



**Auditor of State
Betty Montgomery**

**MEDINA TOWNSHIP
MEDINA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Types For the Year Ended December 31, 2003.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Types For the Year Ended December 31, 2002.....	4
Notes to the Financial Statements	5
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	11
Schedule of Findings.....	13

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Medina Township
Medina County
3799 Huffman Road
Medina, Ohio 44256

To the Board of Trustees:

We have audited the accompanying financial statements of Medina Township, Medina County, Ohio, (the Township) as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The Township's financial transactions were processed using 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(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Township as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2004 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Medina Township
Medina County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of management, the Board and other officials authorized to receive this report under Ohio Revised Code §117.26, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 3, 2004

**MEDINA TOWNSHIP
MEDINA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDING DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$229,512	\$923,049	\$1,152,561
Intergovernmental	413,211	284,000	697,211
Charges for Services	21,541		21,541
Licenses, Permits, and Fees	31,283		31,283
Fines, Forfeitures, and Penalties	23,366		23,366
Earnings on Investments	6,807	1,381	8,188
Other Revenue	9,251	21,214	30,465
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	734,971	1,229,644	1,964,615
Cash Disbursements:			
Current:			
General Government	239,524	529	240,053
Public Safety	324,464	441,075	765,539
Public Works	11,235	344,000	355,235
Health	3,302	485	3,787
Capital Outlay	317,366	346,384	663,750
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	895,891	1,132,473	2,028,364
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>
	(160,920)	97,171	(63,749)
Other Financing Receipts and (Disbursements):			
Sale of Fixed Assets		14,198	14,198
Advances-In		25,000	25,000
Advances-Out	(25,000)		(25,000)
Other Sources	594		594
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(24,406)	39,198	14,792
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>
	(185,326)	136,369	(48,957)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	764,515	1,430,387	2,194,902
Fund Cash Balances, December 31	<hr/> \$579,189 <hr/>	<hr/> \$1,566,756 <hr/>	<hr/> \$2,145,945 <hr/>
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>
	\$9,948	\$37,154	\$47,102

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

**MEDINA TOWNSHIP
MEDINA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDING DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$243,762	\$943,442	\$1,187,204
Intergovernmental	423,835	233,840	657,675
Licenses, Permits, and Fees	48,660		48,660
Fines, Forfeitures, and Penalties	14,309		14,309
Earnings on Investments	5,187	2,923	8,110
Other Revenue	12,111	13,307	25,418
	<u>747,864</u>	<u>1,193,512</u>	<u>1,941,376</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	199,397		199,397
Public Safety	318,894	398,719	717,613
Public Works	3,414	308,586	312,000
Health	19,097		19,097
Capital Outlay	59,685	59,744	119,429
	<u>600,487</u>	<u>767,049</u>	<u>1,367,536</u>
Total Cash Disbursements			
Total Receipts Over Disbursements	<u>147,377</u>	<u>426,463</u>	<u>573,840</u>
Other Financing Receipts:			
Sale of Fixed Assets		4,000	4,000
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	147,377	430,463	577,840
Fund Cash Balances, January 1	<u>617,138</u>	<u>999,924</u>	<u>1,617,062</u>
Fund Cash Balances, December 31	<u>\$764,515</u>	<u>\$1,430,387</u>	<u>\$2,194,902</u>
Reserve for Encumbrances, December 31	<u>\$82,154</u>	<u>\$105,495</u>	<u>\$187,649</u>

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

**MEDINA TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Medina Township of Medina County, Ohio is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, fire protection, police protection, and contracts of emergency medical ambulance services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash

Certificates of deposit are valued at cost.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

Road and Bridge Fund - This fund receives property taxes and intergovernmental receipts 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.

Police District Levy Fund - This fund receives property taxes, fines, intergovernmental receipts, tax revenue, and federal grants to provide police services to the Township residents.

**MEDINA TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Fire District Levy Fund - This fund receives real estate and property taxes, and intergovernmental receipts for the use of fire protection and emergency rescue services.

Permissive Motor Vehicle License Tax Fund - This fund receives state motor vehicle license tax monies for the construction, repair, and maintenance of Township roads and bridges.

Miscellaneous Special Revenue Fund - This fund receives resources and, or distributions not specifically restricted to the aforementioned funds, pursuant and in accordance with the Ohio Revised Code.

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 level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

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

**MEDINA TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

2. EQUITY IN POOLED CASH

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

	2003	2002
Demand deposits	\$1,145,945	\$1,594,902
Certificates of deposit	1,000,000	600,000
Total deposits	\$2,145,945	\$2,194,902

Deposits: Deposits are either 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 ended December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$582,181	\$735,565	\$153,384
Special Revenue	1,085,800	1,243,842	158,042
Total	\$1,667,981	\$1,979,407	\$311,426

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,353,632	\$905,839	\$447,793
Special Revenue	2,513,895	1,169,627	1,344,268
Total	\$3,867,527	\$2,075,466	\$1,792,061

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$641,636	\$747,864	\$106,228
Special Revenue	960,800	1,197,512	236,712
Total	\$1,602,436	\$1,945,376	\$342,940

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,209,364	\$682,641	\$526,723
Special Revenue	2,435,601	872,544	1,563,057
Total	\$3,644,965	\$1,555,185	\$2,089,780

**MEDINA TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Contrary to Revised Code Section 5705.41(D), the Township did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered during 2003 and 2002.

Contrary to Ohio Revised Code Section 5705.09, the Township did not establish a special fund for each class of revenue derived from a source other than general property tax.

Contrary to Ohio Revised Code Section 5705.04, the Township failed to properly distribute taxes to the appropriate funds as outlined by the County Auditor.

4. PROPERTY TAX

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

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

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

5. RETIREMENT SYSTEMS

The Township's volunteer Fire Fighters participate in the legal withholding requirements pursuant to the regulations and administrative code as enforced and administered by the Social Security Administration. Other employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing multiple-employer plan. These plans provide retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code and the Social Security Administration.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, members of the police department of OPERS participants contributed 10.1% of their wages. The Township contributed an amount of 16.7% of their wages to OPERS. Other OPERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

The Township has paid all contributions required through December 31, 2003.

**MEDINA TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. RISK MANAGEMENT

Commercial Insurance

For 2003 and 2002 the Township obtained commercial insurance for the following risks:

- Comprehensive property and general liability and
- Vehicles.

However, the Township was partially uninsured for the following risks:

- Errors and omissions of the elected Officials and
- Bonding of employees and elected Officials.
- Public Official's Liability.

The Township provides health insurance and limited life insurance as an option to full-time employees through a private carrier.

Risk Pool Membership

Pursuant to a financial insurance risk management analysis and review, as of January 1, 2004 by the Clerk of Medina Township and the Medina Township Trustees, a comprehensive 'risk-sharing pool membership' through the Ohio Township Association Risk Management Authority (OTARMA) was authorized and implemented to provide property and casualty coverage which is effective as of January 1, 2004 thereby delimiting the partial uninsured risks coverage lacking in prior calendar years of 2003 and 2002.

7. CONTINGENT LIABILITIES

The Township is defendant in several lawsuits. Although the outcome of these suits is not presently determinable, pursuant to legal counsel, management believes that the resolution of these matters will not materially adversely affect the Township's financial condition.

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the state government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, have not been presently determined and therefore not reflected in the financial statements. However, based on prior experience, management believes such refunds, if any, would not be material.

8. SUBSEQUENT EVENTS

The 2003 Yellow Book (GAO) includes new requirements defining abuse and the auditor's responsibility when information comes to his or her attention indicating that abuse may have occurred. In accordance with Government Auditing Standards, and pursuant to the audit examination and indication of alleged abuse(s) observed and examined during the audit of Medina Township for calendar years 2003 and 2002, said abuse(s) were discovered during the audit were noted, referenced, and cited.

Pursuant to paragraph 4.19 of the Yellow Book, (GAO) states:

"Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances."

**MEDINA TOWNSHIP
MEDINA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

8. SUBSEQUENT EVENTS (Continued)

Pursuant to paragraph 4.17b of the Yellow Book (GAO) states:

“Auditors should be alert to situations or transactions that could be indicative of abuse, and if indications of abuse exist that could significantly affect the financial statement amounts or other financial data, auditors should apply audit procedures specifically directed to ascertain whether abuse has occurred and the effect on the financial statement amounts or other financial data.”

Therefore, potential abuse or significant abuse that has either occurred or is likely to have occurred would be reported as a finding in a report on internal control and compliance. In such a preceding situation, the auditor and reporting entity should obtain sufficient, competent, and relevant evidence, such as direct confirmation from an outside source, that the finding, in fact has been properly reported by the audited entity.

In some instances, the auditor and, or the entity may be required by laws, regulations, or policies to report indications of certain types of fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse to law enforcement or investigatory authorities, such as the state attorney general, county prosecutor, or auditor of state promptly.



Auditor of State Betty Montgomery

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

Medina Township
Medina County
3799 Huffman Road
Medina, Ohio 44256

To the Board of Trustees:

We have audited the accompanying financial statements of Medina Township, Medina County, Ohio, (the Township) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated November 3, 2004, in which we noted the Township's financial transactions were processed using 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 conduct the audit of the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated November 3, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2003-004 and 2003-005.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider items 2003-004 and 2003-005 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Township's management in a separate letter dated November 3, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 3, 2004

**MEDINA TOWNSHIP
MEDINA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Noncompliance Citation

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

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

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that both at the time that the contract or order was made and at the time he is completing his certification a sufficient sum was appropriated and free of any previous encumbrances, the Board 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.
- B. If the amount involved is less than \$1,000 (which was increased to \$3,000 as of April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Board upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful.

In 2002, 26%, and in 2003, 15% of tested expenditures were not certified by the Clerk/Treasurer prior to incurring the commitment and the two exceptions noted above were not utilized. The Township should inform all Township employees of the requirements of Ohio Rev. Code Section 5705.41(D) and the importance of certifying the availability of funds. The Township should implement the use of so called Then and Now Certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41.

FINDING NUMBER 2003-002

Ohio Rev. Code Section 5705.09 requires each subdivision to establish a special fund for each class of revenue derived from a source other than general property tax, which the law requires to be used for a particular purpose. In addition, **Ohio Rev. Code Section 5705.10** provides that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

During 2002 and 2003, the Township did not establish separate funds for the FEMA, COPS, Criminal Justice Program, Safe Communities, and Fire Training federal grants. As a result, grant monies in the amount of \$17,460, \$21,063, \$32,921, and \$11,399 were deposited in the General Fund, Police Fund, Fire Fund, and Miscellaneous Special Revenue Fund, respectively, and commingled with local, state, and prior year federal monies. Consequently, the Township is unable to separately account for federal expenditures and ensure compliance with grant requirements. .

The Township should create a separate fund to account for each federal grant in order to account for all grant receipt and disbursement activity. In addition the Township should refer to Auditor of State Bulletin 2000-08 for guidance. The Township should determine the source of those monies deposited into the Miscellaneous Special Revenue Fund, and ascertain if these amounts should be refunded to the federal government or placed in a special revenue fund specific to those monies.

FINDING NUMBER 2003-003

Ohio Rev. Code Section 5705.04 provides for the division of taxes levied. The taxing authority of each subdivision is required to "divide" the taxes levied into the following separate levies:

- The general levy for debt charges within the ten mill limitation;
- The general levy for current expenses within the ten mill limitation;
- Special levies within the ten mill limitation;
- The general levy for debt charges authorized by law or by vote of the people in excess of the ten mill limitation;
- Other special or general levies authorized by law or by vote of the people in excess of the ten mill limitation.

During 2003, the Clerk/Treasurer failed to properly distribute taxes to the appropriate funds as outlined on the county auditor's tax settlement sheet. This resulted in restricted monies in the amount of \$5,690, being deposited into the general fund for general operations during 2003. These amounts have been adjusted by the Township and are reflected on the financial statements.

MATERIAL WEAKNESS

FINDING NUMBER 2003-004

Accounting Controls

Numerous internal control weaknesses exist that could result in the misappropriation or misuse of Township assets. Additionally, during 2002 the Township authorized the hiring of an Administrative Assistant to assist the Clerk/Treasurer and the Township Trustees in a secretarial capacity. It was noted that controls were circumvented by this employee, resulting in the loss and destruction of Township records, delays in payments, rerouting or destruction of mail. This resulted in elected officials not responding to official requests from various agencies, a law firm, purchase of assets prior to official authorization, unauthorized approval of Township documents, and misrepresentation of authority by this employee to outside parties. The most significant of these conditions are as follows:

- The Township requires the signature of the Department Head, a Trustee, and Clerk/Treasurer on the "Purchase Order Requisition" prior to placing an order for the purchase to be properly authorized. Several "Purchase Order Requisitions" were processed with the Administrative Assistant signing as the department head, or with her sole authorization, omitting the approval of a Trustee and the Clerk/Treasurer. The authorization of purchase requisitions by the Administrative Assistant subverts the internal control procedures, and could lead to the unauthorized purchase or misappropriation of Township Assets. The Administrative Assistant does not have the authority to authorize "Purchase Order Requisitions." Purchases were authorized in this manner for the period June 2002 through May of 2004 (5 items noted in FY 2002; 37 items in FY 2003; 65 items in FY 2004). In addition, two police cars were ordered by the Administrative Assistant through her verbal authorization to the dealership in December of 2003, without a purchase order requisition or written authorization of the Trustees. This purchase was not certified until February 2004.
- We noted several items of correspondence wherein the Administrative Assistant signed as "Administrator," implying that she had the authority to represent the Township in an official capacity.
- "Purchase Order Requisitions" have no provision for the date that a purchase is authorized by Township Officials. This could lead to blank "Purchase Order Requisitions" being approved by Township Officials and completed at a later date.

FINDING NUMBER 2003-004 (Continued)

Accounting Controls (Continued)

- Access to the Zoning and Township Secretaries Computers and the filing cabinets located in the office of the Township Secretary, are not restricted through the use of passwords or locks. In addition, the Administrative Assistant obtained keys to all offices and departments within the Township, giving her access to all the Township computer systems and filing cabinets, with the exception of those in the police department.
- All Township mail was gathered and opened by the Administrative Assistant. This action resulted in mail being lost or filed without the knowledge of the individual to whom the letter was addressed, and delays of up to one month before mail was delivered to the proper individual.
- The Zoning Department prepares written receipts only for payments received in cash and records these payments in the departmental receipt book. However, payments received by check are not entered in the departmental receipt book nor is a receipt prepared.
- On several occasions, an individual who was not an employee of the Township, or authorized by the Township Trustees, was allowed to assist in the payment of Township bills and the preparation of payroll. This allowed an individual who was not an employee of the Township to have access to sensitive Township and personal information contained in employee personnel records.
- The Administrative Assistant requested drivers license records for employees under the Township's Driver's License Policy. There is no documentation that she was authorized to request such information from the Ohio Bureau of Motor Vehicles.
- The former Clerk refused to process any employee application for the Ohio Deferred Compensation Program during 2002 and 2003.
- The Administrative Assistant prepared and authorized a memo dated February 5, 2004 which was sent to the Police Chief, Fire Chief, Service Department Head, Township Secretary, and the Zoning Inspector, indicating that "Purchase Order Requisitions" would only be approved by a trustee or designated person, and that the Township Clerk would no longer issue a paper copy of the purchase order. The Township Clerk did not approve nor was he aware of this memo. The Township's procedure for the approval of a "Purchase Order Requisition" was not changed, nor was the use of "Purchase Orders" rescinded. By issuing such a memo, the Administrative Assistant was initiating a procedure which circumvented the internal controls that have been established by the Township.
- The Township has various internal controls in place covering the processing of accounting data, including the procedures for receiving monies and processing requests for purchases, however these procedures are not documented in writing.
- We also discovered numerous original signed documents (purchase orders, purchase requisitions) as well as original purchase requisitions that were approved by various department heads in a binder that the Administrative Assistant kept in her desk. We found indications that the administrative assistant would create new "Purchase Order Requisitions" that differed in amount from the original, and approved these with her signature as the department head.
- The Township had a vendor Sales Tax Exemption form on file for Avon Products. Although we did not find any payments to Avon Products, the lack of an approval policy for new vendors could result in payments to fictitious or related party vendors.
- We noted that the administrative assistant approved travel reimbursements for some employees in the zoning department. She did not have the authority to approve any payments or travel reimbursement requests. Travel forms must be approved by the department head or the Trustee responsible for the department.

FINDING NUMBER 2003-004 (Continued)

Accounting Controls (Continued)

- Numerous instances were found where the Township paid vendors on both the billing statement and the invoice, resulting in the double payment for services or products.
- The Township has no policy defining under what circumstances or the amount an employee can be reimbursed for the purchase of supplies. We noted the Fire Chief was reimbursed \$1,400 for supplies in 2002.
- The Township does not have a written policy outlining the procedures governing the use of Township's credit cards. As a result, large purchases of furniture and equipment were made on the credit card outside the normal procurement procedure.
- Employee reimbursement checks were prepared using the Medina Township address, rather than the employee's home address.

In order to prevent potential losses to the Township, and help ensure that internal controls are operating effectively, the following procedures should be implemented:

- All "Purchase Order Requisition" forms should be approved only by authorized persons prior to an order being placed. The "Purchase Order Requisition" should be signed and dated by the individuals specified by the Township's procurement policies (department head, a Trustee, and the Clerk/Treasurer). All original (white copy) "Purchase Order Requisitions" should be filed in logical manners (e.g., numerical sequence or by vendor) and all prenumbered "Purchase Order Requisitions" should periodically be accounted for. A carbon copy should be placed with the invoice, voucher, and any related documentation that make up the voucher packet.
- Job descriptions outlining employee responsibilities should be prepared for each position at the Township. Employees should refrain from extending beyond the authority given in their job description. In addition, only authorized individuals should represent the Township when conducting Township business or acting in an agency capacity. If this authority is delegated at any time, a public record should be created and recorded in the Township meeting minute record. No Township official or personnel should verbally give another employee more authority than that expressly given by the Trustees, immediate supervisor, or given in an authorized job description.
- Access to file cabinets and computers should be restricted to those persons specifically authorized access to these items. The Township should clearly determine which persons should have access to what records and take steps, such as locking filing cabinets, locking office doors, and requiring computer passwords, to ensure that Township records are properly safeguarded.
- Incoming mail should be gathered by a designated person, who is then responsible for promptly distributing the mail to the appropriate official or employee. Mail should be opened by the designated person, department head or the individual to whom it is addressed.
- A zoning department receipt should be prepared and recorded for each payment received. The receipt should include the amount, permit number, name of the remitter, and development name if applicable and other pertinent information.
- No persons not specifically authorized by the Trustees should have access to Township records nor assist the Clerk/Treasurer or other employees in the performance of their duties.
- The Trustees should specifically designate the Township Clerk/Treasurer as the person authorized to request and receive information concerning drivers license records for employees under the Township's Driver's License Policy for the purposes of privacy.

FINDING NUMBER 2003-004 (Continued)

Accounting Controls (Continued)

- The Clerk/Treasurer should process all employee submitted payroll withholding forms in a timely manner.
- The Township Trustees should make a determined effort to be aware of employee actions, and employ professional skepticism when investigating allegations or questionable practices brought to their attention. The Trustees should expand their understanding of internal control concepts and increase their monitoring of the operations and records of the Township, to help ensure that the Township is operating efficiently and in the desired manner.
- The Township should formalize Township policies and procedures and provide these to employees so that all employees are aware of the official procedures and the policies employed by the Township.
- The Township should establish a formal policy outlining the procedure to approve new vendors prior to being entered into the system. The Trustees and Clerk/Treasurer should approve all new vendors.
- The risk of duplicate payments can be reduced by following a procedure of only paying a billing statement that has been reconciled to the individual invoices.
- To help reduce the risk of improper purchases and exceeding budgeted amounts, the Township should establish a formal written policy outlining the procedures and dollar amounts for reimbursing employees for the purchase of supplies.
- The Clerk/Treasurer should review all vendor statements so that they can be promptly paid to avoid late payment charges.
- The Township should establish policy and procedures for the use of its credit cards. These procedures should incorporate the following provisions:
 - Provisions for safekeeping of the cards. A designated person should be assigned to keep the credit cards in a safe and secure location when not in use
 - Document the person using the card and the purpose for which it will be used, the date the card is returned, and the receipts for those purchases made.
 - The maximum dollar amount per purchase. Amounts over this maximum would require a separate purchase order.
 - Supporting receipts should be signed by the authorized person making the purchase and approved by the department head.
 - A reconciliation of the individual signed invoices to the monthly credit card statement.
 - Reimbursement checks should be prepared using the employees home addresses even if the checks are distributed to the employees directly rather than through the mail.

REPORTABLE CONDITION

FINDING NUMBER 2003-005

Posting Errors/Commingling of Funds

The Township had significant posting errors during fiscal years 2003 and 2002. These errors were the result of the Clerk's failure to recognize the source of revenue and inconsistencies when posting receipts and expenditures. The more significant errors noted are as follows:

RECEIPTS

- Some motor vehicle license tax, permissive motor vehicle license tax, and gas tax revenues were commingled with permissive motor vehicle license revenues in the Permissive Motor Vehicle License Fund. These revenues are restricted and each source of revenue should be recorded in separate funds specifically for these revenues.
- Other motor vehicle license tax revenues were recorded as tax revenue instead of properly being recorded as intergovernmental revenue.
- Proceeds from the sale of Township fixed assets were recorded as other revenue. Proceeds from the sale of fixed assets should be recorded as proceeds from the sale of fixed assets in the financial records.
- Sale of cemetery lots and foundations were erroneously recorded as other revenue instead of being recorded as charges for services.
- Public utility deregulation revenue was recorded as other revenue and should have been recorded as intergovernmental revenue as outlined in Auditor of State Bulletin 2001-011.
- The Safe Communities Grant and FEMA Grants were recorded as Other Revenue in the General Fund. These grants are federal/state grants, and should be recorded in a separate fund as intergovernmental revenue to account for each federal grant and each state portion of the grant.
- Auditor of State Bulletin 98-013 specifically states that the FEMA grant must be in a separate fund, and specifies the fund codes to be used for a township. The Township established a special revenue fund for miscellaneous revenue, but did not identify the fund as "FEMA Grant Fund" as specified in the Ohio Public Safety Memorandum to the Township. In addition, no separate fund/account was established for the state portion. Expenditures related to each grant were posted to various other funds and could not be easily matched to the grant revenues.
- Some motel tax receipts were recorded as other revenue in the general fund. These should be recorded consistently in a separate account established for this revenue and reported as Taxes.
- Town hall rental was erroneous recorded as other revenue instead of charge for services.
- A state fire grant was erroneously recorded as other revenue instead of intergovernmental revenue in the fire district fund.
- The County personal property tax distributions were recorded only in the general fund net of any county auditor deductions. County personal property tax distributions should be recorded at the gross amount for revenue with expenditures for the deductions according to the tax settlement sheet sent by the Medina County Auditor. These monies should be posted to those funds as allocated by the County Auditor.
- Some local government distributions were recorded as taxes in the general fund.
- December 2003 Rollback/Homestead distributions were recorded net of deductions entirely to general fund as taxes. Rollback/Homestead distributions should be recorded at the gross amount for revenue with expenditures for the deductions according to the tax settlement sheet sent by the Medina County Auditor.

FINDING NUMBER 2003-005 (Continued)

Posting Errors/Commingling of Funds (Continued)

- 2003 Cigarette Taxes were recorded net of deductions. Cigarette Taxes should be recorded at the gross amount for revenue with expenditures for the deductions according to the tax settlement sheet sent by the Medina County Auditor.
- Exempt Tangible Personal Property distribution of December 18, 2003 recorded net of deductions entirely in the General Fund. Exempt Tangible Personal Property distribution should be recorded at the gross amount for revenue with expenditures for the deductions according to the tax settlement sheet sent by the Medina County Auditor.

EXPENDITURES

We noted numerous occasions where telephone, cell phone, street lights, mileage were posted to such accounts as contracted services and operating supplies. In addition expenses were not consistently posted to the same account. For example, telephone usage and cell phones were posted to separate accounts. These postings did not appear to be based on any methodology or standard. In addition:

- A portion of the cost for a dump truck was posted to small tools & equipment while the remainder was posted to Machinery, Equipment and Furniture.
- Fire training was sometimes posted to contracted services in the Fire District Fund while other training expenses were charged to Other Expense in the Fire Fund.
- Fire turn-out gear was posted as operating supplies in the Fire Fund.
- Fire equipment was posted to operating supplies.
- Fire supplies were sometimes charged to Supplies, sometimes to "Other Expense".
- Fire department physicals were sometimes charged to Contracted Services, sometimes to Other Expense.
- County auditor deductions when expensed, were charged to other expense in all affected funds.
- The purchase of one police car was charged to General - Machinery & Equipment, the other to General - Other. These were from the same invoice.
- Part of the comprehensive insurance was charged to General - Other, part to General - Insurance.
- Sheriff dispatch expenditure was sometimes charged to Contracted Services, sometimes to Other in General Fund.
- Fuel was sometime charged to Supplies, sometimes to Other in the affected funds.
- Premiums for health insurance were charged to Other, sometimes to Insurance Benefits Account.
- The purchase of notebook computers was charged to Other Expense in the General Fund.
- Property taxes for land owned by the Township was originally charged to "Salaries", and then reallocated to General Fund-Payment to Another Political Subdivision.
- Township posted payment for its portion West Reagan Parkway Sidewalk Improvement to General Fund-Payment to Another Political Subdivision.
- Utilities were sometimes posted to Electricity, sometimes to Other Expense.
- Grant expenditures were not posted to the grant funds so as to match the grant receipts and expenditures.

FINDING NUMBER 2003-005 (Continued)

Posting Errors/Commingling of Funds (Continued)

EXPENDITURES

We recommend that the Township scrutinize the source of each revenue and expense and consistently post it to the appropriate fund based upon the nature of the receipt or expenditure and its source as outlined in the Ohio Township Handbook and the UAN Handbook produced by the Auditor of State of Ohio. Grants are often restricted as to use and therefore should be recorded in separate accounts and funds in order to match the grant revenues with the grant expenditures and matching amounts, if required. The Township has made adjustments to its accounting records for these matters and the financial statements reflect the corrections of the errors noted above.



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MEDINA TOWNSHIP

MEDINA 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
DECEMBER 7, 2004**