



**RILEY TOWNSHIP  
PUTNAM COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007**



**Mary Taylor, CPA**  
Auditor of State



RILEY TOWNSHIP  
PUTNAM COUNTY

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# Mary Taylor, CPA

Auditor of State

Riley Township  
Putnam County  
216 N. Jefferson Street, P.O. Box 358  
Pandora, Ohio 45877-0358

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

July 8, 2008

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Riley Township  
Putnam County  
216 N. Jefferson Street, P.O. Box 358  
Pandora, Ohio 45877-0358

To the Board of Trustees:

We have audited the accompanying financial statements of Riley Township, Putnam County, (the Township) as of and for the years ended December 31, 2007 and 2006. 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, 2007 and 2006, 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 July 8, 2008, 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 Riley Township, Putnam County, as of December 31, 2007 and 2006, 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 July 8, 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

July 8, 2008



**RILEY TOWNSHIP  
PUTNAM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$26,845	\$41,570		\$68,415
Charges for Services	8,545	18,055		26,600
Intergovernmental	45,236	99,880	\$19,000	164,116
Earnings on Investments	4,110	3,808		7,918
Miscellaneous	2,022			2,022
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	86,758	163,313	19,000	269,071
<b>Cash Disbursements:</b>				
Current:				
General Government	70,401			70,401
Public Safety	13,101	25,742		38,843
Public Works		113,466	19,000	132,466
Health	2,976			2,976
Capital Outlay	5,531			5,531
Debt Service:				
Redemption of Principal	7,242			7,242
Interest and Other Fiscal Charges	3,730			3,730
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	102,981	139,208	\$19,000	261,189
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(16,223)	24,105		7,882
<b>Other Financing Receipts</b>				
Other Financing Sources	2,315			2,315
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(13,908)	24,105		10,197
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	(10,101)	246,612		236,511
<b>Fund Cash Balances, December 31</b>	<hr/>	<hr/>	<hr/>	<hr/>
	<b>(\$24,009)</b>	<b>\$270,717</b>		<b>\$246,708</b>
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>	<hr/>
		\$57,130		\$57,130

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

**RILEY TOWNSHIP  
PUTNAM 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>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$26,714	\$38,972		\$65,686
Charges for Services	3,553	18,630		22,183
Intergovernmental	36,147	111,701	\$19,000	166,848
Earnings on Investments	3,148	1,126		4,274
Miscellaneous	322	637		959
	<u>69,884</u>	<u>171,066</u>	<u>19,000</u>	<u>259,950</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	77,577			77,577
Public Safety	9,745	36,123		45,868
Public Works		103,085	19,000	122,085
Health	3,755	1,925		5,680
Capital Outlay	11,477			11,477
Debt Service:				
Redemption of Principal	8,461			8,461
Interest and Other Fiscal Charges	2,516			2,516
	<u>113,531</u>	<u>141,133</u>	<u>\$19,000</u>	<u>273,664</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(43,647)</u>	<u>29,933</u>		<u>(13,714)</u>
<b>Other Financing Receipts:</b>				
Sale of Fixed Assets		2,500		2,500
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(43,647)	32,433		(11,214)
Fund Cash Balances, January 1	<u>33,546</u>	<u>214,179</u>		<u>247,725</u>
<b>Fund Cash Balances, December 31</b>	<b><u>(\$10,101)</u></b>	<b><u>\$246,612</u></b>		<b><u>\$236,511</u></b>

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

**RILEY TOWNSHIP  
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**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 Riley Township, Putnam 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.

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. 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:

Road and Bridge Fund - This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

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

Fire District Fund - This fund receives tax revenue and charges for services for maintaining fire services.

**RILEY TOWNSHIP  
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**3. 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 project fund:

Issue II Fund - The Township received a grant from the State of Ohio to resurface township roads.

**D. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2007 and 2006 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.

**RILEY TOWNSHIP  
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(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:

	2007	2006
Demand deposits	\$246,708	\$236,511

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Township

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$111,469	\$89,073	(\$22,396)
Special Revenue	153,291	163,313	10,022
Capital Projects		19,000	19,000
Total	\$264,760	\$271,386	\$6,626

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$115,866	\$102,981	\$12,885
Special Revenue	384,344	196,338	188,006
Capital Projects		19,000	(19,000)
Total	\$500,210	\$318,319	\$181,891

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$93,707	\$69,884	(\$23,823)
Special Revenue	157,941	173,566	15,625
Capital Projects		19,000	19,000
Total	\$251,648	\$262,450	\$10,802

**RILEY TOWNSHIP  
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**3. BUDGETARY ACTIVITY – (CONTINUED)**

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$127,253	\$113,531	\$13,722
Special Revenue	372,121	141,133	230,988
Capital Projects		19,000	(19,000)
Total	\$499,374	\$273,664	\$225,710

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax 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. RETIREMENT SYSTEM**

The Township's officials and 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 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

**6. RISK MANAGEMENT**

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.

**RILEY TOWNSHIP  
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**6. 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. 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 PEP'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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

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. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provide 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 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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.

**RILEY TOWNSHIP  
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**6. 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, 2007 and 2006.

	2007	2006
Assets	\$43,210,703	\$42,042,275
Liabilities	(13,357,837)	(12,120,661)
Net Assets	\$29,852,866	\$29,921,614

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, 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 \$10,000. 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	
2005	\$15,729
2006	\$12,837
2007	\$9,593

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they provide 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.



**RILEY TOWNSHIP  
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**7. LEASE/PURCHASE**

A lease/purchase agreement was entered into in 2005 for the purchase of the Township's share of a fire truck. The payments on the fire truck are to be made from the General Fund; the obligation will be paid semi-annually over a period of ten years and paid in full in 2015.

Debt outstanding at December 31, 2007, was as follows:

Lease	Interest Rate
\$72,325	4.75%

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

	Principal	Interest	Total
2008	\$7,627	\$3,346	\$10,973
2009	7,993	2,979	10,972
2010	8,377	2,595	10,972
2011	8,780	2,193	10,973
2012	9,202	1,771	10,973
2013-15	30,346	2,572	32,918
Total	\$72,325	\$15,456	\$87,781

**8. COMPLIANCE**

- The Township improperly advanced \$3,500 from the Gasoline Tax Fund to the General Fund.
- Fire Department expenditures were improperly paid out of the Road and Bridge Fund and the Gas Tax Fund.
- The General Fund, Fire District Fund, and Cemetery Fund had deficit fund balances at December 31, 2006, and December 31, 2007.
- The Township was the beneficiary of \$19,000 of Ohio Public Work Commission (OPWC) money sent directly to the vendor by OPWC in both 2006 and 2007. These funds were not appropriated causing expenditures to exceed appropriations in the Issue II fund by \$19,000.
- In 2007 and 2006 the Trustees' salaries were paid from the Gas Tax Fund instead of the General Fund. This amounted to \$3,652 in 2007 and \$3,636 in 2006.

**9. DEFICIT FUND BALANCES**

The Township's General Fund had a deficit cash balance at December 31, 2006, in the amount of (\$10,101). The General Fund's deficit balance decreased during 2007 to (\$24,009) as of December 31, 2007.

The Township's Fire District Fund had a deficit cash balance of \$(1,407) as of December 31, 2006. The Fire District's deficit balance increased during 2007 to (\$9,504).

The Township's Cemetery Fund had a deficit cash fund balance of (\$500) as of December 31, 2007 and 2006.

**RILEY TOWNSHIP  
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**9. DEFICIT FUND BALANCES – (CONTINUED)**

These deficit fund balances were caused by over 30 audit adjustments which were made to fund balances in 2006 and 2007 due to a lack of statutory authority in making certain transactions.

The Board of Trustees are addressing these conditions by having the Fiscal Officer search for prior period payments paid from the General Fund that could have been paid from other funds. Corrections to the financial records will be made when a final total is obtained.

Although the Board of Trustees adopted a balanced budget for these funds in 2008 it was before the audit adjustments were known.



# 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*

Riley Township  
Putnam County  
216 N. Jefferson Street, P.O. Box 358  
Pandora, Ohio 45877-0358

To the Board of Trustees:

We have audited the financial statements of Riley Township, Putnam County, (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated July 8, 2008 wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits 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 certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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 deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002 through 2007-005.

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 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 or material weaknesses. However, we believe all the significant deficiencies described above are also material weaknesses.

We also noted certain matters that we reported to the Township's management in a separate letter dated July 8, 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 2007-004.

We also noted certain noncompliance matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated July 8, 2008.

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



**Mary Taylor, CPA**  
Auditor of State

July 8, 2008

**RILEY TOWNSHIP  
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006**

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

**FINDING NUMBER 2007-001**

**Finding for Recovery**

We are proposing the finding for the following reason:

Ohio Rev. Code Section 505.60 (A) states that the board of township trustees of any township may procure and pay all or any part of the cost of insurance policies that may provide benefits for hospitalization, surgical care, major medical care, disability, dental care, eye care, medical care, hearing aids, prescription drugs, or sickness and accident insurance, or a combination of any of the foregoing types of insurance for township officers and employees. The board of township trustees of any township may negotiate and contract for the purchase of a policy of long-term care insurance for township officers and employees pursuant to [section 124.841 \[124.84.1\] of the Revised Code](#).

(B) If the board procures any insurance policies under this section, the board shall provide uniform coverage under these policies for township officers and full-time township employees and their immediate dependents, and may provide coverage under these policies for part-time township employees and their immediate dependents, from the funds or budgets from which the officers or employees are compensated for services, such policies to be issued by an insurance company duly authorized to do business in this state. Any township officer or employee may refuse to accept the insurance coverage without affecting the availability of such insurance coverage to other township officers and employees ...

(C) If any township officer or employee is denied coverage under a health care plan procured under division (B) of this section or if any township officer or employee elects not to participate in the township's health care plan, the township may reimburse the officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of this section that the officer or employee otherwise obtains, but not to exceed an amount equal to the average premium paid by the township for its officers and employees under policies it procures under division (B) of this section.

This section allows reimbursement for the out of pocket costs incurred by an officer or employee that are associated with obtaining coverage for policies described in section (A). It does not, however, extend such reimbursement to family policies described in section (B).

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.

**FINDING NUMBER 2007-001  
(Continued)**

The Township mistakenly believed that it could reimburse its officers/employees for the out of pocket premium associated with family members' individual health insurance. 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 Mark Kinsinger, Township Trustee \$506.72 for the out-of-pocket premium costs paid by Mr. Kinsinger's wife to her employer for her own health insurance benefit. This warrant was signed by Ralph Phillips, Fiscal Officer, William Schroeder, Trustee, Gene Amstutz, Trustee and Mark Kinsinger, Trustee.

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 Mark Kinsinger, Township Trustee, Ralph Phillips, Fiscal Officer, William J. Schroeder, and Gene Amstutz, Trustees, Ohio Township Association Risk Management Authority, the Trustees' and Fiscal Officer's bonding company jointly and severally in the amount of \$506.72, and in favor of Riley Township's General Fund.

Ralph Phillips, William J. Schroeder, and Gene Amstutz shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Mark Kinsinger, Township Trustee.

**FINDING NUMBER 2007-002**

**Noncompliance Citation/ Material Weakness**

Ohio Revised Code § 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year and cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and

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

- Advances must be approved by a formal resolution of the taxing authority of the subdivision (Township Trustees) which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

Furthermore, the aforementioned section requires all revenue derived from a source other than general property tax which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. This section also provides that money paid into any fund shall be used only for the purposes for which such fund is established. A negative fund balance indicates money from one fund was used to cover the expenses of another fund.

We noted the following:

- In 2007, the Township advanced \$3,500 from the Gasoline Tax Fund to the General Fund. The monies advanced to the General Fund were used to pay for general operating expenses. There is no statutory authority for the Gasoline Tax Fund to expend monies for general operating expenses. This advance was approved by Trustees.
- Fire department expenditures in the amount of \$200 were paid from the Road and Bridge Fund and \$2,944 from the Gas Tax Fund in 2007. In 2006, \$21,598 in fire department expenditures were paid from the Road and Bridge Fund.
- The General Fund had a deficit balance of \$24,009 and \$10,101 as of December 31, 2007, and December 31, 2006, respectively. The Fire District Fund had a deficit balance of \$1,407 and \$9,504 as of December 31, 2007 and December 31, 2006, respectively. In addition, the Cemetery Fund had a deficit balance of \$500 as of December 31, 2007, and December 31, 2006, respectively. These deficit balances were caused by over 30 audit adjustments to correct revenue and expenditure transactions which were posted to inappropriate funds.

As a result of the lack of statutory authority for making these transactions, adjustments (with which management agrees) were made to the accompanying financial statements and accounting records. These adjustments caused the General Fund to decrease by \$30,196, the Gas Tax Fund to increase by \$22,352, the Road and Bridge Fund to increase by \$21,431, the Fire District Fund to decrease by \$15,087 and the Cemetery Fund to decrease by \$500 from what the Township reported at December 31, 2007.

We recommend the Fiscal Officer post revenues and expenditures only to those funds permitted by the Ohio Revised Code. In addition, the Fiscal Officer should, post transactions in accordance with the Ohio Township Handbook as well as guidance provided by the Uniform Accounting Network.

To resolve the cash flow dilemma and insufficiency of resources in certain funds we suggest, among other things, the Trustees consider enhancing revenues and/or reducing expenditures in the affected funds. Trustees could also seek a fund transfer from fund(s) with more abundant resources provided officials comply with the provisions of Ohio Revised Code §§ 5705.14, 5705.15, and 5705.16. Other potential remedies include obtaining tax advances from the County Auditor, or seeking debt permitted under the authority of the Revised Code. This should be done with the advice of the Township's Legal Counsel.

If advances are deemed necessary management should refer to Auditor of State Bulletin 97-003 for further guidance. In addition, if advances are made, they should be made only under the express authority of the Revised Code.

### FINDING NUMBER 2007-003

#### Noncompliance Citation/ Material Weakness

Chapter 5705 of the Revised Code sets forth a scheme that provides for a uniform budget and appropriation process in order to assure that a government entity expends no more that it expects to receive in revenue. In order to accomplish this end, all appropriations must be accounted to and from each appropriation fund. While federal and state loans and grants are deemed appropriated and in the process of collection so as to be available for expenditure, they must still be recorded. R.C. 5075.42. Thus, a mechanism is still required to account for receipt and expenditure. That mechanism is an amendment of, or a supplement to, the entity's estimated resources, or its appropriation measure, which shall comply with all provisions of law governing the taxing authority in making an original appropriation. R.C. 5705.40. An original appropriation measure must be passed by the taxing authority, and any amendment of, or supplement to, that measurer also requires legislative action. R.C. 5705.38.

In 2007 and 2006, the Township was the beneficiary of \$19,000 of Ohio Public Work Commission (OPWC) money sent directly to the vendor by OPWC. This activity was not recorded on the ledgers of the Township, nor was it reflected in the Township's financial statements. Since OPWC paid the invoices, the Township did not receive this cash. However, Auditor of State Bulletin 2000-008 and 2002-004 prescribe recording these transactions as receipts and disbursements when the Township applies for a project and has administrative responsibilities. The accompanying financial statements were adjusted to reflect these amounts in a Capital Project Fund. These funds were not appropriated causing expenditures to exceed appropriations in the Capital Projects fund by \$19,000 in 2007 and 2006, contrary to R. C. 5705.41(B) which requires all expenditures to be appropriated.

We recommend the Township record all benefits received from state or federal grants as a memo receipt and expenditure on the Township's records and appropriate funds for the expenditures. In addition, Township management should review Auditor of State Bulletins 2000-008 and 2002-004.

### FINDING NUMBER 2007-004

#### Noncompliance Citation/ Material Weakness

Ohio Revised Code §505.24(C) Sets forth the method by which township trustees' compensation should be allocated. This section is amplified by Ohio Attorney General (OAG) Opinion 2004-036. This section requires that compensation of a township trustee must be paid from the Township General Fund or from such other township funds, in such proportions, as the Board may specify by resolution. In addition, trustees are to establish administrative procedures to document the proportionate amount of trustees' salaries chargeable to other township funds based on the portion of time spent on matters related to the services rendered. The "administrative procedures" can be timesheets or a similar method of record keeping, as long as the trustees document all time spent on township business and the type of service(s) performed, in a manner similar to the trustees paid per diem compensation.

In 2006 and 2007, all of the Trustees' salaries were paid from the Gas Tax Fund without adequate support for a portion of it. This caused the Gas Tax Fund to inappropriately pay \$3,652 and \$3,636 too much in 2007 and 2006, respectively, instead of being paid out of the General Fund. The financial statements were adjusted to correct these mispostings. During the Township's 2006 financial audit, they received a management letter comment regarding this issue. On July 2, 2008, the Township made adjustments to the Gas Tax and General Funds to correct this error.

We recommend all Trustees' salaries be paid from the General Fund unless administrative procedures are established to document the proportionate amount of Trustees' salaries chargeable to other Township funds.



## FINDING NUMBER 2007-005

### Material Weakness

#### Monitoring Controls

The small size of the Township's fiscal operations does not allow for an adequate segregation of duties. The Fiscal Officer performs most accounting functions. It is therefore important the Trustees monitor financial activity closely. The following deficiencies were noted:

The Township does not have procedures in place for review of transactions posted to the accounting records or the reporting of those transactions in the financial statements. There was no evidence the Trustees reviewed detail revenue, disbursement ledgers, budgetary activity, invoices, or fund balance reports on a regular basis. The lack of such review procedures resulted in material adjustments to the financial statements as noted in Findings 2007-002 and 2007-003.

The lack of monitoring controls over the Township's financial activity may have also contributed to the Township under billing the Village of Pandora \$6,814 in fire expenses in 2006 and deficit balances to occur in the General Fund, Fire District Fund and Cemetery Fund at December 31, 2007 and 2006.

In order to ensure the financial activity of the Township is being properly accounted for and reported, and bills are being paid on time, we recommend the Trustees review invoices, detail revenue and disbursement ledgers, budgetary activity, and fund balance reports on a frequent basis. The documents should be reviewed, initialed and approved in the minutes. This information provides important data necessary to manage the Township.

This information can help answer questions such as the following:

- Are transactions posted to the correct line items based on supportive documentation?
- Are bills being paid in a timely manner?
- Are current receipts in line with prior year costs?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted?
- Are anticipated receipts being timely received and being recorded in the proper fund(s)?
- Are payments made from the proper fund?
- Are reimbursements being made to the proper fund that expenses were paid from?

In addition, the Township should develop a review process to ensure transactions are accurately reported on the Township's year end financial statements and related disclosures.

#### Officials' Response

We did not receive a response from Officials to the findings reported above.

**RILEY TOWNSHIP  
PUTNAM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2007 and 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	Ohio Revised Code § 5705 Township beneficiary of \$19,000 of Ohio Public Work Commission (OPWC) money.	No	Not corrected and has been repeated in this report as finding 2007-003.



**Mary Taylor, CPA**  
Auditor of State

**RILEY TOWNSHIP**

**PUTNAM 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 31, 2008**