



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SALEM TOWNSHIP
WASHINGTON COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Salem Township
Washington County
RR2, 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, 2001 and 2000. 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.

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.

The Township improperly posted \$17,661 of 2001 property tax levy money due to the Road and Bridge Fund, Special Revenue Fund type, due to the Fire Levy Fund, a Special Revenue Fund type, and due to the Debt Service Fund to the General Fund. The Township posted \$614 of 2001 property tax levy money due to the Fire Levy Fund to the Debt Service Fund. The Township posted \$4,651 of the 2001 rollback and homestead revenues due to the Road and Bridge Fund, Special Revenue Fund type, and due to the Fire Levy Fund, a Special Revenue Fund type to the General Fund. The Township had other posting errors during 2001, that resulted in the General Fund 2001 receipts being overstated by \$1,708, the General Fund 2001 disbursements being understated by \$5,196, the Special Revenue Fund types 2001 receipts being understated by \$90,610, the Special Revenue Fund types 2001 disbursements being understated by \$88,163, The Debt Service Fund 2001 disbursements being understated by \$558, and the Nonexpendable Trust Fund 2001 receipts being overstated by \$1,308. Had these posting errors and improper adjustments been properly posted to the Township's accounting system, the 2001 General Fund receipts would have been decreased by \$24,020, the 2001 disbursements would have been increased by \$5,196 and the December 31, 2001 cash balance of the General Fund would have decreased by a cumulative \$29,216. The Special Revenue Fund type 2001 receipts would have been increased by \$107,236, the 2001 disbursements would have been increased by \$88,163, and the December 31, 2001 cash balance of the Special Revenue Fund type would have increased by a cumulative \$19,073. The Debt Service Fund 2001 receipts would have been increased by \$5,686, the 2001 disbursements would have been increased by \$558, and the December 31, 2001 cash balance of the Debt Service Fund would have increased by a cumulative \$5,128. The Nonexpendable Trust Fund 2001 receipts would have been decreased by \$1,308, and the December 31, 2001 cash balance of the Nonexpendable Trust Fund would have decreased by a cumulative \$1,308.

In our opinion, because of the effects of the matters referred to in the preceding paragraph, the 2001 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, 2001 and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1. Also in our opinion, the 2000 financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Salem Township, Washington County, as of December 31, 2000, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 § 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, appearing to read 'Jim Petro', written in a cursive style.

Jim Petro
Auditor of State

November 4, 2002

**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, 2001**

	<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>Non- Expendable Trust</u>	
Cash Receipts:					
Local Taxes	\$29,045	\$14,555	\$6,914	\$	\$50,514
Intergovernmental	55,700	67,231			122,931
Licenses, Permits, and Fees	4,677	4,745			9,422
Earnings on Investments	872	464		133	1,469
Other Revenue	1,534	6,512		1,308	9,354
	<u>91,828</u>	<u>93,507</u>	<u>6,914</u>	<u>1,441</u>	<u>193,690</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
General Government	46,887				46,887
Public Safety		7,014			7,014
Public Works	3,546	69,372			72,918
Health	3,947	8,130			12,077
Debt Service:					
Redemption of Principal		9,001			9,001
Interest and Fiscal Charges		1,679	457		2,136
	<u>54,380</u>	<u>95,196</u>	<u>457</u>		<u>150,033</u>
Total Cash Disbursements					
Total Cash Receipts Over/(Under) Cash Disbursements	<u>37,448</u>	<u>(1,689)</u>	<u>6,457</u>	<u>1,441</u>	<u>43,657</u>
Other Financing Receipts/(Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Fixed Assets		4,378			4,378
Other Sources	2,474				2,474
	<u>2,474</u>	<u>4,378</u>			<u>6,852</u>
Total Other Financing Receipts/(Disbursements)					
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	39,922	2,689	6,457	1,441	50,509
Fund Cash Balances, January 1	7,638	67,645	457	4,899	80,639
Fund Cash Balances, December 31	<u>\$47,560</u>	<u>\$70,334</u>	<u>\$6,914</u>	<u>\$6,340</u>	<u>\$131,148</u>

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, 2000**

	Governmental Fund Types				Fiduciary Fund Types	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Non- Expendable Trust	
Cash Receipts:						
Local Taxes	\$14,301	\$27,012	\$12,600	\$	\$	\$53,913
Intergovernmental	38,880	148,854		367,290		555,024
Licenses, Permits, and Fees	3,127	3,170				6,297
Earnings on Investments	3,588	1,292			199	5,079
Other Revenue		19,807				19,807
Total Cash Receipts	59,896	200,135	12,600	367,290	199	640,120
Cash Disbursements:						
Current:						
General Government	49,383					49,383
Public Safety		23,930				23,930
Public Works	4,148	195,859				200,007
Health	10,160	4,241				14,401
Debt Service:						
Redemption of Principal		16,000	11,845			27,845
Interest and Fiscal Charges		601	1,961			2,562
Capital Outlay		38,000		472,076		510,076
Total Cash Disbursements	63,691	278,631	13,806	472,076		828,204
Total Cash Receipts Over/(Under) Cash Disbursements	(3,795)	(78,496)	(1,206)	(104,786)	199	(188,084)
Other Financing Receipts/(Disbursements):						
Proceeds from Sale of Public Debt:						
Sale of Notes		38,000				38,000
Total Other Financing Receipts/(Disbursements)		38,000				38,000
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(3,795)	(40,496)	(1,206)	(104,786)	199	(150,084)
Fund Cash Balances, January 1	11,433	108,141	1,663	104,786	4,700	230,723
Fund Cash Balances, December 31	\$7,638	\$67,645	\$457	\$0	\$4,899	\$80,639

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

**SALEM TOWNSHIP
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 20001 AND 2000**

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 and a publicly elected Clerk. The Township provides general governmental services, including road and bridge maintenance (public works), cemetery maintenance (health), and fire protection (public safety). The Township contracts with Salem Township Volunteer Fire Department to provide fire and emergency 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).

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

C. Cash and Investments

Certificates of deposit are valued at cost.

D. Fund Accounting

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

1. General Fund

The General Fund 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:

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

**SALEM TOWNSHIP
WASHINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Debt Service Funds

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness. The Township had the following significant Debt Service Fund:

Emergency Squad Note Retirement Fund – This fund accumulates tax revenue for the repayment of debt incurred for the purchase of an Emergency Squad vehicle.

4. Capital Projects Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Township had the following significant Capital Projects Fund:

OPWC Fund – This fund received grant money from the Ohio Public Works Commission for a road construction project.

5. Fiduciary Fund (Trust Fund)

This fund is used to account for resources restricted by legally binding trust agreements. The Township had the following significant Fiduciary Fund:

Cemetery Bequest Fund – This is a nonexpendable trust fund to be used for cemetery maintenance.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. 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.

**SALEM TOWNSHIP
WASHINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

F. 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.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, full-time employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's basis of accounting.

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>2001</u>	<u>2000</u>
Demand deposits	<u>\$131,148</u>	<u>\$80,638</u>

Deposits are either (1) insured by the Federal Deposit Insurance Corporation and/or (2) collateralized by the financial institution's public entity deposit pool.

The carrying amount of deposits and investments at December 31, 2001 does not reconcile to the bank amount, due to the finding for adjustment amounts noted in the opinion letter.

**SALEM TOWNSHIP
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2001 and 2000 was as follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$58,577	\$94,302	\$35,725
Special Revenue	163,500	97,885	(65,615)
Capital Projects	28,230		(28,230)
Debt Service	12,600	6,914	(5,686)
Non-Expendable Trust	202	1,441	1,239
Total	<u>\$263,109</u>	<u>\$200,542</u>	<u>(\$62,567)</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$66,216	\$54,380	\$11,836
Special Revenue	253,112	95,196	157,916
Capital Projects			0
Debt Service	13,057	457	12,600
Non-Expendable Trust	5,102		5,102
Total	<u>\$337,487</u>	<u>\$150,033</u>	<u>\$187,454</u>

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$60,537	\$59,896	(\$641)
Special Revenue	209,609	238,135	28,526
Capital Projects	454,897	367,290	(87,607)
Debt Service	12,600	12,600	0
Non-Expendable Trust	191	199	8
Total	<u>\$737,834</u>	<u>\$678,120</u>	<u>(\$59,714)</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$71,970	\$63,691	\$8,279
Special Revenue	291,808	278,631	13,177
Capital Projects	559,682	472,076	87,606
Debt Service	14,262	13,806	456
Non-Expendable Trust	4,892		4,892
Total	<u>\$942,614</u>	<u>\$828,204</u>	<u>\$114,410</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the County CDBG Grant Fund, a Special Revenue Fund type, by \$28,230 for the year ended December 31, 2001 and in the Gasoline Tax Fund and the Road and Bridge Fund by \$17,683 and \$3,685, respectively, for the year ended December 31, 2000. Also, contrary to Ohio law, the Township did not always obtain the clerk's prior certification before incurring an obligation.

**SALEM TOWNSHIP
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

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.

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. DEBT

Debt outstanding at December 31, 2001 was as follows:

	Principal	Interest Rate
Commercial Security Note-E-Squad Vehicle	\$17,667	4.90%
Commercial Security Note-Dump Truck	29,567	5.88%
	\$47,234	

The notes were issued to finance the purchase of a new Emergency Medical Squad vehicle to be used by the Salem Township Volunteer Fire Department and a new dump truck to be used for Township road maintenance. The notes are secured by the vehicle and the truck.

Amortization of the above debt, including interest of \$7,145, is as follows:

Year Ending December 31:	Notes
2002	\$14,748
2003	15,464
2004	15,173
2005	8,993
Total	\$54,379

Contrary to Ohio law, the Township obtained improper financing for the Dump Truck.

6. RETIREMENT SYSTEMS

The Township's elected officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS 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.

**SALEM TOWNSHIP
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

6. RETIREMENT SYSTEMS (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2001 and 2000, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for January 1, 2000 through June 30, 2000 and for 2001. For the period July 1, 2000 through December 31, 2000, PERS temporarily reduced the employer's contribution rate to 8.13% of participants' gross salaries. The Township has paid all contributions required through December 31, 2001.

7. 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 insurance 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 judgements, settlements and other expenses resulting from covered claims that exceed the member's deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP 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 which the General Reinsurance Corporation will reinsure.

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. The Travelers Indemnity Company reinsure specific losses exceeding \$100,000. The

Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, the Travelers Indemnity Company provides coverage in excess of \$10,000.

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

**SALEM TOWNSHIP
WASHINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

7. RISK MANAGEMENT (Continued)

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2001 and 2000 (latest information available):

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$23,703,776	\$22,684,383
Liabilities	<u>9,379,003</u>	<u>8,924,977</u>
Retained earnings	<u>\$14,379,003</u>	<u>\$13,759,406</u>
 <u>Property Coverage</u>	 <u>2001</u>	 <u>2000</u>
Assets	\$5,011,131	\$4,156,784
Liabilities	<u>647,667</u>	<u>497,831</u>
Retained earnings	<u>\$4,363,464</u>	<u>\$3,658,953</u>

The Township also provides health and life insurance coverage to elected officials through a private carrier.

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STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Salem Township
Washington County
RR2, 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, 2001 and 2000 and have issued our report thereon dated November 4, 2002, in which we opined that the 2001 financial statements were not fairly presented, since certain receipts were not recorded in the proper fund types and also due to the effects of posting errors not corrected for 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 certain instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2001-41084-001, 2001-41081-005, 2001-41084-006, 2001-41084-007, 2001-41084-009 and 2001-41084-010. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated November 4, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 judgement, 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. Reportable conditions are described in the accompanying Schedule of Findings as items 2001-41084-002, 2001-41084-003, 2001-41084-004 and 2001-41084-008.

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 over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Township in a separate letter dated November 4, 2002.

This report is intended for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

November 4, 2002

**SALEM TOWNSHIP
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

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

FINDING NUMBER 2001-41084-001

Finding for Adjustment

Ohio Rev. Code Section 5705.10 requires all revenue derived from a special levy to be credited to a special fund for the purpose for which the levy was made.

The Township posted 2001 levy monies in the amount of \$22,312 to the General Fund, instead of \$8,303 to the Road and Bridge Fund, \$7,709 to the Fire Levy Fund and \$6,300 to the Debt Service Fund. In addition, the Township posted 2001 levy monies in the amount of \$614 to the Debt Service Fund instead of to the Fire Levy Fund. We amended our Letter of Arrangement and charged the Township an additional \$250 to determine the reasonableness of these postings.

A finding for adjustment is hereby issued against the Debt Service Fund in the amount of \$614, in favor of the Fire Levy Fund, a Special Revenue Fund type. Also, A finding for adjustment is hereby issued 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 Debt Service Fund in the amount of \$6,300. This adjustment has not been recorded on the books of the Township.

FINDING NUMBER 2001-41084-002

Material Weakness

The Township did not consistently post revenue transactions to the proper fund and/or line account.

As a result, revenue transactions in various funds were incorrectly reported in the Township's annual financial report. We amended our Letter of Arrangement and charged the Township an additional \$250 to determine the reasonableness of these postings.

We recommend the Clerk use due care in posting amounts to the Township ledgers and consult the Township Handbook for proper classification of revenues. The Township did make reclassifications to the financial statements.

FINDING NUMBER 2001-41084-003

Material Weakness

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

- 1) Invoices were not always attached to vouchers or on file to support the disbursement made.
- 2) Certain check numbers were missing indicating these checks were never issued nor voided.
- 3) Vouchers were not always maintained for expenditures.
- 4) We noted one instance in which a manual check was issued but not recorded in the accounting system.
- 5) We noted three instances in which dates on vouchers did not always agree to expenditure ledger, indicating changes were made to the system prior to printing. Additionally, we noted several errors occurring due to memo expenditures or voidance of checks being performed improperly.

**SALEM TOWNSHIP
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-41084-003 (Continued)

Material Weakness (Continued)

- 6) Long outstanding items have not been resolved.
- 7) Expenditures were not always posted to an appropriate fund or line item.

These conditions did not allow for proper documentation of all disbursements. These conditions could also result in payments being made for goods not received, unauthorized payments being made, and errors or irregularities occurring and remaining undetected. We amended our Letter of Arrangement and charged the Township an additional \$750 to determine the reasonableness of these postings.

We recommend the following:

- 1) Vouchers should not be approved unless invoices and other pertinent supporting documentation are attached.
- 2) Voided checks should be maintained on file by the Clerk.
- 3) Vouchers, along with adequate supporting documentation, should be maintained for all expenditures.
- 4) Checks should only be issued using the computerized accounting system.
- 5) The Clerk should take care in entering information into the accounting system. Should corrections be needed, the Clerk should consult the UAN manual, UAN Help Desk, or another Township Clerk to ensure action taken is appropriate and resolves the original problem.
- 6) Long outstanding items should be investigated and voided, if necessary.
- 7) Expenditures from funds other than the General Fund should only be used for allowable purposes of that particular fund. The Clerk should consult the Township Handbook and consider allowable purposes before posting expenditures.

FINDING NUMBER 2001-41084-004

Material Weakness

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) Time cards were not always attached to a payroll voucher.
- 3) Time cards were not signed for approval by supervisory personnel
- 4) For 2001, 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.
- 5) For 2001, withholdings were not remitted to the State of Ohio for income taxes withheld and to the Internal Revenue Service for federal withholdings and employee and employer share of medicare.

These conditions could result in officials/employee being compensated incorrectly, 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. We considered the effects of these matters in forming our opinion on the financial statements. We amended our Letter of Arrangement and charged the Township an additional \$250 to determine the reasonableness of these postings.

**SALEM TOWNSHIP
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-41084-004 (Continued)

Material Weakness (Continued)

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, policy acknowledgment forms, and evaluations.
- 2) Supporting time cards should be attached to all payroll vouchers.
- 3) All payments to employees should be supported by employee time sheets and should be reviewed and approved by supervisory personnel.
- 4) 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.
- 5) Taxes, retirement contributions, and other withholdings should be remitted to the applicable agency promptly at the end of each month or quarter depending on the requirements of the individual agency.

FINDING NUMBER 2001-41084-005

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (D) states that no subdivision or taxing unit shall make any contact or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

- a. Then and Now Certificate - This exception provides that, if the fiscal officer can certify that both at the time the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
- b. Amounts of less than \$1000 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
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-41084-005 (Continued)

Noncompliance Citation (Continued)

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

Liabilities, contracts, and open purchase commitments were not certified by the Clerk prior to the obligation in twenty-six percent of items tested. Additionally, although many expenditures were certified by the Clerk using "Then and Now" Certificate language, none of these expenditures were subsequently approved by resolution by the Board of Trustees for expenditures in excess of \$1,000 within the aforementioned 30-day time period.

We recommend the Township Clerk certify the availability of funds prior to the cash expenditure being made. Where prior certification is not practicable, we encourage the Clerk to properly utilize "Then and Now" certificates

FINDING NUMBER 2001-41084-006

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit shall make any expenditure of money unless the same has been properly appropriated.

In 2001, County CDBG Grant Fund, a Special Revenue Fund type, had expenditures which exceed appropriations by \$28,230. In 2000, the Gasoline Tax Fund and the Road and Bridge Fund were found to have expenditures which exceeded appropriations by \$17,683 and \$3,685, respectively.

We recommend the Township officials review the appropriation balances each month and approve appropriation amendments as needed, prior to expending funds in excess of existing appropriations.

FINDING NUMBER 2001-41084-007

Noncompliance Citation

Ohio Rev. Code Section 5705.09 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 2001, the Township did not establish a County Permissive Tax Fund, Special Revenue Fund type, for county permissive tax moneys spent on their behalf by the Washington County engineer's office. The Township did not record \$56,710 of this activity on their accounting records.

We recommend the Township establish a County Permissive Tax Fund, Special Revenue Fund type, and memo entry the county permissive tax money spent on their behalf by the Washington County Engineer. The Township did budget and appropriate for these moneys. The financial statements have not been adjusted to reflect this activity. The Township should refer to Auditor of State Bulletin 2001-008 for additional guidance in accounting for this activity.

**SALEM TOWNSHIP
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2001-41084-008

Material Weakness

The Clerk was required to perform all accounting functions, which did not provide for an adequate segregation of duties. The Board of Trustees did receive financial reports monthly for their review, including fund status report, receipt and appropriation journals, cash journal, warrant register, payroll summary report and monthly bank reconciliations. The Trustees sign the monthly bank reconciliation to verify their review.

During the last nine months of the audit period, the Township's cash accounts have been out-of-balance with the accounting records. There was no evidence that the Board of Trustees made any effort to require the Clerk to reconcile the bank account to the accounting system. We amended our Letter of Arrangement and charged the Township an additional \$950 to determine to perform a proof-of-cash test to reconcile the bank account to the accounting system.

We recommend the Board of Trustees exercise more scrutiny when reviewing the reports submitted by the Clerk monthly and assess the reasonableness of the information provided before approving such reports.

FINDING NUMBER 2001-41084-009

Noncompliance Citation

26 U.S.C. Section 3402 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. The employer is required to submit the employees' withholdings to the Internal Revenue Service either monthly or quarterly, depending upon the monthly gross wages.

For 2001, the Township withheld federal tax from employees' payroll, however, the withholdings have not been remitted to the Internal Revenue Service since the first quarter of 2001. Further, the Township did not file IRS form 941 on a quarterly basis, as required. The Township has a liability for the second, third and fourth quarter of 2001 in the approximate amount of \$465 due from the General Fund and \$3,370 due from the Gasoline Tax Fund, a Special Revenue Fund type.

We recommend the Township remit all outstanding federal income tax withholdings from 2001 to the Internal Revenue Service immediately. If this matter is not corrected by the next audit, it will be referred to the Internal Revenue Service for whatever action is deemed necessary.

**SALEM TOWNSHIP
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000
(Continued)**

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

FINDING NUMBER 2001-41084-010

Noncompliance Citation

Ohio Rev. Code Section 5549.021 states a board of Township Trustees may purchase machinery, tools, trucks and other equipment for use in constructing, maintaining, and repairing roads, and subject to Chapter 133, of the Revised Code, may issue general obligation bonds of the Township for which the full, faith and credit of the Township shall be pledged.

The Township entered into an installment agreement of five years with Citizens Bank Company on October 24, 2000 in the amount of \$38,010. The note was used to purchase a 2001 International dump truck. The Township failed to issue general obligation bonds but instead signed an installment agreement with the bank for financing of the dump truck.

We recommend the Township follow the guidelines in Ohio Revised Code Section 5549.021 when obtaining financing for road machinery.

**SALEM TOWNSHIP
WASHINGTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
1999-41084-001	Ohio Revised Code 5705.40 – failure to adopt supplemental appropriations by Board resolution and certify them to the County Auditor.	Partially Corrected	While this condition was corrected in 2000, we noted certain instances in which supplemental appropriations were not approved by the Board in 2001. We have repeated the citation as a management letter comment.
1999-41084-002	Ohio Revised Code 5705.41(B) – expenditures in excess of appropriations	Not Corrected	Expenditures were in excess of appropriations for the Miscellaneous. Special Revenue Fund in 2001 and for the Gasoline Tax Fund and the Road and Bridge Fund for 2000. Repeated citation as Finding 2001-41084-006.



STATE OF OHIO
OFFICE OF THE AUDITOR

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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 7, 2003**