



Dave Yost • Auditor of State

CHESTER TOWNSHIP
CLINTON COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2012	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2011	6
Notes to the Financial Statements	7
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17
Schedule of Prior Audit Findings	27

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Chester Township
Clinton County
5606 State Route 380
Wilmington, Ohio 45177

To the Board of Trustees:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements and related notes of Chester Township, Clinton County, (the Government) as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Government's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Government's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We were not able to obtain sufficient appropriate audit evidence to support an audit opinion because of the matters described in the *Basis for Disclaimer of Opinion* paragraph.

Basis for Disclaimer of Opinion

As described in Note 1 of the financial statements, the Government prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

The Township was unable to provide sufficient evidence to support completeness, accuracy, cutoff and classification of charges for service receipts in 2011 and 2012. The Township contracted with MBI Inc. to complete billing for emergency medical services (EMS). The Township did not reconcile the MBI reports to the Township records. MBI reported collections of \$48,146 and \$62,824 in fiscal years 2012 and 2011, respectively. The Township records indicate collections of \$54,171 and \$50,036 for fiscal years 2012 and 2011, respectively. The Township did not complete a reconciliation to determine the variances for the amounts collected. Revised code requires the revenue from the EMS revenue to be maintained in a separate fund. The Township did not establish the required fund. Completeness, accuracy, cutoff and classification cannot be assured because the Township did not reconcile the reports provided by MBI to the Township records or create the required fund.

The financial statements for Chester Township indicate General Government disbursements in the Special Revenue funds totaling \$188,137 and \$179,459 for fiscal years 2012 and 2011, respectively. The General Government disbursements represented 45 percent of Special Revenue fund disbursements in 2012 and 45 percent of Special Revenue fund disbursements in 2011. Disbursements classifications for current disbursements in the Special Revenue funds are restricted to Public Safety, Public Works, and Health.

The financial statements present a Public Works Project Capital Projects fund. There was no activity in this fund during the audit period, although the Township improperly posted receipts totaling \$638, and the financial statements inaccurately present a December 31, 2012 fund balance of \$1,205.

Township records did not support the Fund, Program Code or Object Code that were used for disbursements in twenty-five of forty-two (60%) disbursements tested. The testing identified known errors totaling \$44,772 in the sample selected and another \$49,313 of known errors in the individually important items (III) of the \$193,283 that was tested. The projected misstatement, based on the testing is \$365,977. The total known errors plus projected errors were \$415,289.

We were unable to obtain sufficient and appropriate audit evidence to determine the accuracy of the financial statement classifications of receipts or disbursements, and fund cash balances. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Disclaimer of Opinion

Because of the significance of the matters described in the Bases for Disclaimer of Opinion paragraphs, we were unable to obtain sufficient appropriate audit evidence to support an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2014, on our consideration of the Government'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

August 13, 2014

This page intentionally left blank.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Debt Service	Capital Projects	Permanent	Totals (Memorandum Only)
Cash Receipts						
Property and Other Local Taxes	\$79,480	\$191,431				\$270,911
Charges for Services		54,171				54,171
Licenses, Permits and Fees		5,475				5,475
Intergovernmental	317,881	110,056		\$638		428,575
Earnings on Investments	59	30				89
Miscellaneous	4,163	21,056				25,219
<i>Total Cash Receipts</i>	<u>401,583</u>	<u>382,219</u>	<u>\$0</u>	<u>638</u>	<u>\$0</u>	<u>784,440</u>
Cash Disbursements						
Current:						
General Government	127,686	188,137				315,823
Public Safety	0	58,065				58,065
Public Works	5,753	128,580				134,333
Health	1,967	12,416				14,383
Capital Outlay		9,735				9,735
Debt Service:						
Principal Retirement		21,455				21,455
Interest and Fiscal Charges		2,006				2,006
<i>Total Cash Disbursements</i>	<u>135,406</u>	<u>420,394</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>555,800</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>266,177</u>	<u>(38,175)</u>	<u>0</u>	<u>638</u>	<u>0</u>	<u>228,640</u>
Other Financing Receipts (Disbursements)						
Other Financing Sources	404					404
<i>Total Other Financing Receipts (Disbursements)</i>	<u>404</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>404</u>
<i>Net Change in Fund Cash Balances</i>	266,581	(38,175)	0	638	0	229,044
<i>Fund Cash Balances, January 1</i>	<u>25,094</u>	<u>169,227</u>		<u>567</u>	<u>306</u>	<u>195,194</u>
Fund Cash Balances, December 31						
Nonspendable	0	0	0	0	306	306
Restricted	0	103,185	0	1,205	0	104,390
Committed	0	27,867	0	0	0	27,867
Unassigned (Deficit)	291,675	0	0	0	0	291,675
<i>Fund Cash Balances, December 31</i>	<u>\$291,675</u>	<u>\$131,052</u>	<u>\$0</u>	<u>\$1,205</u>	<u>\$306</u>	<u>\$424,238</u>

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

**CHESTER TOWNSHIP
CLINTON 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	Capital Projects	Permanent	Totals (Memorandum Only)
Cash Receipts						
Property and Other Local Taxes	\$80,384	\$175,793				\$256,177
Charges for Services		50,036				50,036
Licenses, Permits and Fees		4,125				4,125
Intergovernmental	56,226	140,405				196,631
Earnings on Investments	129	47				176
Miscellaneous	960	19,020				19,980
<i>Total Cash Receipts</i>	<u>137,699</u>	<u>389,426</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>527,125</u>
Cash Disbursements						
Current:						
General Government	116,666	179,459				296,125
Public Safety	0	42,042				42,042
Public Works	2,555	123,527				126,082
Health	1,090	18,454				19,544
Other		475				475
Capital Outlay		14,173				14,173
Debt Service:						
Principal Retirement		20,517				20,517
Interest and Fiscal Charges		2,944				2,944
<i>Total Cash Disbursements</i>	<u>120,311</u>	<u>401,591</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>521,902</u>
<i>Net Change in Fund Cash Balances</i>	17,388	(12,165)	0	0	0	5,223
<i>Fund Cash Balances, January 1</i>	<u>7,348</u>	<u>180,952</u>		<u>567</u>	<u>306</u>	<u>189,173</u>
Fund Cash Balances, December 31						
Nonspendable	0	0	0	0	306	306
Restricted	0	168,787	0	567	0	169,354
Unassigned (Deficit)	24,736	0	0	0	0	24,736
<i>Fund Cash Balances, December 31</i>	<u>\$24,736</u>	<u>\$168,787</u>	<u>\$0</u>	<u>\$567</u>	<u>\$306</u>	<u>\$194,396</u>

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

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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 Chester Township, Clinton 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, fire protection and emergency medical services.

The Township participates in the Ohio Township Association Risk Management Association (OTARMA), a public entity risk pool, which supplies insurance and bonding coverage for the Township. Note 7 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. Deposits

The Township maintains a NOW checking account and a savings account.

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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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.

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

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

Fire Levy Fund – This fund receives proceeds from the property tax levy for fire protection.

3. Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.. The Township had the following significant capital project funds

Public Works Project Fund- The Township received a Federal Emergency Management Agency (FEMA) grant during 2009. There was no activity during the period, although the Township misposted a receipt to this fund. No adjustments were made.

4. Permanent Funds

These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Township had the following significant permanent fund:

McMillan Trust 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 Chester Cemetery.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. 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 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 2012 and 2011 budgetary activity appears in Note 3.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance

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.

G. 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.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

2. 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	2011
Demand deposits	\$423,935	\$194,094
Other time deposits (savings)	302	302
Total deposits	\$424,237	\$194,396

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$83,000	\$401,987	\$318,987
Special Revenue	327,000	382,219	55,219
Capital Projects	0	638	638
Permanent	0	0	0
Total	\$410,000	\$784,844	\$374,844

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$388,210	\$135,406	\$252,804
Special Revenue	521,737	420,394	101,343
Capital Projects	1,205	0	1,205
Permanent	4	0	4
Total	\$911,156	\$555,800	\$355,356

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$102,015	\$137,699	\$35,684
Special Revenue	349,847	389,426	39,579
Capital Projects	0	0	0
Permanent	0	0	0
Total	\$451,862	\$527,125	\$75,263

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. Budgetary Activity (Continued)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$170,156	\$120,311	\$49,845
Special Revenue	483,853	401,591	82,262
Capital Projects	567	0	567
Permanent	4	0	4
Total	\$654,580	\$521,902	\$132,678

Contrary to Ohio law, appropriations exceed estimated resources in the Motor Vehicle License fund by \$1,100 for the year ended December 31, 2011. Also contrary to Ohio law, at December 31, The Township did not record the amendments to budgeted receipts in the accounting system.

4. Property Tax

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

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

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

5. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
Ambulance Capital Lease	\$22,435	5%
Fire Truck Purchase	2,000	0
Total	\$24,435	

In 2008, the Township entered into a lease with Old National Bank for an ambulance, provided by Burgess Hearse and Ambulance Service.

In 2011, the Township purchased a fire truck from Blanchester Marion Township Joint Fire District (the fire district). Payments will be made directly to the fire district in the amount of \$1,000 paid semi-annually.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

5. Debt (Continued)

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

Year ending December 31:	Ambulance Capital Lease	Fire Truck Purchase
2014	\$22,435	\$2,000
Total	\$22,435	\$2,000

6. Retirement Systems

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 plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, 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, 2012.

7. Risk Management

Commercial Insurance

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. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. 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, 2012, OTARMA retained \$350,000 for casualty claims and \$250,000 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.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

7. Risk Management (Continued)

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets	\$34,771,270	\$35,086,165
Liabilities	<u>(9,355,082)</u>	<u>(9,718,792)</u>
Net Position	<u>\$25,416,188</u>	<u>\$25,367,373</u>

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$8.7 and \$9.1 million of estimated incurred claims payable. The assets above also include approximately \$7.96 and \$8.6 million of unpaid claims to be billed to approximately 944 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Township's share of these unpaid claims collectible in future years is approximately \$7,000.

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>2012</u>	<u>2011</u>
\$12,684	\$12,394

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.

8. Compliance

The Township did not have a proper system of internal controls or maintain records in accordance with Ohio Administrative Code.

The Township did not create funds as required by Ohio Revised Code.

The Township did not prorate Trustees Salaries in accordance with Ohio Revised Code.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

9. Subsequent Events

The Township issued debt to build a new multi-purpose facility that will, in part, serve the needs of the Township Fire Department and be used for township meetings.



Dave Yost • Auditor of State

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

Chester Township
Clinton County
5606 State Route 380
Wilmington, Ohio 45177

To the Board of Trustees:

We were engaged to audit the financial statements of Chester Township, Clinton County (the Government) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated August 13, 2014, wherein we noted the Government followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We did not opine on the financial statements because we were not able to obtain sufficient appropriate audit evidence to support an audit opinion.

Internal Control Over Financial Reporting

As part of our engagement, we considered the Government's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our disclaimer of opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Government's internal control. Accordingly, we have not opined on it.

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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Government's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Government's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-001 through 2012-003 and 2012-005 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Government'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, opining on compliance with those provisions was not an objective of our procedures and accordingly, we do not express an opinion. The results of our tests disclosed instance of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 through 2012-005.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Government's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Government's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

August 13, 2014

**CHESTER TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

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

FINDING NUMBER 2012-001

Noncompliance Citation and Material Weakness

Ohio Administrative Code § 117-2-01 states:

- (A) All public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories.
- (B) "Internal control" means a process effected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
 - (1) Reliability of financial reporting;
 - (2) Effectiveness and efficiency of operations;
 - (3) Compliance with applicable laws and regulations; and
 - (4) Safeguarding of assets.

Ohio Administrative Code § 117-2-02 requires:

- (A) All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule [117-2-03](#) of the Administrative Code.
- (C) The following systems and documents may be used to effectively maintain the accounting and budgetary records of the local public office:
 - (3) Vouchers may be used as a written order authorizing the drawing of a check in payment of a lawful obligation of the public office. Each voucher shall contain the date, purchase order number, the account code, amount, approval, and any other required information. The local office should also attach supporting documentation to the voucher, such as vendor invoices.

The following conditions related to the Township financial records, accounting, financial reporting and controls:

- The Township did not create the funds required by Ohio Revised Code. See finding 2012-002.
- The Township voucher packets did not include supporting documentation to ensure that disbursements were made from funds only for the purposes for which the funds were established. See finding 2012-003.
- The Township did not provide support for amounts reported as an investment balances.
- The Township overpaid a Trustee by \$71 without detection or correction by the Township.

**FINDING NUMBER 2012-001
(Continued)**

- The Township did not issue warrants in sequential order.
- The Township purchased signs for the Fire Levy from Township funds.
- Receipts and disbursements were not properly coded to be reported on the financial statements.
- The Township did not allocate interest to the correct funds.
- The Township did not issue 1099's to certain vendors paid over \$600.
- The Village did not allocate Trustee payroll according to the support provided for the Trustee payroll in 2011.
- Supporting documentation for the Township employee did not agree to the allocation posted to the accounting records.
- The Township bank reconciliation included reconciling items dated back 5 years.
- The Township did not have budgetary monitoring controls and did not certify the availability of funds for certain commitments.
- The Township did not have controls established to address the client control considerations noted in the MBI, Inc. service organization controls report.
- Payroll withholding payments were not accurately allocated.
- PERS and Federal withholding payments were posted as warrants in the UAN system, but were completed as electronic payments on a different date than recorded in the UAN system.
- Estimated resources recorded in the accounting system did not agree to the final approved amended certificate.
- Appropriations exceeded estimated resources on the approved amended certificate in the Motor Vehicle License fund.
- The financial statements present a Public Works Project Capital Projects fund. There was no activity in this fund during the audit period, although the Township improperly posted receipts totaling \$638, and the financial statements inaccurately present a December 31, 2012 fund balance of \$1,205. The original funding for this fund was from a FEMA grant to reimburse the Township for repairs related to a September 2009 wind storm. This presentation is not consistent with the purpose of a Capital Project fund, as the funds were a reimbursement grant for storm damage. The statements were not adjusted to correct the errors.
- The opening equity on the 2012 statements did not agree to the ending equity on the 2011 statements.

The Township did not have an adequate system of internal controls, which should include knowledge of required records and applicable laws, adequate segregation of duties, and monitoring. The risk of financial statement misstatements, misappropriation of assets, fraud, or abuse without detection is increased when internal controls have not been implemented.

**FINDING NUMBER 2012-001
(Continued)**

The Township needs to assess the internal control procedures throughout Township operations. The Township should review the Ohio Township handbook and Ohio Compliance Supplement to identify required records, determine officials' responsibilities, and help correct the problems with the financial record keeping and compliance requirements of the Township. The Township should seek advice from statutory legal counsel, the Auditor of State Local Government Services, or other qualified sources when needed. Reviewing and understanding the Ohio Township Handbook and Ohio Compliance supplement will help to develop the needed system of internal controls.

FINDING NUMBER 2012-002

Noncompliance Citation and Material Weakness

Ohio Rev. Code, §505.84, provides for charges for use of ambulance or emergency medical services (EMS). Except as provided in §505.441 of the Revised Code, charges collected under this section shall be kept in a separate fund designated as "the fire and rescue services, ambulance services, and emergency medical services fund," and shall be appropriated and administered by the board. The fund shall be used for the payment of the costs of the management, maintenance, and operation of fire and rescue services, ambulance services, and emergency medical services in the township.

The Township did not have controls to ensure that a separate fund was created. Revenue for EMS runs was paid into the special levy fire fund and comingled with the fire levy revenue. Failure to establish the required fund and post the receipts to the fund is a violation of revised code and could allow the Township to misappropriate funds.

The Township should review the requirements outlined in the revised code and develop and implement controls to ensure that proper funds are established and used when required.

FINDING NUMBER 2012-003

Noncompliance Citation and Material Weakness

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

Ohio Rev. Code, § 5705.10, requires that funds are only used for the purpose for which they were created. For payroll expenditures, time spent should be carefully documented and verified as eligible for payment on the fund from which it is drawn. Related expenditures should be prorated consistent with the services provided. If circumstances are such that it is impossible to prorate employees' time, then none of their compensation or related benefits may be paid from a fund other than the General Fund. Failure to adequately document time could result in restricted funds paying for work that is not within the restrictions placed on the funds. For non-payroll expenditures, the Village should maintain supporting documentation sufficient to show the expenditure related to the purpose for which the fund was created. If circumstances are such that it is impossible to determine a proper allocation, the expenditure must be paid from the General fund.

FINDING NUMBER 2012-003
(Continued)

Ohio Rev. Code, § 505.24(C), sets forth the method by which a township trustee's compensation should be allocated. This section is amplified by Ohio Attorney General Opinion 2004-036. This section requires that compensation of a township trustee must be paid from the Township General Fund or from such other restricted township funds, in such proportions based on the amount of time spent on matters related to the services rendered. In addition, OAG Opinion 2004-036 indicates trustees should establish administrative procedures to document the proportionate amount of trustees' salaries chargeable to other township funds based on the portion of time spent on matters related to the services rendered. The "administrative procedures" can be timesheets or a similar method of record keeping, as long as the trustee's document all time spent on township business and the type of service(s) performed, in a manner similar to trustee's paid per diem compensation. If trustees do not document their time spent, then no part of salaries may be paid from these other funds.

The Township Trustees maintained activity logs in 2011, but the Township allocated trustee pay to multiple funds using fixed percentages. Without prorating based on the activity logs, the township cannot ensure that funds are being charged appropriately. The Township did not have procedures in place to prorate based on the activity logs.

The Township uses the Uniform Accounting Network (UAN) accounting system to record financial transactions and prepare financial statements. Receipts and disbursements must be properly coded in the UAN system using the UAN chart of accounts to be properly classified on the financial statements. The UAN chart of accounts includes the expenditure program codes for many common restricted funds. The Township did not accurately code receipts and disbursements resulting in classification errors on the financial statements. Failure to have properly classified financial statements can mislead the financial statement users.

**FINDING NUMBER 2012-003
(Continued)**

Year	Opinion Unit	Amount	Classification	Description
2011	General fund	\$15,793	Capital Outlay	To reclassify services related to the planning of the new fire house to capital outlay and show unsupported expenditures as General Fund expenditures.
2011	General Fund	\$1,602	Debt Service: Interest and other fiscal charges	Debt payment not classified properly
2011	General Fund	\$11,873	Debt Service: Redemption of Principal	Debt payment not classified properly
2011	General Fund	(\$7,357)	General Government	To reclassify services related to the planning of the new fire house to capital outlay, reclassify public works expenditures and show unsupported expenditures as General Fund expenditures.
2011	General Fund	\$784	General Government	To show Trustee payroll as a general fund expenditure because the support did not agree to the allocation.
2011	General Fund	\$1,043	General Government	To show Estate settlements at gross and record associated fees.
2011	General Fund	(\$13,475)	General Government Expense	Debt payment not classified properly
2011	General Fund	\$1,043	Intergovernmental	To show Estate settlements at gross and record associated fees.
2011	General fund	\$466	Intergovernmental Revenue	To reclassify Public Utility Reimbursements as intergovernmental
2011	General Fund	\$7,991	Intergovernmental Revenue	To show homestead and rollback receipts as intergovernmental receipts instead of tax
2011	General Fund	\$4,625	Public Works	To reclassify public works expenditures.
2011	General Fund	(\$1,015)	Tax Revenue	To reclassify Public Utility Reimbursements as intergovernmental and show EMS revenue as charges for services in the proper fund type.
2011	General Fund	(\$7,991)	Tax Revenue	To show homestead and rollback receipts as intergovernmental receipts instead of tax.
2011	Special Revenue	\$549	Charges Services for	To show EMS revenue as charges for services in the proper fund type.

**FINDING NUMBER 2012-003
(Continued)**

2011	Special Revenue	(\$15,565)	General Government	To reclassify fire related expenditures to public safety and show unsupported expenditures as General Fund expenditures.
2011	Special Revenue	(\$29,502)	Intergovernmental Revenue	To show the real estate tax settlement and permissive motor vehicle license tax levied by the Township as tax revenue.
2011	Special Revenue	\$18,285	Intergovernmental Revenue	To show homestead and rollback receipts as intergovernmental receipts instead of tax.
2011	Special Revenue	\$2,504	Public Safety	To reclassify fire related expenditures to public safety and show unsupported expenditures as General Fund expenditures.
2011	Special Revenue	(\$71)	Public Safety	To show Trustee payroll as a general fund expenditure because the support did not agree to the allocation.
2011	Special Revenue	(\$713)	Public Works	To show Trustee payroll as a general fund expenditure because the support did not agree to the allocation.
2011	Special Revenue	\$29,502	Tax revenue	To show the real estate tax settlement and permissive motor vehicle license tax levied by the Township as tax revenue.
2011	Special Revenue	(\$18,285)	Tax Revenue	To show homestead and rollback receipts as intergovernmental receipts instead of tax.
2012	General Fund	\$55,077	Capital Outlay	To reclassify services related to the planning of the new fire house and building purchase to capital outlay and show unsupported expenditures as General Fund expenditures.
2012	General Fund	(\$41,202)	General Government	To reclassify building purchase to capital outlay and show unsupported expenditures as General Fund expenditures.
2012	General Fund	\$828	General Government	To show Employee payroll as a general fund expenditure because the support did not agree to the allocation.
2012	General Fund	\$105	General Government Expenditure	Homestead and Rollback receipt was posted at net all to the General fund. Correction to show at gross and allocate.
2012	General Fund	\$86	Health	To show expenditure coded to a fund restricted to road work for cemetery related expenditure in the General Fund.
2012	General Fund	(\$9,255)	Intergovernmental Revenue	Homestead and Rollback receipt was posted at net all to the General fund. Correction to show at gross and allocate.

**FINDING NUMBER 2012-003
(Continued)**

2012	General Fund	\$4,023	Intergovernmental Revenue	Homestead and Rollback receipt was posted as intergovernmental.
2012	General Fund	\$638	Intergovernmental Revenue	To show a grant from the county in the General Fund instead of the capital projects fund.
2012	General Fund	(\$4,023)	Tax Revenue	Homestead and Rollback receipt was posted as intergovernmental.
2012	Special Revenue	(\$6,421)	General Government	To reclassify fire related expenditures to public safety and show unsupported expenditures as General Fund expenditures.
2012	Special Revenue	(\$4,000)	Health	To show unsupported expenditures as General Fund expenditures.
2012	Special Revenue	(\$61)	Health	To show Employee payroll as a general fund expenditure because the support did not agree to the allocation.
2012	Special Revenue	\$9,604	Intergovernmental Revenue	Homestead and Rollback receipt was posted at net all to the General fund. Correction to show at gross and allocate.
2012	Special Revenue	(\$13,626)	Intergovernmental Revenue	To show the permissive motor vehicle license tax levied by the Township as tax revenue.
2012	Special Revenue	\$8,914	Intergovernmental Revenue	Homestead and Rollback receipt was posted as intergovernmental.
2012	Special Revenue	\$202	Public Safety	Homestead and Rollback receipt was posted at net all to the General fund. Correction to show at gross and allocate.
2012	Special Revenue	(\$449)	Public Safety	To reclassify fire related expenditures to public safety and show unsupported expenditures as General Fund expenditures.
2012	Special Revenue	\$41	Public Works	Homestead and Rollback receipt was posted at net all to the General fund. Correction to show at gross and allocate.
2012	Special Revenue	(\$86)	Public Works	To show unsupported expenditures as General Fund expenditures.
2012	Special Revenue	(\$3,005)	Public works	To show expenditures coded to a fund restricted to road work for work on new building not associated with roadwork as a General Fund Capital outlay.
2012	Special Revenue	(\$767)	Public Works	To show Employee payroll as a general fund expenditure because the support did not agree to the allocation.
2012	Special Revenue	\$13,626	Tax revenue	To show the permissive motor vehicle license tax levied by the Township as tax revenue.

FINDING NUMBER 2012-003
(Continued)

2012	Special Revenue	(\$8,914)	Tax Revenue	Homestead and Rollback receipt was posted as intergovernmental.
2012	Capital Projects	(\$638)	Intergovernmental	To show a grant from the county in the General Fund instead of the capital projects fund.

Township records did not support the Fund, Program Codes or Object Codes that were used for disbursements in twenty-five of forty-two (60%) disbursements tested. The testing identified known errors totaling \$44,772 in the sample selected and another \$49,313 of known errors in the individually important items (III) of the \$193,283 that was tested. The projected misstatement, based on the testing is \$365,977. The total known errors plus projected errors were \$415,289.

The Township should review the account structure as determined by the UAN Chart of accounts in the Ohio Township Handbook and establish controls to ensure that transactions are properly documented and posted to the proper account codes (Receipts: Fund; Revenue Code; Cost Center and Expenditure: Fund, Program Code, Object Code).

FINDING NUMBER 2012-004

Noncompliance Citation

Ohio Rev. Code, § 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money of money unless a certificate signed by the Fiscal Officer is attached thereto. The Fiscal Officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void. There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the Fiscal Officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the Fiscal Officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

**FINDING NUMBER 2012-004
(Continued)**

2. Blanket Certificate – The 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the Fiscal Officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Township did not properly certify the availability of funds for purchase commitments for 18 of 42 or 43% of expenditures tested and none of the exceptions above applied. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

The Fiscal Officer should certify that the funds are or will be available prior to obligation by the Township to increase controls and help reduce the possibility of the Township's funds exceeding budgetary spending limitation. When prior certification is not possible, “then and now” certification should be used. “Then and Now” certifications over \$3,000 should be approved by ordinance or resolution. The Township should certify all purchases to which section 5705.41(D) applies. 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.

FINDING NUMBER 2012-005

Noncompliance Citation and Material Weakness

Ohio Rev. Code, § 5705.39 provides that appropriations cannot exceed estimated resources.

Ohio Administrative Code § 117-2-02(C)(1) requires that All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The Township did not have controls in place to ensure that budgetary changes were input into the accounting system (UAN). The Township had the following variances between the estimated resources in the UAN and the final Amended Certificate from the county budget commission:

**FINDING NUMBER 2012-005
 (Continued)**

	Year	Estimated Resources from UAN	Estimated Resources from final Amended Certificate	Variance
General	2011	\$ 109,363	\$170,156	\$ (60,793)
Fire Fund Levy	2011	274,400	276,767	(2,367)
Road and Bridge	2011	38,802	39,769	(967)
Cemetery	2011	16,677	14,797	1,880
Gasoline Tax	2011	156,521	107,021	49,500
General	2012	108,094	388,210	(280,116)
Fire Fund Levy	2012	253,662	280,221	(26,559)
Road and Bridge	2012	49,933	48,883	1,050

Failure to post budgetary changes to the accounting system prevented the township from being able to monitor unrealized budgetary receipts and appropriations, and created inaccurate budgetary comparisons. In 2011, appropriations exceeded estimated resources by \$1,100 in the Motor Vehicle License fund.

The Township should develop and implement controls to ensure that all budgetary changes are input into the accounting system and monitored on a regular basis. Accurate numbers in the accounting system will allow the Township to create reports for monitoring and required budgetary presentations. Monitoring approved budgetary numbers will increase the Township's ability to prevent overspending of Township funds.

We received no response from officials to the findings reported above.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	OAC 117-2-02 transactions were not properly classified	No	Reissued as 2012-001 and 2012-003
2010-02	ORC 505.24 (C) Trustee Salary was not properly allocated.	No	Reissued as part of 2012-003
2010-03	ORC 5705.41(D)	No	Reissued as part of 2012-004
2010-04	Internal Controls over EMS billing	No	Reissued as part of 2012-001 and 2012-002
2010-05	ORC 5705.10 Funds not used for the purpose for which it was created.	No	Reissued as 2012-003

This page intentionally left blank.



Dave Yost • Auditor of State

CHESTER TOWNSHIP

CLINTON 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
SEPTEMBER 9, 2014**