



**Auditor of State  
Betty Montgomery**



UPPER TOWNSHIP  
LAWRENCE COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Upper Township  
Lawrence County  
P.O. Box 4126  
Ironton, Ohio 45638

To the Board of Trustees:

We have audited the accompanying financial statements of Upper Township, Lawrence County, Ohio (the Township), as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The Township is experiencing certain financial difficulties. Those conditions and management's plans to address those conditions, are described in Note 10.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Upper Township, Lawrence County, as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 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.

Upper Township  
Lawrence County  
Independent Accountants' Report  
Page 2

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

August 28, 2003

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Local Taxes	\$15,345	\$46,778	\$62,123
Intergovernmental	19,281	70,366	89,647
Earnings on Investments	376		376
Other Revenue	3,222		3,222
<b>Total Cash Receipts</b>	<u>38,224</u>	<u>117,144</u>	<u>155,368</u>
<b>Cash Disbursements:</b>			
Current:			
General Government	31,318		31,318
Public Safety	6,124	19,596	25,720
Public Works	6,992	40,431	47,423
Capital Outlay	4,649		4,649
Debt Service:			
Redemption of Principal	10,368	3,524	13,892
Interest and Fiscal Charges	883	46	929
<b>Total Cash Disbursements</b>	<u>60,334</u>	<u>63,597</u>	<u>123,931</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(22,110)</u>	<u>53,547</u>	<u>31,437</u>
Fund Cash Balances, January 1	<u>(30,629)</u>	<u>92,491</u>	<u>61,862</u>
<b>Fund Cash Balances, December 31</b>	<u><b>(\$52,739)</b></u>	<u><b>\$146,038</b></u>	<u><b>\$93,299</b></u>
Reserve for Encumbrances, December 31	<u>\$16,113</u>	<u>\$28,115</u>	<u>\$44,228</u>

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

**UPPER TOWNSHIP  
LAWRENCE 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>	
<b>Cash Receipts:</b>			
Local Taxes	\$15,122	\$46,791	\$61,913
Intergovernmental	25,350	68,708	94,058
Other Revenue	3,304		3,304
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	43,776	115,499	159,275
	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>			
Current:			
General Government	40,470		40,470
Public Safety	10,168	13,765	23,933
Public Works	860	27,332	28,192
Other	376	56	432
Debt Service:			
Redemption of Principal	8,768	15,736	24,504
Interest and Fiscal Charges	1,491	964	2,455
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	62,133	57,853	119,986
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	(18,357)	57,646	39,289
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	(12,272)	34,845	22,573
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b><u>(\$30,629)</u></b>	<b><u>\$92,491</u></b>	<b><u>\$61,862</u></b>

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

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

Upper Township, Lawrence 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, and fire protection.

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.

These statements include 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 that is 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:

*Gasoline Tax Fund* - This fund receives gasoline tax money for constructing, maintaining and repairing Township roads.

*Fire Fund* - This fund receives property tax monies to provide fire protection through contracts with other governmental entities.

*Special Levy (New Fire) Fund* - This fund receives property tax monies to provide fire protection through contracts with other governmental entities.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. For 2001, encumbrances outstanding at year end were canceled, and reappropriated in the subsequent year. During 2002, the Township began carrying over encumbrances. Encumbrances outstanding at year end are carried over and need not be reappropriated. The Township did not encumber all commitments required by Ohio law.

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

**E. 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.

**2. EQUITY IN POOLED CASH**

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

	<u>2001</u>	<u>2002</u>
Demand deposits	<u>\$61,862</u>	<u>\$93,299</u>

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

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

**3. BUDGETARY ACTIVITY**

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

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$42,798	\$38,224	(\$4,574)
Special Revenue	152,983	117,144	(35,839)
Total	\$195,781	\$155,368	(\$40,413)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$55,059	\$76,447	(\$21,388)
Special Revenue	94,081	91,712	2,369
Total	\$149,140	\$168,159	(\$19,019)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$69,033	\$43,776	(\$25,257)
Special Revenue	137,427	115,499	(21,928)
Total	\$206,460	\$159,275	(\$47,185)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$51,435	\$62,133	(\$10,698)
Special Revenue	107,830	57,853	49,977
Total	\$159,265	\$119,986	\$39,279

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund and Fire Fund at December 31, 2001. Budgetary expenditures also exceeded appropriation authority in the General Fund, Road and Bridge Fund, and Special Levy (New Fire) Fund at December 31, 2002. Also, appropriations exceeded estimated resources at December 31, 2002 in the Road and Bridge Fund and the Fire Fund.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

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

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding 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 payment, 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, 2002 was as follows:

	Principal	Interest Rate
General Obligation Note	\$9,747	6.00%

The general obligation note was issued in 1994 to fund the purchase of a fire truck.

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

	General Obligation Note
Year ending December 31:	
2003	\$9,233
2004	769
Total	\$10,002

**6. RETIREMENT SYSTEMS**

The Township's elected officials and 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 2002 and 2001, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2001 and 2002. The Township has paid all contributions required through December 31, 2002.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

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

**7. RISK MANAGEMENT**

The Township has obtained commercial insurance for the following risks:

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

The Township has obtained health insurance for the officials coverage through a private carrier.

**8. PRIOR PERIOD ADJUSTMENT**

The Debt Service Fund was reclassified to reflect the actual purpose of the fund's use. The Board of Trustees purchased a fire truck for the use of the Volunteer Fire Dept and made a verbal agreement with the Department that the payments for the truck note would be made by the Township's General Fund and would not be made from any of the Fire Levy Funds. This resulted in a restatement of the January 1, 2001 fund balance as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Fund cash balance originally stated, December 31, 2000	(\$12,484)	\$212
Prior Period Adjustment	212	(212)
Restated fund cash balances, January 1, 2001	(\$12,272)	\$0

**10. FINANCIAL DIFFICULTIES**

At December 31, 2001 and December 31, 2002, the Township had negative cash fund balances, as follows, contrary to provisions of Ohio Rev. Code Section 5705.10:

<u>Fund Type</u>	<u>Balance at December 31, 2001</u>	<u>Balance at December 31, 2002</u>
General Fund	(\$30,629)	(\$52,739)
Special Levy	(982)	(4,730)
Road and Bridge		(6,640)

There have been several issues in financial recording which has ultimately lead to financial difficulty for the General Fund.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

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

**10. FINANCIAL DIFFICULTIES (Continued)**

On August 24, 2003, the Township Clerk posted advances to eliminate the negative fund balances. The unaudited fund cash balances as of August 24, 2003, prior to and after advances, are as follows:

Fund	Balance at August 24, 2003 Prior to Advances	Advances In/(Out) Posted August 24, 2003	Balance at August 24, 2003 After Advances
General	\$(58,892)	\$ 70,000	\$11,108
Motor Vehicle License Tax	8,174	0	8,174
Gasoline Tax	52,681	(50,000)	2,681
Road and Bridge	(5,363)	6,000	637
Fire District	79,261	(40,000)	39,261
Special Levy	(12,556)	14,000	1,444
Debt Service	39	0	39

As of August 28, 2003, management has not determined a method to repay these advances.



**Auditor of State  
Betty Montgomery**

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

Upper Township  
Lawrence County  
P.O. Box 4126  
Ironton, Ohio 45638

To the Board of Trustees:

We have audited the accompanying financial statements of Upper Township, Lawrence County, Ohio (the Township), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated August 28, 2003, wherein we noted the Township was experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2002-001 through 2002-009. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Township in a separate letter dated August 28, 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. The reportable conditions are described in the accompanying Schedule of Findings as items 2002-010 through 2002-014.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider 2002-010 through 2002-012 to be 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 the management of the Township in a separate letter dated August 28, 2003.

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

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

**Betty Montgomery**  
Auditor of State

August 28, 2003

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

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

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

**FINDING NUMBER 2002-001**

**Finding for Recovery**

Ohio Rev. Code Section 505.24 (B) (3) states that in townships having a budget of more than one hundred thousand dollars but not more than two hundred fifty thousand dollars, the compensation for 2001 was to be thirty one dollars and fourteen cents per day for not more than 200 days for each of the Trustees.

The Township's estimated resources for 2001 from the Certificate of Estimated Resources indicated that the appropriate rate of pay for the Trustees was \$31.14 per day. Robert Ackerman, Trustee, received the appropriate daily rate of compensation in 2001 but was also paid an additional \$529.44 for reimbursement of the Public Employees' Retirement System (PERS) employee contribution withheld from his pay check. This resulted in an overpayment of \$529.44.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Robert Ackerman, Trustee, and Old Republic Surety Company, jointly and severally, in the amount of five hundred twenty-nine dollars and forty-four cents (\$529.44) and in favor of the General Fund.

**FINDING NUMBER 2002-002**

**Finding for Recovery**

Ohio Rev. Code Section 505.24 (B) (3) states that in townships having a budget of more than one hundred thousand dollars but not more than two hundred fifty thousand dollars, the compensation for 2001 was to be thirty one dollars and fourteen cents per day for not more than 200 days for each of the Trustees.

The Township's estimated resources for 2001 from the Certificate of Estimated Resources indicated that the appropriate rate of pay for the Trustees was \$31.14 per day. Charles Rowe, Trustee, received the appropriate daily rate of compensation in 2001 but was also paid an additional \$529.44 for reimbursement of the Public Employees' Retirement System (PERS) employee contribution withheld from his pay check. This resulted in an overpayment of \$529.44.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Charles Rowe, Trustee, and Old Republic Surety Company, jointly and severally, in the amount of five hundred twenty-nine dollars and forty-four cents (\$529.44) and in favor of the General Fund.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-003**

**Finding for Recovery**

Ohio Rev. Code Section 505.24 (B) (3) states that in townships having a budget of more than one hundred thousand dollars but not more than two hundred fifty thousand dollars, the compensation for 2001 was to be thirty one dollars and fourteen cents per day for not more than 200 days for each of the Trustees.

The Township's estimated resources for 2001 from the Certificate of Estimated Resources indicated that the appropriate rate of pay for the Trustees was \$31.14 per day. Jerry Rowe, Trustee, received the appropriate daily rate of compensation in 2001 but was also paid an additional \$529.44 for reimbursement of the Public Employees' Retirement System (PERS) employee contribution withheld from his pay check. This resulted in an overpayment of \$529.44.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Jerry Rowe, Trustee, and State Automobile Mutual Insurance Company, jointly and severally, in the amount of five hundred twenty-nine dollars and forty-four cents (\$529.44) and in favor of the General Fund.

**FINDING NUMBER 2002-004**

**Finding for Recovery**

Ohio Rev. Code Section 507.09 (D) (3) states that in townships having a budget of more than one hundred thousand dollars but not more than two hundred fifty thousand dollars, the compensation for 2001 was to be eight thousand four hundred fourteen dollars for the Clerk in 2001.

The Township's estimated resources for 2001 from the Certificate of Estimated Resources indicated that the appropriate rate of pay for the Clerk was eight thousand four hundred fourteen dollars. Edward Markins, Clerk, received the appropriate compensation in 2001 but was also paid an additional \$715.20 for reimbursement of the Public Employees' Retirement System (PERS) employee contribution withheld from his pay check. This resulted in an overpayment of \$715.20.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Edward Markins, Clerk, and Personal Service Insurance Company, jointly and severally, in the amount of seven hundred fifteen dollars and twenty cents (\$715.20) and in favor of the General Fund.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-005**

**Noncompliance Citation**

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. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year and cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision (Township Trustees) which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

In both fiscal years 2002 and 2001 advances were not properly approved by the Board of Trustees. The advances were not clearly labeled to determine if the advance was an initial advance or the repayment of a prior advance. Due to the lack of documentation, we were unable to determine if advances to the General Fund were for repayment of prior advances or if they were initial advances. If they were not repayment of prior advances, then these would be considered unallowable advances. As a result of the lack of statutory authority for making these advances and the questions about the allowability of the advances, adjustments were necessary to eliminate these advances. These adjustments, with which management agrees, have been posted to the Township's books and are reflected in the accompanying financial statements. These adjustments contributed to the fund balance deficits in the General Fund, Road and Bridge Fund, and Special Levy (New Fire) Fund.

We recommend the Township Trustees first consider the restrictions on inter-fund cash advances prior to advancing monies. If monies are not available in those funds which may meet the inter-fund cash advance restrictions, then the Township Trustees should consider other alternatives, such as obtaining a tax advance from the County Auditor or a short-term loan. When advances meet the inter-fund cash requirements, we recommend the Township Trustees approve, by formal resolution, the advance transaction, including the fund from which the advance will be repaid. Additionally, we recommend the Township Trustees review the advances made August 24, 2003, as disclosed in Note 10 to the Financial Statements, to determine whether these advances are permissible based on the above. If the determination is made that these advances were not permissible, we recommend the Township reverse the advances and pursue other alternatives.

Management should refer to Auditor of State Bulletin 97-003 for guidance when considering inter-fund cash advances.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-006**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.39 provides that the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

At December 31, 2002 total appropriations exceeded estimated resources as follows

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Road and Bridge	\$ 7,923	\$ 9,979	\$ (2,056)
Fire Fund	11,165	19,578	(8,413)
	<u>\$ 19,088</u>	<u>\$ 29,557</u>	<u>\$ (10,469)</u>

Appropriation exceeding available resources could allow deficit spending to occur.

We recommend the Clerk and Trustees only appropriate those monies that have been certified as being available during the fiscal year.

**FINDING NUMBER 2002-007**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.10 requires money that is paid into a fund must be used only for the purpose for which such fund has been established. As a result, a negative cash fund balance indicates that money from one fund was used to cover the expenses of another fund.

The General Fund and the Special Levy Fund had negative cash fund balances of \$30,629 and \$982, respectively, at December 31, 2001. The General Fund, Special Levy Fund and Road and Bridge Fund had negative cash balances of \$52,739, \$4,730, and \$6,640, respectively, at December 31, 2002.

We recommend the Township monitor receipts/expenditures and fund balances to avoid negative fund balances.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

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

**FINDING NUMBER 2002-008**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) provides that no subdivision or taxing unit is to expend money unless it has been appropriated.

Expenditures exceeded appropriations at December 31, 2001 as follows:

Fund	Appropriations	Expenditures plus Encumbrances	Variance
General	\$ 51,435	\$ 62,133	\$ (10,698)
Fire	11,149	16,700	(5,551)
	<u>\$ 62,584</u>	<u>\$ 78,833</u>	<u>\$ (16,249)</u>

Expenditures also exceeded appropriations at December 31, 2002 as follows:

Fund	Appropriations	Expenditures plus Encumbrances	Variance
General	\$ 55,058	\$ 76,448	\$ (21,390)
Road and Bridge	9,979	14,372	(4,393)
Special Levy	23,570	37,272	(13,702)
	<u>\$ 88,607</u>	<u>\$ 128,092</u>	<u>\$ (39,485)</u>

This resulted in the Township overspending available fund balances as indicated in finding number 2002-007 above.

We recommend the Township review budgetary information on a regular basis to ensure disbursements do not exceed appropriations at the legal level of control and seek amendments as needed from the Board of Trustees. In addition, we recommend the Clerk not certify funds that are not available.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

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

**FINDING NUMBER 2002-009**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(D) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and 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 - This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
- B. If the amount involved is less than \$1,000 dollars (which was increased to \$3,000 on April 7, 2003), the fiscal officer may authorize it to be paid without affirmation of the taxing authority upon completion of the then and now certificate, provided that the expenditure is otherwise lawful.

Funds were not certified as available prior to purchase commitment being made and no "then and now" certificate was obtained for 41% of the transactions tested over fiscal years 2001 and 2002. This has allowed deficit spending to occur as indicated in finding number 2002-007 above.

We recommend the Township not expend funds without obtaining the fiscal officer's certificate prior to an obligation being incurred. The Township should refrain from paying obligations that are not accompanied by the Clerk's certificate or the authorized "then and now" certificate.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

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

**FINDING NUMBER 2002-010**

**Material Weakness**

The Township Clerk reconciled the book balance to the bank balance each month. However, these reconciliations were not accurate. The reconciliations contained numerous "other adjusting factors" without cause for the adjustment. The Auditor of State performed a proof of cash which involved taking the prior audit book balance and reconciling the Township account to determine where errors have occurred. We noted that on several occasions the Clerk posted receipts twice and in some instances coded checks as voided when in fact they cleared the bank. The Clerk posted an "other adjusting factors" amount into the system to appear to be in balance with the bank. However, the Township was never in balance with the bank during the audit period. This resulted in several errors going undetected and incorrect fund balances. The audited financial statements have been adjusted to correct the posting errors.

We recommend the Township Clerk perform monthly reconciliations using only actual outstanding checks and deposits in transit and investigate discrepancies. The "other adjusting factors" portion of the bank reconciliation shouldn't normally be needed. If there are "other adjusting factors", the Township Clerk should maintain supporting documentation.

**FINDING NUMBER 2002-011**

**Material Weakness**

Budget reports should be generated monthly by the Clerk and presented to the Board for monitoring and approval purposes. A review of the UAN system noted that the Clerk only generated a budget to actual report for year end. This resulted in an inability to compare appropriations at the legal level of control to expenditures throughout the year. This can result in an inability for the Board to monitor budgeted activity to actual results and ultimately negative fund balances.

Additionally, the Clerk was significantly late in filing the Final Appropriation Resolution and Certificate of Estimated Resources with the County Auditor's Office. For 2001, the Clerk filed the Final Appropriation Resolution on April 30, 2002 and the Final Certificate of Estimated Resources on August 16, 2002. For 2002, the Clerk filed the Final Appropriation Resolution on April 8, 2003 and the Final Certificate of Estimated Resources on August 16, 2002. Due to the late filing, the County Auditor was unable to prepare the certificate that appropriations did not exceed estimated resources before expenditures were actually made.

We recommend that the Clerk generate a Budget to Actual Report at the end of each month and compare budgeted activity to actual activity. Further, we recommend the Clerk file budgetary documents with the County Auditor the next business day after the documents have been approved by the Board.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2002 AND 2001  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2002-012**

**Material Weakness**

There is no indication that the Board of Trustees monitors budgetary information on a regular basis. Also, the only monthly financial statements presented to the Board for review and approval are manually prepared. This financial statement includes a check listing as well as a combined beginning balance for all funds, total receipts, and disbursements, and an ending balance. It also shows a listing of revenues received. These types of reports could differ from the system and make it difficult for the Board to adequately monitor the Township's financial position. Also, without budgetary reports provided, it makes monitoring budgetary data impossible.

We recommend monthly budgetary statements be reviewed and approved by the Board of Trustees at each meeting. We further recommend the Township Clerk provide the Trustees with monthly financial statements from the UAN system that show detailed activity for each fund. These reports should then be signed or initialed by the Board of Trustees to indicate their review and approval.

**FINDING NUMBER 2002-013**

**Reportable Condition**

Monies received by the Township Clerk were not always deposited with the designated depository within a reasonable period of time. This resulted in cumbersome reconciliations since receipts were written for monies when they were received but were not deposited with the bank until one or two months later. Late depositing also does not provide adequate safeguarding of cash, and increases the risk of loss or theft.

We recommend all monies received totaling less than \$1,000 be deposited with the designated depository by the next business day unless the Board of Trustees adopts a policy including an alternate time period, not exceeding three days, and procedures to safeguard the monies. We further recommend that all monies exceeding \$1,000 be deposited by the next business day.

**FINDING NUMBER 2002-014**

**Reportable Condition**

Estimated receipts exceeded actual receipts at December 31, 2001 as follows: General Fund-\$25,257 (57%), Gasoline Tax Fund-\$12,614 (24%), Road and Bridge Fund-\$917 (15%), and Special Levy Fund-\$10,298 (63%). Estimated receipts exceeded actual receipts at December 31, 2002 as follows: General Fund \$4,573 (11%), Motor Vehicle License Tax Fund-\$7,779 (56%), Road and Bridge Fund \$1,209 (15%) and Special Levy Fund-\$54,249 (77%). The variances noted are a reflection of audit adjustments made to the actual receipts. Not properly monitoring estimated versus actual receipts could result in over appropriation of funds.

We recommend that the Clerk and Trustees more closely monitor estimated versus actual receipts.

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2000-40744-001	ORC Section 505.24(B). Trustee Robert Ackerman was paid in excess of the allowed compensation for Trustees in the amount of \$1,012.98	No	Not corrected. In addition Mr. Ackerman was paid in excess of the allowed compensation in 2001 in the amount of \$529.44 as finding number 2002-001
2000-40744-002	ORC Section 505.24(B). Trustee Charles Rowe was paid in excess of the allowed compensation for Trustees in the amount of \$1,012.98	No	Not corrected. In addition Mr. Rowe was paid in excess of the allowed compensation in 2001 in the amount of \$529.44 as finding number 2002-002
2000-40744-003	ORC Section 505.24(B). Trustee Jerry Rowe was paid in excess of the allowed compensation for Trustees in the amount of \$1,012.98	No	Not corrected. In addition Mr. Rowe was paid in excess of the allowed compensation in 2001 in the amount of \$529.44 as finding number 2002-003
2000-40744-004	ORC Section 507.09(A). Clerk Edward Markins was paid in excess of the allowed compensation for Clerks in the amount of \$1,294.40	No	Not corrected. In addition Mr. Markins was paid in excess of the allowed compensation in 2001 in the amount of \$715.20 as finding number 2002-004
2000-40744-005	ORC Section 5705.10 notes that a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.	No	Not corrected. Reissued as finding number 2002-007
2000-40744-006	ORC Section 5705.39 requires that the total appropriation from each fund shall not exceed the total estimated resources.	No	Not corrected. Reissued as finding 2002-006
2000-40744-007	ORC Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	No	Not corrected. Reissued as finding 2002-008

**UPPER TOWNSHIP  
LAWRENCE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2000-40744-008	ORC section 5705.41(D) requires that no order or contract involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount requires for the order has been awfully appropriated and is in the treasury or in the process of collection to the credit of an appropriation fund free of any previous encumbrances.	No	Not corrected. Reissued as finding number 2002-009
2000-40744-009	The Township Clerk did not properly complete bank reconciliations.	No	Not corrected. Reissued as finding number 2002-010
2000-40744-010	The Township Clerk did not always make deposits in a reasonable time.	No	Not corrected. Reissued as finding number 2002-013



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**UPPER TOWNSHIP**

**LAWRENCE 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 25, 2003**