



Dave Yost • Auditor of State

**PAINT TOWNSHIP
HIGHLAND COUNTY**

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Dave Yost • Auditor of State

Paint Township
Highland County
12470 U.S. Route 50
Hillsboro, Ohio 45133

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.

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Dave Yost
Auditor of State

May 4, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Paint Township
Highland County
12470 U.S. Route 50
Hillsboro, Ohio 45133

To the Board of Trustees:

We have audited the accompanying financial statements of Paint Township, Highland County, Ohio (the Township), as of and for the years ended December 31, 2010 and 2009. 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. 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, 2010 and 2009 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, 2010, 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 Paint Township, Highland County, as of December 31, 2010 and 2009, 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 May 4, 2011, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

May 4, 2011

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Local Taxes	\$64,443	\$185,763		\$250,206
Charges For Services	12,130			12,130
Intergovernmental	47,750	165,600		213,350
Earnings on Investments	862	39	\$344	1,245
Miscellaneous	326	687		1,013
	<u>125,511</u>	<u>352,089</u>	<u>344</u>	<u>477,944</u>
Cash Disbursements:				
Current:				
General Government	76,391			76,391
Public Safety		136,802		136,802
Public Works	113,367	228,328		341,695
Health	21,192		791	21,983
	<u>210,950</u>	<u>365,130</u>	<u>791</u>	<u>576,871</u>
Total Cash Disbursements	<u>210,950</u>	<u>365,130</u>	<u>791</u>	<u>576,871</u>
Total Receipts (Under) Disbursements	<u>(85,439)</u>	<u>(13,041)</u>	<u>(447)</u>	<u>(98,927)</u>
Other Financing Receipts/(Disbursements):				
Transfers-In		3,546		3,546
Transfers-Out	(3,064)			(3,064)
	<u>(3,064)</u>	<u>3,546</u>	<u>0</u>	<u>482</u>
Total Other Financing Receipts/(Disbursements)	<u>(3,064)</u>	<u>3,546</u>	<u>0</u>	<u>482</u>
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	(88,503)	(9,495)	(447)	(98,445)
Fund Cash Balances, January 1	<u>214,762</u>	<u>39,854</u>	<u>18,955</u>	<u>273,571</u>
Fund Cash Balances, December 31	<u>\$126,259</u>	<u>\$30,359</u>	<u>\$18,508</u>	<u>\$175,126</u>

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

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Local Taxes	\$63,743	\$134,106	\$157	\$198,006
Charges for Services	10,650			10,650
Intergovernmental	189,630	144,661		334,291
Earnings on Investments	889		\$328	1,217
Miscellaneous	845	1,022	143	2,010
	<u>265,757</u>	<u>279,789</u>	<u>628</u>	<u>546,174</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	80,290			80,290
Public Safety		67,180		67,180
Public Works	37,774	220,450		258,224
Health	19,828		780	20,608
	<u>137,892</u>	<u>287,630</u>	<u>780</u>	<u>426,302</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Cash Disbursements	<u>127,865</u>	<u>(7,841)</u>	<u>(152)</u>	<u>119,872</u>
Other Financing Receipts/(Disbursements):				
Transfers In		2,500		2,500
Transfers Out	(2,500)			(2,500)
	<u>(2,500)</u>	<u>2,500</u>	<u>0</u>	<u>0</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	125,365	(5,341)	(152)	119,872
Fund Cash Balances, January 1	<u>89,397</u>	<u>45,195</u>	<u>19,107</u>	<u>153,699</u>
Fund Cash Balances, December 31	<u><u>\$214,762</u></u>	<u><u>\$39,854</u></u>	<u><u>\$18,955</u></u>	<u><u>\$273,571</u></u>
Reserve for Encumbrances, December 31	<u><u>\$35,867</u></u>			<u><u>\$35,867</u></u>

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

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 Paint Township, Highland County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and cemetery maintenance. The Township contracts with the City of Hillsboro to provide fire services.

The Township is part of the Highland County Joint Hospital District, a jointly governed organization established for the public purpose of better providing for the health and welfare of the people primarily of Highland County. Trustees from each of the 17 townships of Highland County constitute the Highland County Joint Township Hospital Board of Trustees who appoints the Hospital Board of Governors which is composed of one member from each township and three at-large members.

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. Deposits and Investments

The Township's accounting basis includes cash as assets. Township funds are deposited into a checking account at a local commercial bank. The Permanent Funds are maintained in certificates of deposit at local commercial banks. The Township values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

The General Fund 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 Fund:

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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

3. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Roads, Beaver, and Hulitt cemetery bequests were bequeathed to the Township for the general upkeep of the specified cemeteries.

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, program 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. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not use the encumbrance method of accounting.

A summary of 2010 and 2009 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.

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

2. Equity in Pooled Cash and Deposits

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

	2010	2009
Demand deposits	\$254,771	\$156,326
Certificates of deposit	18,800	18,800
Total deposits	273,571	175,126

Deposits: Deposits are insured by the Federal Depository Insurance Corporation up to \$250,000. As of December 31, 2010, the Township had deposits of \$23,571 that were uninsured and uncollateralized.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$114,965	\$125,511	\$10,546
Special Revenue	344,390	355,635	11,245
Permanent	700	344	(356)
Total	\$460,055	\$481,490	\$21,435

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$364,141	\$214,014	\$150,127
Special Revenue	390,697	365,130	25,567
Permanent	854	791	63
Total	\$755,692	\$579,935	\$175,757

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$226,599	\$265,757	\$39,158
Special Revenue	289,320	282,289	(7,031)
Permanent	825	628	(197)
Total	\$516,744	\$548,674	\$31,930

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

3. Budgetary Activity (Continued)

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$200,096	\$176,259	\$23,837
Special Revenue	334,494	287,630	46,864
Permanent	1,132	780	352
Total	\$535,722	\$464,669	\$71,053

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 Systems

The Township's elected 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 plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2010.

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.

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. 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 and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2009, OTARMA retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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, 2009 and 2008 (the latest information available):

	<u>2009</u>	<u>2008</u>
Assets	\$38,982,088	\$40,737,740
Liabilities	<u>(12,880,766)</u>	<u>(12,981,818)</u>
Net Assets	<u>\$26,101,322</u>	<u>\$27,755,922</u>

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$12.0 and \$12.1 million of estimated incurred claims payable. The assets above also include approximately \$11.5 and \$10.9 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2009, the Township's share of these unpaid claims collectible in future years is approximately \$2,650.

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.

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

6. Risk Management (Continued)

<u>Contributions to OTARMA</u>	
<u>2010</u>	<u>2009</u>
\$2,811	\$3,081

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's 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.



Dave Yost • Auditor of State

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

Paint Township
Highland County
12470 U.S. 50
Hillsboro, Ohio 45133

To the Board of Trustees:

We have audited the financial statements of Paint Township, Highland County, Ohio (the Township), as of and for the year ended December 31, 2010 and 2009, and have issued our report thereon dated May 4, 2011, 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 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001 and 2010-002 described in the accompanying schedule of findings to be material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 through 2010-003.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated May 4, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

May 4, 2011

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED DECEMBER 31, 2010 AND 2009**

FINDING NUMBER 2010-001

Material Noncompliance/Material Weakness

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

Ohio Administrative Code, Section 117-2-02(C), provides that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Ohio Administrative Code, Section 117-2-02(D), states all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should in part include the following:

- Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.
- Payroll journal that records, assembles and classifies by pay period the name of employee, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee, and the fund and account charged for the payments.
- Leave records by employee regarding leave balances and usage.

The Annual Financial Report presented for audit contained the following errors:

- Fund columns did not foot
- Transfers out were omitted
- Special Revenue, Permanent Fund and Memorandum total columns were not completed on the Combined Financial Statement
- General Fund total receipts and disbursement did not agree to cash journal
- Special Revenue Funds total receipts and disbursements did not agree to the cash journal

**FINDING NUMBER 2010-001
 (Continued)**

Because the annual financial reports were not completely and accurately prepared, they could not be relied upon by management or others. Township officials should read the instructions for the annual financial report and care should be taken that all items are completed and that the figures accurately foot to the totals. Officials should review the completed report to assure it is properly completed before being filed with the Auditor of State.

The Township did not post the following transactions to the proper account codes, and therefore, they were reported in an incorrect account classification, by material amounts, on the financial statements:

General Fund	Item	Amount	Proper Classification	Classification Reported
2009	Local Government Distribution	\$27,476	Intergovernmental	Taxes
2010	Local Government Distribution	25,630	Intergovernmental	Taxes

The Township did not post the following transactions to the accounting records, and therefore receipts and disbursements were understated, by material amounts, on the financial statements.

Item	Amount	Proper Classification
2009 General Fund		
Taxes	\$9,684	Taxes
Health Department Inside Millage	9,684	Health
2010 General Fund		
Taxes	\$10,311	Taxes
Health Department Inside Millage	10,311	Health

Failure to properly post transactions resulted in inaccurate financial statements. The Township agreed to the reclassifications and adjustments to correctly report the above items. The Township has posted the adjustments to the financial statements and accounting records.

In addition the accounting records lacked information and contained many errors.

- The cash journal did not contain year-to-date totals.
- The cash journal beginning balance plus receipts, less disbursements, did not total to the ending cash book balance.
- The total receipts in the cash journal did not agree with the total receipts recorded in the receipts journal.
- The total disbursements in the cash journal did not agree with the total disbursements in the appropriation ledger.
- Amounts carried to the annual financial report workbook did not always agree with the receipts journal and appropriation ledger.
- The cash journal did not contain purpose of the receipt or disbursement, only the payer and payee name.

**FINDING NUMBER 2010-001
(Continued)**

- The account code and purchase order numbers were not recorded in the cash journal.
- The cash journal did not always contain the receipt number.
- Various errors were found in the cash journal concerning the vendor name, check numbers and amounts.
- Receipts journal and appropriation ledgers contained several years and/or accounts on the same page, and account sheets were not always in alphabetical/numerical order.
- Estimated receipts were not entered in the receipts journal and a declining balance was not maintained.
- Purchase orders, encumbrances, and a running unencumbered balance were not recorded in the appropriation ledger.
- Some accounts in the receipts ledger and appropriation ledger were not totaled for the year, or the total shown was not correct.
- Vouchers did not contain the date the bill was paid or the account code charged.
- Vouchers were not prepared for payroll expenditures.
- Payroll journals did not contain the wage rates, pay date or the fund and account charged.
- Vacation leave records did not contain a running balance of available leave.

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Township funds, 2) reduces the Board's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated. We recommend that the fiscal officer review the chart of accounts to assure that items are being posted to the proper funds and account codes.

To help strengthen the Township's internal control structure and reduce the likelihood of undetected errors, the Board should review the accounting records and financial statements to determine accuracy and to assure themselves that proper procedures are followed by the Fiscal Officer.

We also recommend that the Fiscal Officer review the township manual and post transactions in accordance with the chart of accounts provided in the township manual. Due care should be taken in maintaining the records in order to ensure the year-end financial statements reflect the appropriate sources of the Township's receipts and expenditures.

FINDING NUMBER 2010-002

Material Noncompliance/Material Weakness

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

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 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.

Contrary to the above requirement of prior certification, the availability of funds was neither certified prior to incurring the obligation nor pursuant to the above mentioned exceptions for 14 of the 18 expenditures tested (78%) for 2009. In 2010, the Fiscal Officer did not sign any of the purchase orders or certify the availability of funds prior to incurring the obligation or pursuant to any above mentioned exceptions, therefore 25 of the 25 (100%) of the 2010 transactions tested were not certified. Even when prior certification was obtained, encumbrances were not posted in the appropriation ledger. Also, unrecorded encumbrances in the amount of \$35,867 in the General Fund and \$2,404 in the Special Revenue Funds at 12-31-09 and \$2,807 in the Special Revenue Funds at 12-31-10 were found. Failure to certify the availability of funds and encumber appropriations reduces management's ability to monitor available appropriations and can result in overspending funds and negative cash balances.

**FINDING NUMBER 2010-002
(Continued)**

The Township's financial statements and accounting records were adjusted to accurately report the unrecorded encumbrances.

Unless the Township uses the exceptions noted above, prior certification is not only required by statute but also 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 funds are or will be available prior to obligation by the township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. 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 orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2010-003

Material Noncompliance

Ohio Rev. Code, 5575.01, states that, in the maintenance and repair of roads, the board of township trustees may either proceed by contract or force account. When the board proceeds by contract, the contract shall, if the amount involved exceeds forty-five thousand dollars, be let by the board to the lowest responsible bidder after advertisement for bids once, no later than two weeks prior to the date fixed for the letting of the contract, in a newspaper published in the county and of general circulation within the township.

During 2009 and 2010, the Township paid \$110,355 and \$59,052, respectively, to Miller Mason Paving for road maintenance projects. The Township did not follow competitive bidding procedures. Failure to follow competitive bidding procedures could result in overpayments on road projects. The Township should advertise for bids and follow competitive bidding procedures to assure contract are awarded to the lowest and best bidder.

Officials did not respond to the findings above.

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**PAINT TOWNSHIP
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR ENDED DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Ohio Revised Code Section 5705.41(D)	No	Repeated as 2010-002
2008-002	Ohio Revised Code Section 505.262 – proper procedures not followed for debt issued for purchase grader	N/A	Finding no longer valid. No debt issued in 2009 or 2010.
2008-003	Ohio Revised Code Section 5705.41(B) – expenditures exceeded appropriations	No	Partially corrected. Reissued in management letter
2008-004	Ohio Revised Code Section 5575.01 – bidding procedures not followed	No	Repeated as 2010-003

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Dave Yost • Auditor of State

PAINT TOWNSHIP

HIGHLAND 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
MAY 31, 2011**