



**Auditor of State
Betty Montgomery**

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Manchester Township
Morgan County
6037 N. Blackburn Rd
McConnelsville, Ohio 43756

To the Board of Trustees:

We have audited the accompanying financial statements of Manchester Township, Morgan 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 the Comptroller General of the United States' *Government Auditing*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying 2003 and 2002 financial statements present receipts and disbursements by fund type totals only. Ohio Administrative Code 117-2-02 (A) requires governments to classify receipt and disbursement transactions.

As described more fully in Note 1, the Township has prepared these financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the omission of receipt and disbursement classification, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Manchester Township, Morgan County, as of December 31, 2003 and 2002, and its combined unclassified cash receipts and unclassified disbursements for the years then ended on the accounting basis described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2005, 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 grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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This report is intended solely for the information and use of management, the legislative authority and other officials authorized to receive this report under Section 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

June 1, 2005

**MANCHESTER TOWNSHIP
MORGAN 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>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Fiduciary Fund</u>	
Cash Receipts:				
Cash Receipts	\$21,916	\$92,075	\$45	\$114,036
Total Cash Receipts	<u>21,916</u>	<u>92,075</u>	<u>45</u>	<u>114,036</u>
Cash Disbursements:				
Cash Disbursements	18,034	85,096	0	103,130
Total Cash Disbursements	<u>18,034</u>	<u>85,096</u>	<u>0</u>	<u>103,130</u>
Excess of Cash Receipts Over/Under Cash Disbursements	3,882	6,979	45	10,906
Fund Cash Balances, January 1	<u>(4,373)</u>	<u>29,140</u>	<u>2,292</u>	<u>27,059</u>
Fund Cash Balances, December 31	<u>(\$491)</u>	<u>\$36,119</u>	<u>\$2,337</u>	<u>\$37,965</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$4,608</u>	<u>\$0</u>	<u>\$4,608</u>

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

**MANCHESTER TOWNSHIP
MORGAN 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>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Fiduciary Fund</u>	
Cash Receipts:				
Cash Receipts	\$23,964	\$69,303	\$71	\$93,338
Total Cash Receipts	<u>23,964</u>	<u>69,303</u>	<u>71</u>	<u>93,338</u>
Cash Disbursements:				
Cash Disbursements	28,424	99,350	0	127,774
Total Cash Disbursements	<u>28,424</u>	<u>99,350</u>	<u>0</u>	<u>127,774</u>
Excess of Cash Receipts Over/Under Cash Disbursements	(4,460)	(30,047)	71	(34,436)
Fund Cash Balances, January 1	<u>87</u>	<u>59,187</u>	<u>2,221</u>	<u>61,495</u>
Fund Cash Balances, December 31	<u>(\$4,373)</u>	<u>\$29,140</u>	<u>\$2,292</u>	<u>\$27,059</u>

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

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Manchester Township, Morgan County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, and fire protection services. The Township contracts with the Reinersville Volunteer Fire Department to provide fire 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 the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

The Township did not classify its receipts or disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-02-02(A) and Ohio Administrative Code Section 117-5. These Ohio Administrative Code Sections require classifying receipts and disbursements.

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds 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 Fund:

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

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

3. Fiduciary Funds

These funds account for resources restricted by legally binding trust agreements. The Township had the following significant Fiduciary Fund:

John W. Phillis Cemetery Bequest Fund – This nonexpendable trust fund receives interest earned on the principal amount of \$2,000. The use of the interest earnings is restricted to upkeep of the Phillis family grave sites at Reinersville Cemetery.

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 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. Encumbrances outstanding at year end are carried forward, and need not be reappropriated. The Township did not use the encumbrance method of accounting as required by Ohio Law.

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

E. Property, Plant and Equipment

The Township records disbursements for acquisitions of property, plant and equipment when paid. The accompanying financial statements do not report these items as assets.

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

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

2. EQUITY IN POOLED CASH

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

	2003	2002
Demand deposits	\$37,965	\$27,059

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$29,265	\$21,916	(\$7,349)
Special Revenue	89,088	92,075	2,987
Non-Expendable Trust	90	45	(45)
Total	\$118,443	\$114,036	(\$4,407)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$19,877	\$18,034	\$1,843
Special Revenue	112,315	89,704	22,611
Non-Expendable Trust	2,356	0	2,356
Total	\$134,548	\$107,738	\$26,810

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$27,582	\$23,964	(\$3,618)
Special Revenue	70,685	69,303	(1,382)
Non-Expendable Trust	60	71	11
Total	\$98,327	\$93,338	(\$4,989)

**MANCHESTER TOWNSHIP
MORGAN 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	\$27,981	\$28,424	(\$443)
Special Revenue	129,954	99,350	30,604
Non-Expendable Trust	2,040	0	2,040
Total	\$159,975	\$127,774	\$32,201

Accountability and Compliance

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$443 for the year ended December 31, 2002. For the year ended December 31, 2003, expenditures exceeded appropriation authority in the FEMA Fund by \$1,333 and the Gasoline Tax Fund by \$6,224. Also, contrary to Ohio law, at December 31, 2003 and 2002, the General Fund had a cash deficit balance of \$491 and \$4,373 respectively.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopt rates. 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, 2003 was as follows:

	Principal	Interest Rate
Promissory Note - Truck	\$14,035	4.75%
Total	\$14,035	

The promissory note was issued to finance the purchase of a truck to be used for Township road maintenance. The first payment is due January 8, 2004. The note is a demand note. Payment is due immediately upon lender's demand. If no demand is made, borrower will pay 41 payments of \$363.41 with last payment of \$363.30. The note is secured by the truck.

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

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

5. DEBT (Continued)

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

Year ending December 31:	<u>Promissory Note-Truck</u>
2004	\$4,361
2005	4,361
2006	4,361
2007	<u>2,180</u>
Total	<u><u>\$15,263</u></u>

6. RETIREMENT SYSTEMS

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2003 and 2002, OPERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2003.

7. RISK MANAGEMENT

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. 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 claim, including loss adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, 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 from the General Reinsurance Corporation.

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.

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

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

7. RISK MANAGEMENT (Continued)

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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 township.

Financial Position

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

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$27,792,223	\$23,757,036
Liabilities	(11,791,300)	(9,197,512)
Retained earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>

<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$6,791,060	\$6,596,996
Liabilities	(750,956)	(1,204,326)
Retained earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>



**Auditor of State
Betty Montgomery**

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

Manchester Township
Morgan County
6037 N. Blackburn Road
McConnelsville, Ohio 43756

To the Board of Trustees:

We have audited the financial statements of the Manchester Township, Morgan County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated June 1, 2005, which was qualified since the Township did not classify receipts and disbursements in its financial statements. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine 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 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2003-003, 2003-004 and 2003-008.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We consider the reportable conditions described above to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-007. In a separate letter to the Township's management dated June 1, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for 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

June 1, 2005

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

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

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

FINDING NUMBER 2003-001

Finding for Recovery – Repaid Under Audit

Ohio Rev. Code Section 505.24 provides that each township trustee in townships having a budget of more than one hundred thousand but not more than two hundred fifty thousand dollars, is entitled to compensation of twenty-eight dollars and fifty cents per day for not more than two hundred days. Ohio Rev. Code Section 505.24(B)(1)-(4) provides that for calendar years 1999 through 2002, the amounts paid increased by three percent for each year. This resulted in compensation of thirty-two dollars and eight cents (\$32.08) per day for not more than 200 days for calendar year 2002. Ohio Rev. Code Section 505.24(B)(5) provides that for calendar year 2003, the compensation increased by the lesser of three percent or the percent increase in the consumer price index over the twelve month period that ends on the thirtieth day of September of 2002 (1.3 percent according to Auditor of State Audit Bulletin 2003-07). This resulted in compensation of thirty-two dollars and fifty cents (\$32.50) per day for not more than 200 days. Annual compensation for 200 days would be \$6,500 for 2003. For fiscal year 2003, the approved annual budget of Manchester Township was \$150,781.

In 2003, Township Trustees Larry L. Clark and Robert D. Post, Jr., were paid at a rate of \$33.04 per day for two hundred days. The following represents the annual salary amount paid to Larry L. Clark and Robert D. Post, Jr., the allowable amount per Ohio Rev. Code Section 505.24, and the amount of overpayment:

	2003 Annual Salary per Ohio Rev. Code Section 505.24	2003 Annual Salary Paid	Overpayment
Larry L. Clark	\$6,500	\$6,608	(\$108)
Robert D. Post, Jr.	\$6,500	\$6,608	(\$108)

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 505.24, a finding for recovery is hereby issued for public monies illegally expended against Larry L. Clark, Township Trustee, and Western Surety Company, his bonding company, jointly and severally, in the amount of \$108, in favor of the Manchester Township Gasoline Tax Fund.

In addition, in accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 505.24, a finding for recovery is hereby issued for public monies illegally expended against Robert D. Post Jr., Township Trustee, and the Western Surety Company, his bonding company, jointly and severally, in the amount of \$108, in favor of the Manchester Township Gasoline Tax Fund.

These amounts were repaid to the Township by Larry L. Clark and Robert D. Post, Jr. on May 25, 2005.

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2003-002

Finding for Adjustment

Ohio Rev. Code Section 505.24 states, in part, that by unanimous vote, a board of township trustees may adopt a method of compensation consisting of an annual salary to be paid in equal monthly payments. The amount of the annual salary approved by the board shall be no more than the maximum amount that could be received annually by a trustee if the trustee were paid on a per diem basis as specified in this division, and shall be paid only from the township general fund or from other township funds in such proportions as the board may specify by resolution.

The Township adopted a resolution in 2002 stating that 3% of Trustees' salaries will be paid from the General Fund. The resolution did not specify from what other funds or with what other percentages salaries were to be paid; however, actual amounts paid were 1% from General Fund, 55% from Gasoline Fund, 20% from Motor Vehicle License Tax Fund, 22% from Cemetery Fund, and 2% from Recreation Fund. For 2003, no resolution was passed in regard to the allocation of Trustees' salaries; however, the actual amounts paid were 92% from Gasoline Fund and 8% from Motor Vehicle License Tax Fund.

The allocation of Trustees' salaries and fringe benefits for 2003 and 2002 did not appear to be proportionate to the administrative duties actually performed by the Trustees. After bringing this to the Board's attention, the Board passed a retroactive resolution on March 4, 2005 addressing the proportions from which the total compensation (salaries and fringe benefits) of the Trustees should have been paid. This resolution authorized 1% of Trustees' salaries to be paid from the General Fund, 91% to be paid from the Gasoline Fund, and 8% to be paid from Motor Vehicle License Tax Fund, for 2003. This resolution also authorized 1% to be paid from General Fund, 55% to be paid from the Gasoline Fund, 20% to be paid from Motor Vehicle License Tax Fund, 22% to be paid from Cemetery, and 2% to be paid from Recreation Fund for 2002.

In accordance with the foregoing facts, a finding for adjustment is hereby issued in the following proportions:

<u>Fund</u>	<u>Against</u>	<u>In Favor</u>
General (1% per Resolution)	(402.00)	
Gasoline Tax		402.00

We recommend the Township adopt a formal resolution at the organizational meeting each year addressing the allocation of total compensation. Each year's resolution should address the appropriate proportions and funds from which the salaries and fringe benefits are to be paid. Benefits such as health insurance and the employer's portion of retirement and Medicare should be paid out of the same funds, and in the same proportions, as the salaries. This adjustment has not been posted to the Township's accounting system or the financial statements.

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2003-003

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 5705.41(D) (1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above. The main exceptions are: "then and now" certificates, blanket certificates and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

2. Blanket certificate - Fiscal officers may prepare so-called "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding 3 months or running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Effective September 26, 2003, the \$5,000 limit on the issuance of blanket certificates and the requirement that blanket certificates not extend beyond three months have been removed from the law. Effective September 26, 2003, blanket certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
3. Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Township did not properly certify the availability of funds prior to purchase commitment for 100 percent of the transactions tested in 2003 and for 100 percent of the transactions tested in 2002. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

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

FINDING NUMBER 2003-003 (Continued)

**Noncompliance Citation and Material Weakness - Ohio Rev. Code Section 5705.41(D) (1)
(Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Clerk certify that funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2003-004

Noncompliance Citation and Material Weakness

Ohio Admin. Code Section 117-2-02(A) provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Ohio Admin. Code Section 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 designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations. Ohio Admin. Code Section 117-2-02(C)(2) provides that purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation accounts as required by 5705.41(D) of the Revised Code.

Ohio Admin. Code Section 117-2-02(D)(1) provides that a cash journal, which typically contains the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction, should be used to maintain accounting records.

Ohio Admin. Code Section 117-2-02(D)(2) provides that a receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses, should be used to maintain accounting records. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

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

FINDING NUMBER 2003-004 (Continued)

**Noncompliance Citation and Material Weakness -Ohio Admin. Code Section 117-2-02
(Continued)**

Ohio Admin. Code Section 117-2-02(D)(3), provides that an appropriation ledger, which may assemble and classify disbursements into separate accounts for, at a minimum, each account listed in the appropriation resolution should be used to maintain accounting records. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

Ohio Admin. Code 117-2-02 (D)(4)(a)(ii), provides that a payroll ledger, which includes entries that assemble and classify by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments.

The Township did not maintain all ledger and journals required under the Ohio Administrative Code. The ledgers and journals that were maintained were not consistently or completely posted.

As a result, the Township did not maintain an accounting system and accounting records sufficient to enable the Township to properly classify their receipt and disbursement transactions. There was no method established whereby the Board of Trustees and the Clerk could accurately compare budgeted to actual receipts and file any amended certificates of estimated resources when needed. Disbursements were made without being appropriated and there was no method established whereby Township management could monitor the types of expenditures being made and the year-to-date expenditures made for any particular expenditure function. No payroll ledger was maintained.

We recommend the Township Clerk maintain an accounting system and accounting records as set forth in Ohio Admin. Code Section 117-2-02. We also recommend the Township Clerk prepare monthly financial reports which include budget vs. actual information for expenditures and disbursements, as well as reconciliations and fund balances. The Board of Trustees should formally review and approve these monthly reports and note the Board of Trustees' approval in the Board of Trustees' minutes.

FINDING NUMBER 2003-005

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states that money paid into any fund shall be used only for the purposes for which such a fund was established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At December 31, 2002, the Township's General Fund had a negative balance of \$4,373. At December 31, 2003, the Township's General Fund had a negative fund balance of \$491. The Township also operated throughout 2002 and 2003 with a General Fund negative fund balance.

We recommend that the Township monitor fund balances to ensure that money from one fund is not used to pay the obligations of another fund.

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

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

FINDING NUMBER 2003-006

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (B) prohibits a subdivision or taxing authority from making an expenditure unless it has been properly appropriated.

The expenditures exceeded the legislatively approved appropriations at the legal level of control in the following funds:

Fund	Appropriations	Expenditures	Variance
2002:			
General	\$27,981	\$28,424	\$443
2003:			
Gasoline	\$65,382	\$71,606	\$6,224
FEMA	\$0	\$1,333	\$1,333

We recommend the Township Clerk monitor available appropriations, and deny payments that exceed appropriations. If available resources exist to make payment, management should request the Board of Trustees to consider amending appropriations through Board resolution.

FINDING NUMBER 2003-007

Noncompliance Citation

Ohio Rev. Code Section 5705.39 provides, in part, that total appropriations made during the fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources. Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

During 2002, we noted that budgeted receipts exceeded actual receipts by \$1,988 in the General Fund. Also, expenditures in the General Fund exceeded actual receipts plus the unencumbered fund balance at January 1, indicating that a decreased amended certificate should have been obtained.

We recommend the Township monitor appropriations and obtain decreased amended certificates if the amount of the deficiency will reduce available resources below the current level of appropriation.

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2003-008

Material Weakness

Ohio Admin. Code Section 117-2-01(A) provides all public offices are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for the respective public offices in certain categories. Ohio Admin. Code Section 117-2-02(B)(1) requires the government's internal controls to reasonably assure that recorded transactions have occurred and are not fictitious. That includes maintaining sufficient documentation for all transactions.

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

1. The Township did not consistently provide source documents to support disbursements, increasing the risk for the existence assertion.
2. All checks were not accounted for, increasing the risk for the completeness assertion.
3. Payroll withholding taxes were not always remitted to the applicable agencies within a reasonable time.
4. Copies of quarterly or monthly returns completed for remittance of withholdings were not always attached to the pay voucher or maintained on file by the Township, increasing the risk for the existence assertion.
5. Deposits were not made in a timely manner, increasing the risk of safeguarding of assets.
6. Bank reconciliations were not consistently or accurately completed, increasing the risk of the valuation assertion.

These conditions weaken the internal control structure and could allow errors to occur and not be detected in a timely manner.

We recommend the Township implement internal control procedures to reduce the risk of errors occurring and not being detected in a timely manner. Some of the internal procedures we would recommend from out testing include:

1. No expenditure should be authorized unless a supporting invoice is attached, the funds are properly appropriated and encumbered, and the vendor, amount and date agree to the invoice.
2. The Clerk should properly account for and keep on file all cancelled or voided checks, including a description of the reason for voiding a check.
3. 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.
4. Taxes, retirement contributions, and other withholdings should be remitted to the applicable agency promptly at the end of each month or quarter depending on the requirements of the individual agency.
5. We recommend the Clerk prepare detailed bank reconciliations that include all bank account balances being reconciled to total fund balances. Copies of bank reconciliations should be presented to the Board for the Board's review and use in managing the Township.
6. Deposits should be made in a timely manner. These deposits should be safeguarded until the deposit is made.

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-41058-001	Ohio Rev. Code § 507.09-salary of clerk (Finding For Recovery-repaid under audit)	Yes	
2001-41058-002	Ohio Rev. Code § 5705.10 and 5705.131-allocation of interest-(Finding for Adjustment)	Yes	
2001-41058-003	Ohio Rev. Code § 5705.10-Clerk paid from Gas Fund-(Finding for Adjustment)	Yes	
2001-41058-004	Ohio Rev. Code § 505.24-funds trustees paid from-(Finding for Adjustment)	No	Not Corrected; reissued as finding 2003-002.
2001-41058-005	Ohio Rev. Code § 5705.41(D) failure to certify funds	No	Not Corrected; reissued as finding 2003-003.
2001-41058-006	Ohio Admin. Code § 117-accounting system	No	Not Corrected; reissued as finding 2003-004.
2001-41058-007	Ohio Rev. Code § 5705.40-appropriations not posted to system	No	Not corrected; reissued as part of finding 2003-004.
2001-41058-008	Ohio Rev. Code § 5705.10-negative fund balance	No	Not corrected; reissued as finding 2003-005.
2001-41058-009	Ohio Rev. Code § 5705.41(B)-expenditures exceeding appropriations	No	Not corrected; reissued as finding 2003-006.
2001-41058-010	Ohio Rev. Code § 5705.36-amended certificates	No	Not corrected; reissued as finding 2003-007
2001-41058-011	Untimely Depositing	No	Not corrected; reissued as finding 2003-008

**MANCHESTER TOWNSHIP
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2001-41058-012	Reconciliations	No	Not corrected; reissued as finding 2003-008.
2001-41058-013	Segregation of Duties	No	Not corrected; reissued as part of finding 2003-008.
2001-41058-014	Payroll System	No	Not Corrected; reissued as finding 2003-008.
2001-41058-015	Disbursements	No	Not corrected; reissued as finding 2003-008.



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MANCHESTER TOWNSHIP

MORGAN 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
JULY 14, 2005**