



Mary Taylor, CPA
Auditor of State

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

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Mary Taylor, CPA
Auditor of State

Northfield Center Township
Summit County
9546 Brandywine Road
Northfield Center, Ohio 44067

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 black ink that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 4, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Northfield Center Township
Summit County
9546 Brandywine Road
Northfield Center, Ohio 44067

To the Board of Trustees:

We have audited the accompanying financial statements of Northfield Center Township, Summit County, Ohio, (the Township) as of and for the years ended December 31, 2007 and 2006. 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, 2007 and 2006 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, 2007 and 2006, 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 and reserves for encumbrances of Northfield Center Township, Summit County, as of December 31, 2007 and 2006, 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 4, 2008, 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.



Mary Taylor, CPA
Auditor of State

August 4, 2008

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund Types			Totals
	General	Special Revenue	Agency	(Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$490,936	\$814,789	\$0	\$1,305,725
Charges for Services	319,599	324,637	0	644,236
Licenses, Permits, and Fees	20,823	0	0	20,823
Fines and Forfeitures	8,518	0	0	8,518
Intergovernmental	251,898	314,420	0	566,318
Earnings on Investments	176,545	11,618	0	188,163
Miscellaneous	2,765	720	0	3,485
Total Cash Receipts	1,271,084	1,466,184	0	2,737,268
Cash Disbursements:				
Current:				
General Government	352,990	11,929	0	364,919
Public Safety	601,945	707,369	0	1,309,314
Public Works	11,267	398,528	0	409,795
Health	52,530	0	0	52,530
Human Services	6,798	99	0	6,897
Other	300	114,938	0	115,238
Capital Outlay	59,264	136,912	0	196,176
Contractual Services	0	5,842	0	5,842
Supplies and Materials	0	104,853	0	104,853
Total Cash Disbursements	1,085,094	1,480,470	0	2,565,564
Total Cash Receipts Over Cash Disbursements	185,990	(14,286)	0	171,704
Other Financing Receipts/(Disbursements):				
Other Financing Sources	4,952	0	0	4,952
Deposits	0	0	72,450	72,450
Deposits Refunded	0	0	(92,185)	(92,185)
Sale of Capital Assets	0	60,000	0	60,000
Total Other Financing Receipts/(Disbursements)	4,952	60,000	(19,735)	45,217
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements And Other Financing Disbursements	190,942	45,714	(19,735)	216,921
Fund Cash Balance, January 1	758,244	2,364,128	359,275	3,481,647
Fund Cash Balance, December 31	\$949,186	\$2,409,842	\$339,540	\$3,698,568
Reserve for Encumbrances, December 31	\$215,595	\$26,520	\$0	\$242,115

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

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Fund Types			Totals
	General	Special Revenue	Agency	(Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$443,264	\$786,072	\$0	\$1,229,336
Charges for Services	414,023	137,411	0	551,434
Licenses, Permits, and Fees	27,419	0	0	27,419
Fines and Forfeitures	12,151	0	0	12,151
Intergovernmental	342,206	209,521	0	551,727
Earnings on Investments	135,050	9,649	0	144,699
Miscellaneous	2,162	3,105	0	5,267
Total Cash Receipts	1,376,275	1,145,758	0	2,522,033
Cash Disbursements:				
Current:				
General Government	329,671	8,324	0	337,995
Public Safety	547,021	542,908	0	1,089,929
Public Works	23,790	291,010	0	314,800
Health	74,307	0	0	74,307
Human Services	2,358	1,914	0	4,272
Other	1,356	14,137	0	15,493
Capital Outlay	33,810	28,481	0	62,291
Contractual Services	0	5,533	0	5,533
Supplies and Materials	0	45,583	0	45,583
Total Cash Disbursements	1,012,313	937,890	0	1,950,203
Total Cash Receipts Over Cash Disbursements	363,962	207,868	0	571,830
Other Financing Receipts/(Disbursements):				
Other Financing Sources	10,844	0	0	10,844
Deposits	0	0	128,900	128,900
Deposits Refunded	0	0	(200,150)	(200,150)
Total Other Financing Receipts/(Disbursements)	10,844	0	(71,250)	(60,406)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements And Other Financing Disbursements	374,806	207,868	(71,250)	511,424
Fund Cash Balance, January 1	383,438	2,156,260	430,525	2,970,223
Fund Cash Balance, December 31	\$758,244	\$2,364,128	\$359,275	\$3,481,647
Reserve for Encumbrances, December 31	\$27,845	\$129,759	\$0	\$157,604

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

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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 Northfield Center Township, Summit 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, including road and bridge maintenance, fire protection and emergency medical services. The Township has a contract with Sagamore Hills Fire District to provide fire and ambulance services. The Township contracts with the Summit County Sheriff's Department for police protection.

The Township participates in the Ohio Township Association Risk Management Authority public entity risk pool. Note 6 to the financial statements provides additional information for this entity.

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

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively. Repurchase agreements and STAR Ohio are recorded at share values reported by the financial institutions and the Treasurer of State, respectively.

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

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

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

Police District Fund - This fund receives property tax money to operate and maintain the Township's policing services. The Township contracts with the Summit County Sheriff's department.

3. Fiduciary Fund Types

These funds are used to account for resources restricted by legally binding trust agreements and funds for which the Township is acting in an agency capacity. The Township has the following significant fiduciary funds:

Agency Fund - This fund is used to account for builders completion bonds required of contractors constructing new housing units in the Township and some other miscellaneous deposits required by Township resolution. These cash bonds are submitted to the Township and held until the respective activity is completed and approved by the Township Building Inspector.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(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 carried over and need not be reappropriated. The Township did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

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 and Investments

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

	2007	2006
Demand deposits	(\$46,928)	(\$68,942)
Investments:		
STAR Ohio	1,525,496	1,450,589
Repurchase agreement	2,220,000	2,100,000
Total investments	3,745,496	3,550,589
Total deposits and investments	\$3,698,568	\$3,481,647

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

Investments: The Township's financial institution transfers securities to the Township's agent to collateralize repurchase agreements. Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ended December 31, 2007 and 2006 was as follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,188,977	\$1,276,036	\$87,059
Special Revenue	1,376,725	1,526,184	149,459
Fiduciary	104,600	72,450	(32,150)
Total	\$2,670,302	\$2,874,670	\$204,368

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,856,868	\$1,300,689	\$556,179
Special Revenue	3,616,634	1,506,990	2,109,644
Fiduciary	460,000	92,185	367,815
Total	\$5,933,502	\$2,899,864	\$3,033,638

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,183,178	\$1,387,119	203,941
Special Revenue	1,248,689	1,145,758	(102,931)
Fiduciary	169,800	128,900	(40,900)
Total	\$2,601,667	\$2,661,777	\$60,110

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,524,226	\$1,040,158	\$484,068
Special Revenue	3,228,482	1,067,649	2,160,833
Fiduciary	600,000	200,150	399,850
Total	\$5,352,708	\$2,307,957	\$3,044,751

Contrary to Ohio Revised Code Section 5705.41(D) certain expenditures were not certified before the obligation was incurred.

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.

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

4. Property Tax (Continued)

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 2007 and 2006, OPERS members contributed 9.5% and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85% and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

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

Casualty Coverage

For an occurrence prior to January 1, 2006, 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. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. Risk Management (Continued)

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. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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.

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, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Assets	\$43,210,703	\$42,042,275
Liabilities	<u>(13,357,837)</u>	<u>(12,120,661)</u>
Net Assets	<u>\$29,852,866</u>	<u>\$29,921,614</u>

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, 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 \$60,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. Risk Management (Continued)

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

<u>Contributions to OTARMA</u>	
2005	\$3,405
2006	\$3,600
2007	\$28,608

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they 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 budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

7. Joint Venture

The Township participates in the Northfield Center Township-Macedonia Joint Economic Development District (JEDD), which is a statutorily created subdivision of the State. The purpose of the JEDD is to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people of the State, the Township and the City. The Township and the City shall work together to provide water, sewer, street lighting, roads, sidewalks and other local services to the area. These services are funded by a percentage of income tax revenue. The Board of Directors is comprised of six members three from the Township (the three Township Trustees) and three from the City (the Mayor and two Council members). The Board was responsible for the adoption of an annual budget for the JEDD, estimating revenue and expense of the JEDD and establishing the distribution of income tax revenue. Financial information can be obtained by writing to the Northfield Center Township – Macedonia Joint Economic Development District, 9691 Valley View Road, Macedonia, Ohio 44056.

8. Jointly Governed Organization

The North Hills Water District is a jointly governed organization established to provide for the construction and maintenance of water transmission lines to residents of Northfield Center Township and Sagamore Hills Township. The water is provided by the City of Cleveland. The seven member District Board consists of three appointed members of each Township and one member appointed alternately by the Townships. The Board is responsible for exercising control over the District's operations, including budgeting, appropriating and contracting and hiring personnel. All of the District's revenues are derived from property taxes assessed on the property of the Township's residents. Financial information can be obtained by writing to the North Hills Water District, 253 West Aurora Road, Northfield Center, Ohio 44067.

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

9. Material Noncompliance

Contrary to the Ohio Constitution, Article XII, Section 5a and 1982 Op. Att'y Gen. No. 82-031 and Ohio Revised Code Section 135.21, interest income was not allocated properly between funds.

Contrary to Ohio Revised Code Sections 505.24 and 507.09, the Township Trustees and Fiscal Officer were overpaid during 2007.

Contrary to Sections 10b and 10c of the Emergency Services Fire/EMS Contract for Sagamore Hills Township provided by Northfield Center Township effective September 1, 1997, quarterly adjustment billings were not submitted timely.



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*

Northfield Center Township
Summit County
9546 Brandywine Road
Northfield Center, Ohio 44067

To the Board of Trustees:

We have audited the financial statements of Northfield Center Township, Summit County, Ohio, (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated August 4, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes or permits 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: findings number 2007-003 through 2007-012.

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 finding numbers 2007-003 thru 2007-005 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 4, 2008.

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 and other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2007-001 and 2007-002 and 2007-008 through 2007-012.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated August 4, 2008.

The Township's responses to the findings in our audit are described in the accompanying schedule of findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

August 4, 2008

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007- 001

Noncompliance Citation – Health Care Reimbursement

Ohio Rev. Code Section 505.60(C) states that if any township officer or employee is denied coverage under a health care plan procured under division (B) of this section or if any township officer or employee elects not to participate in the township's health care plan, the township may reimburse the officer or employee for each out of pocket premium that the officer or employee incurs for insurance policies described in division (A) of this section that the officer or employee otherwise obtains, but not to exceed an amount equal to the average premium paid by the township for its officer and employees under policies it procures under division (B) of this section.

Attorney General Opinion 2005-038 concluded that, pursuant to Ohio Rev. Code Section 505.60(C), a board of trustees may reimburse a township officer or employee for the out-of-pocket premiums attributable to that officer or employee for health care coverage under insurance policies described in Ohio Rev. Code Section 505.60(A) if the officer or employee is denied health care coverage under a policy procured by the township under Ohio Rev. Code Section 505.60(B), or if the officer or employee elects not to participate in the township's health care plan. The policies described in 505.60(A) do not include family coverage. Therefore, the township should not reimburse for premium costs attributable to the spouse or dependents of an officer or employee.

The Township reimbursed a Township Trustee for family coverage for the years 2006 and 2007 which was in excess of the Trustee's actual out-of-pocket premium expenses attributable to them only in the amount of \$11,492.

Our audits of townships during this audit period have revealed ambiguity in the interpretation of the health care reimbursement statutes, as demonstrated in the opinions of several prosecuting attorneys submitted to our office. In addition, legislation has been introduced and passed the Ohio House of Representatives to extend reimbursement to township officials and employees for premiums for family coverage. Therefore, we will not issue Findings for Recovery for these expenditures during the 2006-2007 audit period.

We recommend the Township revise its health care premium reimbursement policy to limit reimbursement to amounts attributable to township officials and employees only, unless and until HB 458 is passed by the legislature and becomes law.

Officials' Response: Future decisions depend on whether or not HB 458 is approved.

FINDING NUMBER 2007-002

Salary Overpayment

We are proposing a Finding for Recovery for the following reason:

Ohio Rev. Code Section 505.24 establishes the maximum compensation allowable for township trustees and **Ohio Rev. Code Section 507.09** establishes the maximum compensation allowable for township fiscal officers. During 2007, township trustees in a township having a budget of more than six million dollars, but less than ten million dollars, were entitled to \$77.81 per day for not more than two hundred days or an annual salary of \$15,562. During 2007, township fiscal officers in a township having a budget of more than six million dollars, but less than ten million dollars, were entitled to an annual salary of \$23,692. Northfield Center Township's original budget for 2007 was more than six million dollars and less than ten million dollars; however, the budget was amended as certified by the Summit County Budget Commission on March 19, 2007 to an amount less than six million dollars and more than three million five hundred thousand dollars. The Township Trustees' and Fiscal Officer's salaries should have been amended after the budget was amended to amounts established by the Revised Code for the lower budget; however, the Trustees and Fiscal Officer continued to be compensated at the higher salary rates for the remainder of 2007 resulting in the following over-payments of compensation for 2007:

Official	Salary Received	Salary Allowed	Overpayment
Richard Reville, Trustee	\$15,562	\$12,898	\$2,664
Paul Buescher, Trustee	\$15,562	\$12,898	\$2,664
Brent Sommer, Trustee	\$15,562	\$12,898	\$2,664
Monica James, Fiscal Officer	\$23,692	\$21,405	\$2,287

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Richard Reville, Township Trustee; Paul Buescher, Township Trustee; Brent Sommer, Township Trustee; the Trustees' bonding company, the Ohio Township Association Risk Management Authority; Monica James, Fiscal Officer; and her bonding company, Travelers Casualty and Surety Company of America, in the corresponding amounts listed above, and in favor of Northfield Center Township's General Fund except the overpayment attributable to Township Trustee Paul Buescher is in favor of Northfield Center Township's Road & Bridge Fund. Each is primarily liable for the amount they received in overpayment.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

Therefore, because all the aforementioned Township Officers signed or approved the warrants resulting in improper payments, the following are jointly and severally liable for the entire amount of \$10,279: Richard Reville, Township Trustee; Paul Buescher, Township Trustee; Brent Sommer Township Trustee; Ohio Township Association Risk Management Authority, the Trustees' bonding company, Monica James, Fiscal Officer, and Travelers Casualty and Surety Company of America, her bonding company. This recovery is in favor of Northfield Township's General Fund except the overpayment attributable to Township Trustee Paul Buescher is in favor of Northfield Center Township's Road and Bridge Fund.

FINDING NUMBER 2007-002 (Continued)

Richard Reville, Paul Buescher, Brent Sommer, and Monica James shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from the person receiving the overpayment.

Officials' Response: In review of the Certificate of Estimated Resources, salary should have been adjusted. We have always based salary on the budget as submitted to the County of Summit due in July of the preceding year, not on the Certificate of Estimated Resources. The 2007 income from the Sagamore Hills Fire Contract was received in 2007 and should have been included in the Amended Certificate of Estimated Resources. A legal opinion on this subject has been sought from the Summit County Prosecutor.

FINDING NUMBER 2007-003

Material Weakness

Bank Reconciliations

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records. This process involves reconciling the bank balance to the cash and investment balance. For the years ended December 31, 2006 and 2007, the Township did not resolve differences of \$511,656 and \$204,074, respectively between the adjusted bank balance and the balance reflected within the Township's accounting records until March 2008. The annual reports for these years were filed with the Auditor of State with these differences.

In addition, during 2007, bank reconciliations were not performed for two to five months after months end and during 2006, bank reconciliations were not performed for up to six months after months end. Consequently, the Trustees are unable to adequately review or approve the Township's monthly balances. In addition, several reconciling items, such as interest earned, were not recorded to the Township's accounts until the reconciliations were done several months later, understating fund balances.

During 2007, the following errors were noted on cash reconciliations:

- At December 31, 2007 there were three expenditures totaling \$340 which were not recorded in the Township's accounting records and three receipts totaling \$14,765 which were deposited in the bank but not recorded in the Township's accounting records.
- The April 2007 interest was not posted until September 2007 and May and June interest was not posted until July 2007.

During 2006, the following errors were noted on cash reconciliations:

- At December 31, 2006 there were 14 receipts totaling \$9,491 recorded in the Township's accounting records but not deposited in the bank and 5 receipts totaling \$22,363 which were deposited in the bank but not recorded in the Township's accounting records.
- The July through September 2006 interest was not posted until November 2006.

Without complete and accurate monthly bank reconciliations, the Township's internal control is weakened, which could hinder the timely detection of errors or irregularities by the Township's management.

FINDING NUMBER 2007-003 (Continued)

The Township should perform and complete monthly bank reconciliations in a timely manner. All deposits and interest should be recorded to the accounting system timely. Also, a copy of each monthly bank reconciliation and the listing of outstanding checks or other reconciling items should be filed in the bank activity folder along with the bank statements and supporting documents for the applicable month. The Township Board of Trustees should sign and date the bank reconciliations and/or formally approve the reconciliations in the minutes to indicate they have been reviewed and approved. The Township should refer to the Ohio Township Handbook for additional guidance in preparing the monthly bank to book reconciliations.

Officials' Response: We agree that bank reconciliations need to be done on a regular basis. Reconciliations will be done on a regular, timely basis by the Fiscal Officer, with discussions of the current and YTD reconciliations at all Regular Trustees Meetings. For the Year 2008, reconciliations have not gone past 30 days after receipt of the bank statement.

FINDING NUMBER 2007-004

Material Weakness

Classification of Receipts and Expenditures

The Township Fiscal Officer incorrectly recorded the following receipts in 2007:

- Permissive Motor Vehicle License Tag fund receipts of \$4,311 were originally posted to the Motor Vehicle License Tax fund.
- Motor Vehicle License Tax fund receipts of \$1,279 were originally posted to Permissive Motor Vehicle License Tag fund.
- Gasoline Tax fund receipts of \$7,686 were originally posted to Motor Vehicle License Tax fund.
- JEDD income tax revenue and annexation revenue from the City of Macedonia of \$164,195 in the General Fund were originally classified as Other Revenue instead of Other Local Taxes.
- Federal grant monies of \$105,254 were originally posted as Other Revenue in the Miscellaneous Grants, Fire Department fund instead of Intergovernmental Revenue.
- Proceeds from the sale of fire equipment of \$60,000 were originally posted as Other Revenue in the Miscellaneous Grants, Fire Department fund instead of Sale of Capital Assets.
- Interest of \$3,873 was originally recorded as Other Revenue in Miscellaneous Grants, Fire Department fund instead of Interest Income in the General fund.
- Interest of \$1,313 was originally classified as Intergovernmental Revenue in the General fund instead of Interest Income.

The Township Fiscal Officer incorrectly recorded the following receipts in 2006:

- Interest of \$3,216 was originally classified as Other Revenue in Miscellaneous Grants, Fire Department fund instead of Interest Income in the General fund.
- Gasoline Tax fund fuel tax receipts of \$7,718 were originally classified as Interest Income instead of Intergovernmental Revenue.
- JEDD income tax revenue and annexation revenue from the City of Macedonia of \$130,988 in the General Fund were originally classified as Other Revenue instead of Other Local Taxes.

FINDING NUMBER 2007-004 (Continued)

In addition, while testing ambulance charges for services' receipts during 2006, we noted approximately 25 sequentially numbered receipts which were skipped and not used and 5 receipt numbers which were used twice. This could allow for errors or misappropriation to occur and not be detected in a timely manner by management.

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

To help ensure the Township's financial statements are complete and accurate, the Township should adopt policies and procedures. These could include periodically monitoring the classification of receipts and expenditures compared to the "Township Handbook" chart of accounts, and performing a final review of the statements by the Fiscal Officer and Board prior to filing to identify and correct posting errors and/or omissions.

Additionally, the Fiscal Officer should use pre-numbered, duplicate receipt books for ambulance charges for services and other over-the-counter receipts.

Audit adjustments were posted to the financial statements to correct these errors.

Officials' Response: We agree posting should be done properly. Posting will be done on a timely, accurate basis by the Fiscal Officer, with monthly reports to the Trustees at their Regular Meetings.

FINDING NUMBER 2007-005

Material Weakness

Review and Monitoring of Bank Reconciliations and Financial Reports

During 2006 and 2007, the Trustees did not receive or review any monthly bank reconciliations and financial reports. As a result, the Township's financial statements contained material errors and omissions.

This condition prevents the Trustees from monitoring the Fiscal Officer and the Township's finances.

A proactive Board of Trustees is an important part of an effective system of internal controls. As an integral part of the internal control structure, the Township's Board of Trustees should request monthly financial reports and formally recognize in the minutes the acceptance of monthly reports they receive from the Fiscal Officer. Reports should include, but not be limited to, monthly cash reconciliations, budget to actual statements, year-to-date receipt, expenditure, and fund balance reports, etc. These reports should reflect all activity of the Township and should be up-to-date. This will increase the Trustee's awareness of all finance related activity and facilitate their decision making process. During this review, they should determine the bank reconciliation is performed in a timely manner and question any reconciling items that are not understood or that appear unusual. In addition, they should ensure all expenditures and receipts appear appropriate for the Township.

By closely reviewing these documents, the Township's Board of Trustees may be able to detect errors timely, thereby increasing the effectiveness of the internal control structure.

Officials' Response: The Fiscal Officer will provide the completed bank reconciliations to the Trustees by the Friday before Regular Trustees Meetings so reconciliations can be reviewed and approved at Regular Trustees Meetings.

FINDING NUMBER 2007-006

Significant Deficiency

Timely Deposit of Public Money

During 2007, 11 of 13 (85%) receipts tested totaling \$357,982 and during 2006, 19 of 19 (100%) receipts tested totaling \$554,339 related to contractual revenue from local sources and cash performance bonds in amounts ranging from \$2,000 to \$76,538 were not deposited timely by the Fiscal Officer for a period ranging from 5 to 196 days after initial receipt of the money.

In addition, the Trustees passed resolution (07/08-06i) on August 6, 2007 requiring the daily bank deposit of all cash and checks received by the Township. Following the passage of the resolution, two receipts related to contract revenue from local sources in amounts of \$19,179 and \$65,993 were not deposited for 19 days and 61 days later by the Fiscal Officer.

Subsequent to 2007 year end, during audit fieldwork, the Fiscal Officer found a check dated November 2006 for \$250 which had not been deposited and recorded.

Delays of this nature could cause Township daily receipts to be lost, misplaced, or misappropriated without being detected in a timely manner. In addition, the Township is losing interest revenue by not depositing timely. The Township should properly safeguard receipts and implement its above Board resolution relative to depositing requirements. In addition, the Fiscal Officer should deposit all checks and cash received on a daily basis in order to limit exposure to unnecessary risk. Additionally, to minimize its risk of losing checks and risk of not detecting lost checks, the Township should establish a secure place for all incoming checks until deposited daily. Whenever possible, someone independent of the person making the daily deposits should open the mail and prepare a detail list of all revenue received which can then be compared with the daily bank deposit to ensure all revenue received is being deposited intact, as collected, on a daily basis.

Officials' Response: The Township's check deposit policy will be followed and any exceptions will be reported to the Trustees by the Fiscal Officer immediately via email. All monies received by the Township are now recorded by the Township Secretary. An e-mail is sent to the Trustees and Fiscal Officer advising them of the monies received. Copies of the checks and deposit are recorded and given to the Trustees within 24 hours where possible. Some checks not received until late Friday have been held until Monday.

FINDING NUMBER 2007-007

Significant Deficiency

Late Fees/Past Due Invoices

The Township had received past due notices on at least twenty-three occasions which included the following issues:

- The Township incurred \$86.34 in late fees from vendors in addition to the \$865.50 in late fees from OPERS noted in Finding Number 2007-011 below
- Termination for dental and health insurance occurred or was threatened
- The Township paid credit cards late, incurring late fees
- The Township did not pay credit cards in full, even though the resources to do so were available, incurring unnecessary finance charges
- Late fees, reinstatement fees, etc., were mentioned on some invoices, however, the exact amounts could not always be determined at the time the invoice was sent

FINDING NUMBER 2007-007 (Continued)

The Township should pay all of its invoices in a timely manner to avoid incurring late charges, possible termination of important services, and unnecessary exposure to risk. The Township should develop a formal policy for bill paying to ensure invoices are paid in a timely manner.

Officials' Response: The Fiscal Officer shall employ automatic electronic payments for all appropriate vendors by the end of October 2008. Department Heads need to expedite the processing of invoices with particular attention to payment due dates. OPERS is now an electronic reporting followed in the mail with the payment. This has greatly reduced the late fees and/or penalties.

FINDING NUMBER 2007-008

Noncompliance Citation and Significant Deficiency

Fire and EMS Contract

Sections 10b and 10c of the Emergency Services Fire/EMS Contract for Sagamore Hills Township Provided by Northfield Center Township – effective September 1, 2007, indicates Northfield Center will provide detailed schedules of direct costs on a 3-month cycle for Sagamore Hills to review and if requested, Northfield Center will provide the related purchase orders/invoices/back-up documents for such reports. Sagamore Hills agrees to pay monthly estimated installments with quarterly adjustments between the Townships due within 30 days of report of costs. This contract superseded similar earlier contracts in effect during 2006 and 2007.

Although Sagamore Hills Township paid monthly installments during 2006, the Northfield Center Township Fiscal Officer failed to submit quarterly adjustment billings. Consequently, the Township did not receive reimbursement for services dating back to May 2006 until April, 2007. In addition, 2007 adjustment collections were not received until January 2008.

Monthly installments for the months of December 2006 through March 2007 were not paid until April 2007 and not deposited until June 2007. Monthly installments for the months of April through August, 2007 were not paid and deposited until October 2007. Monthly installments for the months of September through December 2007 were not paid until January 2008. The monies received in relation to the Fire/Ambulance contract were supported by copies of the checks submitted and not invoices prepared by Northfield Center Township.

This resulted in lost interest income to the Township and could have resulted in material misstatement to the financial statements due to untimely billings and deposits.

To adhere to the terms of a written contract and accurately document contract payments received, the Fiscal Officer should prepare quarterly billing adjustments, maintain copies of billing statements and supporting detail of emergency runs.

Officials' Response: During contract negotiations, it was unclear to the Fiscal Officer of Sagamore Hills and Northfield Center what their respective roles were; therefore, some reporting and payments were delayed until the contract was negotiated between the Trustees. We are using an additional person to make sure statements are being sent to Sagamore Hills on a monthly basis. The Fiscal Officer will supply timely and accurate information to the employee who is responsible for oversight on the fire department reports being sent to Sagamore Hills.

FINDING NUMBER 2007-009

Noncompliance Citation and Significant Deficiency

Ohio Const. Art. XII, Section 5a and 1982 Op. Att’y Gen. No. 82-031 provide that interest earned on money derived from a motor vehicle license or fuel tax must follow the principal. **Ohio Rev. Code Section 135.21** provides, in part, all investment earnings on money included within a public deposit of a subdivision and belonging to undivided tax funds shall, except as otherwise expressly provided by law, be apportioned by the auditor pro rata among the separate funds or taxing districts in the proportions in which they are entitled to receive distribution of such undivided tax funds, due allowance being made for sums transferred in advance of settlements. All investment earnings from other moneys deposited by a treasurer, which by reason of being custodial funds, or funds belonging in the treasury of a taxing, assessment, or other district of which the treasurer is acting as ex officio treasurer, or for any other reason, do not belong in the treasury of the state or subdivision shall, except as provided in section 135.351 of the Revised Code, be apportioned among and credited to the funds to which the principal sums of such deposits or investments belong. All other investment earnings, except as provided in section 135.351 of the Revised Code shall be credited to the general fund of the township to which the principal sum thereof belongs.

We noted the following interest allocations contrary to these requirements:

All of the interest from the Township sweep repurchase agreement account was credited to the General Fund, even though, this account includes pooled vehicle license and fuel tax moneys which must follow the principal.

For 2007 and 2006, all interest earned from a Star Ohio investment account, in the amount of \$56,034 and \$55,795, respectively, was credited to an Inheritance Tax Fund which should not earn any interest.

The remaining interest earned was allocated equally to the following funds: General Fund, Motor Vehicle License Tax Fund, Gasoline Tax Fund, Miscellaneous Grants Fund and the Permissive Motor Vehicle License Tax Fund. The Miscellaneous Grants Fund should not earn any interest. Interest earned on money derived from a motor vehicle license or fuel tax must follow the principal. Although, some interest was allocated to the motor vehicle funds, it was not allocated relative to each fund’s principal balance.

The Township has an agency fund to account for builder’s completion bonds required by contractors constructing new housing units in the Township. The cash bonds are held by the Township until the respective activity is completed and approved by the Township Building Inspector. Interest earned by this fund is being credited to the General Fund but should be credited to this agency fund since the amounts being held on deposit do not belong to the Township or the bonds should be held in a separate non-interest bearing bank account.

These items resulted in the misstatement of certain fund’s ending cash fund balances.

Recording interest earned in the correct funds is not only required by statute but is a key control in the receipt process to assure revenues are accounted for in the proper funds. Failure to comply with these statutes could result in future material misstatements of individual fund balances.

To comply with the above sections, the Fiscal Officer should sum interest earned monthly and allocate interest earned to the required funds based on the proportion of each fund’s balance to the total balance at month’s end with the remainder credited to the General Fund. In addition, the Township should develop internal control procedures to ensure interest earned is credited to the proper funds in accordance with the statutes.

FINDING NUMBER 2007-009 (Continued)

Audit adjustments were posted for funds which are not allowed to earn interest.

Officials' Response: We agree with the finding. The Fiscal Officer will correct posting errors and modify the ledgers to show items deposited to the correct account. A non-interest bearing account will be set up by October 15, 2008 for Bond Monies held on deposit. This procedure will also help in day to day operating expenses by knowing what money is Bond Money and what is operating capital.

FINDING NUMBER 2007-010

Noncompliance Citation and Significant Deficiency

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 certifying 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 Board of Trustees can authorize the drawing of a warrant for the payment of the amount due. The Board of Trustees 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 Board of Trustees.

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 Board of Trustees 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 2007-010 (Continued)

During 2006, 9 of 44 (20.5%) expenditures tested were not properly certified before the obligation was incurred. During 2007, 17 of 54 (31.5%) expenditures tested were not properly certified before the obligation was incurred. It was noted in each year that the three exceptions above were not utilized.

Additionally, the Fiscal Officer used blanket purchase orders with "Then and Now" certificates attached. Multiple blanket purchase orders were also used for the same appropriation line item. A blanket purchase order should be used for a specific appropriation line item. The Board of Trustees did not establish a dollar amount by resolution for blanket certificates. The Fiscal Officer used "Then and Now" certificates on purchases greater than \$3,000 which were not subsequently approved by the Board of Trustees within 30 days.

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

We recommend 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: We agree with the finding. Numerous e-mails and memos have been sent to the Trustees and Department Supervisors advising them of the need to submit Purchase Requisitions prior to invoice being received by the Fiscal Officer to eliminate the need for THEN AND NOW Certificates. Disciplinary action may be undertaken against any employee who purchases Township items without previously submitting a Purchase Request. The Fiscal Officer shall issue clear guidelines regarding any exceptions or variances from the Purchase Requisition Procedure.

FINDING NUMBER 2007-011

Noncompliance Citation and Significant Deficiency

Ohio Rev. Code Section 145.47 provides, in part, each public employee who is a contributor to the public employees retirement system shall contribute eight per cent of the contributor's earnable salary to the employees' savings fund, except that the public employees retirement board may raise the contribution rate to a rate not greater than ten per cent of the employee's earnable salary.

The fiscal officer of each local authority subject to this chapter shall transmit promptly to the system a report of contributions at such intervals and in such form as the system shall require, showing thereon all deductions for the system made from the earnable salary of each contributor employed, together with warrants or checks covering the total of such deductions. A penalty of five per cent of the total amount due for the particular reporting period shall be added when such report, together with warrants or checks to cover the total amount due from the earnable salary of all amenable employees of such employer, is filed thirty or more days after the last day of such reporting period.

FINDING NUMBER 2007-011 (Continued)

Beginning in 2006, the Board of the Ohio Public Employees Retirement System (OPERS) raised the contribution rate for employees to 9.0%. During testing, we noted two employees contributed at the 2005 rate (8.5%) for one pay period each and one employee contributed 11.55% for one pay period in 2006. Additionally, the Fiscal Officer filed the Report of Contributions more than thirty days after the reporting period on several occasions during both 2006 and 2007, incurring late fees totaling \$865.50. A key control in the payroll process is to assure payroll withholdings are withheld at the correct rates and submitted to the appropriate agencies timely. Failure to comply with the statute could result in additional late fees and penalties and may result in misstatement of the financial statements.

To comply with the established law and accurately withhold retirement contributions, the Fiscal Officer should verify that each employee is contributing the proper rate into OPERS or any other applicable retirement system. In addition, the Fiscal Officer should file the Report of Contributions no later than thirty days after the end of the reporting period to ensure that the Township does not incur a five percent penalty.

This matter will be referred to OPERS.

Officials' Response: We agree this needs to be corrected and will take steps to correct the matter. Part of the percentage error was in ADP and corrective steps were taken. In addition to the ADP deduction report, the Fiscal Officer creates a spreadsheet and compares the calculations with ADP to ensure that deduction errors are kept to a minimum. The Fiscal Officer shall communicate with ADP to determine if ADP can generate reports which may be helpful for accuracy.

FINDING NUMBER 2007-012

Noncompliance Citation and Significant Deficiency

Ohio Rev. Code Section 145.03 indicates that membership in the Ohio Public Employees Retirement System (OPERS) is mandatory for all public employees including part-time employees and students.

Two Township employees are contributing to both OPERS and social security. The Township is also paying the employer match amounts to both retirement systems for these employees resulting in unnecessary expenses to the Township. Since the employees will not be entitled to full benefits from both systems at the time of retirement, we recommend the employees and Township contact the retirement systems to determine which system contributions should be made to and if the employee or Township are entitled to a refund of contributions made to the other system.

We recommend the Township develop internal control procedures to ensure all employees are contributing to the correct retirement systems and are only contributing to one retirement system.

This matter will be referred to OPERS and the Social Security Administration.

Officials' Response: When this was discovered, we corrected this issue with ADP. Self-education regarding the complete spectrum of ADP features will be undertaken by the Fiscal Officer and Administrator. As of January 2008, the necessary adjustments have been made and employees now have the correct deductions withheld from their payroll.

**NORTHFIELD CENTER TOWNSHIP
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Material Weakness Bank Reconciliations- The Township should perform and complete monthly bank reconciliations in a timely manner.	No	Not Corrected – Refer to Finding Number 2007-003



Mary Taylor, CPA
Auditor of State

NORTHFIELD CENTER TOWNSHIP

SUMMIT 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
OCTOBER 9, 2008**