



Mary Taylor, CPA
Auditor of State

HARLAN TOWNSHIP
WARREN COUNTY

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Mary Taylor, CPA

Auditor of State

Harlan Township
Warren County
9120 Morrow-Rossburg Road
Pleasant Plain, Ohio 45162

To the Board of Trustees:

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

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Mary Taylor, CPA
Auditor of State

April 28, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Harlan Township
Warren County
9120 Morrow-Rosburg Road
Pleasant Plain, Ohio 45162

To the Board of Trustees:

We have audited the accompanying financial statements of Harlan Township, Warren County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Harlan Township, Warren County, Ohio as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2008, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Mary Taylor, CPA
Auditor of State

April 28, 2008

**HARLAN TOWNSHIP
WARREN COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes	\$92,889	\$520,939	\$139,071	\$752,899
Charges for Services	0	6,775	0	6,775
Licenses, Permits, and Fees	2,787	2,375	0	5,162
Intergovernmental	114,969	288,465	17,051	420,485
Earnings on Investments	53,985	7,294	0	61,279
Miscellaneous	1,568	36,884	0	38,452
	<u>266,198</u>	<u>862,732</u>	<u>156,122</u>	<u>1,285,052</u>
Cash Disbursements:				
Current:				
General Government	189,491	3,333	986	193,810
Public Safety	0	205,668	0	205,668
Public Works	1,306	238,030	0	239,336
Health	0	17,315	0	17,315
Conservation - Recreation	755	0	0	755
Capital Outlay	434	229,098	0	229,532
Debt Service:				
Redemption of Principal	0	83,980	44,000	127,980
Interest and Other Fiscal Charges	0	18,513	56,254	74,767
	<u>191,986</u>	<u>795,937</u>	<u>101,240</u>	<u>1,089,163</u>
Total Receipts Over Disbursements	<u>74,212</u>	<u>66,795</u>	<u>54,882</u>	<u>195,889</u>
Other Financing Receipts:				
Sale of Fixed Assets	0	19,053	0	19,053
Other Financing Sources	0	5,400	0	5,400
	<u>0</u>	<u>24,453</u>	<u>0</u>	<u>24,453</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	74,212	91,248	54,882	220,342
Fund Cash Balances, January 1	<u>539,932</u>	<u>489,586</u>	<u>152,896</u>	<u>1,182,414</u>
Fund Cash Balances, December 31	<u>\$614,144</u>	<u>\$580,834</u>	<u>\$207,778</u>	<u>\$1,402,756</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$4,142</u>	<u>\$0</u>	<u>\$4,142</u>

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

**HARLAN TOWNSHIP
WARREN COUNTY**

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

	General	Special Revenue	Debt Service	Totals (Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$103,598	\$488,700	\$134,557	\$726,855
Charges for Services	0	3,317	0	3,317
Licenses, Permits, and Fees	0	4,000	0	4,000
Intergovernmental	179,667	168,724	16,652	365,043
Earnings on Investments	25,875	5,092	0	30,967
Miscellaneous	6,092	30,013	0	36,105
Total Cash Receipts	315,232	699,846	151,209	1,166,287
Cash Disbursements:				
Current:				
General Government	141,630	7,571	2,216	151,417
Public Safety	0	183,902	0	183,902
Public Works	487	237,014	0	237,501
Health	0	11,216	0	11,216
Conservation - Recreation	628	0	0	628
Capital Outlay	1,202	696,538	0	697,740
Debt Service:				
Redemption of Principal	0	0	41,000	41,000
Interest and Other Fiscal Charges	0	2,462	58,433	60,895
Total Cash Disbursements	143,947	1,138,703	101,649	1,384,299
Total Receipts Over/(Under) Disbursements	171,285	(438,857)	49,560	(218,012)
Other Financing Receipts:				
Sale of Bonds	0	430,000	0	430,000
Sale of Fixed Assets	0	5,810	0	5,810
Other Financing Sources	0	3,900	0	3,900
Total Other Financing Receipts	0	439,710	0	439,710
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	171,285	853	49,560	221,698
Fund Cash Balances, January 1	368,647	488,733	103,336	960,716
Fund Cash Balances, December 31	\$539,932	\$489,586	\$152,896	\$1,182,414
Reserve for Encumbrances, December 31	\$0	\$3,376	\$0	\$3,376

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

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Harlan Township, Warren County, Ohio (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's management believes these financial statements present all activities for which the Township is financially accountable.

B. Accounting Basis

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

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

C. Cash and Investments

During 2005 and 2006, the Township's funds were held in an interest bearing checking account and money market mutual fund account. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Money market mutual funds are recorded at share values the mutual funds report.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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

3. Debt Service Fund

This fund accounts for resources the Township accumulates to pay bond and note debt. The Township had the following significant Debt Service Fund:

Bond Retirement Fund – These funds are used to pay off the debt related to the construction of the new fire station.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. 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. The Township did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

2. Equity in Pooled Cash and Investments

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

	2006	2005
Demand deposits	\$3,755	\$10,427
Total deposits	3,755	10,427
Money Market Mutual Fund	1,399,001	1,171,987
Total investments	1,399,001	1,171,987
Total deposits and investments	\$1,402,756	\$1,182,414

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

Investments: Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$161,795	\$266,198	\$104,403
Special Revenue	686,684	887,185	200,501
Debt Service	148,000	156,122	8,122
Total	\$996,479	\$1,309,505	\$313,026

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$694,764	\$191,986	\$502,778
Special Revenue	1,178,818	800,079	378,739
Debt Service	295,795	101,240	194,555
Total	\$2,169,377	\$1,093,305	\$1,076,072

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$170,600	\$315,232	\$144,632
Special Revenue	624,800	1,139,556	514,756
Debt Service	110,000	151,209	41,209
Total	\$905,400	\$1,605,997	\$700,597

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. Budgetary Activity (Continued)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$533,144	\$143,947	\$389,197
Special Revenue	1,092,747	1,142,079	(49,332)
Debt Service	212,418	101,649	110,769
Total	\$1,838,309	\$1,387,675	\$450,634

Contrary to Ohio law, budgetary expenditures plus encumbrances exceeded appropriations at the fund level for the Gas Tax Fund and Fire Fund at December 31, 2005.

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in various line items at December 31, 2006 and 2005.

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.

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. Debt

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Fire Station Bonds	\$1,038,000	5.25%
Fire Truck Bonds	\$286,020	4.50%
Dump Truck Bonds	\$60,000	4.15%
Total	\$1,384,020	

The Fire Station Bonds were acquired in 2001 for the construction of a new fire station. The bonds are collateralized solely by the Township's taxing authority.

The Fire Truck Bonds were acquired in 2005 for the purchase of a new fire truck. The bonds are collateralized solely by the Township's taxing authority.

The Dump Truck Bonds were acquired in 2005 for the purchase of a new dump truck. The bonds are collateralized solely by the Township's taxing authority.

**HARLAN TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

5. Debt (Continued)

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

Year ending December 31:	Fire Station Bonds	Fire Truck Bonds	Dump Truck Bonds
2007	\$100,891	\$79,721	\$22,283
2008	101,371	79,733	21,453
2009	102,720	79,729	20,623
2010	102,833	79,723	0
2011	103,788	0	0
2012 – 2016	531,598	0	0
2017 – 2020	446,825	0	0
Total	<u>\$1,490,026</u>	<u>\$318,906</u>	<u>\$64,359</u>

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Township contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

7. Risk Management

Commercial Insurance

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

8. Compliance

Contrary to Ohio Rev. Code Section 135.21, the Township did not properly post interest for 2006 and 2005.

The Township did not include gift cards as a fringe benefit on employees' W-2s.

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Mary Taylor, CPA

Auditor of State

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

Harlan Township
Warren County
9120 Morrow-Rosburg Road
Pleasant Plain, Ohio 45162

To the Township Board of Trustees:

We have audited the financial statements of Harlan Township, Warren County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated April 28, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-003 and 2006-004.

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

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated April 28, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated April 28, 2008.

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



Mary Taylor, CPA
Auditor of State

April 28, 2008

HARLAN TOWNSHIP
WARREN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

Material Noncompliance

Ohio Rev. Code, Section 5705.41(D)(1), provides 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 certifying that the amount required to meet any such contract or expenditure 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 void, and no warrant shall be issued in payment of any amount due thereon.

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

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

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

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

The Township did not properly certify the availability of funds for 80% of expenditures tested in 2005 and 85% in 2006. This was due to the Township being unable to locate the signed Purchase Orders. Failure to obtain proper certification may result in negative cash balances or overspending of funds.

**FINDING NUMBER 2006-001
 (Continued)**

Unless the Township uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that funds are or will be available prior to obligation by the township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2006-002

Material Noncompliance

Ohio Rev. Code, Section 5705.41(B), provides that no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures plus encumbrances exceeded appropriations at the legal level of control for the following line items at the indicated year end:

Year	Line Item	Expenditures + Encumbrances	Appropriations	Variance
2005	2A9	98,709	0	(98,709)
2005	4A4	53,045	20,000	(33,045)
2005	4A6	35,693	20,000	(15,693)
2005	4A9	12,094	10,000	(2,094)
2005	4B2	72,163	40,000	(32,163)
2005	4B4	4,929	2,387	(2,542)
2005	10A6	513,524	275,938	(237,586)
2005	10A14	43,173	40,000	(3,173)
2005	10A15	51,816	45,000	(6,816)
2006	1A2A	32,581	31,000	(1,581)
2006	1A12	11,182	10,000	(1,182)
2006	1E1	1,306	1,200	(106)
2006	2A9	23,113	0	(23,113)
2006	4A2	12,590	12,000	(590)
2006	4A4	29,814	25,000	(4,814)
2006	4A6	22,345	20,000	(2,345)
2006	10A8	129,403	50,000	(79,403)
2006	10A9	27,478	15,000	(12,478)

**FINDING NUMBER 2006-002
 (Continued)**

Expenditures plus encumbrances exceeded appropriations at the fund level in 2005 in the following funds:

Fund	Expenditures + Encumbrances	Appropriations	Variance
Gas Tax Fund (3)	75,097	66,156	(8,941)
Fire Fund (10)	731,148	540,938	(195,942)

Expenditures exceeding appropriations can result in overspending and negative fund balances. The Fiscal Officer should deny payment requests exceeding appropriations. The Fiscal Officer may request the Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, as necessary.

FINDING NUMBER 2006-003

Material Noncompliance/Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Township lacks management oversight in the posting of receipts. This lack of oversight is illustrated by the following:

- Earnings on investments of \$4,131 for 2005 and \$9,209 for 2006 were improperly posted between the Cemetery Fund and the Bond Retirement Fund rather than to the General Fund. Ohio Rev. Code Section 135.21 requires all interest to be credited to the general fund except interest earned on money derived from a motor vehicle license tax or fuel tax which must follow the principal.
- Debt payments were not properly posted between redemption of principal and interest and fiscal charges in the amount of \$41,000 in 2005 and \$44,000 in 2006.
- \$96,247 for the purchase of a dump truck was posted to public works and should have been posted to capital outlay.
- The township made numerous posting of taxes at net rather than gross in the amount of \$14,637 for 2005 and \$7,121 for 2006.
- Estate taxes of \$58,783 for 2005 and \$121 for 2006 were posted to taxes and should have been posted to intergovernmental.
- \$8,355 of homestead and rollback in 2005 was posted to the fire fund and should have been posted to the Bond Retirement Fund.
- \$2,284 of permissive auto tax in 2006 was posted to the motor vehicle license tax fund as intergovernmental and should have been posted to the permissive motor vehicle license tax fund as taxes.

**FINDING NUMBER 2006-003
(Continued)**

- Interest and fiscal charges on debt was incorrectly posted to public works in the amount of \$2,462 in 2005 and to capital outlay in the amount of \$7,525 in 2006.
- In 2006, the Township incorrectly posted \$63,980 in principal and interest debt payments to capital outlay and \$23,113 to public works.
- In 2006, the Township incorrectly posted \$247,470 in real estate taxes to Other Revenue and should have been posted to Taxes.
- In 2005, the township had \$2,778 of unrecorded encumbrances in the Road & Bridge Fund and \$598 of unrecorded encumbrances in the Fire Fund.
- In 2006, the township had \$2,272 of unrecorded encumbrances in the Road & Bridge Fund and \$1,870 of unrecorded encumbrances in the Fire Fund.
- The township made numerous postings to other revenue that should have been posted to charges for services in the amount of \$3,317 in 2005 and \$6,775 in 2006; licenses, permits, and fees in the amount of \$4,000 in 2005 and \$2,375 in 2006; intergovernmental in the amount of \$15,395 in 2005 and \$129,207 in 2006; sale of bonds in the amount of \$430,000 in 2005; and sale of fixed assets in the amount of \$5,810 in 2005 and \$19,053 in 2006.

Adjustments were posted to the financial statements to correct the above classifications.

The lack of proper management oversight could result in material misstatement relating to financial data. To improve record keeping and accountability of receipts we recommend that all county and state revenue receipts be posted properly. For guidance the Township should utilize the Ohio Township Handbook.

In addition, the Township does not properly record receipts. The Township uses a receipt book; however, the receipt date recorded on the receipt is the deposit date, not the date the cash was received. We recommend that the Township date stamp receipt documentation when it is received by the Township or record receipts in the receipt book the day they are received instead of the day they are deposited. The Township should not hold significant amounts of cash or checks for an unreasonable period. Failure to properly maintain receipts could result in untimely depositing of monies and a lack of control of receipts.

This was also reported in the management letter of the 2003-2004 audit of the Township's financial statements.

FINDING NUMBER 2006-004

Material Noncompliance/Significant Deficiency

- **26 C.F.R. Section 1.61-21** requires taxation of fringe benefits paid to employees. Further, per IRS Publication 15-B, gift cards, no matter how little, are never excludable as a de minimis benefit. We recommend the Township include all required fringe benefits on employee's W-2's.

In addition, the Ohio Supreme Court case of State ex rel. McClure v. Hagerman (1951) 155 Ohio St. 320 provides that expenditures made by a governmental unit should serve a public purpose. As described in Auditor of State Bulletin 2003-005, Ohio Attorney General Opinion 82-006, citing McClure, provides guidance as to what may be construed as a public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants. As stated in McClure, "[g]enerally, a public purpose has for its objective the promotion of the public health, safety, morals, general welfare, security, prosperity, and contentment of **all** the inhabitants. . ." Id. at 325. Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

Ohio Attorney General Opinion 82-006, citing McClure, provides that the determination of the proper public purpose of an expenditure of funds for "coffee, meals, refreshments, and other amenities is a legislative decision. . . ". As such, the decision to expend public funds ". . . must be made in accordance with the procedural formalities governing the exercise of legislative power. Specifically, the decision and the rationale for the decision must be memorialized by a duly enacted ordinance or resolution. . ."

The Township failed to include gift cards, given to employees as a Christmas bonus each year during the audit, on employee's W-2's. The gift cards were given to the Township Administrator and Road Department employees.

- In 2005, Don Demaree, Tim Williams, Don Fountain, and Evan Willis each received a \$225 gift card to Tractor Supply
- In 2006, Don Demaree received a \$275 gift card to Tractor Supply
- In 2006, Tim Williams and Sandy Wessel each received a \$275 gift card to Sears
- In 2006, Andy Mitten received one \$50 gift card to Outback Steakhouse and one \$50 gift card to Home Depot

The Trustees did approve the gift cards given to employees for 2006; however, the Trustees did not memorialize the related rationale that the gift cards/Christmas bonuses were considered a proper public purpose and made no action in 2005.

We recommend that the Board of Trustees thoroughly review Auditor of State Bulletins 2003-005 and 2004-002 and memorialize by resolution their decision that gift certificates given to employees as a Christmas bonus constitute a proper public purpose.

This matter will be referred to the Ohio Department of Taxation.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

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**HARLAN TOWNSHIP
WARREN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 5705.41(D), availability of funds was not certified	No	Reissued as 2006-001
2004-002	Ohio Rev. Code Section 5705.41(B), expenditures in excess of appropriations	No	Reissued as 2006-002



Mary Taylor, CPA
Auditor of State

HARLAN TOWNSHIP

WARREN 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
MAY 29, 2008**