



**LIBERTY TOWNSHIP
HENRY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005



Mary Taylor, CPA
Auditor of State

LIBERTY TOWNSHIP
HENRY COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17
Schedule of Prior Audit Findings	28

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

Liberty Township
Henry County
S-395 County Road 9
Liberty Center, Ohio 43532-9709

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 15, 2008

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Liberty Township
Henry County
S-395 County Road 9
Liberty Center, Ohio 43532-9709

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Henry County, (the Township) as of and for the years ended December 31, 2006 and 2005. 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 Standards*. 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. The Township processes its financial transactions with 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 audit 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, 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 Liberty Township, Henry County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2008, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. 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.



Mary Taylor, CPA
Auditor of State

January 15, 2008

**LIBERTY TOWNSHIP
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property and Other Local Taxes	\$42,230	\$77,097	\$72,113		\$191,440
Charges for Services		15,411			15,411
Licenses, Permits, and Fees	23,422	3,044			26,466
Intergovernmental	30,291	183,423	4,953		218,667
Earnings on Investments	7,656	943			8,599
Miscellaneous	649	4,929			5,578
	<hr/>				
Total Cash Receipts	104,248	284,847	77,066		466,161
<hr/>					
Cash Disbursements:					
Current:					
General Government	67,287	29,650			96,937
Public Safety		361,053			361,053
Public Works	1,078	126,962			128,040
Health		4,937			4,937
Conservation - Recreation		6,656			6,656
Capital Outlay		46,580	1,992		48,572
Redemption of Principal		59,767	47,380		107,147
Interest and Other Fiscal Charges		5,634	33,257		38,891
	<hr/>				
Total Cash Disbursements	68,365	641,239	82,629		792,233
<hr/>					
Total Cash Receipts Over/(Under) Cash Disbursements	35,883	(356,392)	(5,563)		(326,072)
<hr/>					
Other Financing Receipts / (Disbursements):					
Debt Proceeds		290,000			290,000
Transfers-In		17,000	13,000		30,000
Transfers-Out	(17,000)	(13,000)			(30,000)
Other Financing Sources		10,572			10,572
	<hr/>				
Total Other Financing Receipts / (Disbursements)	(17,000)	304,572	13,000		300,572
<hr/>					
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	18,883	(51,820)	7,437		(25,500)
<hr/>					
Fund Cash Balances, January 1	33,840	236,985	54,618	\$127	325,570
<hr/>					
Fund Cash Balances, December 31	\$52,723	\$185,165	\$62,055	\$127	\$300,070
<hr/>					
Reserve for Encumbrances, December 31		\$135			\$135
<hr/>					

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

**LIBERTY TOWNSHIP
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property and Other Local Taxes	\$40,085	\$74,728	\$66,978		\$181,791
Charges for Services		9,855			9,855
Licenses, Permits, and Fees	22,500	1,775			24,275
Intergovernmental	16,765	213,214	123,707		353,686
Earnings on Investments	6,090	1,098			7,188
Miscellaneous	4,521	29,466			33,987
	<hr/>				
Total Cash Receipts	89,961	330,136	190,685		610,782
<hr/>					
Cash Disbursements:					
Current:					
General Government	64,892	33,053			97,945
Public Safety		146,567			146,567
Public Works		144,967			144,967
Health		4,444			4,444
Conservation - Recreation		6,405			6,405
Capital Outlay	2,557	21,265	1,763		25,585
Debt Service:					
Redemption of Principal		46,137	160,899		207,036
Interest and Other Fiscal Charges		3,353	32,033		35,386
	<hr/>				
Total Cash Disbursements	67,449	406,191	194,695		668,335
<hr/>					
Total Cash Receipts Over/(Under) Cash Disbursements	22,512	(76,055)	(4,010)		(57,553)
<hr/>					
Other Financing Receipts / (Disbursements):					
Transfers-In		7,444	2,400		9,844
Transfers-Out	(8,000)	(1,844)			(9,844)
Other Financing Sources		1,142			1,142
	<hr/>				
Total Other Financing Receipts / (Disbursements)	(8,000)	6,742	2,400		1,142
<hr/>					
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	14,512	(69,313)	(1,610)		(56,411)
<hr/>					
Fund Cash Balances, January 1	19,328	306,298	56,228	\$127	381,981
<hr/>					
Fund Cash Balances, December 31	\$33,840	\$236,985	\$54,618	\$127	\$325,570
<hr/>					
Reserve for Encumbrances, December 31		\$135			\$135
<hr/>					

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

**LIBERTY TOWNSHIP
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 Liberty Township, Henry 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, fire protection and emergency medical services.

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

B. Accounting Basis

These financial statements follow the accounting basis 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).

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

C. Cash

The Township values certificates of deposit at cost

D. 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 private-purpose 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 to pay for constructing, maintaining, and repairing Township roads.

Fire District Fund – This fund receives tax levy money to pay for costs related to fire protection services.

**LIBERTY TOWNSHIP
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

3. Debt Service Funds

These funds account for resources the Township accumulates to pay bond and note debt. The Township had the following significant Debt Service Fund:

Bond Fund – This fund receives tax levies for the repayment of a debt to finance the construction of a fire station

4. Capital Project Funds

This fund accounts for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant Capital Projects Fund:

Miscellaneous Capital Projects Fund – This fund is used to pay for Township capital improvements.

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. 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 over, and need not be reappropriated.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. 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.

**LIBERTY TOWNSHIP
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(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:

	2006	2005
Demand deposits	\$150,070	\$175,570
Certificates of deposit	150,000	150,000
Total deposits	\$300,070	\$325,570

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$95,141	\$104,248	\$9,107
Special Revenue	316,429	602,419	285,990
Debt Service	83,417	90,066	6,649
Capital Projects	150		(150)
Total	\$495,137	\$796,733	\$301,596

2006 Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation Authority	Budgetary Expenditures	Variance
General	\$85,365	\$85,365	
Special Revenue	364,374	654,374	(\$290,000)
Debt Service	82,630	82,629	1
Total	\$532,369	\$822,368	(\$289,999)

2005 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$92,975	\$89,961	(\$3,014)
Special Revenue	349,989	338,722	(11,267)
Debt Service	195,507	193,085	(2,422)
Capital Projects	4,000		(4,000)
Total	\$642,471	\$621,768	(\$20,703)

**LIBERTY TOWNSHIP
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY – (CONTINUED)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$95,965	\$75,449	\$20,516
Special Revenue	450,164	408,170	41,994
Debt Service	210,028	194,695	15,333
Capital Projects	1,500	1,500	1,500
Total	\$757,657	\$678,314	\$79,343

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Fire District Fund by \$290,000 for the year ended December 31, 2006. In addition, none of the expenditures were properly certified by the Fiscal Officer. Also contrary to Ohio law, a contract for the purchase of a fire truck was not competitively bid out.

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. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, 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, 2006, was as follows:

	Principal	Interest Rate
Promissory Note - Dump Truck	\$1,836	5.90%
Promissory Note - Fire Truck	278,002	5.50%
Promissory Note - Fire Station	517,698	5.50%
Total	\$797,536	

The Township entered into a promissory note agreement with Sky Bank to finance the purchase of a Dump Truck. The note is secured by the asset purchased.

**LIBERTY TOWNSHIP
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

5. DEBT – (CONTINUED)

Township entered into a promissory note agreement with Henry County Bank in February 2003 to finance the construction of a fire station. The Township’s taxing authority collateralized the promissory note.

The Township entered into a promissory note agreement with the Henry County Bank in August 2006 to purchase a fire truck. The note is secured by the asset purchased

In 2006, the Township paid off a loan with E-One, to acquire a fire truck.

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

Year ending December 31:	Promissory Note - Dump Truck	Promissory Note - Fire Station	Promissory Note - Fire Truck
2007	\$1,836	\$67,653	\$47,733
2008		67,653	47,733
2009		67,653	47,733
2010		67,653	47,733
2011		67,653	47,733
2012 – 2016		338,266	79,556
2017 – 2021		45,289	
Total	\$1,836	\$721,820	\$318,221

6. RETIREMENT SYSTEM

The Township’s employees and officials 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 2006 and 2005, OPERS members contributed 9 and 8.5 percent of their gross salaries, respectively and the Township contributed an amount equaling 13.7 and 13.55 percent of participants’ gross salaries. The Township has paid all contributions required through December 31, 2006.

7. RISK MANAGEMENT

Risk Pool Membership

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

**LIBERTY TOWNSHIP
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. RISK MANAGEMENT – (CONTINUED)

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

Casualty Coverage

For an occurrence prior to January 1, 2006, OTARMA retains casualty risks up to \$250,000 per occurrence, including claim 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 \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**LIBERTY TOWNSHIP
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. RISK MANAGEMENT – (CONTINUED)

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, 2006 and 2005.

Casualty Coverage	2006	2005
Assets	\$32,031,312	\$30,485,638
Liabilities	(11,443,952)	(12,344,576)
Retained earnings	\$20,587,360	\$18,141,062

Property Coverage	2006	2005
Assets	\$10,010,963	\$9,177,796
Liabilities	(676,709)	(1,406,031)
Retained earnings	\$9,334,254	\$7,771,765

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$37,380. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

Contributions to OTARMA	
2004	\$19,193
2005	\$18,603
2006	\$18,690

**LIBERTY TOWNSHIP
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. RISK MANAGEMENT – (CONTINUED)

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



Mary Taylor, CPA

Auditor of State

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

Liberty Township
Henry County
S-395 County Road 9
Liberty Center, Ohio 43532-9709

To the Board of Trustees:

We have audited the financial statements of Liberty Township, Henry County, (the Township) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated January 15, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. 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 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-009.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the finding described above is also a material weakness.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated January 15, 2008.

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-008.

We noted certain noncompliance not requiring inclusion in this report that we reported to the Township's management in a separate letter dated January 15, 2008.

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the management and the Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 15, 2008

LIBERTY TOWNSHIP
HENRY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2007-001

Finding for Recovery

The Township Trustee approved the expenditure of \$50 in 2006 and \$500 in 2005 for the purpose of a change fund for a Township Park fundraiser. The Township Fiscal Officer then issued warrants in the corresponding amounts. The change funds were supposed to be returned to the Township treasury as part of the proceeds of the fundraisers. Detailed records of the fundraisers were not kept for either year. Consequently, there was no evidence to determine that the change funds were re-deposited. The checks for cash were written out of the General Fund, while the proceeds of the fundraisers were posted to the Special Revenue Park 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 illegal expenditure is made is strictly liable for the amount of the 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 Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling 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. No. 80-074.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Thomas Overmier, Fiscal Officer of Liberty Township, Lonnie Dishop, David Mohler and John Overmier, Trustees of Liberty Township, Auto Owners (Mutual) Insurance Company, the Trustees' and Fiscal Officer's bonding company jointly and severally in the amount of \$550, and in favor of Liberty Township's General Fund. Lonnie Dishop, David Mohler, and John Overmier shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Thomas Overmier, Township Fiscal Officer.

Officials Response:

There was no illegal activity involved with these fundraisers. The starting cash was deposited with the receipts of the fundraisers each year. We suggest to simply transfer the \$50 for 2006 and the \$500 for 2005 from the Park Fund to the General Fund. In the future we will have the start up cash come from an outside source. This was simply a mistake in accounting for the start up monies.

FINDING NUMBER 2007-002

Finding for Recovery

We are proposing a Finding for Recovery for the following reason:

Ohio Rev. Code Section 505.601 states if a board of township trustees does not procure an insurance policy or group health care services as provided in section 505.60 of the Revised Code, the board of township trustees may reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of section 505.60 of the Revised Code that the officer or employee otherwise obtains, if all of the following conditions are met:

**FINDING NUMBER 2007-002
 (Continued)**

(A) The board of township trustees adopts a resolution that states that the township has chosen not to procure a health care plan under section 505.60 of the Revised Code and has chosen instead to reimburse its officers and employees for each out-of-pocket premium that they incur for insurance policies described in division (A) of section 505.60 of the Revised Code that they otherwise obtain.

(B) That resolution provides for a uniform maximum monthly or yearly payment amount for each officer or employee, beyond which the township will not reimburse the officer or employee.

Attorney General Opinion 2005-038 determined that township officer's and employees could be reimbursed for out-of-pocket premium expenses attributable to an officer/employee that are obtained through a spouse's employer. However, the reimbursement through a spouse's plan is limited to the "out-of-pocket premium that the officer or employee incurs", because the policies described in 505.60(A) do not include family coverage. Therefore, the township should not reimburse for premium costs attributable to the spouse or dependents. There is no authority, statutory or otherwise, for reimbursement of the premium costs attributable to an officer/employee's spouse or dependents.

The Township mistakenly believed that it could reimburse its officers/employees for the out of pocket premium associated with family coverage. As stated above, a township may only reimburse an officer/employee for the premium attributable to that officer/employee. All such warrants for reimbursement for out-of-pocket premiums were signed by the Trustees and the Fiscal Officer.

The Township reimbursed John Overmier, Township Trustee of the out-of-pocket premium for family health care coverage. This reimbursement should have only been for the out-of-premium related to John Overmier. These warrants were signed by Thomas Overmier, Fiscal Officer, Lonnie Dishop, Trustee, and David Mohler, Trustee.

<u>Out-of Pocket Premium</u>	<u>2005</u>	<u>2006</u>	<u>Total</u>
Cost of Family Insurance	\$6,383.28	\$8,000.00	\$14,383.28
Cost of Official's Insurance	2,193.29	3,417.38	<u>5,610.67</u>
Overpayment			<u><u>\$8,772.61</u></u>

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 illegal expenditure is made is strictly liable for the amount of the 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 Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling 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. No. 80-074.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against John Overmier, Township Trustee, Thomas Overmier, Fiscal Officer, Lonnie Dishop and David Mohler, Trustees, Auto-Owners (Mutual) Insurance Company, the Trustees' and Fiscal Officer's bonding company jointly and severally in the amount of \$8,772.61, and in favor of Liberty Township's General Fund.

**FINDING NUMBER 2007-002
(Continued)**

Thomas Overmier, Lonnie Dishop, and David Mohler shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from John Overmier, Township Trustee.

Officials Response:

We earnestly disagree with this finding for recovery! ORC 505.60 and 505.601 must be read in context of one another. 505.60(B) specifically authorizes payments for officers, employees and their immediate families. The Township's initial health care coverage and reimbursement resolution of December 30, 1998 and each year thereafter, stated a ceiling limit of reimbursement for qualified officers and employees and their families. Consequently, the finding for recovery is unwarranted and should not be repaid by John Overmier, Lonnie Dishop, Dave Mohler, or Tom Overmier. This is also the opinion of our Prosecuting Attorney John Hanna.

FINDING NUMBER 2007-003

Finding for Recovery

We are proposing a Finding for Recovery for the following reason:

Ohio Rev. Code Section 505.601 states if a board of township trustees does not procure an insurance policy or group health care services as provided in section 505.60 of the Revised Code, the board of township trustees may reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of section 505.60 of the Revised Code that the officer or employee otherwise obtains, if all of the following conditions are met:

(A) The board of township trustees adopts a resolution that states that the township has chosen not to procure a health care plan under section 505.60 of the Revised Code and has chosen instead to reimburse its officers and employees for each out-of-pocket premium that they incur for insurance policies described in division (A) of section 505.60 of the Revised Code that they otherwise obtain.

(B) That resolution provides for a uniform maximum monthly or yearly payment amount for each officer or employee, beyond which the township will not reimburse the officer or employee.

Attorney General Opinion 2005-038 determined that township officer's and employees could be reimbursed for out-of-pocket premium expenses attributable to an officer/employee that are obtained through a spouse's employer. However, the reimbursement through a spouse's plan is limited to the "out-of-pocket premium that the officer or employee incurs", because the policies described in 505.60(A) do not include family coverage. Therefore, the township should not reimburse for premium costs attributable to the spouse or dependents. There is no authority, statutory or otherwise, for reimbursement of the premium costs attributable to an officer/employee's spouse or dependents.

The Township mistakenly believed that it could reimburse its officers/employees for the out of pocket premium associated with family coverage. As stated above, a township may only reimburse an officer/employee for the premium attributable to that officer/employee. All such warrants for reimbursement for out-of-pocket premiums were signed by the Trustees and the Fiscal Officer.

**FINDING NUMBER 2007-003
 (Continued)**

The Township reimbursed David Mohler, Township Trustee for the total out-of-pocket premium for family health care coverage. This reimbursement should have only been for the out-of-premium related to David Mohler. The estimated cost of Mr. Mohler's share of insurance was based on his prorated share of the total family members covered under the insurance plan. These warrants were signed by Thomas Overmier, Fiscal Officer, Lonnie Dishop, Trustee, and John Overmier, Trustee.

<u>Out-of Pocket Premium</u>	<u>2005</u>	<u>2006</u>	<u>Total</u>
Reimbursed Amount	\$1,586.16	\$1,867.10	
Estimated Cost of Official's Share of Family Plan	<u>(793.08)</u>	<u>(933.55)</u>	
Overpayment	793.08	933.55	<u>\$ 1,726.63</u>

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 illegal expenditure is made is strictly liable for the amount of the 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 Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling 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. No. 80-074.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against David Mohler, Township Trustee, Thomas Overmier, Fiscal Officer,, Lonnie Dishop and John Overmier, Trustees, Auto Owners (Mutual) Insurance Company, the Trustees' and Fiscal Officer's bonding company jointly and severally in the amount of \$1,726.63, and in favor of Liberty Township's General Fund.

Thomas Overmier, Lonnie Dishop, and John Overmier shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from David Mohler, Township Trustee.

Officials Response:

We earnestly disagree with this finding for recovery! ORC 505.60 and 505.601 must be read in context of one another. 505.60(B) specifically authorizes payments for officers, employees and their immediate families. The Township's initial health care coverage and reimbursement resolution of December 30, 1998 and each year thereafter, stated a ceiling limit of reimbursement for qualified officers and employees and their families. Consequently, the finding for recovery is unwarranted and should not be repaid by John Overmier, Lonnie Dishop, Dave Mohler, or Tom Overmier. This is also the opinion of our Prosecuting Attorney John Hanna.

FINDING NUMBER 2007-004

Finding for Recovery

We are proposing a Finding for Recovery for the following reason:

Ohio Rev. Code Section 505.601 states if a board of township trustees does not procure an insurance policy or group health care services as provided in section 505.60 of the Revised Code, the board of township trustees may reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of section 505.60 of the Revised Code that the officer or employee otherwise obtains, if all of the following conditions are met:

(A) The board of township trustees adopts a resolution that states that the township has chosen not to procure a health care plan under section 505.60 of the Revised Code and has chosen instead to reimburse its officers and employees for each out-of-pocket premium that they incur for insurance policies described in division (A) of section 505.60 of the Revised Code that they otherwise obtain.

(B) That resolution provides for a uniform maximum monthly or yearly payment amount for each officer or employee, beyond which the township will not reimburse the officer or employee.

Attorney General Opinion 2005-038 determined that township officer's and employees could be reimbursed for out-of-pocket premium expenses attributable to an officer/employee that are obtained through a spouse's employer. However, the reimbursement through a spouse's plan is limited to the "out-of-pocket premium that the officer or employee incurs", because the policies described in 505.60(A) do not include family coverage. Therefore, the township should not reimburse for premium costs attributable to the spouse or dependents. There is no authority, statutory or otherwise, for reimbursement of the premium costs attributable to an officer/employee's spouse or dependents.

The Township mistakenly believed that it could reimburse its officers/employees for the out of pocket premium associated with family coverage. As stated above, a township may only reimburse an officer/employee for the premium attributable to that officer/employee. All such warrants for reimbursement for out-of-pocket premiums were signed by the Trustees and the Fiscal Officer.

The Township reimbursed Lonnie Dishop, Township Trustee for the total out-of-pocket premium for family health care coverage. This reimbursement should have only been for the out-of-premium related to Lonnie Dishop. The estimated cost of Mr. Dishop's share of insurance was based on his prorated share of the total family members covered under the insurance plan. These warrants were signed by Thomas Overmier, Fiscal Officer, David Mohler, Trustee, and John Overmier, Trustee.

Out-of Pocket Premium	2005	2006	Total
Reimbursed Amount	\$4,469.66	\$4,750.36	
Estimated Cost of Official's Share of Family Plan	(2,234.83)	(2,375.18)	
Overpayment	2,234.83	2,375.18	\$ 4,610.01

**FINDING NUMBER 2007-004
(Continued)**

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 illegal expenditure is made is strictly liable for the amount of the 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 Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling 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. No. 80-074.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Lonnie Dishop, Township Trustee,, Thomas Overmier, Fiscal Officer, David Mohler and John Overmier, Trustees, Auto Owners (Mutual) Insurance Company, the Trustees' and Fiscal Officer's bonding company jointly and severally in the amount of \$4,610.01, and in favor of Liberty Township's General Fund.

Thomas Overmier, David Mohler, and John Overmier shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Lonnie Dishop, Township Trustee.

Officials Response:

We earnestly disagree with this finding for recovery! ORC 505.60 and 505.601 must be read in context of one another. 505.60(B) specifically authorizes payments for officers, employees and their immediate families. The Township's initial health care coverage and reimbursement resolution of December 30, 1998 and each year thereafter, stated a ceiling limit of reimbursement for qualified officers and employees and their families. Consequently, the finding for recovery is unwarranted and should not be repaid by John Overmier, Lonnie Dishop, Dave Mohler, or Tom Overmier. This is also the opinion of our Prosecuting Attorney John Hanna.

FINDING NUMBER 2007-005

Finding for Recovery

We are proposing a Finding for Recovery for the following reason:

Ohio Rev. Code Section 505.601 states if a board of township trustees does not procure an insurance policy or group health care services as provided in section 505.60 of the Revised Code, the board of township trustees may reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of section 505.60 of the Revised Code that the officer or employee otherwise obtains, if all of the following conditions are met:

(A) The board of township trustees adopts a resolution that states that the township has chosen not to procure a health care plan under section 505.60 of the Revised Code and has chosen instead to reimburse its officers and employees for each out-of-pocket premium that they incur for insurance policies described in division (A) of section 505.60 of the Revised Code that they otherwise obtain.

(B) That resolution provides for a uniform maximum monthly or yearly payment amount for each officer or employee, beyond which the township will not reimburse the officer or employee.

**FINDING NUMBER 2007-005
 (Continued)**

Attorney General Opinion 2005-038 determined that township officer's and employees could be reimbursed for out-of-pocket premium expenses attributable to an officer/employee that are obtained through a spouse's employer. However, the reimbursement through a spouse's plan is limited to the "out-of-pocket premium that the officer or employee incurs", because the policies described in 505.60(A) do not include family coverage. Therefore, the township should not reimburse for premium costs attributable to the spouse or dependents. There is no authority, statutory or otherwise, for reimbursement of the premium costs attributable to an officer/employee's spouse or dependents.

The Township mistakenly believed that it could reimburse its officers/employees for the out of pocket premium associated with family coverage. As stated above, a township may only reimburse an officer/employee for the premium attributable to that officer/employee. All such warrants for reimbursement for out-of-pocket premiums were signed by the Trustees and the Fiscal Officer.

The Township reimbursed Thomas Overmier, Township Fiscal Officer for the total out-of-pocket premium for family health care coverage. This reimbursement should have only been for the out-of-premium related to Thomas Overmier. The estimated cost of Mr. Overmier's share of insurance was based on his prorated share of the total family members covered under the insurance plan. These warrants were signed by John Overmier, Trustee, David Mohler, Trustee, and Lonnie Dishop, Trustee.

<u>Out-of Pocket Premium</u>	<u>2005</u>	<u>2006</u>	<u>Total</u>
Reimbursed Amount	\$2,515.65	\$2,231.09	
Estimated Cost of Official's Share of Family Plan	<u>(1,257.83)</u>	<u>(1,115.55)</u>	
Overpayment	1,257.82	1,115.54	<u>\$ 2,373.36</u>

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 illegal expenditure is made is strictly liable for the amount of the 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 Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling 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. No. 80-074.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Thomas Overmier, Fiscal Officer, Lonnie Dishop, David Mohler and John Overmier, Trustees, Auto Owners (Mutual) Insurance Company, the Trustees' and Fiscal Officer's bonding company jointly and severally in the amount of \$2,373.36, and in favor of Liberty Township's General Fund.

Lonnie Dishop, David Mohler, and John Overmier shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Thomas Overmier, Township Fiscal Officer.

**FINDING NUMBER 2007-005
 (Continued)**

Officials Response:

We earnestly disagree with this finding for recovery! ORC 505.60 and 505.601 must be read in context of one another. 505.60(B) specifically authorizes payments for officers, employees and their immediate families. The Township's initial health care coverage and reimbursement resolution of December 30, 1998 and each year thereafter, stated a ceiling limit of reimbursement for qualified officers and employees and their families. Consequently, the finding for recovery is unwarranted and should not be repaid by John Overmier, Lonnie Dishoip, Dave Mohler, or Tom Overmier. This is also the opinion of our Prosecuting Attorney John Hanna.

FINDING NUMBER 2007-006

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated as provided in such chapter.

Expenditures exceeded appropriations in the following fund at year end:

Fund	Appropriations	Expenditures	Variance
December 31, 2006			
Fire District Fund	\$185,488	\$475,488	(\$290,000)

Expenditures should only be made for which there are sufficient appropriations. Appropriations should be increased as needed, and if necessary amend the corresponding estimated resources.

Officials Response:

We did not receive a response from the officials to this finding.

FINDING NUMBER 2007-007

Noncompliance Citation

Ohio Revised Code § 505.37 states, in part, that a township may guard against the occurrence of fire, may protect the property and lives of the citizens against damage, and may purchase the necessary fire equipment. Ohio Revised Code § 505.42 states, in part, that a board of township trustees may enter into contracts for the purposes set forth in sections 505.37, but must comply with the competitive bidding procedures found in ORC §§ 741.14 - 16. Ohio Revised Code § 731.14 requires competitive bidding where an expenditure for equipment exceeds twenty-five thousand dollars.

The Township entered into a contract for the purchase of a fire truck for \$330,000 in July 2006. Although the Township had the authority to purchase such fire truck, the Township failed to competitively bid the purchase as required in the aforementioned statutes. The Township should follow proper competitive bidding procedures for contracts for the acquisition of fire equipment with a cost that exceeds twenty-five thousand dollars.

**FINDING NUMBER 2007-007
(Continued)**

Officials Response:

We did not receive a response from the officials to this finding.

FINDING NUMBER 2007-008

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity 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 that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. 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 the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 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 "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of 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.

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.

None of the transactions tested were certified by the Fiscal Officer at the time the commitment was incurred and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2007-008
(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 Fiscal Officer certify that the 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 Fiscal Officer certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 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 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials Response:

We did not receive a response from the officials to this finding.

FINDING NUMBER 2007-009

Material Weakness - Monitoring of Financial Activity

Inaccurate posting of transactions impedes the ability of the Trustees to accurately assess the financial status of the Township. We noted examples such as the following during our audit:

- Annual easement fees of \$22,500 in 2005 and \$23,422 in 2006 was posted as Miscellaneous Revenue instead of Licenses, Permits, and Fees.
- A Fire Grant of \$10,000 was posted as Miscellaneous Revenue instead of Intergovernmental Revenue in the Fire Fund in 2005.
- Mowing revenue and snow removal revenue was posted as Miscellaneous Revenue in 2005 for \$12,947 and as Intergovernmental Revenue in 2006 for \$12,973 instead of Charges for Services.
- Debt proceeds and expenditures for the bank loan and the purchase of a new fire truck for \$290,000 were not recorded in 2006.
- Debt principal and interest payments on a fire truck in 2005 and 2006 for \$46,137 and \$47,784 were posted as Capital Outlay expenditures instead of principal and interest expense.
- The Township's Bond Fund was classified as a Capital Projects Fund instead of a Debt Service Fund.

As a result, the financial statements did not correctly reflect the financial activity of the Township. The accompanying financial statements have been adjusted so these transactions reflect their intended purpose.

**FINDING NUMBER 2007-008
(Continued)**

We recommend that the Fiscal Officer post all transactions in accordance with the guidance established by the Ohio Township Handbook issued by the Auditor of State. Further, the Township should adopt policies and procedures including a final review of the financial statements by the Fiscal Officer and Trustees to ensure that errors and omissions are detected and corrected.

Officials Response:

We did not receive a response from the officials to this finding.

LIBERTY TOWNSHIP
HENRY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC § 507.09 for overpaying the Fiscal Officer by \$134.75	Yes	



Mary Taylor, CPA
Auditor of State

LIBERTY TOWNSHIP

HENRY 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
FEBRUARY 7, 2008**