



Dave Yost • Auditor of State

**BROWN TOWNSHIP
CARROLL COUNTY**

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Dave Yost • Auditor of State

Brown Township
Carroll County
PO Box 378
Malvern, Ohio 44644

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 "Dave Yost".

Dave Yost
Auditor of State

May 4, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Brown Township
Carroll County
PO Box 378
Malvern, Ohio 44644

To the Board of Trustees:

We have audited the accompanying financial statements of Brown Township, Carroll County, (the Township) as off and for the years ended December 31, 2011 and 2010. 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. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. 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 Township 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, 2011 and 2010 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, 2011 and 2010, 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 as of December 31, 2011 and 2010 of Brown Township, Carroll County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2011 Brown Township adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2012, 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.



Dave Yost
Auditor of State

May 4, 2012

**BROWN TOWNSHIP
CARROLL COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Debt Service	Permanent	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$78,148	\$317,118			\$395,266
Charges for Services		2,000			2,000
Licenses, Permits and Fees		21,735			21,735
Intergovernmental	88,232	279,672			367,904
Special Assessments		3,353			3,353
Earnings on Investments	47	11		\$314	372
Miscellaneous	9,138	3,320			12,458
<i>Total Cash Receipts</i>	<u>175,565</u>	<u>627,209</u>		<u>314</u>	<u>803,088</u>
Cash Disbursements					
Current:					
General Government	143,654				143,654
Public Safety	17,132	70,275			87,407
Public Works		318,772			318,772
Health		25,660			25,660
Capital Outlay	15,410	70,506			85,916
Debt Service:					
Principal Retirement	20,900	20,702			41,602
Interest and Fiscal Charges	3,838	8,947			12,785
<i>Total Cash Disbursements</i>	<u>200,934</u>	<u>514,862</u>			<u>715,796</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(25,369)</u>	<u>112,347</u>		<u>314</u>	<u>87,292</u>
Other Financing Receipts (Disbursements)					
Other Financing Sources		5,444			5,444
Other Financing Uses		(115,352)			(115,352)
<i>Total Other Financing Receipts (Disbursements)</i>		<u>(109,908)</u>			<u>(109,908)</u>
<i>Net Change in Fund Cash Balances</i>	(25,369)	2,439		314	(22,616)
<i>Fund Cash Balances, January 1</i>	108,084	134,991	\$1,039	12,765	256,879
Fund Cash Balances, December 31					
Nonspendable				10,720	10,720
Restricted		126,962		2,359	129,321
Committed		10,468			10,468
Unassigned (Deficit)	82,715		1,039		83,754
<i>Fund Cash Balances, December 31</i>	<u>\$82,715</u>	<u>\$137,430</u>	<u>\$1,039</u>	<u>\$13,079</u>	<u>\$234,263</u>

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

**BROWN TOWNSHIP
CARROLL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Permanent</u>	
Cash Receipts:					
Property and Other Local Taxes	\$77,671	\$315,406			\$393,077
Licenses, Permits, and Fees		24,790			24,790
Intergovernmental	52,604	213,295			265,899
Special Assessments		2,188			2,188
Earnings on Investments	459	136		\$207	802
Miscellaneous	8,759	10,578			19,337
Total Cash Receipts	<u>139,493</u>	<u>566,393</u>		<u>207</u>	<u>706,093</u>
Cash Disbursements:					
Current:					
General Government	142,537	646			143,183
Public Safety	31,800	67,427			99,227
Public Works		406,267			406,267
Health		16,414			16,414
Other		34,733			34,733
Capital Outlay	14,780	60,250			75,030
Debt Service:					
Redemption of Principal		31,000			31,000
Interest and Other Fiscal Charges		7,304			7,304
Total Cash Disbursements	<u>189,117</u>	<u>624,041</u>			<u>813,158</u>
Total Receipts Over/(Under) Disbursements	<u>(49,624)</u>	<u>(57,648)</u>		<u>207</u>	<u>(107,065)</u>
Other Financing Receipts / (Disbursements):					
Advances-In		30,000			30,000
Advances-Out	(30,000)				(30,000)
Other Financing Sources	288				288
Total Other Financing Receipts / (Disbursements)	<u>(29,712)</u>	<u>30,000</u>			<u>288</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	(79,336)	(27,648)		207	(106,777)
Restated Fund Cash Balances, January 1	187,420	162,639	\$1,039	12,558	363,656
Fund Cash Balances, December 31	<u>\$108,084</u>	<u>\$134,991</u>	<u>\$1,039</u>	<u>\$12,765</u>	<u>\$256,879</u>

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

**BROWN TOWNSHIP
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 Brown Township, Carroll County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance and fire protection services.

The Township participates in Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 8 to the financial statements provides additional information for these entities. This organization is:

Public Entity Risk Pool:

The Ohio Township Association Risk Management Authority (OTARMA) provides property and casualty coverage for its members.

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. 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.

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.

Fire District Fund - This fund receives tax money to provide fire protection services.

**BROWN TOWNSHIP
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

3. Debt Service Funds

These funds account for resources the Township accumulates to pay bond and note debt. The Township had the following significant Debt Service Fund.

Debt Service Fund – This fund was established to accumulate funds used to repay debt.

4. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following significant permanent fund:

Cemetery Endowment Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's cemetery.

D. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2011 and 2010 budgetary activity appears in Note 3.

**BROWN TOWNSHIP
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Fund Balance

For December 31, 2011 fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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.

**BROWN TOWNSHIP
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

2. RESTATEMENT OF FUND BALANCE

Due to an outside FEMA checking account, the balance of which was not previously included on the Township ledgers, the fund balance of the Special Revenue funds has been restated as follows:

	Special Revenue Funds
Balance	\$158,652
Restatement	<u>3,987</u>
Restatement December 31, 2009	<u>\$162,639</u>

3. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2012	2010
Demand deposits	\$223,229	\$245,951
Certificates of deposit	11,034	10,928
Total deposits	<u>\$234,263</u>	<u>\$256,879</u>

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

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$112,042	\$175,565	\$63,523
Special Revenue	451,321	632,653	181,332
Permanent	970	314	(656)
Total	<u>\$564,333</u>	<u>\$808,532</u>	<u>\$244,199</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$216,653	\$200,934	\$15,719
Special Revenue	584,088	630,214	(46,126)
Permanent	2,808	0	2,808
Total	<u>\$803,549</u>	<u>\$831,148</u>	<u>(\$27,599)</u>

**BROWN TOWNSHIP
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

4. BUDGETARY ACTIVITY – (Continued)

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$203,580	\$139,781	(\$63,799)
Special Revenue	707,354	566,393	(140,961)
Permanent	960	207	(753)
Total	<u>\$911,894</u>	<u>\$706,381</u>	<u>(\$205,513)</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$189,117	(\$189,117)
Special Revenue	0	624,041	(624,041)
Total	<u>\$0</u>	<u>\$813,158</u>	<u>(\$813,158)</u>

Contrary to Ohio law, Ohio Revised Code Sections 5705.38 and 5705.41 (B), as no appropriation measure was approved in 2010, budgetary expenditures exceeded appropriation authority in the all funds in 2010; budgetary expenditures exceeded appropriation authority in the FEMA Fund in 2011.

Contrary to Ohio law, Ohio Revised Code 5705.41 (D), in 2011 67% of Township expenditures tested were not properly certified.

5. 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.

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

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

6. DEBT

Debt outstanding at December 31, 2011 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$77,100	4.13%
General Obligation Bonds	\$183,600	4.38%
Lease	51,498	6.10%
Total	<u>\$312,198</u>	

**BROWN TOWNSHIP
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

6. DEBT – (Continued)

The Township issued general obligation bonds to finance the purchase of a new tractor used for Township road maintenance. The Township's taxing authority collateralized the bonds.

The Township issued general obligation bonds to finance the purchase of a new fire truck for the purpose of providing fire protection services to the Township. The Township's taxing authority collateralized the bonds.

The Township entered into a lease for the purchase of a new dump truck. The lease is collateralized by the truck.

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

Year ending December 31:	Truck Lease	General Obligation Bonds Fire Truck	General Obligation Bonds Tractor
2012	\$19,302	\$20,908	\$14,780
2013	19,302	20,882	14,802
2014	19,302	20,836	14,703
2015		20,667	14,787
2016		20,872	14,747
2017-2021		104,285	14,786
2022--2024		42,601	
	\$57,906	\$251,051	\$88,605

7. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OPERS members contributed 10%, of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2011.

8. 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.

**BROWN TOWNSHIP
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

8. RISK MANAGEMENT – (Continued)

American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. 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 and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2010, OTARMA retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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, 2010 and 2009 (the latest information available):

	<u>2010</u>	<u>2009</u>
Assets	\$35,855,252	\$38,982,088
Liabilities	<u>(10,664,724)</u>	<u>(12,880,766)</u>
Net Assets	<u>\$25,190,528</u>	<u>\$26,101,322</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$9.9 and \$12.0 million of estimated incurred claims payable. The assets above also include approximately \$9.5 and \$11.5 million of unpaid claims to be billed to approximately 940 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Township's share of these unpaid claims collectible in future years is approximately \$4,000.

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>	
<u>2011</u>	<u>2010</u>
\$9,343	\$13,438

**BROWN TOWNSHIP
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

8. RISK MANAGEMENT – (Continued)

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to 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 occurred or was reported prior to the withdrawal.



Dave Yost • Auditor of State

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

Brown Township
Carroll County
PO Box 378
Malvern, Ohio 44644

To the Board of Trustees:

We have audited the financial statements of Brown Township (the Township) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated May 4, 2012 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. In addition, we noted the Township implemented *Government Accounting Standards* Board Statement 54, "Fund Balance and Governmental Type Definitions" in 2011. We also noted the Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-05 described in the accompanying schedule of findings to be a material weakness.

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 or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-01 and 2011-04.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated May 4, 2012.

The Township's responses to the findings identified 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, the board of trustees, and others within the Township. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

May 4, 2012

**BROWN TOWNSHIP
CARROLL COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

FINDING NUMBER 2011-01

Finding for Recovery/Noncompliance Citation

Ohio Revised Code Section 505.601 states if a board of township trustees does not procure an insurance policy or group health care services as provided in section 505.60 of the Revised Code, the board of township trustees may reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of section 505.60 of the Revised Code that the officer or employee otherwise obtains, if all of the following conditions are met:

- (A) The board of township trustees adopts a resolution that state that the township has chosen not to procure a health care plan under section 505.60 of the Revised Code and has chosen instead to reimburse its officers and employees for each out-of-pocket premium that they incur for insurance policies described in division (A) of section 505.60 of the Revised Code that they otherwise obtain.
- (B) That resolution provides for a uniform maximum monthly or yearly payment amount for each officer or employee, beyond which the township will not reimburse the officer or employee.
- (C) That resolution states the specific benefits listed in division (A) of section 505-60 of the Revised Code for which the township will reimburse all officers and employees of the township. The township may not reimburse officers and employees for benefits other than those listed in division (A) of the section 505.60 of the Revised Code.

The Township mistakenly believed that it could reimburse its officers/employees for prescription co-pays in addition to the out-of-pocket premium associated with insurance coverage. The Township reimbursed Earl McMillen, Road employee for out-of-pocket prescription co-pays in the amount for \$1,886 for FY 2010 and \$1,984 for FY 2011 for a total overpayment of \$3,870.

All warrants for reimbursement for out-of-pocket co-pays were signed by the Trustees and the Fiscal Officer. There is no authority that allows for reimbursement of prescription co-pays.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegal expended is hereby proposed against Earl Mc Millen, employee in the amount of \$3,870 stated above and in favor of the General Fund.

Additionally, 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 liable for the amount of the expenditure. Seward v. National Surety Corp; 120 Ohio St. 47 (1929); 1980 Op. Atty. Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.re. Village of Linndale v. Masten, 18 Ohio St. 3d 228(1985). Public officials controlling public funds or property are secondary liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained for the persons who unlawfully obtained such funds or property, 1980 Op. Atty. Gen. No. 80-074.

**FINDING NUMBER 2011-01
(Continued)**

Therefore, because all Township Officials approved and signed the warrants resulting in improper payments, the following are jointly and severally liable for the entire amount of \$3,870: Jeanne Grimm, Fiscal Officer and her bonding company, Travelers' Casualty and Surety Company along with Rodney Wise, Trustee, Eddie Clark, Trustee and Joseph Chiurco, Trustee and their bonding company, Ohio Township Association Risk Management Authority. Ms. Grimm, Mr. Wise, Mr. Clark and Mr. Chiurco and their bonding companies are liable to the extent that recovery is not obtained from Mr. Mc Millan.

Officials' Response:

An agreement has been reached with Mr. Earl S. McMillan and the finding will be repaid through payroll deductions beginning with the June 11, 2012 pay date until the finding is repaid in full.

FINDING NUMBER 2011-02

Finding for Recovery/Noncompliance Citation

Ohio Revised Code Section 505.601 states if a board of township trustees does not procure an insurance policy or group health care services as provided in section 505.60 of the Revised Code, the board of township trustees may reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of section 505.60 of the Revised Code that the officer or employee otherwise obtains, if all of the following conditions are met:

- (A) The board of township trustees adopts a resolution that state that the township has chosen not to procure a health care plan under section 505.60 of the Revised Code and has chosen instead to reimburse its officers and employees for each out-of-pocket premium that they incur for insurance policies described in division (A) of section 505.60 of the Revised Code that they otherwise obtain.
- (B) That resolution provides for a uniform maximum monthly or yearly payment amount for each officer or employee, beyond which the township will not reimburse the officer or employee.
- (C) That resolution states the specific benefits listed in division (A) of section 505-60 of the Revised Code for which the township will reimburse all officers and employees of the township. The township may not reimburse officers and employees for benefits other than those listed in division (A) of the section 505.60 of the Revised Code.

The Township mistakenly believed that it could reimburse its officers/employees in amounts greater than each out-of-pocket premium incurred by the officer or employee for insurance coverage. The Township reimbursed Rodney Wise, Trustee, in an amount of \$1,000 greater than the total of out-or-pocket premiums incurred during 2011.

As stated above, a township may only reimburse an officer/employee for the out-of-pocket premium attributable to that officer employee. All such warrants for reimbursement for out-of-pocket premiums were signed by the Trustees and the Fiscal Officer.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegal expended is hereby issued against Rod Wise, Trustee and his bonding company, Ohio Township Risk Management Authority, in the amount of \$1,000 and in favor of the General Fund of Brown Township.

**FINDING NUMBER 2011-02
(Continued)**

Additionally, 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 liable for the amount of the expenditure. Seward v. National Surety Corp; 120 Ohio St. 47 (1929); 1980 Op.Atty. Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.re. Village of Linndale v. Masten, 18 Ohio St. 3d 228(1985). Public officials controlling public funds or property are secondary liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained for the persons who unlawfully obtained such funds or property, 1980 Op. Atty. Gen. No. 80-074.

Therefore, because all Township Officials approved and signed the warrants resulting in improper payments, the following are jointly and severally liable for the entire amount of \$1,000.00: Jeanne Grimm, Fiscal Officer and her bonding company, Travelers' Casualty and Surety Company along with Rodney Wise, Trustee, Eddie Clark, Trustee and Joseph Chiurco, Trustee and their bonding company, Ohio Township Risk Management Authority.. Ms. Grimm, Mr. Wise, Mr. Clark and Mr. Chiurco are liable to the extent that recovery is not obtained from Mr. Wise.

Officials' Response:

The amount has been reimbursed to the General Fund. It was reimbursed through current deductions and the remaining portion through a personal check for the balance. A copy of the check was given to the Auditor of State Audit Manager.

FINDING NUMBER 2011-03

Noncompliance Citation

Ohio Revised Code Section 5705.41(D) provides that no subdivision 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 officers' 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 no certificate is furnished as required, upon receipt of the clerk/treasurers' certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the District may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$3,000 the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of Board of Trustees if such expenditure is otherwise valid.

**FINDING NUMBER 2011-03
(Continued)**

2. **Blanket Certificate** – Fiscal Officer 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 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 may be outstanding a particular time for any line item appropriation.

The Fiscal Officer did not certify or record the amount against the applicable appropriation accounts for 67% and 7% of tested 2011 and 2010 expenditures respectively. The Township did not utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending in negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township’s funds exceeding budgetary spending limitations, the Fiscal Officer should certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, “then and now” certification should be used.

The Fiscal Officer should certify purchases to which section Ohio Revised Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code Section 5705.41(D) requires authorizing disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The Township should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials’ Response:

The future process of expenditures: the trustees will be sure the required amount to meet the obligation has been certified, prior to the entering any contract and /or purchase.

FINDING NUMBER 2011-04

Noncompliance Citation

Ohio Revised Code Section 5705.38 requires, in part, that on or about the first day of the fiscal year, an appropriation measure be passed. **Ohio Revised Code Section 5705.41(B)** states that no subdivision or taxing unit is to expend money unless it has been appropriated.

As the Township did not pass an appropriation measure for 2010 and as expenditures are limited by the appropriations established for each fund, all expenditures made by the Township in 2010 were not in compliance with the Ohio Revised Code. In addition, budgetary expenditures exceeded appropriation authority in 67% of tested expenditures in 2011.

**FINDING NUMBER 2011-04
 (Continued)**

Failure to pass an appropriation measure, which serves as a tool by which expenditures can be monitored could result in overspending. The Township should pass an appropriation measure as required so that expenditures can be monitored and compliance with the Ohio Revised Code provisions can be attained. Expenditures should be limited to established appropriation limitations.

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Officials' Response:

The Township will adopt permanent appropriations before expenditures are made as required each year.

FINDING NUMBER 2011-05

Material Weakness

Proper Classification of Receipts and Disbursements

The Fiscal Officer did not correctly post all receipts and disbursements in 2010 and 2011, which resulted in adjustments and reclassifications. The Fiscal Officer has agreed to the reclassifications and the adjustments and these corrected amounts are reflected in the accompanying financial statements. The adjustments have also been posted to the Township ledgers.

2010:

Fund Name	Account Type	Amount	Description
Adjustments			
General	Intergovernmental revenue	\$3,473	Revenue should have been posted to the Lighting Assessment Fund
Lighting Assessment	Intergovernmental revenue	\$3,473	Revenue was posted to the General Fund
Permanent	Earnings on investment	\$207	Interest was not posted
Federal Emergency Management Agency	Beginning fund balance	\$3,987	This fund had not been accounted for in the ledgers

Reclassifications			
Road & Bridge	Intergovernmental Revenue	\$30,180	Grant revenue classified as local taxes
General	Intergovernmental revenue	\$7,990	Tangible personal property tax had been classified as local taxes
Road & Bridge	Intergovernmental revenue	\$19,985	Tangible personal property tax had been classified as local taxes
Fire	Intergovernmental revenue	\$11,328	Tangible personal property tax had been classified as local taxes
General	Principal/interest expense	\$14,780	Posted as capital outlay
Fire	Principal/interest expense	\$38,304	Posted as capital outlay

**FINDING NUMBER 2011-05
 (Continued)**

2011:

Fund Name	Account Type	Amount	Description
Adjustments			
Permanent	Earnings on investments	\$314	Interest was not posted
Reclassifications			
General	Intergovernmental revenue	\$6,865	Tangible personal property tax had been classified as local taxes
Road & Bridge	Intergovernmental revenue	\$15,381	Tangible personal property tax had been classified as local Taxes
Fire	Intergovernmental revenue	\$8,545	Tangible personal property tax had been classified as local taxes
Road & Bridge	Intergovernmental revenue	\$29,231	Road Levy Grant had been classified as local taxes
Federal Emergency Management Agency	Intergovernmental revenue	\$112,896	FEMA Grant classified as other financing sources
General	Redemption of principal	\$10,900	Classified as public safety
General	Interest	\$3,838	Classified as public safety
Fire	Redemption of principal	\$11,400	Classified as capital outlay
Fire	Interest	\$8,947	Classified as capital outlay
Motor Vehicle License	Redemption of principal	\$9,302	Classified as capital outlay and public works
General Fund	Redemption of principal	\$10,000	Classified as capital outlay

Failure to consistently post all transactions increases the possibility the Township will not be able to identify, assemble, analyze, classify, record and report its transactions correctly or to document compliance with finance-related legal and contractual requirements.

All transactions should be properly coded and classified according to the UAN chart of accounts to help ensure that financial activity of the Township is accurately recorded and reported. The Fiscal Officer should maintain the accounting system to enable the Township to identify, assemble, analyze, classify, record and report all transactions and to maintain accountability. The Township should adopt procedures for the review of posted transactions and subsequent reporting on the financial statements.

Officials' Response:

No response was received.

BROWN TOWNSHIP
CARROLL COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Posting receipts and expenditures	No	Cited as 2011-05

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Dave Yost • Auditor of State

BROWN TOWNSHIP

CARROLL 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
JULY 19, 2012**