



**Auditor of State  
Betty Montgomery**



LIBERTY TOWNSHIP  
CLINTON COUNTY

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Liberty Township  
Clinton County  
7277 N. State Route 134  
Wilmington, Ohio 45177

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Clinton County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The Township's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

We believe 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township as of December 31, 2003 and 2002, 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 October 26, 2004 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

October 26, 2004

LIBERTY TOWNSHIP  
CLINTON COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fiduciary Fund</u>	
<b>Cash Receipts:</b>					
Local Taxes	\$55,199	\$121,639	\$0	\$0	\$176,838
Intergovernmental	15,933	78,468			94,401
Special Assessments		988			988
Licenses, Permits, and Fees		8,196			8,196
Earnings on Investments				49	49
Other Revenue	325	2,050			2,375
	<u>71,457</u>	<u>211,341</u>	<u>0</u>	<u>49</u>	<u>282,847</u>
<b>Total Cash Receipts</b>					
	<u>71,457</u>	<u>211,341</u>	<u>0</u>	<u>49</u>	<u>282,847</u>
<b>Cash Disbursements:</b>					
Current:					
General Government	61,432				61,432
Public Safety		106,309			106,309
Public Works	4,500	114,595			119,095
Health		4,059			4,059
Capital Outlay	662	16,605			17,267
	<u>66,594</u>	<u>241,568</u>	<u>0</u>	<u>0</u>	<u>308,162</u>
<b>Total Cash Disbursements</b>					
	<u>66,594</u>	<u>241,568</u>	<u>0</u>	<u>0</u>	<u>308,162</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>4,863</u>	<u>(30,227)</u>	<u>0</u>	<u>49</u>	<u>(25,315)</u>
<b>Fund Cash Balances, January 1</b>	<u>10,552</u>	<u>122,940</u>	<u>240</u>	<u>1,523</u>	<u>135,255</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$15,415</b></u>	<u><b>\$92,713</b></u>	<u><b>\$240</b></u>	<u><b>\$1,572</b></u>	<u><b>\$109,940</b></u>

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

**LIBERTY TOWNSHIP  
CLINTON COUNTY**

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

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Fiduciary Fund</u>	
<b>Cash Receipts:</b>					
Local Taxes	\$34,926	\$104,892	\$0	\$0	\$139,818
Intergovernmental	13,942	61,292			75,234
Special Assessments	0	1,011			1,011
Licenses, Permits, and Fees	0	4,901			4,901
Earnings on Investments	1,141	729			1,870
Other Revenue	170	1,400			1,570
<b>Total Cash Receipts</b>	<u>50,179</u>	<u>174,225</u>	<u>0</u>	<u>0</u>	<u>224,404</u>
<b>Cash Disbursements:</b>					
Current:					
General Government	70,008	0	0	0	70,008
Public Safety	0	53,743			53,743
Public Works	8,056	134,512			142,568
Health	0	8,744			8,744
Capital Outlay	1,000	21,736	196,881		219,617
<b>Total Cash Disbursements</b>	<u>79,064</u>	<u>218,735</u>	<u>196,881</u>	<u>0</u>	<u>494,680</u>
Total Receipts (Under) Disbursements	(28,885)	(44,510)	(196,881)	0	(270,276)
Fund Cash Balances, January 1	<u>39,437</u>	<u>167,450</u>	<u>197,121</u>	<u>1,523</u>	<u>405,531</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$10,552</b></u>	<u><b>\$122,940</b></u>	<u><b>\$240</b></u>	<u><b>\$1,523</b></u>	<u><b>\$135,255</b></u>

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

**LIBERTY TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

Liberty Township, Clinton County, Ohio (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, and cemetery maintenance. The Township contracts with the Village of Port William to provide fire services and ambulance services.

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

**B. Basis of Accounting**

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

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

**C. Cash and Deposits**

At fiscal year ends 2003 and 2002, the Township's funds were invested in a checking account and a savings account. The use of a "NOW" checking account was discontinued during 2002 with conversion to a non-interest bearing account.

**D. Fund Accounting**

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

**1. General Fund**

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

**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 to pay for constructing, maintaining and repairing Township roads.

*Permissive Motor Vehicle License Fund* - This fund receives an additional fee on license plates to pay for constructing, maintaining and repairing Township roads.

**LIBERTY TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**3. Capital Project Funds**

This fund is 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 project fund:

*Permanent Improvement Fund* - This fund was established to account for the permanent improvements of Township property.

**4. Fiduciary Fund (Nonexpendable Trust Fund)**

This fund is used to account for resources restricted by legally binding trust agreements. The Township had the following fiduciary fund:

*Cemetery Bequest Fund* - This fund was established to account for the Funds bequeathed to the Township for cemetery care.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law. However, there were no material outstanding encumbrances at December 31, 2003 and 2002.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

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

**LIBERTY TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**2. EQUITY IN POOLED CASH AND DEPOSITS**

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

	2003	2002
Demand deposits	\$109,940	\$135,255

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2003 and December follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$32,467	\$71,457	\$38,990
Special Revenue	170,277	211,341	41,064
Capital Projects	0	0	0
Fiduciary	45	50	5
Total	\$202,789	\$282,848	\$80,059

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$49,231	\$66,594	(\$17,363)
Special Revenue	279,332	241,568	37,764
Capital Projects	239	0	239
Fiduciary	0	0	0
Total	\$328,802	\$308,162	\$20,640

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$47,407	\$50,179	\$2,772
Special Revenue	162,880	174,225	11,345
Capital Projects	2,879	0	(2,879)
Fiduciary	45	0	(45)
Total	\$213,211	\$224,404	\$11,194

**LIBERTY TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$103,125	\$79,064	\$24,061
Special Revenue	275,585	218,735	56,850
Capital Projects	200,000	196,881	3,119
Fiduciary	0	0	0
Total	\$578,710	\$494,680	\$84,030

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$17,362 and in the Special Levy (Fire) Fund by \$10,995 for 2003. The Township also had expenditures exceeding appropriations in the Motor Vehicle Fund by \$2,742 for 2002. Also contrary to Ohio law, at December 31, 2003, Appropriations exceeded Estimated Resources in the MVL and Gas Tax funds in 2003 by \$5,049. Also, the Township did not obtain prior certification of the fiscal officer for all purchases.

**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.

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. RETIREMENT SYSTEMS**

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is cost-sharing, multiple-employer plans. 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. PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. The Township has paid all contributions required through December 31, 2003.

**LIBERTY TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**6. RISK MANAGEMENT**

**Commercial Insurance**

The Township has obtained commercial insurance for the following risks:

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

**7. RELATED PARTY TRANSACTIONS**

During 2003 and 2002, the Township purchased supplies totaling \$2,047 from a hardware store owned by the Clerk's parents. M&J Hardware is operated by the spouse of the former Township Clerk. The Township did not obtain quotes for items purchased at M&J Hardware.

During 2003 and 2002, the Township contracted with the Village of Port William for fire and ambulance services. The Township disbursed \$105,000 and \$50,000 to the Village in 2003 and 2002, respectively. The Township Clerk's husband is the clerk of the Village.

**8. NONCOMPLIANCE**

Contrary to Ohio law:

- The Township Clerk failed to keep an accurate account of all accounts and transactions.

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## Auditor of State Betty Montgomery

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

Liberty Township  
Clinton County  
7277 N. State Route 134  
Wilmington, Ohio 45177

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Clinton County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated October 26, 2004, wherein we noted that the Township's financial transactions were processed using the Auditor of State's Uniform Accounting System (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 2003-001 through 2003-006 and 2003-011. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated October 26, 2004.

#### 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 condition. Reportable conditions involve matter coming to our attention relating to significant deficiencies in the design and 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 2003-001, 2003-03 and 2003-007 through 2003-010.

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 items 2003-001 and 2003-003 to be a material weakness. 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 November 4, 2004.

This report is intended solely for the information and use of the audit committee, 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

October 26, 2004

**LIBERTY TOWNSHIP  
CLINTON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003-001**

**Finding for Recovery – Illegal Expenditure/Material Weakness**

On December 3, 2003, Michele Ellis, the Liberty Township Clerk, made a \$25,000 account transfer from the bank account of Liberty Township to the bank account of The Village of Port William without the Liberty Township Trustees' approval or knowledge. The \$25,000 was credited to the Fire Fund for \$20,000 and the Road & Bridge Fund for \$5,000.

Liberty Township contracts with the Village to provide fire and emergency services. In January 1998 the Township agreed to pay the Village the \$40,000 estimated to be generated from the fire levy in equal quarterly payments to provide fire and emergency services. In January 1999 a new contract was approved for the Township to pay the Village the money generated through the fire levy for fire and emergency services. The contract did not specify the amounts and timing of the payments. Because of new growth in the Township, the amount generated from the fire levy increased to \$63,877 by 2003. The Township continued the practice of making \$10,000 quarterly payments and made sporadic payments to the Village for the overages that accumulated in the Township Fire fund. Therefore, the \$20,000 received from the Township's Fire Fund was an acceptable use of the Fire Fund under the contract and the levy. The \$5,000 received from the Township's Road and Bridge fund was not an acceptable use of the fund.

The clerk provided the trustees with a copy of the December bank statement that omitted the transaction. The Clerk also appears to have falsified approval of the transfer by adding a board of trustees' motion to the November 23, 2003 minute record, and by copying the signatures of the trustees to purchase order #94-2003.

The Clerk for the Village of Port William is Michele Ellis's husband Rick Ellis. The Village bank statement verified receipt of the account transfer. Bank transaction tickets show the signatures of both Rick and Michele Ellis.

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 The Village of Port William, Clinton County, Ohio in favor of Liberty Township in the amount of five thousand dollars in favor of the Township's Road and Bridge Fund.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such an illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State ex. rel. Village of Masten, 18 Ohio St. 3D 228 (1985). Public officials who have control over public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost, or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty Gen. 80-074.

Accordingly, a Finding for Recovery is hereby issued against Michele Ellis, former Liberty Township Clerk, and Ohio Government Risk Management Plan, jointly and severally, in the amount of \$5,000 and in favor of the Liberty Township Road and Bridge Fund. Michele Ellis shall be secondarily liable for such illegal expenditure to the extent that recovery or restitution is not obtained from The Village of Port William, Clinton County, Ohio.

**FINDING NUMBER 2003-001  
(Continued)**

Additionally, the Township and Village should annually agree regarding the amounts and timing of payments from the Township to the Village. Officials with contracting authority should sign the agreement.

**FINDING NUMBER 2003-002**

**Finding for Recovery Repaid under Audit**

Per House Bill 408, which went into effect in May 1996, increased the base per diem for trustees and the salary for Clerks based on a townships budget. Per review of the Township's budget, it was determined the Clerk should have received an annual salary of \$12,381. When testing the payroll register per employee, we found the clerk paid herself \$12,831. This is an overpayment of \$450 in 2002. This resulted from transposition of \$12,381 into \$12,831. In accordance with the forgoing facts, a finding for recovery was issued against Michele Ellis in the amount of \$450. When informed of these facts, the Clerk repaid this amount to the General Fund. The Clerk deposited her repayment on January 22, 2004. The Clerk left office on January 28, 2004. The bank sent a notice that the check was returned NSF. This caused the Township to incur an \$8 charge for the returned check. The Board of Trustees President was able to successfully cash the check on January 29, 2004 and deposited the \$450 into the Township's account.

**FINDING NUMBER 2003-003**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code, Section 507.04, states in part that the township clerk shall keep an accurate record of all of its meetings, and of all its accounts and transactions.

- During 2003 and 2002 unsupported reconciling items as large as \$9,897 were included in monthly bank reconciliations.
- Several times supported items were omitted or were incorrectly included in the reconciliations.
- During 2003 unsupported adjustments were made to fund balance by the clerk in the amounts of \$1,000 and \$2,289.
- Checks in the amount of \$10,049 were voided by posting as fund balance adjustments during 2002. This and the unsupported adjustment noted above caused the ending 2002 balance to vary from the beginning 2003 balance by \$13,338.
- The December 31, 2003 bank reconciliation incorrectly included a \$1,400 deposit that had neither been receipted nor deposited during 2003.
- There were several instances of the clerk voiding checks that had cleared the bank, posting checks as cleared that were actually outstanding, not recording bank fees, and deposits that were not receipted.
- In 2002 Old Permissive money from the county was posted to the tax line item rather than the Intergovernmental line item.
- In 2002 three receipts totaling \$4,740 were posted to the General Fund other revenue line item that should have been posted to the General Fund Tax line item.
- A street light assessment was deposited in 2002 and 2003 as part of the appropriate real estate settlements, but was not receipted.

**FINDING NUMBER 2003-003**  
**(Continued)**

- In 2002 10 of the 12 Permissive MVL receipts were posted incorrectly to the GF instead of the Permissive MVL Fund.
- The second half Real Estate Taxes for 2003 were posted with Homestead and Rollback included in the receipt and with a debit memo to net to zero. The Actual Homestead and Rollback from the state was later receipted and deposited. This caused receipts and disbursements to be overstated.
- The Public Utility replacement tax amount was incorrectly posted to the tax line item, rather than intergovernmental.
- The first half Manufactured Home Tax and the first half Personal Property Tax were posted 100% to the General Fund in 2003.
- In 2003 a Hotel Tax Receipt for \$8,030 was incorrectly posted to the Miscellaneous Line Item.
- In 2003 a liquor permit fee was incorrectly posted to taxes rather than intergovernmental.
- In 2003 11 of the 12 Permissive Motor Vehicle License receipts were posted to the General Fund and the other receipt was to the Gas Fund. The receipt should have been to the PMVL fund.
- In 2002 and 2003 a net of \$2,009 and 4,438 were posted incorrectly between the Gas Fund and the MVL Fund respectively.
- A 2002 Liquor permit fee was posted the other revenue rather than Intergovernmental.
- In 2003 the first half Homestead and Rollback was receipted 100% to the General Fund.
- The 2003 2<sup>nd</sup> half Manufactured Home Tax was posted 100% to the MVL fund. This should have been allocated to the General Fund, Road and Bridge Fund, and Fire Levy Fund.
- In 2003 an MVL fee was incorrectly posted to the Road and Bridge Fund and one was posted to the General Fund. Both should have been allocated to the MVL Fund.

As a result, the records maintained by the Clerk were not an accurate reflection of all moneys received and expended. The audited 2003 and 2002 financial statements included numerous audit adjustments and reclassifications which are reflected in the accompanying financial statements. Township management has approved and posted appropriate adjustments.

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Township funds, 2) reduces the Board of Trustees' ability to monitor financial activity, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the Township's financial statements will be misstated.

We recommend the Clerk accurately maintain the Township's accounting records. In addition, all supporting documentation of receipts and expenditures should be maintained. For added accountability, we recommend the Board of Trustees review all bank reconciliations and financial reports for accuracy and ensure that all reconciling items are justified.

#### **FINDING NUMBER 2003-004**

##### **Noncompliance Citation/Reportable Condition**

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

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

- A. Then and Now Certificates – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract order and at the time of the certificate, appropriated and free of any previous encumbrances, the 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.
- B. If the amount involved is less than \$1,000 (\$3,000 effective 4/7/03), the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

Fifty-one percent of the expenditures tested were executed without first obtaining the fiscal officer's certification and did not meet the exceptions provided for in the Code. Every effort should be made by the Township to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in overspending of the Township funds.

#### **FINDING NUMBER 2003-005**

##### **Noncompliance Citation/Reportable Condition**

Ohio Rev. Code, Section 5705.39, provides that appropriations from each fund shall not exceed the estimated revenue available for expenditures as certified by the budget commission. Appropriations exceeded Estimated Resources in the Motor Vehicle License and Gas Tax funds in 2003 by \$5,049 in each fund. This is a result of adopting supplemental appropriations at year end for both funds without filing an Amended Certificate.

The appropriations ledger was not properly maintained. In both years the clerk carried forward prior year appropriations on the system, but had no such balances reflected on the official budget certificates. For 2003, we were also unable to trace posting of the supplemental appropriations to the appropriations ledger. We recommend that the clerk properly maintain the appropriation ledger, and keep the ledger in balance with the appropriations approved by the Board of Trustees. By not properly maintaining the appropriation ledger the Township is at risk of overspending funds and violating budgetary laws.

#### **FINDING NUMBER 2003-006**

##### **Noncompliance Citation/Reportable Condition**

Ohio Rev. Code Section 149.351 states that all records of the public office concerned should not be removed, destroyed, mutilated or otherwise damaged or disposed of except as provided by law under the rules adopted by the records commission. Adequate supporting documentation was not provided for 8 of the Township's expenditures. We recommend the Township maintain all documentation to support expenditures in accordance with its record retention policy.

### FINDING NUMBER 2003-007

#### Reportable Condition

The following deficiencies were noted concerning Township disbursements.

- 8 of the expenditures tested did not include supporting documentation, such as detailed invoices, packing slips, etc. We used other methods to determine that these were actual and allowable disbursements of the Township;
- Two disbursements were noted as double payments. Credit on account was given by both vendors during the audit period;
- Few expenditures tested showed indication they were reviewed by the appropriate township employee or official, such as indication on the invoices that goods and/or services were received;
- Many of the warrant numbers for expenditures tested did not match the check number in the UAN system;

By not retaining and/or reviewing the above documents, cash could be overspent and the financial statements could be overstated or understated. In order to strengthen internal controls over the disbursement process and ensure all disbursements are properly paid, we recommend the Township implement the following procedures:

- The Township should retain invoices and other supporting documentation with vouchers to support the payment;
- The clerk should insure that original detailed invoices are obtained for all disbursements.
- The Clerk should review all invoices and sign them to indicate the review. A review of invoices includes such procedures as recalculating payments; ensuring sales tax is not assessed; and ensuring discounts are taken when applicable.
- The Township should ensure all goods and services have been received before payment. Individuals should sign off on the invoice or packing slip that it is acceptable to pay the bill when they receive any goods and/or services. If the bill comes directly to the Clerk, the Clerk should verify the packing slip is in agreement with the invoice. If a packing slip does not accompany the shipment, the Clerk should contact the individual receiving the goods and/or services to ensure the goods and/or service were received prior to payment and indicate it on the invoice;
- The Clerk should ensure that the number of the check written matches the warrant number in the system.

### FINDING NUMBER 2003-008

#### Reportable Condition

The Clerk did not deposit receipts on a timely basis. Of the receipts tested, 70% were not considered to be deposited timely. The Clerk delayed posting receipts to avoid the appearance of not depositing timely. In these instances receipts were posted the day before or the day of deposit. By holding unreceipted deposit items, the Township minimizes safeguards over deposit items that are not posted as receipts. In cases of loss by theft or disaster, there would be little to no means for the Township to recover missing funds. The legislative authority should adopt a policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money the next business day.

**FINDING NUMBER 2003-008  
(Continued)**

Date of Deposit	Date of Receipt	Date of Check(s)	Days Between Check Date and Deposit	Amount of Check(s)
01/09/02	01/01/02	12/26/01	14	\$ 2,066.70
01/09/02	12/26/01	12/18/01	22	2,964.07
01/09/02	12/26/01	12/18/01	22	487.45
01/09/02	12/26/01	12/20/01	20	765.58
01/10/02	12/26/01	12/20/01	21	12,341.80
01/29/02	01/28/02	01/18/02	11	4,340.00
02/12/02	02/12/02	02/01/02	11	350.00
02/12/02	02/12/02	02/06/02	6	300.00
02/12/02	02/12/02	01/29/02	14	5,623.78
03/01/02	02/26/02	01/23/02	37	1,225.92
04/23/02	04/23/02	04/15/02	8	2,218.03
04/23/02	04/23/02	03/27/02	27	5,253.81
04/23/02	04/23/02	03/28/02	26	641.01
05/08/02	05/07/02	04/26/02	12	5,753.93
05/29/02	05/28/02	05/13/02	16	18.31
05/29/02	05/28/02	05/21/02	8	37.50
05/29/02	05/28/02	05/09/02	20	4,614.61
06/14/02	06/11/02	06/03/02	11	1,086.12
06/14/02	06/11/02	05/29/02	16	6,288.04
07/03/02	07/06/02	06/25/02	8	8,710.67
07/25/02	07/30/02	07/12/02	13	6.26
07/25/02	07/30/02	07/11/02	14	110.00
07/25/02	07/30/02	07/18/02	7	6,240.55
08/12/02	08/13/02	07/30/02	13	5,988.53
10/29/02	10/29/02	10/11/02	18	9,389.58
11/12/02	11/12/02	10/09/02	34	13,092.30
11/12/02	11/12/02	10/29/02	14	6,572.61
01/28/03	01/28/03	12/20/02	39	5,669.14
03/19/03	03/25/03	03/12/03	7	8,030.25
03/31/03	03/31/03	03/11/03	20	57,572.32
05/07/03	05/13/03	04/30/03	7	350.00
06/23/03	06/23/03	06/16/03	7	350.00
12/01/03	10/29/03	10/23/03	39	12,447.36
12/01/03	10/28/03	10/18/03	44	450.00
12/01/03	10/28/03	10/10/03	52	1,200.00
12/01/03	11/10/03	11/05/03	26	350.00

## FINDING NUMBER 2003-009

### Reportable Condition

The small size of the Township's staff does not allow for an adequate segregation of duties. The Clerk handles all the financial record keeping including receipting, depositing, check writing and posting. The weakness of this system is that it allows for possible diversion of funds through alteration of source documents. Also, bookkeeping errors may occur without detection in a timely manner.

We believe the following conditions indicate a need for increased oversight of management by Trustees:

- The Township had bank reconciliations that were not prepared properly for 18 out of 24 months audited;
- Receipts for the audit period were not deposited by the next business day as required by Ohio Revised Code;
- Numerous receipts were posted to incorrect line items, for the incorrect amount, or not posted at all;
- Numerous checks were included on the outstanding checklist that had cleared the bank, and many checks were outstanding but omitted from the outstanding checklist.
- The Clerk altered a bank statement, board minutes, and a purchase order to conceal an unauthorized transaction.

To strengthen the Township's internal control structure and reduce the likelihood of undetected errors, we recommend Township officials and management implement the following controls:

- Monthly financial reports be prepared and submitted to the Trustees. This submission should occur prior to the regular Trustee meetings so the members have an opportunity to review the information and ask informed questions at the meetings. Discussion of the monthly financial reports should be documented in the minutes;
- The Trustees should review all bank reconciliations and bank statements for accuracy and that all reconciling items are legitimate items. Such review should be documented either in the Township's minute records or on the actual bank reconciliations.
- Minutes should be read aloud at the next meeting and reviewed by the trustees. Approval of the prior minutes should be documented by the signatures of the trustees.
- The clerk should make efforts to post all funds received by the Township to the UAN system as soon as possible, properly post the receipts to the appropriate fund and line item, and properly safeguard the receipts by depositing in the bank. The Trustees should review the receipt reports for each month to confirm that the clerk posted all receipts to the proper fund and line item.

**FINDING NUMBER 2003-010**

**Reportable Condition**

During 2002 and 2003 the clerk did not routinely remit payments to the IRS, PERS, or the State of Ohio. The Clerk incorrectly transferred information to her 2003 W-2. She reported the amount withheld from her wages for state taxes and reported it in both the box for state tax withholdings and federal tax withholdings. She had \$446 withheld and remitted to the IRS in federal taxes, but only reported \$150. This is a variance of \$296. Several other miscalculations and errors were also made on forms submitted to the remitting agencies. By not routinely remitting withholdings to the proper agencies and accurately completing remittance forms the township greatly increases the chances of over or underpaying payroll remittances. We recommend that the Township remit taxes and accurately completed forms on a routine basis prescribed by the remitting agencies. The Township should contact each of the reporting agencies to determine that the status of the Township's remittances.

**FINDING NUMBER 2003-011**

**Noncompliance Citation/Reportable Condition**

Ohio Rev. Code, Section 5705.41(B), states that no subdivision is to expend money unless it has been appropriated. The Township had expenditures exceeding appropriation in the General Fund by (\$17,362) and in the Special Levy (Fire) Fund by (\$10,995) for 2003. The Township also had expenditures exceeding appropriations in the Motor Vehicle Fund by (\$2,742) for 2002.

The Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request the Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**LIBERTY TOWNSHIP  
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FISCAL YEAR END DECEMBER 31, 2003**

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>
2001-40414-001	The Township collected but did not remit the required employee Federal tax and Medicare withholding amounts.	No	Partially corrected, the Township made payments for the findings of the prior audit, but continued to not remit payments to the IRS, PERS, or the State of Ohio by the required dates. Reissued as finding 2003-010.
2001-40414-002	The Township did not remit \$7,222 to PERS as of Dec. 31, 2001.	No	Partially corrected, the Township made payments for the findings of the prior audit, but continued to not remit payments to the IRS, PERS, or the State of Ohio by the required dates. Reissued as finding 2003-010.
2001-40414-003	The Township did not certify purchase orders.	No	Not corrected, reissued as finding 2003-004.
2001-40414-004	The Township invested in repurchase agreements without an investment policy and without the proper training.	Yes	
2001-40414-005	The Clerk did not deposit any Township receipts by the next business day.	No	Partially Corrected, the Clerk did not deposit 70% of the receipts timely, Reissued as finding 2003-008.
2001-40414-006	The Township did not prepare or complete accurate bank reconciliations.	No	Not Corrected, reissued as finding 2003-003.
2001-40414-007	The small size of the Township's staff does not allow for an adequate segregation of duties.	No	Not Corrected, reissued as finding 2003-009.
2001-40414-008	The Township did not have adequate control procedures over the disbursement process.	No	Not Corrected, reissued as finding 2003-007.
2001-40414-009	The Township did not have adequate control procedures for all money received.	No	Not Corrected, reissued as finding 2003-003.





**Auditor of State  
Betty Montgomery**

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**LIBERTY TOWNSHIP**

**CLINTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 30, 2004**