



# Mary Taylor, CPA

## Auditor of State

### MANAGEMENT LETTER

Sharon Township  
Franklin County  
137 East Granville Road  
Worthington, OH 43085

To the Board of Trustees:

We have audited the financial statements of Sharon Township, Franklin County, Ohio (the Township) in accordance with *Government Auditing Standards*, as of and for the years ended December 31, 2006 and December 31, 2005, and have issued our report thereon dated August 6, 2007, 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 also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. 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

*Government Auditing Standards* require us to report significant internal control deficiencies, fraud, and illegal acts (including noncompliance with laws and regulations), and also abuse and noncompliance with contracts and grant agreements that could directly and materially affect the determination of financial statement amounts. We have issued the required report dated August 6, 2007, for the years ended December 31, 2006 and December 31, 2005.

We are also submitting the following comments for your consideration regarding the Township's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. These comments reflect matters that do not require inclusion in the report *Government Auditing Standards* requires. Nevertheless, these comments represent matters for which we believe improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing these recommendations. However, these comments reflect our continuing desire to assist your Township. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

The comment marked with an asterisk (\*) was communicated to management in the prior engagement.

### NONCOMPLIANCE FINDINGS

#### Certification of Expenditures \*

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure 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 in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

**NONCOMPLIANCE FINDINGS  
(Continued)**

**Certification of Expenditures \* (Continued)**

This 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, property 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 expenditure by the Township.

2. Blanket Certificate - Fiscal officers may prepare so-called "blanket" certificates for a certain sum of money not in excess of an amount established by resolution adopted by a majority of the members of the legislative authority for any specific line item account over a period not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Township may 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 fiscal year (or beyond the quarterly spending plan for counties) 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 prior to purchase commitment for five percent of the expenditure transactions tested and there was no evidence that the Township followed the aforementioned exceptions. 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. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, the Clerk should certify that the funds are or will be available prior to the obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

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

## **NONCOMPLIANCE FINDINGS (Continued)**

### **Budgetary - Legal Level of Control**

Ohio Admin. Code 117-2-02(C)(1) states in part: The legal level of control is the level (e.g. fund, program or function, department, object) at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates.

Ohio Rev. Code 5705.38(C) requires the following minimum level of budgetary control for "subdivisions" other than schools: Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.

For the fiscal year 2006 and 2005, the Township's Board of Trustees approved appropriations at the fund level. Failure to appropriate at the object level of control could result in ineffective oversight of expenditures.

We recommend the Board approve appropriations measures at the object level of control within each fund.

## **RECOMMENDATIONS**

### **Financial Reporting**

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

The following audit adjustments / reclassifications were made to the financial statements:

1. A \$209 adjustment was made to fiscal year 2006 to increase the Fines, Forfeitures, and Penalties revenue and to increase the Beginning Fund Balance to match the ending balance of fiscal year 2005.

The following differences and reclassifications were inconsequential to the overall financial statements of the Township and were not posted to the financial statements or Township's accounting records.

1. Difference of \$227 for the Township to book as gross amount in taxes and to book the fees as general government disbursements
2. Reclassification of \$5,820 and \$4,359 to fiscal years 2005 and 2006, respectfully, from the Police fund, Fire fund, Road District fund, and Cemetery Fund from intergovernmental receipts to tax receipts to book personal property tax reimbursements as taxes rather than intergovernmental.

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities occurring and going undetected and decreases the reliability of financial data throughout the year.

We recommend the Board of Trustees adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Township and thereby increasing the reliability of the financial data throughout the year.

**RECOMMENDATIONS  
(Continued)**

**Policy for Use of Fuel Cards \***

Governmental entities have the authority to provide purchasing cards, such as fuel cards, for use by authorized employees. The use of these items should be specified in a policy established by the government's legislative body. These policies should, at a minimum, identify authorized users; guidelines for allowable use/ purchases; unallowable uses; reporting; monitoring of use by appropriate levels of management; and other guidelines deemed appropriate by the legislative body.

The Township does have a credit card policy, but the policy does not address fuel card usage. Failure to have formal policies regarding fuel cards could result in misuse and misappropriation of funds.

We recommend the Board adopt and maintain formal policies concerning the use of fuel cards. These policies should include the guidelines mentioned above. Further, the Board should distribute copies of these policies to employees throughout the Township.

We intend this report for the information and use of the Board of Trustees, audit committee and management.

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

**Mary Taylor, CPA**  
Auditor of State

August 6, 2007