



**Auditor of State
Betty Montgomery**

**SALEM TOWNSHIP
MONROE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Salem Township
Monroe County
48251 Sykes Ridge Road
Clarington, Ohio 43915

To the Board of Trustees:

We have audited the accompanying financial statements of Salem Township, Monroe County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Salem Township
Monroe County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of management, the Board of Trustees, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 31, 2005

**SALEM TOWNSHIP
MONROE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$8,299	\$9,919	\$18,218
Intergovernmental	37,207	68,782	105,989
Earnings on Investments	41	44	85
Other Revenue		70	70
	<u>45,547</u>	<u>78,815</u>	<u>124,362</u>
Total Cash Receipts			
Cash Disbursements:			
Expenditures	<u>18,587</u>	<u>78,550</u>	<u>97,137</u>
Total Cash Disbursements	<u>18,587</u>	<u>78,550</u>	<u>97,137</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements	26,960	265	27,225
Fund Cash Balances, January 1	<u>(5,681)</u>	<u>31,798</u>	<u>26,117</u>
Fund Cash Balances, December 31	<u><u>\$21,279</u></u>	<u><u>\$32,063</u></u>	<u><u>\$53,342</u></u>

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

**SALEM TOWNSHIP
MONROE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$8,593	\$9,810	\$18,403
Intergovernmental	9,047	62,912	71,959
Earnings on Investments	8	86	94
Other Revenue	76	5	81
	<u>17,724</u>	<u>72,813</u>	<u>90,537</u>
Total Cash Receipts			
	<u>17,724</u>	<u>72,813</u>	<u>90,537</u>
Cash Disbursements:			
Expenditures	17,056	68,017	85,073
	<u>17,056</u>	<u>68,017</u>	<u>85,073</u>
Total Cash Disbursements			
	<u>17,056</u>	<u>68,017</u>	<u>85,073</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements	668	4,796	5,464
Fund Cash Balances, January 1 - Restated - see Note 2	(6,349)	27,002	20,653
	<u>(6,349)</u>	<u>27,002</u>	<u>20,653</u>
Fund Cash Balances, December 31	<u>(\$5,681)</u>	<u>\$31,798</u>	<u>\$26,117</u>

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

**SALEM TOWNSHIP
MONROE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Salem Township, Monroe County (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, fire protection and emergency medical services. The Township contracts with the Clarrington Volunteer Fire Department to provide fire protection services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

The Township did not classify its disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Admin. Code Section 117-2-02(A). This Ohio Administrative Code Section requires classifying disbursements.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue 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 for constructing, maintaining and repairing Township roads.

**SALEM TOWNSHIP
MONROE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 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 canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2003 and 2002 budgetary activity appears in Note 4.

E. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. PRIOR PERIOD RESTATEMENT

For the years ended December 31, 2001 and 2000, findings for adjustment were issued but never posted to the Township's records. A finding for adjustment was issued for an improper transfer of monies from the Motor Vehicle License Tax Fund to the General Fund made during the year ended December 31, 2000. There were also findings for adjustment issued for Township Trustee salaries paid from funds other than General Fund during the years ended December 31, 2001 and 2000. A retroactive resolution was passed by the Township Trustees on November 4, 2002 to allocate a portion of the Township Trustee salaries to the General Fund; however, this adjustment was not posted to the Township's records. As of the date of this report, the prior audit adjustments were posted to the Township's records, thus resulting in a prior period adjustment at January 1, 2002. The restatements had the following impact on Fund Balances:

**SALEM TOWNSHIP
MONROE COUNTY**

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

2. PRIOR PERIOD RESTATEMENT (Continued)

	General	Special Revenue
Fund Balances at December 31, 2001	\$1,651	\$19,002
Prior audit adjustments posted to the Township records	(8,000)	8,000
Adjusted Fund Balances at December 31, 2001	(\$6,349)	\$27,002

3. EQUITY IN POOLED CASH

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

	2003	2002
Demand deposits	\$53,342	\$26,117

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

4. BUDGETARY ACTIVITY

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

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$7,992	\$45,547	\$37,555
Special Revenue	70,871	78,815	7,944
Total	\$78,863	\$124,362	\$45,499

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$10,850	\$18,587	(\$7,737)
Special Revenue	93,700	78,550	15,150
Total	\$104,550	\$97,137	\$7,413

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$16,707	\$17,724	\$1,017
Special Revenue	71,671	72,813	1,142
Total	\$88,378	\$90,537	\$2,159

**SALEM TOWNSHIP
MONROE COUNTY**

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

4. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$18,350	\$17,056	\$1,294
Special Revenue	86,330	68,017	18,313
Total	\$104,680	\$85,073	\$19,607

Contrary to Ohio law, at December 31, 2002, the General and Road and Bridge Funds had cash deficit balances of \$5,681 and \$1,171, respectively. Also, contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General and Gasoline Tax Funds by \$7,737 and \$989, respectively, for the year ended December 31, 2003. At December 31, 2002, the Road and Bridge Fund budgetary expenditures exceeded appropriation authority by \$5,038.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Township.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

6. DEBT

Debt outstanding at December 31, 2003, was as follows:

	Principal	Interest Rate
Equipment Lease	\$4,930	0%

The Township leased a tractor, loader and backhoe in 1999. The lease agreement has a purchase option clause that allows the Township to purchase the equipment for one dollar at the end of the lease term. The Township makes quarterly payments to New Holland Credit Company for all three pieces of equipment.

**SALEM TOWNSHIP
MONROE COUNTY**

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

6. DEBT (Continued)

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

	<u>Equipment Lease</u>
Year ending December 31: 2004	\$4,930
Total	<u><u>\$4,930</u></u>

7. RETIREMENT SYSTEMS

Township employees, as well as the Clerk and Trustees, belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OPERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township owed \$1,399 in OPERS contributions required through December 31, 2003.

8. RISK MANAGEMENT

Risk Pool Membership

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

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

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

**SALEM TOWNSHIP
MONROE COUNTY**

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

8. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

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

Financial Position

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

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

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

9. CONTINGENT LIABILITY

The Township is a defendant in a lawsuit. Although the outcome of this suit is not presently determinable, management believes that the resolution of this matter will not materially adversely affect the Township's financial condition.



**Auditor of State
Betty Montgomery**

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

Salem Township
Monroe County
48251 Sykes Ridge Road
Clarington, Ohio 43915

To the Board of Trustees:

We have audited the financial statements of Salem Township, Monroe County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated March 31, 2005, which was qualified since the Township did not classify disbursements in its financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Township's management dated March 31, 2005, we reported other matters involving internal control over financial reporting.

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 2003-001 through 2003-006. In a separate letter to the Township's management dated March 31, 2005, we also reported other matters related to noncompliance we deemed immaterial.

Salem Township

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
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www.auditor.state.oh.us

Monroe County
Independent Accountants' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required By *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 31, 2005

**SALEM TOWNSHIP
MONROE COUNTY**

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

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Admin. Code Section 117-2-02(A) requires all local public offices to 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, document compliance with finance-related legal and contractual requirements and prepare financial statements.

Per Ohio Admin. Code Section 117-2-02(D), accounting records that can help achieve these objectives include:

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. 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.
3. Appropriation ledger, which may assemble and classify disbursements 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.

Ohio Admin. Code Section 117-7-01 provides suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example) and classify disbursements by fund, program (general government, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Township with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

During 2003 and 2002, the Township presented their receipts and disbursements in an unclassified format on their financial statements. The accompanying financial statements do reflect receipts in a classified format; however, the unclassified disbursements resulted in a qualified opinion over the omission of disbursement classifications.

We recommend the Township utilize Ohio Admin. Code Section 117-7-01, which provides suggested account classifications.

FINDING NUMBER 2003-002

Noncompliance Citation

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

**SALEM TOWNSHIP
MONROE COUNTY**

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

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

**FINDING NUMBER 2003-002
(Continued)**

Noncompliance Citation (Continued)

Ohio Rev. Code Section 505.24 (Continued)

During 2003, 67% of the Trustee salaries were paid from the Gasoline Tax Fund, and 33% were paid from the Road and Bridge Fund in the amount of \$10,854 and \$5,346 respectively. During 2002, 75% were paid from the Gasoline Tax Fund and 25% were paid from the Road and Bridge Fund in the amount of \$12,150 and \$4,050 respectively. The Township Trustees had not adopted a resolution authorizing the payment of Township Trustee salaries from the aforementioned funds. On March 7, 2005, the Township Trustees passed a retroactive resolution authorizing 1% (\$162) of the 2003 Trustee salaries and benefits to be paid from the General Fund, 66% from the Gasoline Tax Fund, and 33% from the Road and Bridge Fund. The Township Trustees also authorized 1% (\$162) of the 2002 Trustee salaries and benefits to be paid from the General Fund, 74% from the Gasoline Tax Fund, and 25% from the Road and Bridge Fund.

As of the date of this report, Township management was in agreement with the aforementioned adjustments and these adjustments have been posted to the Township's records and are reflected in the accompanying financial statements.

We recommend the Township Trustees adopt a formal resolution at the organizational meeting each year addressing the allocation of total Trustee compensation, if payments of the Trustee salaries are to be paid from any fund besides the General Fund. Each resolution should proportionally allocate the salary and fringe benefit distribution from the various funds in the same proportion as the Trustees' service bears to the activities supported by such funds, as determined by the Board. Benefits such as health insurance and the employer's portion of retirement and Medicare should be paid out of the same funds, and in the same proportions, as the salaries.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Rev. Code Section 5705.10 provides that money paid into a fund may only be used for the purpose for which the fund is established. The Township Clerk's duties are administrative in nature and the Motor Vehicle License Tax and Road and Bridge Funds may not be used to pay for general administrative services, unless the services being paid are to Trustees in relation to roads. See, Ohio Township Handbook. Therefore, the Township Clerk's salary and benefits should be paid for from the Township's General Fund. (Ohio Township Handbook, Section A(III)(4)(A))

During 2003, the Township paid \$419 of the employer's share of the Township Clerk's PERS benefits from the Motor Vehicle License Tax Fund. During 2002, the Township paid \$628 of the employer's share of the Township Clerk's PERS benefits from the Road and Bridge Fund.

**SALEM TOWNSHIP
MONROE COUNTY**

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

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

Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.10 (Continued)

This adjustment, with which management agrees, has been posted to the Township's books and is reflected in the accompanying financial statements.

We recommend the Township Clerk pay all of his future salary and benefits from the Township's General Fund.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Rev. Code Section 5705.10 provides that money paid into a fund may only be used for the purpose for which the fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

From January through November 2003, the Road and Bridge Fund carried a negative fund balance in amounts anywhere from \$1,171 to \$5,429.

As of December 31, 2002, the General Fund had a negative fund balance in the amount of \$5,681 and the Road and Bridge Fund had a negative fund balance in the amount of \$1,171.

We recommend the Township Clerk monitor fund balances to ensure that monies from one fund are not utilized to pay the obligations of another fund. To cover temporary cash flow shortages, the Township may be able to advance money from other funds. The Township should consult with its legal counsel and review Auditor of State Audit Bulletin 1997-003 to determine if an advance of funds to prevent a deficit cash balance would be appropriate.

FINDING NUMBER 2003-005

Noncompliance Citation

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

At December 31, 2003, the following funds reflected expenditures which exceeded appropriations:

Fund	Appropriations	Expenditures	Variance
General	\$10,850	\$18,587	(\$7,737)
Gasoline Tax	\$68,700	\$69,689	(\$989)

**SALEM TOWNSHIP
MONROE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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**FINDING NUMBER 2003-005
(Continued)**

Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.41(B) (Continued)

At December 31, 2002, the following fund reflected expenditures which exceeded appropriations:

Fund	Appropriations	Expenditures	Variance
Road and Bridge	\$11,380	\$16,418	(\$5,038)

This situation leads to the increased possibility that deficit spending could occur.

We recommend the Township Clerk and the Township Trustees monitor their budgetary cycle throughout the year to ensure that disbursements do not exceed the appropriations and prior year carryover encumbrances. The Township Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Township Clerk may request the Township Trustees to formally approve increased expenditure levels by increasing appropriations and estimated resources, if necessary. Any amended appropriations must be documented in the minutes.

FINDING NUMBER 2003-006

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) provides that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract 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 encumbrances.

There are several exceptions to this basic requirement, one of which is provided by Ohio Rev. Code Section 5705.41(D)(1):

Then and Now Certificate – If the fiscal officer can certify that both at the time the contract or order was made and at the time that the fiscal officer is completing the certification, 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 taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from receipt of such certificate to approve payment by ordinance or resolution. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003) may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

**SALEM TOWNSHIP
MONROE COUNTY**

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

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

**FINDING NUMBER 2003-006
(Continued)**

Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.41(D) (Continued)

Although the obligations paid by the Township had a statement attached indicating the purchase was lawfully appropriated or in the process of collection to the credit of the appropriate fund, free from any previous encumbrance, this certification of available funds was not obtained prior to incurring the obligation for 88% of transactions tested and there was no evidence of a "Then and Now" certificate being used by the Township Clerk. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

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 Township Clerk certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend Township personnel obtain proper certification from the Township Clerk prior to incurring any obligations on behalf of the Township. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**SALEM TOWNSHIP
MONROE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-41056-001	Ohio Rev. Code Section 5705.15, \$2,000 transferred from the Motor Vehicle License Tax Fund to the General Fund.	Yes	See Note 2.
2001-41056-002	Ohio Rev. Code Section 505.24, Trustee salaries paid from funds other than the General Fund.	No	Partially Corrected-See Note 2; Also Repeated as Finding No. 2003-002.
2001-41056-003	Ohio Rev. Code Section 5705.41(D), not certifying availability of funds prior to incurring obligations.	No	Not Corrected; Repeated as Finding No. 2003-006.



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SALEM TOWNSHIP

MONROE 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 10, 2005**