



Mary Taylor, CPA
Auditor of State

KNOX TOWNSHIP
HOLMES COUNTY

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Mary Taylor, CPA
Auditor of State

Knox Township
Holmes County
13709 Township Road 224
Big Prairie, Ohio 44611

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 21, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Knox Township
Holmes County
13709 Township Road 224
Big Prairie, Ohio 44611

To the Board of Trustees:

We have audited the accompanying financial statements of Knox Township, Holmes County, Ohio, (the Township) as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Knox Township, Holmes County, Ohio, as of December 31, 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 21, 2007

**KNOX TOWNSHIP
HOLMES COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$28,530	\$42,569	\$71,099
Charges for Services		2,063	2,063
Intergovernmental	27,813	99,497	127,310
Earnings on Investments	66	379	445
Miscellaneous	372		372
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	56,781	144,508	201,289
Cash Disbursements:			
Current:			
General Government	48,333		48,333
Public Works		104,444	104,444
Health	4,937		4,937
Capital Outlay		160	160
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	53,270	104,604	157,874
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>
	3,511	39,904	43,415
Other Financing Receipts / (Disbursements):			
Sale of Capital Assets		4,000	4,000
Transfers-In	696	10,578	11,274
Transfers-Out		(11,274)	(11,274)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	696	3,304	4,000
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	4,207	43,208	47,415
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	5,484	84,865	90,349
Fund Cash Balances, December 31	<hr/> \$9,691 <hr/>	<hr/> \$128,073 <hr/>	<hr/> \$137,764 <hr/>

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

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**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Knox Township, Holmes County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides general government services, and road and bridge maintenance. The Township contracts with the Western Holmes County Fire District to provide fire and ambulance services. The Township contracts with the Holmes County Sheriff's Department for police protection.

The Township participates in four jointly governed organizations and the Ohio Township Association Risk Management Authority public entity risk pool. Notes 6 through 10 to the financial statements provide additional information for these entities. These organizations are:

Jointly Governed Organizations:

Holmes County Emergency Management Agency
Holmes County Health District Advisory Council
Western Holmes County Fire District
Holmes County Regional Planning Commission

Public Entity Risk Pool:

Ohio Township Association Risk Management Authority

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. 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:

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

1. General Fund

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

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

Road District Fund - This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

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

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.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2005 budgetary activity appears in Note 3.

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

F. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Cash

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

Demand deposits	\$133,706
Certificates of deposit	4,058
Total deposits	\$137,764

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Township.

3. Budgetary Activity

Budgetary activity for the year ended December 31, 2005 follows:

Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$55,010	\$57,477	\$2,467
Special Revenue	136,621	159,086	22,465
Total	\$191,631	\$216,563	\$24,932

Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$60,450	\$53,270	\$7,180
Special Revenue	221,274	115,878	105,396
Total	\$281,724	\$169,148	\$112,576

Contrary to Ohio Revised Code Section 5705.40, certain appropriation amendments were not properly approved by the Board of Trustees.

Contrary to Ohio Revised Code Section 5705.41(D), certain expenditures were not certified prior to incurring an obligation.

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

4. Property Tax

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

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

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

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

5. Retirement System

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005, OPERS members contributed 8.5% of their gross salaries and the Township contributed an amount equaling 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2005.

6. Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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 townships pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence, including claim 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 \$10,000,000 in the aggregate per year. Townships can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with OTARMA.

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

6. Risk Management (Continued)

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

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, 2005 and 2004:

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	<u>(12,344,576)</u>	<u>(11,086,379)</u>
Retained earnings	<u>\$18,141,062</u>	<u>\$17,046,241</u>
 <u>Property Coverage</u>	 <u>2005</u>	 <u>2004</u>
Assets	\$9,177,796	\$7,588,343
Liabilities	<u>(1,406,031)</u>	<u>(543,176)</u>
Retained earnings	<u>\$7,771,765</u>	<u>\$7,045,167</u>

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

6. Risk Management (Continued)

At December 31, 2005 and 2004, respectively, casualty coverage liabilities noted above include approximately \$11.6 million and \$10.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$9,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

Township Contributions to OTARMA

2005	\$4,336
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After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA. They must provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

7. Holmes County Emergency Management Agency

The Agency is a statutorily created political subdivision of the State. The Agency is jointly governed among Holmes County, municipalities and townships. The Agency establishes a program for emergency management that includes development of an emergency operations plan which is applicable to all political subdivisions that have entered into the county-wide agreement.

8. Holmes County Health District Advisory Council

The Council is a body politic and corporate established under Section 3709.01, Revised Code, for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Council operates under the direction of a five-member appointed board and appointed health commissioner. Services provided by the Council include referrals to Bureau of Crippled Children Services Program, communicable disease investigations, immunization clinics, tuberculosis screening, home visits, various licenses and permits, including inspections, birth and death certificates and related services.

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005
(Continued)**

9. Western Holmes County Fire District

The District 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. A four-member Board of Trustees governs the District. Each political subdivision within the District appoints one member. Those subdivisions are: Village of Nashville, Washington Township, Ripley Township, and Knox Township. The District provides fire protection and rescue services within the District and by contract to areas outside the District.

10. Holmes County Regional Planning Commission

The Commission is governed by an eleven member board, of which seven are appointed by the County. The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economical and governmental characteristics, functions and social, economical and governmental characteristics, functions and services of the County.

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Mary Taylor, CPA

Auditor of State

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

Knox Township
Holmes County
13709 Township Road 224
Big Prairie, Ohio 44611

To the Township Board of Trustees:

We have audited the financial statements of the Knox Township, Holmes County, Ohio, (the Township) as of and for the year ended December 31, 2005, and have issued our report thereon dated August 21, 2007, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2005-001 through 2005-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings 2005-001 through 2005-003 are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated August 21, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2005-002 and 2005-003.

We also noted certain noncompliance or other matters that we reported to the Township's management in a separate letter dated August 21, 2007

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



Mary Taylor, CPA
Auditor of State

August 21, 2007

**KNOX TOWNSHIP
HOLMES COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

FINDING NUMBER 2005-001

Material Weakness

Classification of Receipts and Expenditures

During 2005 and 2006, the Township Fiscal Officer misclassified receipts and expenditures as follows:

- Dust control receipts were classified as Miscellaneous receipts rather than Charges for Services.
- Certain hotel bed tax receipts were classified as Miscellaneous receipts rather than Intergovernmental receipts.
- Certain public utility reimbursements were classified as Taxes rather than Intergovernmental receipts.
- FEMA grant receipts were recorded as Miscellaneous receipts in Special Revenue FEMA Fund 14-D rather than Intergovernmental receipts. Then, FEMA monies were recorded as expenditures from Special Revenue FEMA Fund 14-A-8 and subsequently recorded as receipts and expenditures in various funds were the expenditures were originally made from rather than Transfers-In and Transfers-Out. The Township should establish one fund for all FEMA activity, receipts and expenditures and properly classify the movement of monies as transfers.

As a result, the above receipt and expenditure line items were initially overstated/understated.

Sound financial reporting is the responsibility of the Fiscal Officer and Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The Township Fiscal Officer and the Board of Trustees should periodically monitor the classification of all receipts and expenditures to help ensure Township receipts and disbursements are accurately recorded in accordance with the Ohio Township Handbook.

Officials' Response: The officials' have elected not to respond.

FINDING NUMBER 2005-002

Material Weakness and Noncompliance Citation

Ohio Rev. Code Section 5705.40 provides that any appropriation measure may be amended or supplemented provided that such amendment or supplement complies with all provisions of law governing the tax authority in making the original appropriation. Transfers may be made by resolution or ordinance from one appropriation item to another. *Burkholder v. Lauber* (1965), 6 Ohio Misc. 152, indicates that a local government's governing board is prohibited from delegating those discretionary duties statutorily assigned to it. Following such reasoning, a governing board is prohibited from delegating the ability to amend appropriations as provided for in Ohio Rev. Code Section 5705.40.

FINDING NUMBER 2005-002 (Continued)

During 2005, the Fiscal Officer posted appropriations in the amount of \$7,781 for the FEMA Fund without the approval of the Board of Trustees. In addition, these amendments were not filed with the County Auditor. The Board of Trustees should approve all amendments to appropriations at the legal level of control. In addition, appropriation amendments should be timely filed with the County Auditor to ensure compliance with Ohio Rev. Code Section 5705.39.

FINDING NUMBER 2005-003

Material Weakness and Noncompliance Citation

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

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

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

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

FINDING NUMBER 2005-003 (Continued)

During 2005, all expenditures tested were not certified by the Fiscal Officer prior to incurring the obligation. It was also found that none of the exceptions above were utilized for the items found to be in noncompliance.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify the funds are or will be available prior to the 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 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response: The officials' have elected not to respond.

**KNOX TOWNSHIP
HOLMES COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 5705.41(D) – During 2004 and 2003, 84% of expenditures tested were not certified by the Clerk prior to incurring the obligation.	No	Not Corrected – Refer to Finding Number 2005-003
2004-002	Ohio Rev. Code Section 505.60 – During 2003, the Township procured insurance policies which were not permissible.	Yes	Finding No Longer Valid



Mary Taylor, CPA
Auditor of State

KNOX TOWNSHIP

HOLMES 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
NOVEMBER 8, 2007**