



**Auditor of State  
Betty Montgomery**



**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Salem Township  
Washington County  
RR 2, Box 189  
Lower Salem, Ohio 45745

To the Board of Trustees:

We have audited the accompanying financial statements of Salem Township, Washington 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 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 that our audit provides a reasonable basis for our opinion.

The accompanying 2003 and 2002 financial statements present receipts and disbursements by totals only. Ohio Administrative Code 117-2-02 (A) requires governments to classify receipt and disbursement transactions, however, the amounts in the receipts and appropriations ledgers, as presented, were not in agreement with the Township's cash journal.

As discussed in Note 1, the Village 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 the prior audit, the Township declined to post a Finding for Adjustment against the General Fund in the amount of \$22,312, and in favor of the Road and Bridge Fund, Special Revenue Fund type, in the amount of \$8,303, in favor of the Fire Levy Fund, Special Revenue Fund type, in the amount of \$7,709 and in favor of the E-Squad Note Fund, Debt Service Fund type, in the amount of \$6,300 (See Finding Number 2003-002).

During 2002, the Township improperly posted receipts to incorrect funds and paid expenditures from funds with restrictions (See Finding Numbers 2003-001, 2003-002, 2003-004 and 2003-005). Had these posting errors been properly posted to the Township's accounting system, the 2002 General Fund receipts would have been decreased by \$48,090 and expenditures would have increased by \$4,354 and the December 31, 2002 cash balance of the General Fund would have been decreased by a cumulative \$74,756, the 2002 Special Revenue receipts would have been increased by \$35,490 and disbursements would have been decreased by \$16,417 and the December 31, 2002 cash balance of the Special Revenue Fund type would have been increased by a cumulative \$67,919 and the 2002 Debt Service receipts would have been increased by \$12,600 and disbursements would have been increased by \$12,063 and the December 31, 2002 cash balance of the Debt Service Fund type would have been increased by a cumulative \$6,837.

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During 2003, the Township improperly posted receipts to incorrect funds and paid expenditures from funds with restrictions (See Finding Numbers 2003-001, 2003-002, 2003-003 and 2003-004). Had these posting errors been properly posted to the Township's accounting system, the 2003 General Fund receipts would have decreased by \$11,283 and disbursements would have been increased by \$15,643 and the December 31, 2003 cash balance of the General Fund would have been decreased by a cumulative \$101,682, the 2003 Special Revenue receipts would have increased by \$7,274 and disbursements would have been decreased by \$15,643 and the December 31, 2003 cash balance of the Special Revenue Fund type would have been increased by a cumulative \$90,836 and the 2003 Debt Service receipts would have increased by \$4,009 and the December 31, 2003 cash balance of the Debt Service Fund type would have been increased by a cumulative \$10,846 (See note disclosure 7).

In our opinion, because of the effects of the matters discussed in the preceding two paragraphs and the omission of receipt and disbursement classification, the financial statements referred to above do not present fairly, in all material respects, the combined fund cash balances of Salem Township, Washington County, as of December 31, 2003 and 2002, and its combined unclassified 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 December 5, 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. 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.

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 Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

December 5, 2005

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

	<u>Governmental Fund Types</u>			<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Nonexpendable Trust Fund</u>	
<b>Cash Receipts:</b>					
Cash Receipts	\$70,569	\$191,002	\$10,208	\$318	\$272,097
Total Cash Receipts	<u>70,569</u>	<u>191,002</u>	<u>10,208</u>	<u>318</u>	<u>272,097</u>
<b>Cash Disbursements:</b>					
Cash Disbursements	103,325	196,017	0	397	299,739
Total Cash Disbursements	<u>103,324</u>	<u>196,017</u>	<u>0</u>	<u>397</u>	<u>299,739</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(32,755)</u>	<u>(5,015)</u>	<u>10,208</u>	<u>(79)</u>	<u>(27,641)</u>
Fund Cash Balances, January 1	<u>9,229</u>	<u>89,849</u>	<u>5,862</u>	<u>2,268</u>	<u>107,208</u>
<b>Fund Cash Balances, December 31</b>	<b><u>(\$23,526)</u></b>	<b><u>\$84,834</u></b>	<b><u>\$16,070</u></b>	<b><u>\$2,189</u></b>	<b><u>\$79,567</u></b>

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

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Nonexpendable Trust</u>	
<b>Cash Receipts:</b>					
Cash Receipts	\$128,202	\$176,800	\$0	\$48	\$305,050
Total Cash Receipts	<u>128,202</u>	<u>176,800</u>	<u>0</u>	<u>48</u>	<u>305,050</u>
<b>Cash Disbursements:</b>					
Cash Disbursements	138,939	175,446	6,180	2,812	323,377
Total Cash Disbursements	<u>138,939</u>	<u>175,446</u>	<u>6,180</u>	<u>2,812</u>	<u>323,377</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(10,737)</u>	<u>1,354</u>	<u>(6,180)</u>	<u>(2,764)</u>	<u>(18,327)</u>
Fund Cash Balances, January 1	<u>19,966</u>	<u>88,495</u>	<u>12,042</u>	<u>5,032</u>	<u>125,535</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$9,229</u></b>	<b><u>\$89,849</u></b>	<b><u>\$5,862</u></b>	<b><u>2,268</u></b>	<b><u>107,208</u></b>

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

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

Salem Township, Washington 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, cemetery maintenance, fire protection, and ambulance 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 the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements basis of accounting. 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).

The Township did not provide accurate receipt or appropriation ledgers therefore we could not rely on the classification of receipts or disbursements in the financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-02-02(A). This Ohio Administrative Code Section requires classifying receipts and disbursements.

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

**C. Fund Accounting**

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

**1. General Fund**

The General Fund reports all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. 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.

**SALEM TOWNSHIP  
WASHINGTON 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 cancelled, and reappropriated in the following year.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**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. 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:

	<u>2003</u>	<u>2002</u>
Demand Deposits	<u>\$79,567</u>	<u>\$107,208</u>

**Deposits:** Deposits are either insured by the Federal Deposit Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

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

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

**3. BUDGETARY ACTIVITY (Continued)**

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$56,816	\$70,569	\$13,753
Special Revenue	108,237	191,002	82,765
Debt Service	40,804	10,208	(30,596)
Nonexpendable Trust	598	318	(280)
Total	<u>\$206,455</u>	<u>\$272,097</u>	<u>\$65,642</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$152,337	\$103,325	\$49,012
Special Revenue	229,265	196,017	33,248
Debt Service	40,804	0	40,804
Nonexpendable Trust	598	397	201
Total	<u>\$423,004</u>	<u>\$299,739</u>	<u>\$123,265</u>

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$61,394	\$128,202	\$66,808
Special Revenue	223,590	176,800	(46,790)
Debt Service	29,387	0	(29,387)
Nonexpendable Trust	208	48	(160)
Total	<u>\$314,579</u>	<u>\$305,050</u>	<u>(\$9,529)</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$108,955	\$138,939	(\$29,984)
Special Revenue	260,457	175,446	85,011
Debt Service	30,593	6,180	24,413
Nonexpendable Trust	6,553	2,812	3,741
Total	<u>\$406,558</u>	<u>\$323,377</u>	<u>\$83,181</u>

Contrary to Ohio Rev. Code Section 5705.41(D), the Township failed to obtain the Township Clerk's prior certification consistently during 2002 and 2003.

Contrary to Ohio Rev. Code Section 5705.40, the legislatively approved appropriation amounts differed from the appropriation amounts reported to the County Auditor.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

**3. BUDGETARY ACTIVITY (Continued)**

Contrary to Ohio Rev. Code Section 5705.41(B), the General Fund had expenditures that exceeded appropriations during 2002. During 2003, the Road & Bridge Fund and Permissive Sales Tax Fund, Special Revenue Fund types, had expenditures which exceeded appropriations by \$3,681 and \$12,347, respectively.

Contrary to Ohio Rev. Code Section 5705.36, during 2003 and 2002, the Township Clerk did not report the correct unencumbered fund balance to the County Auditor.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by 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.

**5. RETIREMENT SYSTEMS**

The Township's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. 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 has paid all contributions required through December 31, 2003.

**6. RISK MANAGEMENT**

**Risk Pool Membership**

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

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

**6. RISK MANAGEMENT (Continued)**

**Risk Pool Membership (Continued)**

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.

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	(11,791,300)	(9,197,512)
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	(750,956)	(1,204,326)
Retained earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

**7. ADJUSTMENTS THE TOWNSHIP DECLINED TO MAKE**

The Township declined to make several material adjustments proposed by the Auditor of State (See Finding Numbers 2003-001 through 2003-005). If these material adjustments would have been made, it would have the following effect on the fund balances of the Township:

Effect of Adjustments Not Made by Township				
Fund Type	12/31/2003 Audit Balance	PY & 2002 Adjustments	2003 Adjustments	12/31/03 Fund Adj Balance
<b>General</b>	(\$23,526)	(\$74,756)	(\$26,926)	(\$125,208)
Motor Vehicle License	32,457	4,129	551	37,137
Gas Tax	49,094	17,544	15,092	81,730
Road & Bridge	(3,704)	25,768	1,374	23,438
Cemetery	7,596	0	0	7,596
Fire Levy	(609)	20,478	5,900	25,769
Permissive Sales Tax	0	0	0	0
<b>Special Revenue</b>	84,834	67,919	22,917	175,670
<b>E-Squad Note Retirement</b>	16,070	6,837	4,009	26,916
<b>Nonexpendable Trust</b>	2,189	0	0	2,189
<b>Total</b>	<u>\$79,567</u>	<u>\$0</u>	<u>\$0</u>	<u>\$79,567</u>



**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  
Washington County  
RR2, PO Box 189  
Lower Salem, Ohio 45745

To the Board of Trustees:

We have audited the financial statements of Salem Township, Washington County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated December 5, 2005, wherein we noted the Township did not present receipts and disbursements in accordance with Ohio Administrative Code Section 117-2-02 (A) which requires the Township to classify receipts and disbursements transactions and we opined the financial statements were not fairly presented since the Township declined to adjust its financial statements or accounting records for improper posting of receipts and disbursements. 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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 2003-010, 2003-011, 2003-012, 2003-014, 2003-016 and 2003-017.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider Findings 2003-010, 2003-011, 2003-012, 2003-014 and 2003-016 to be material weaknesses.

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### **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 such 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 2003-001 through 2003-013 and 2003-015. In a separate letter to the Township's management dated December 5, 2005, we reported other matters related to noncompliance we deemed immaterial.

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.



**Betty Montgomery**  
Auditor of State

December 5, 2005

**SALEM TOWNSHIP  
WASHINGTON 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**

**Finding for Adjustment**

Ohio Rev. Code Section 505.24(C) provides, in part, that the general rule as to the payment of a Board of Trustees' compensation is that it must be made from the Township General Fund or from other Township funds as the Board of Trustees determines by resolution. The resolution must allocate the same proportion as the Board of Trustees' services bear to the activities supported by such funds, as determined by the Board of Trustees.

During 2002, the Township paid the Trustees' salaries from funds other than the General Fund, but had no resolution providing for such payments. The Township paid \$2,179 from the Motor Vehicle License Tax Fund, Special Revenue Fund type, and \$2,175 from the Gasoline Tax Fund, Special Revenue Fund type.

During 2003, the Township paid the Trustees' salaries from funds other than the General Fund, but had no resolution providing for such payments. The Township paid \$15,092 from the Motor Vehicle License Tax Fund, Special Revenue Fund type, and \$551 from the Gasoline Tax Fund, Special Revenue Fund type.

A finding for adjustment is hereby issued against the General Fund of Salem Township, Washington County, in the cumulative amount of \$19,997, in favor of the Gasoline Tax Fund, Special Revenue Fund type in the amount of \$2,726 and in favor of the Motor Vehicle License Tax Fund, Special Revenue Fund type in the amount of \$17,271. The Township has not posted this adjustment to its accounting system or financial statements.

We recommend that in the future, the Township determine, in Resolution form, the percentage of Board of Trustee salaries that are to be paid from funds other than the General Fund.

**FINDING NUMBER 2003-002**

**Finding for Adjustment**

Ohio Rev. Code Section 5705.10 states, in part, that all revenue derived from the general levy for current expense within the ten-mill limitation and from sources other than the general property tax, unless its use for a particular purpose is prescribed by law, shall be paid into the general fund. In addition, all revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made.

During the prior audit, the Township declined to post an adjustment for posting 2001 levy monies in the amount of \$22,312 to the General Fund, instead of \$8,303 to the Road & Bridge Fund, \$7,709 to the Fire Levy Fund and \$6,300 to the Debt Service Fund.

The Township posted 2003 levy monies in the amount of \$11,283 to the General Fund which should have been credited to the Road & Bridge Fund, Special Revenue Fund type, in the amount of \$1,374, to the Fire Levy Fund, Special Revenue Fund type, in the amount of \$5,900 and to the E-Squad Note Fund, Debt Service Fund type, in the amount of \$4,009.

The Township posted 2002 levy monies in the amount of \$43,683 to the General Fund and \$1,101 to the Gasoline Tax Fund, Special Revenue Fund type, which should have been credited to the Road & Bridge Fund, Special Revenue Fund type, in the amount of \$17,465, to the Fire Levy Fund, Special Revenue Fund type, in the amount of \$14,719 and to the E-Squad Note Fund, Debt Service Fund type, in the amount of \$12,600.

**SALEM TOWNSHIP  
WASHINGTON 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)**

**Finding for Adjustment (Continued)**

A finding for adjustment is hereby issued against the General Fund in the amount of \$77,278 and against the Gasoline Tax Fund, Special Revenue Fund type, in the amount of \$1,101, and in favor of the Road & Bridge Fund, Special Revenue Fund type, in the amount of \$27,142, in favor of the Fire Levy Fund, Special Revenue Fund type, in the amount of \$28,328, and in favor of the Debt Service Fund in the amount of \$22,909. This adjustment has not been recorded on the books of the Township.

**FINDING NUMBER 2003-003**

**Finding for Adjustment – Fire Levy Expenditures**

Ohio Rev. Code Section 5705.10 states that money paid into any fund shall only be used for the purposes for which such fund is established.

During 2003, the Township paid principal and interest, in the amount of \$6,994, for a tractor debt note out of the Fire Levy Fund. The Fire Levy Fund is restrictive in regards to allowable expenditures. The tractor note debt is not an allowable expenditure for the Fire Levy Fund.

A Finding for Adjustment is hereby issued against the Gasoline Tax Fund of Salem Township, Washington County, in the amount of \$6,994, and in favor of the Fire Levy Fund, Special Revenue Fund type in the amount of \$6,994. This adjustment was not made to the Township's accounting system or posted to the Township's financial statements.

**FINDING NUMBER 2003-004**

**Finding for Adjustment – Gas Tax Expenditures**

Ohio Rev. Code Section 5735.27(A)(5)(c) requires the funds received from the gasoline excise tax shall be expended by each Township for the sole purpose of planning, constructing, maintaining, widening, and reconstructing the public roads and highways within such Township, and paying costs apportioned to the Township under Section 4907.47 of the Revised Code. In addition, Ohio Rev. Code Section 4503.02 requires the funds received from an annual license tax shall be used, in part, for planning, constructing, maintaining, repairing roads, highways, and streets, and maintaining and repairing bridges and viaducts. Article XII, Section 5a of the Ohio Constitution states that no monies derived from fees, excises, or license taxes relating to registration, operation, or use of vehicles on public highway, or to fuels used for propelling such vehicles, shall be expended for other than costs of administering such laws, statutory refunds, and adjustments provided therein, payment of highway obligations, costs for construction, reconstruction, maintenance and repair of public highways and bridges and other statutory highway purposes, expense of state enforcement of traffic laws, and expenditures authorized for hospitalization of indigent persons injured in motor vehicle accidents on the public highways.

During 2002, the Township paid principal and interest, in the amount of \$12,064, for an e-squad debt note out of the Gasoline Tax Fund. The e-squad debt note is to finance a 1998 Ford one ton emergency squad van. Therefore, the e-squad debt note is not a legal allowable expenditure for the Gasoline Tax Fund. In addition, the Township paid for cemetery mowing from the Motor Vehicle License Tax Fund, in the amount of \$1,950. Cemetery mowing is not a legal allowable expenditure for the Motor Vehicle License Tax Fund.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2003-004 (Continued)**

**Finding for Adjustment – Gas Tax Expenditures (Continued)**

During 2003, the Township paid for cemetery mowing from the Gasoline Tax Fund, in the amount of \$1,800 and from the Motor Vehicle License Tax Fund, in the amount of \$1,800. Cemetery mowing is not a legal allowable expenditure for the Motor Vehicle License Tax Fund.

A Finding for Adjustment is hereby issued against the E-Squad Debt Service Fund in the amount of \$12,064 and the Cemetery Fund in the amount of \$5,550 and in favor of the Gasoline Tax Fund, Special Revenue Fund type, in the amount of \$13,864 and in favor of the Motor Vehicle License Tax Fund, Special Revenue Fund type, in the amount of \$3,750. This adjustment was not made to the Township's accounting system or posted to the Township's financial statements.

**FINDING NUMBER 2003-005**

**Finding for Adjustment – Gas Excise Tax Revenue**

Ohio Rev. Code Section 5705.10 states that 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 2002, the Township posted August gas excise tax receipt to the General Fund in the amount of \$4,408 instead of posting to the Gasoline Tax Fund, Special Revenue Fund type.

A Finding for Adjustment is hereby issued against the General Fund of Salem Township, Washington County, in the amount of \$4,408, and in favor of the Gasoline Tax Fund, Special Revenue Fund type, in the amount of \$4,408. This adjustment was not made to the Township's accounting system or posted to the Township's financial statements.

**FINDING NUMBER 2003-006**

**Noncompliance Citation**

Ohio Rev. Code § 5705.10 states that money paid into any fund shall be used only for the purposes for which such a fund was established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At December 31, 2003, the following unadjusted Township funds had negative balances:

<b>Fund</b>	<b>Deficit Cash Fund Balance</b>
General	(\$23,526)
Road & Bridge	(\$3,704)
Fire Levy	(\$609)

We recommend that the Township monitor fund balances to ensure that money from one fund is not used to pay the obligations of another fund.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2003-007**

**Noncompliance Citation**

Ohio Rev. Code Section 118.022 states the conditions which are grounds for a fiscal watch. Ohio Rev. Code Section 118.021 provides that a municipal corporation, county or township may undergo a fiscal watch review to determine whether it is approaching a state of fiscal emergency. The review will be initiated by a written request to the auditor of state from the mayor of the municipal corporation or by the presiding officer of the legislative authority, when authorized by a majority of the members of the legislative authority, or initiated by the Auditor of State.

At the end of December 31, 2003, the Township's General Fund had a \$23,526 deficit fund balance (See Finding Number 6). If the Township made all the significant adjustments proposed by the Auditor of State, the General Fund would have a \$125,208 deficit fund balance (See Note 7).

We recommend the Township consider contacting the Auditor in State in writing, to determine if a written declaration of fiscal watch is necessary based on the Township's current condition. In addition, the Township should develop and implement a financial plan of corrective action.

**FINDING NUMBER 2003-008**

**Noncompliance Citation**

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

At December 31, 2002, the Township had expenditures which exceeded appropriations as follows:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$108,955	\$138,939	(\$29,984)

At December 31, 2003, the Township had expenditures which exceeded appropriations as follows:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Road & Bridge Fund	\$14,025	\$17,706	(\$3,681)
Permissive Sales Tax Fund	\$39,060	\$51,408	(\$12,348)

We recommend the Township Clerk modify appropriations with the Board of Trustees and County Budget Commission before incurring obligations that could cause expenditures to exceed appropriations. The Township Clerk should deny any payments until the legislative authority has passed the necessary changes to the appropriation measure.

**SALEM TOWNSHIP  
WASHINGTON 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 2003-009**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(D) (1) prohibits a subdivision or taxing authority 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. 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 receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003) 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. Fiscal officers may prepare so-called "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding 3 months or 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. Effective September 26, 2003, the \$5,000 limit on the issuance of blanket certificates and the requirement that blanket certificates not extend beyond three months have been removed from the law. Effective September 26, 2003, blanket certificates 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 extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS(Continued)</b>
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**FINDING NUMBER 2003-009 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.41(D) (1) (Continued)**

The Township did not properly certify the availability of funds prior to purchase commitment for 90 percent of the transactions tested in 2003, and 75 percent in 2002. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund 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 Clerk 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 certify purchases to which Section 5705.41(D) applies. 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 orders to the proper appropriation code to reduce the available appropriation.

**FINDING NUMBER 2003-010**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code Section 507.04(A) provides, in part, that the Township Clerk shall keep an accurate record of all Township accounts and transactions. Ohio Rev. Code Section 117.38 states that each public office, other than a state agency, shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. The report shall contain, in part, the amount of collections and receipts, and accounts due from each source along with the amount of expenditure for each purpose.

Ohio Administrative Code Section 117-2-02(A) requires governments to maintain an accounting system and accounting records sufficient to identify, assemble, analyze, classify, record and report its transactions, document compliance with finance-related legal and contractual requirements and prepare financial statements.

Ohio Administrative Code Section 117-2-02(C) provides suggested systems and documents that may be used to effectively maintain the accounting and budgetary records of the local public office:

- (1) The Township should integrate the budgetary accounts, at the legal level of control, into the accounting system. The legal level of control is established by the level at which the legislative body appropriates.
- (2) Purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation accounts. Purchase orders are not effective unless the fiscal officer's certificate is attached.
- (3) Vouchers may be used as a written order authorizing the drawing of a check in a payment of lawful obligation. Each voucher shall contain the date, purchase order number, the line item to be charged, and the amount.

**SALEM TOWNSHIP  
WASHINGTON 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 2003-0010 (Continued)**

**Noncompliance Citation/Material Weakness - Ohio Rev. Code Section 507.04(A) (Continued)**

Ohio Administrative Code Section 117-2-02(D) provides that all local public offices may maintain accounting records in a manual or computerized format. Subsections (1)-(3) provides the items the records should include. Ohio Administrative Code Section 117-2-02(D)(1) provides that a cash journal should be included, which typically contains the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction, should be used. Ohio Administrative Code Section 117-2-02(D)(2) provides that a receipts ledger should be included, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses, should be used. The amount, date, name of payor, purpose, receipt number, and other information required for the transactions can be recorded in this ledger. Ohio Administrative Code Section 117-2-02(D)(3) provides that an appropriation ledger should be included, which may assemble and classify disbursements into separate accounts for, at a minimum, each account listed in the appropriation resolution should be used. 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.

The Township Clerk did not maintain an accurate and complete receipt ledger or appropriation ledger. The Township was unable to accurately and completely classify receipts by source or disbursements by purpose in its annual report contrary to Ohio Rev. Code Section 117.38.

The Township maintained a cash journal, a receipt ledger and a appropriation ledger during the audit period. The cash journal, receipt and appropriation ledgers were not posted accurately and completely. Additionally, purchase orders were not used for most expenditures during both years under audit.

We recommend the Township utilize the aforementioned accounting and budgeting records and documents to 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.

**FINDING NUMBER 2003-011**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code Section 5705.40 provides that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation.

The appropriations as certified by the County Auditor did not always agree to the appropriations entered into the appropriations ledger. In addition, there was no evidence of approval of appropriation amendments by the Board. The following schedules compare approved appropriations to those posted to the appropriations ledger.

**SALEM TOWNSHIP  
WASHINGTON 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 2003-011 (Continued)**

**Noncompliance Citation and Material Weakness - Ohio Rev. Code Section 5705.40 (Continued)**

Fund	Appropriations Posted to the Accounting System	Approved Appropriations	Variance
<u>2002</u>			
General	\$104,955	\$108,955	\$4,000
<u>2003</u>			
Motor Vehicle License Tax	39,401	37,543	(1,858)
Gasoline Tax	142,554	97,458	(45,096)
Road & Bridge	14,198	14,025	(173)
Misc. Capital Projects	3,558	0	(3,558)

Appropriations as reported have been adjusted to reflect those appropriations certified by the County Auditor.

We recommend that the Board approve all appropriation amendments and note the approval in the Board's minutes that the Clerk file all appropriation amendments with the County Auditor in order to receive certification from the County Auditor that appropriations do not exceed estimated resources, and that the Clerk post appropriation amendments to the accounting system only after both the Board and the County Auditor have approved and certified the amendments.

**FINDING NUMBER 2003-012**

**Noncompliance Citation/Material Weakness – Permissive Sales Tax and FEMA Funds**

Ohio Rev. Code Section 5705.09 (F) requires, in part, each subdivision to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose.

During 2002 and 2003, the Township did establish a County Permissive Tax Fund, Special Revenue Fund type, for county permissive tax moneys spent on its behalf by the Washington County Engineer's office. However, the Township did not record \$61,067 and \$51,408 in 2002 and 2003, respectively, of this activity on their accounting records.

During 2003, the Township received a FEMA grant to be used for a specific project; however, the Township did not establish a Special Revenue Fund to account for the receipt and expenditure of these funds, as required. Failing to establish proper funds could result in restricted monies being used for illegal purposes and increases the likelihood that errors could occur and remain undetected. Although the Township incorrectly placed the FEMA monies directly into the funds that originally paid for the FEMA-type expenditures, the Township did budget and appropriate for these monies.

We recommend the Township memo entry the county permissive tax money spent on its behalf by the Washington County Engineer. The Township should review AOS Bulletin 2000-008 entitled *Accounting for Cash Basis Local Governments Participation in On-behalf-of Grants or Improvement Projects* and also AOS Bulletin 1998-013 *Accounting for FEMA Grants* for guidance on how to account for FEMA grant monies.

**SALEM TOWNSHIP  
WASHINGTON 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 2003-013**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.36 (A)(1) provides that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

For 2003 and 2002, the Township filed the Certificate of the Total Amount From All Sources Available for Expenditure, and Balances, but the amount reported as cash balance was from the Township's accounting system that did not reconcile to the bank. Since the Township never reconciled the accounting books to the bank, the fund balances on the accounting system were in error. The cash fund balances listed below represent the reconciled cash fund balances and the cash fund balances reported to the county auditor:

**2003**

Fund	Audited 1/1/03 Bal	Twp 1/1/03 Bal
General	\$9,229	\$95,521
Motor Vehicle License Tax	22,057	22,457
Gasoline Tax	52,789	51,864
Road & Bridge	164	10,025
Cemetery	5,074	8,597
Fire Levy	9,765	10,892
Permissive Sales Tax	0	17,223
Debt Service	5,862	21,121
Non Expendable Trust	2,268	3,532
<b>Total</b>	<b>\$107,208</b>	<b>\$ 241,232</b>

**2002**

Fund	Audited 1/1/02 Bal	Twp 1/1/02 Bal
General	\$19,966	\$47,560
Motor Vehicle License Tax	1,573	1,451
Gasoline Tax	36,757	36,103
Road & Bridge	21,908	13,606
Cemetery	6,366	5,874
Fire Levy	21,891	13,301
Permissive Sales Tax	0	22,850
Debt Service	12,042	1,206
Non Expendable Trust	5,032	6,346
<b>Total</b>	<b>\$125,535</b>	<b>\$148,297</b>

**SALEM TOWNSHIP  
WASHINGTON 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 2003-0013 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.36 (A)(1) (Continued)**

We recommend the Township report the correct cash fund balances on the Certificate of the Total Amount From All Sources Available for Expenditures and Balances.

**FINDING NUMBER 2003-014**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records. The Clerk did not prepare accurate monthly reconciliations of bank balances to book balances. Outstanding checks, deposits in transit and other reconciling items were either not prepared or not supported by source documentation to enable a proper reconciliation to be performed.

The lack of proper reconciliations among the bank accounts and the Township's accounting system resulted in numerous errors which remained undetected and/or uncorrected until the audit. The extensive problems with these reconciliations resulted in the need for the Township to contract with a IPA firm to prepare proofs of cash for each month and a reconstruction of the cash book for the entire audit period.

We recommend the Clerk prepare detailed bank reconciliations that include all bank account balances being reconciled to the Township's accounting system. Copies of bank reconciliations should be presented monthly at the Board meeting for the Board's review and approval.

**FINDING NUMBER 2003-015**

**Noncompliance Citation**

26 U.S.C. Section 3402 (a)(1) states that every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary of the Treasury.

From the prior audit, the amount of 2001 federal tax withholdings not remitted amounted to \$3,297 and the amount of medicare employee/employer share not remitted was \$538.

For 2002, the Township did not remit the federal withholding or employee/employer share of medicare for any quarter. This amounted to a liability of \$2,529 for federal withholdings and \$1,524 for medicare.

For 2003, the Township did not remit \$879 of federal withholdings and \$587 of employee/employer share of medicare. The cumulative total of unpaid federal withholdings is \$6,705 and cumulative total of employee/employer share of medicare is \$2,649.

We recommend the Township remit all outstanding federal income tax withholdings and employee/employer share of medicare to the Internal Revenue Service immediately. This matter will be referred to the Internal Revenue Service.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS(Continued)</b>
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**FINDING NUMBER 2003-016**

**Material Weakness**

All local public offices should maintain or provide payroll records including:

- 1) W-2 forms, W-4 forms and other withholding records and authorizations;
- 2) Payroll journal that records, assembles and classifies by pay period the name of employee, social security number hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as termination payment), and the fund and account charged for the payments;
- 3) Check register that includes, in numerical sequence, the check number, payee, net amount and the date;
- 4) Information regarding non-monetary benefits such as car usage and life insurance; and
- 5) Information, by employee, regarding leave balances and usage.

During our review of the Township's payroll system, we noted the following conditions:

- 1) Personnel files were not established for each employee/official.
- 2) Withholdings were not always remitted to the applicable agencies within the legally required time.
- 3) Copies of quarterly or monthly returns completed for remittance of withholdings were not always maintained on file by the Township.
- 4) The yearly remittance of state and federal taxes contained no reconciliation between the quarterly returns filed and the amount paid.
- 5) Time cards were not always attached to a payroll voucher.
- 6) Time cards were not always signed for approval by supervisory personnel
- 7) Manual payroll checks were issued but were not recorded on the system
- 8) Vacation and holiday leave earned and taken by the Township's employee were not recorded in the computer system nor accounted for in some other manner.

These conditions could result in officials/employees being compensated incorrectly, incorrect W-2 forms, incorrect compensated leave being taken by the employee and/or incorrect payment of accumulated leave to the employee upon termination of employment, late penalties, and interest and fees being incurred by the Township. Other errors or irregularities could occur and remain undetected.

We recommend the following:

- 1) Personnel files should be established and maintained for each employee/official and should contain pertinent information, including, but not limited to, tax withholding forms, retirement forms, voluntary deduction forms, approved pay rate information, approved employee contracts, policy acknowledgement forms, and evaluations.
- 2) Taxes, retirement contributions, and other withholdings should be remitted to the applicable agency promptly as required by law, such as at the end of each month or quarter depending on the requirements of the individual agency.
- 3) Each remittance should contain a reconciliation between what is remitted to the specific agency and what is due from the Township.
- 4) Copies of all monthly and quarterly reports for transmittal of withholdings to each agency should be attached to the pay voucher or maintained on file by the Township.
- 5) Supportive time cards should be attached to all payroll vouchers.
- 6) All payments to employees should be supported by employee time sheets and should be reviewed and approved by supervisory personnel.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS(Continued)</b>
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**FINDING NUMBER 2003-016 (Continued)**

**Material Weakness (Continued)**

- 7) Payroll checks should only be issued using the computerized system. The payroll ledger should include all payroll disbursements, including the amounts remitted to each agency, the check number, and the check date.
- 8) Vacation and sick leave records should be maintained in the computer system for the employee. The Clerk should record in the system the amount of leave earned during the pay period, the amount of leave used during the period and the cumulative balance. Leave forms should be used, approved, and maintained for future reference. The Board should approve any leave balance to be carried over annually.

**FINDING NUMBER 2003-017**

**Reportable Condition**

Per AOS Bulletin 97-003 a cash advance may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans. The intent for this type of cash advance is to require repayment within the current year.

Interfund cash advances are subject to the following requirements:

- 1). Any advance must be clearly labeled as such, and must be distinguished from a transfer.
- 2). In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- 3). The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- 4). Advances must be approved by a formal resolution of the taxing authority of the subdivision. The resolution must include:
  - a) A specific statement that the transaction is an advance of cash, and
  - b) An indication of the money (fund) from which it is expected that repayment will be made.

During 2002, an advance was made from the General Fund to the Motor Vehicle License Tax Fund in the amount of \$4,000. As of December 31, 2004, this advance had not been repaid. The advance was not approved in Resolution form by the Board of Trustees or noted as approved by the Board in the minutes.

We recommend the Board of Trustees approve all advances made between funds. This approval should be documented in the minutes and should note the amounts to be transferred and the funds in which the advance will occur, as well as, the expected repayment. If the Motor Vehicle License Tax Fund does not have the intention of repaying the advance, the Township Board of Trustees should pass a Resolution making this advance a permanent transfer.

**SALEM TOWNSHIP  
WASHINGTON 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; <b><i>Explain:</i></b>
2001-40773-001	Ohio Rev. Code Section 5705.41(D) – failure to certify funds	No	Not Corrected. Item is repeated as Finding 2003-009 in the GAGAS letter.
2001-40773-002	Ohio Rev. Code Section 5705.39 – appropriations exceed estimated resources	Yes	Corrected.
2001-40773-003	Finding for Recovery – repaid under audit	Yes	Clerk repaid the Township during prior audit.





**Auditor of State  
Betty Montgomery**

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**SALEM TOWNSHIP  
WASHINGTON 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 17, 2006**