2000-41060-007	Ohio Rev Code § 5705.41(C) and § 507.11(B), failure to expend money by a check signed by at least the Clerk and two Trustees	No	Not corrected; reissued as finding 2001-007
2000-41060-008	Ohio Rev. Code § 149.351, destruction of Township records	No	Not corrected; reissued as finding 2001-008
2000-41060-009	Material weakness addressing vouchered disbursements	No	Not corrected; reissued as finding 2001-014

**MUSKINGUM TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-41060-010	Material weakness addressing payroll system and documentation	No	Not corrected; reissued as finding 2001-013
2000-41060-011	Material weakness addressing failure to perform accurate cash reconciliations	No	Not corrected; reissued as finding 2001-012
2000-41060-012	Reportable condition addressing proper posting of receipts from the County Auditor	No	Not corrected; reissued as finding 2001-005
2000-41060-013	Reportable condition addressing the Township cellular phones and the repayment of personal calls made on those phones	No	Partially Corrected; reissued as finding 2001-016



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MUSKINGUM TOWNSHIP

MUSKINGUM 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
SEPTEMBER 16, 2003**