



Dave Yost • Auditor of State



**PENN TOWNSHIP  
MORGAN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Penn Township  
Morgan County  
460 West Shrivvers Road  
Stockport, Ohio 43787

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements and related notes of Penn Township, Morgan County, Ohio (the Township), as of and for the years ended December 31, 2013 and 2012.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2013 and 2012, or changes in financial position thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Penn Township, Morgan County, Ohio, as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit, described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2015, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

January 9, 2015

**PENN TOWNSHIP  
MORGAN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$12,987	\$21,164	\$34,151
Charges for Services		14,120	14,120
Intergovernmental	12,957	90,164	103,121
Earnings on Investments	207	103	310
Miscellaneous	2,129	300	2,429
<i>Total Cash Receipts</i>	<u>28,280</u>	<u>125,851</u>	<u>154,131</u>
<b>Cash Disbursements</b>			
Current:			
General Government	30,792	67,737	98,529
Public Safety		9,210	9,210
Public Works		58	58
Health		7,000	7,000
Capital Outlay		25,126	25,126
Debt Service:			
Principal Retirement	93	384	477
Interest and Fiscal Charges	365	73	438
<i>Total Cash Disbursements</i>	<u>31,250</u>	<u>109,588</u>	<u>140,838</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(2,970)	16,263	13,293
<b>Other Financing Receipts (Disbursements)</b>			
Sale of Notes		25,000	25,000
<i>Total Other Financing Receipts (Disbursements)</i>	<u>0</u>	<u>25,000</u>	<u>25,000</u>
<i>Net Change in Fund Cash Balances</i>	(2,970)	41,263	38,293
<i>Fund Cash Balances, January 1</i>	<u>(4,443)</u>	<u>65,706</u>	<u>61,263</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		90,779	90,779
Committed		16,190	16,190
Unassigned (Deficit)	<u>(7,413)</u>		<u>(7,413)</u>
<i>Fund Cash Balances, December 31</i>	<u><u>(\$7,413)</u></u>	<u><u>\$106,969</u></u>	<u><u>\$99,556</u></u>

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

**PENN TOWNSHIP  
MORGAN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$7,072	\$18,411	\$25,483
Charges for Services		12,160	12,160
Intergovernmental	16,634	161,690	178,324
Earnings on Investments	427	217	644
Miscellaneous	75	322	397
<i>Total Cash Receipts</i>	<u>24,208</u>	<u>192,800</u>	<u>217,008</u>
<b>Cash Disbursements</b>			
Current:			
General Government	31,978	195,336	227,314
Public Safety		4,939	4,939
Public Works		579	579
Debt Service:			
Principal Retirement	2,126		2,126
Interest and Fiscal Charges	82		82
<i>Total Cash Disbursements</i>	<u>34,186</u>	<u>200,854</u>	<u>235,040</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(9,978)	(8,054)	(18,032)
<b>Other Financing Receipts (Disbursements)</b>			
Other Financing Sources	364		364
Other Financing Uses	(2,261)	(880)	(3,141)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(1,897)</u>	<u>(880)</u>	<u>(2,777)</u>
<i>Net Change in Fund Cash Balances</i>	(11,875)	(8,934)	(20,809)
<i>Fund Cash Balances, January 1</i>	<u>7,432</u>	<u>74,640</u>	<u>82,072</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		54,396	54,396
Committed		11,310	11,310
Unassigned (Deficit)	(4,443)		(4,443)
<i>Fund Cash Balances, December 31</i>	<u>(\$4,443)</u>	<u>\$65,706</u>	<u>\$61,263</u>

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

**PENN TOWNSHIP  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**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 Penn Township, Morgan County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Pennsville Volunteer Fire Company to provide fire 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. Deposits**

The Township has one interest-bearing checking account and one interest-bearing savings account.

**D. Fund Accounting**

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

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Fund:

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

**PENN TOWNSHIP  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**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. Appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must 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 canceled and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2013 and 2012 budgetary activity appears in Note 3.

**F. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**3. Committed**

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**PENN TOWNSHIP  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**F. Fund Balance (Continued)**

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. 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.

**2. Equity in Pooled Deposits**

The Township maintains a 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:

	2013	2012
Demand deposits	\$99,556	\$61,263
Total deposits	\$99,556	\$61,263

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

**3. Budgetary Activity**

Budgetary activity for the years ending 2013 and 2012 follows:

Fund Type	2013 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$136,312	\$28,280	(\$108,032)
Special Revenue	169,273	150,851	(18,422)
Total	\$305,585	\$179,131	(\$126,454)

**PENN TOWNSHIP  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**3. Budgetary Activity (Continued)**

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$65,800	\$31,250	\$34,550
Special Revenue	234,100	109,588	124,512
Total	\$299,900	\$140,838	\$159,062

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$24,572	\$24,572
Special Revenue	0	192,800	192,800
Total	\$0	\$217,372	\$217,372

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$67,888	\$36,447	\$31,441
Special Revenue	186,580	201,734	(15,154)
Total	\$254,468	\$238,181	\$16,287

Contrary to Ohio law, appropriations exceeded estimated resources in 2013 and 2012. Also, the Township did not consistently obtain the Fiscal Officer's prior certification before incurring obligations.

**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.

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 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 includes postretirement healthcare and survivor and disability benefits.

**PENN TOWNSHIP  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**5. Retirement System (Continued)**

The Ohio Revised Code also prescribes contribution rates. For 2013 and 2012, 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, 2013.

**6. Debt**

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Commercial Loan	\$24,250	3.75%
Total	\$24,250	

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

Year ending December 31:	Commerical Loan
2014	\$5,491
2015	5,491
2016	5,491
2017	5,491
2018	4,585
Total	\$26,549

The Township obtained a 5-year promissory note at First National Bank of McConnelsville to purchase a truck.

**7. 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

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. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc. (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**PENN TOWNSHIP  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**7. Risk Management (Continued)**

Casualty and Property Coverage

The Pool is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2013, OTARMA retained \$350,000 for casualty claims and \$250,000 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, 2013 and 2012 (the latest information available):

	<u>2013</u>	<u>2012</u>
Assets	\$34,954,286	\$34,771,270
Liabilities	<u>(8,486,363)</u>	<u>(9,355,082)</u>
Net Assets	<u>\$26,467,923</u>	<u>\$25,416,188</u>

At December 31, 2013 and 2012, respectively, the liabilities above include approximately \$7.9 and \$8.7 million of estimated incurred claims payable. The assets above also include approximately \$7.4 and \$7.8 million of unpaid claims to be billed to approximately 948 member governments in the future, as of December 31, 2013 and 2012, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2013, the Township's share of these unpaid claims collectible in future years is approximately \$2,000

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.

<u>Contributions to OTARMA</u>	
<u>2013</u>	<u>2012</u>
\$3,514	\$3,450

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

Penn Township  
Morgan County  
460 West Shrivvers Road  
Stockport, Ohio 43787

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Penn Township, Morgan County, Ohio (the Township), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated January 9, 2015, wherein we noted the Township followed financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 permit.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. 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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. We consider Findings 2013-001 through 2013-003, 2013-007 and 2013-008 described in the accompanying Schedule of Findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Finding 2013-004 described in the accompanying Schedule of Findings to be a significant deficiency.

***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, opining 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 2013-001, 2013-002, 2013-004 through 2013-006 and 2013-009 through 2013-010.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

January 9, 2015

**PENN TOWNSHIP  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2013-001**

**Noncompliance/Material Weakness**

Ohio Rev. Code § 5705.10(D) requires all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose

During 2012, the Fiscal Officer incorrectly posted rollback and homestead monies to the General Fund in the amount of \$4,163 instead of the Cemetery Fund, Special Revenue Fund type, in the amount of \$1,745, the Road and Bridge Fund, in the amount of \$669 and the Fire Levy Fund, Special Revenue fund type, in the amount of \$1,749.

During 2013, the Fiscal Officer incorrectly posted rollback and homestead monies to the General Fund in the amount of \$4,543 instead of the Cemetery Fund, Special Revenue Fund type, in the amount of \$1,905, the Road and Bridge Fund, in the amount of \$730 and the Fire Levy Fund, Special Revenue fund type, in the amount of \$1,908.

Therefore, in 2013 and 2012, the Fiscal Officer improperly posted rollback homestead monies to the General Fund, in the amount of \$8,706 that should have been posted to the Cemetery, Special Revenue Fund type, in the amount of \$3,650, Road and Bridge Fund, Special Revenue Fund type, in the amount of \$1,399, and Fire Levy Fund, Special Revenue Fund type, in the amount of \$3,657. The Fiscal Officer made these adjustments on December 18, 2014 to the Township records and, therefore, these adjustments are reflected in the accompanying financial statements.

**FINDING NUMBER 2013-002**

**Noncompliance/Material Weakness**

Ohio Admin. Code § 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by Ohio Admin. Code § 117-2-03.

During 2013, the Township entered into a debt agreement for the purchase of a tractor in the amount of \$25,000. The Township purchased the tractor from the Gasoline Tax Fund, Special Revenue Fund type, but posted the note proceeds to the General Fund instead of to the Gasoline Tax Fund.

In 2013, the Township Fiscal Officer improperly posted the note proceeds to the General Fund, in the amount of \$25,000 instead of to the Gasoline Tax Fund, Special Revenue Fund type, in the amount of \$25,000. The Fiscal Officer made this adjustment on December 18, 2014 to the Township records and therefore, this adjustment is reflected in the accompanying financial statements.

**PENN TOWNSHIP  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

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

**FINDING NUMBER 2013-003**

**Material Weakness**

The Fiscal Officer prepared monthly bank reconciliations during the audit period. However, these reconciliations were not accurate. The monthly bank reconciliations contained "other adjusting factors" throughout the entire audit period which were carried forward instead of being investigated and corrected. The lack of proper reconciliations resulted in numerous errors which remained undetected and/or uncorrected until the audit.

The reconciling items for each month could not be substantiated. Therefore, a proof-of-cash analysis was performed. An unexplained "other adjusting factor" of \$367.29 was identified on January 1, 2012 and December 31, 2011. Posting errors, such as receipts not posted, receipts posted twice, expenditure deductions not posted and interest receipts not posted were identified. At December 31, 2013, there was an unexplained "other adjusting factor" of \$367.29, in which the bank balance was higher than the book balance. This variance occurred at some point in the prior audit.

The table below reflects the adjustments made to reconcile to the accounting records to the bank with an "other adjusting factor", in the amount of \$367.29

Fund	12/31/12013 Balance	2012 Adjustments	2013 Adjustments	Adj 12/31/13 Balance
General	\$32,097.33	(\$4,441.56)	(\$1,362.85)	\$26,292.92
<b><u>Special Revenue</u></b>				
MVL	\$3,211.28	(1,127.73)	(805.68)	\$1,277.87
Gas Tax	\$46,659.27	(7,267.87)	(2,816.15)	\$36,575.25
Road & Bridge	\$14,790.75			\$14,790.75
Cemetery	\$5,274.64	(200.00)		\$5,074.64
Fire Levy	\$15,545.36			\$15,545.36
Total SR	\$85,481.30	(\$8,595.60)	(\$3,621.83)	\$73,263.87
Total	\$117,578.63			\$99,556.79

We recommend the Township, as part of the monthly cash reconciliation process, investigate the unidentified reconciling items timely and make the necessary adjustments to the books. Also, the monthly bank reconciliation should be approved by a Board Member at each monthly meeting. The Fiscal Officer made these adjustments on December 18, 2014 to the Township records and, therefore, these adjustments are reflected in the accompanying financial statements.

**PENN TOWNSHIP  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2013-004**

**Noncompliance/Significant Deficiency**

Ohio Rev. 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 §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

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

Amounts of less than \$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 Certificates - Fiscal officers may prepare so-called "blanket" certificates not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
3. Super Blanket Certificate - The Township may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

We noted fifty-seven percent and one-hundred percent of the non-payroll transactions issued in 2013 and 2012, respectively, did not have the prior certification of the Fiscal Officer, nor was there any evidence the Fiscal Officer was using a "then and now" certificate. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**PENN TOWNSHIP  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

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

**FINDING NUMBER 2013-004 (Continued)**

**Noncompliance/Significant Deficiency - Ohio Rev. Code § 5705.41(D)(1) (Continued)**

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

We recommend the Township 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 commitments to the proper appropriation code, to reduce the available appropriation.

**FINDING NUMBER 2013-005**

**Noncompliance**

Ohio Rev. Code Chapter 133 allows various methods for subdivisions to incur debt. § 133.22 allows a subdivision to issue anticipatory securities, § 133.10 allows anticipation securities in anticipation of current property tax revenues, § 133.14 allows the issuance of securities for the purpose of paying all or any portion of the costs of any permanent improvement that the subdivision is authorized, alone or in cooperation with other persons, to acquire, improve, or construct and § 133.18 allows the taxing authority of a subdivision by legislation to submit to the electors of the subdivision the question is issuing any general obligation bonds, for one purpose, that the subdivision has power or authority to issue.

In 2013, the Township signed promissory notes with a local bank to purchase a tractor. This type of debt does not meet the criteria for any of the debt allowed in Ohio Revised Code Chapter 133.

The Ohio Revised Code contains various methods of incurring debt for Townships. Installment loans and promissory notes with banking institutions are not legal methods of debt for Townships. We recommend the Township contact their legal counsel before incurring future debt.

**FINDING NUMBER 2013-006**

**Noncompliance**

Ohio Rev. Code § 5705.39 states, in part, the total appropriations from each fund should not exceed the total estimated revenue.

**PENN TOWNSHIP  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2013-006 (Continued)**

**Noncompliance – Ohio Rev. Code § 5705.39 (Continued)**

As of December 31, 2012, the following funds had appropriations exceeding estimated resources as follows:

Fund	Estimated Resources	Appropriation Authority	Variance
General	\$0	\$ 65,800	( \$65,800)
Motor Vehicle License Tax	\$0	\$ 15,500	( \$15,500)
Gasoline Tax	\$0	\$134,100	(\$134,100)
Road & Bridge	\$0	\$ 10,724	( \$10,724)
Fire District	\$0	\$ 81,514	( \$81,514)
Cemetery	\$0	\$10,724	(\$10,724)

As of December 31, 2013, the General Fund had estimated resources of \$40,429 and appropriation authority of \$65,800: therefore, appropriations exceeded estimated resources by \$25,371.

The practice of allowing appropriations to exceed estimated resources could lead to expenditures being made for which the Township does not have adequate funds, thus leading to deficit fund balances.

We recommend the Township closely monitor appropriations to ensure that appropriations do not exceed estimated resources at any time throughout the year.

**FINDING NUMBER 2013-007**

**Material Weakness**

When a local government enters into an on-behalf-of program agreement with another local government whereby the local government or its residents are the beneficiaries under the agreement, the cash benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf-of disbursements are made.

The Township was involved in an Issue I paving project with the Village of McConnelsville and Center Township through the Morgan County Engineer. The Ohio Public Works Commission (OPWC) paid the vendor directly for the project. The Township did not post the receipts and the expenditures for the Issue I project to its books, in the amount of \$77,112. As a result, receipts and disbursements were understated on the Township's books and annual financial report for 2012. Adjustments with which the Township's management agrees have been posted to the Township's books and are reflected in the accompanying financial statements.

We recommend the Township record all Issue I receipts and the corresponding expenditures in the Township's books.

**PENN TOWNSHIP  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

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

**FINDING NUMBER 2013-008**

**Material Weakness**

All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the UAN system. The UAN system should be utilized to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

We found estimated revenue approved by the Budget Commission did not agree to the amounts posted to the UAN accounting system as follows:

Fund	Estimated Revenue per Budget Commission	Estimated Revenue per Revenue Status Report	Variance
December 31, 2012:			
General	\$0	\$28,084	(\$28,084)
Motor Vehicle License Tax	\$0	\$14,542	(\$14,542)
Gasoline Tax	\$0	\$86,880	(\$86,800)
Road and Bridge	\$0	\$ 4,173	(\$ 4,173)
Cemetery	\$0	\$ 8,831	(\$ 8,831)
Fire District	\$0	\$ 8,614	(\$ 8,614)
December 31, 2013:			
General	\$36,312	\$56,846	\$20,534
Motor Vehicle License Tax	\$ 8,290	\$ 7,677	(\$ 614)
Gasoline Tax	\$85,276	\$77,943	(\$ 7,333)
Road & Bridge	\$ 4,244	\$ 4305	\$ 61
Cemetery	\$57,355	\$ 8,927	(\$48,428)
Fire District	\$14,107	\$14,307	\$ 200

We found appropriations approved by the Budget Commission did not agree to the amounts posted to the UAN accounting system as follows.

Fund	Appropriations per Appropriation Authority	Appropriations per UAN Status Report	Variance
December 31, 2012:			
Gasoline Tax	\$134,100	\$136,100	(\$ 2,000)
December 31, 2013:			
General	\$ 65,800	\$ 40,400	(\$25,400)

**PENN TOWNSHIP  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2013-008 (Continued)**

**Material Weakness (Continued)**

Without information properly entered into the system, the management of the Township lost some degree of budgetary control. This also resulted in audit adjustments to the budgetary note disclosure.

We recommend the Fiscal Officer accurately post appropriations as approved by the Board of Trustees and estimated receipts as approved by the County Budget Commission into the computer system. This procedure will help ensure more useful comparisons of budget versus actual activity, as well as provide management with an accurate monitoring tool throughout the year.

**FINDING NUMBER 2013-009**

**Noncompliance**

Ohio Revised Code § 505.24(C) sets forth the method by which township trustees' compensation should be allocated. Subsequent to House Bill 153, passed in 2011, Ohio Rev. Code §§ 505.24 and 507.09 require township trustees and fiscal officers, respectively, to certify the amount of work performed on restricted funds. After the passage of H.B. 153, the Board of Trustees for 2012 continued the practice of what was previously required under the statute - documenting their time on timesheets.

As a result the Township Trustees did not prepare the legislatively approved payroll certifications for the entire audit period.

We recommend the Township review H.B. 153, as well as Ohio Rev. Code §§ 505.24 and 507.09, and adopt formal administrative procedures regarding signed certifications of the allocation of payroll by each Trustee for each monthly pay period. The Fiscal Officer should not distribute the Trustees' salary until such signed certification is obtained. If they are paid 100% out of the General Fund, no certification is required.

**FINDING NUMBER 2013-010**

**Noncompliance**

Ohio Revised Code § 507.09(C) states the compensation of the township fiscal officer shall be paid in equal monthly payments.

During the audit period, the Fiscal Officer received quarterly amounts of her salary in June, August & September, 2012. The Fiscal Officer received her November & December, 2012 salary in advance of the month to be paid. The Fiscal Officer also paid her 2013 May through November salary between May 13 and August 26, 2013.

We recommend the Fiscal Officer be paid in 12 equal monthly payments.

**PENN TOWNSHIP  
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2013 AND 2012**

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>
2011-001	Ohio Rev. Code § 5705.36 – The Township did not certify to the County Auditor the total amount from all sources available for expenditure from each fund during 2011.	No	Not Corrected; Repeated as noncompliance citation in Management letter.
2011-002	Ohio Rev. Code § 5705.39 – The Township had appropriations in excess of estimated resources during 2011.	No	Not Corrected; Repeated as Finding 2013-006.
2011-003	Material Weakness – During 2011 and 2010 debt payments were coded to general government in the General Fund instead of debt principal and interest.	Yes	
2011-004	Material Weakness – During 2011 and 2010 expenditures of the Motor Vehicle License Tax Fund and Gasoline Tax Fund were coded to General Government instead of Public Works.	Yes	
2011-005	Ohio Rev. Code § 5705.41(D) – Prior certification was not obtained for 89% in 2011 and 92% in 2010.	No	Not Corrected; Repeated as Finding 2013-004.



# Dave Yost • Auditor of State

**PENN TOWNSHIP**

**MORGAN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 27, 2015**