



Dave Yost • Auditor of State

MANAGEMENT LETTER

Margaretta Township
Erie County
114 Main Street
P.O. Box 278
Castalia, Ohio 44824-0278

To the Board of Trustees:

We have audited the financial statements of Margaretta Township, Erie County, Ohio (the Township) in accordance with *Government Auditing Standards*, as of and for the years ended December 31, 2017 and 2016, and have issued our report thereon dated November 5, 2018.

Government Auditing Standards require us to report significant internal control deficiencies, fraud, (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 November 5, 2018, for the years ended December 31, 2017 and 2016.

We are also submitting the following comments for your consideration regarding the Township's compliance with applicable laws, regulations, and internal control. These comments reflect matters that do not require inclusion in the *Government Auditing Standards* report. 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. These comments reflect our continuing desire to assist your government but are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

COMPLIANCE

1. **Ohio Rev. Code § 117.103(B)(1)** provides a public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment. The auditor of state provides a model form on the auditor of state's web site (<https://ohioauditor.gov/fraud/FraudReportingSystemModelForm.pdf>) to be printed and used by new public employees to sign and verify their receipt of information as required by this section.

The Township was unable to provide evidence that employees were informed of the Ohio fraud-reporting system.

The Township should use the Auditor of State's model form (or another form) to notify all employees about the Ohio fraud-reporting system and obtain signed documentation that all new and current employees received notification about the fraud-reporting system.

2. **Ohio Rev. Code § 121.22(G)** allows the members of a public body to hold an executive session only for the reasons specified in this code section. If a public body holds an executive session to consider any of the matters listed in divisions (G)(2) to (7) of this section, the motion and vote to hold executive session shall state which one or more of the approved matters listed in those divisions are to be considered at the executive session.

On five different occasions the Trustees held an executive session for which "personnel matters" was given as the reason in the minutes. The lack of proper documentation regarding matters to be discussed in executive session results in the inability to determine if discussion was limited to matters permitted. The Board should enter into executive sessions only for one of the specific reasons allowed by this Ohio Revised Code and to have the Fiscal Officer document in the minutes the specific reason the executive session is being held.

RECOMMENDATIONS

1. **Audit Committee**

The Township should establish an audit committee to serve as a liaison between management and its auditors. The primary functions of such a committee are to monitor and review the Township's accounting and financial reporting practices, and to follow up on citations and recommendations made by its auditors.

The audit committee should be actively involved in:

- Meeting with the Township's independent auditors before and after each audit;
- Monitoring the process of the financial and compliance audit;
- Evaluating the results of the financial and compliance audit; and
- Ensuring the internal control and legal compliance issues identified in the audit are promptly and effectively remedied.

In addition, the audit committee should meet regularly (perhaps quarterly) to monitor the Township's legal compliance, financial condition, and control over safeguarding of assets. Minutes should also be retained of the meetings.

The audit committee can include members of the Board. However, it is preferable to include representation that is independent from elected officials and management. The audit committee could include professionals knowledgeable in the Township's financial operations and in accounting, such as attorneys or bankers.

2. **Accounting for Road Expenditures**

To the extent that the General fund contains moneys that are not subject to any limitation against expenditure for road and bridge purposes, those moneys may be expended directly for road and bridge purposes, provided that those moneys can be separately identified and have not been commingled with other moneys that cannot be used for road and bridge purposes. Disbursements related to road reconstruction, maintenance, and repair projects should first be transferred from the Township's General fund to its Road and Bridge fund when those exceptions are not met.

The Township paid \$98,317 and \$37,219 for road reconstruction, maintenance, and repair projects from the General fund in 2017 and 2016, respectively. The Township commingles all General fund receipts in a single fund and therefore should first transfer to the Road and Bridge fund before making the road related disbursements. The accompanying financial statements have been adjusted to reflect a transfer from the General fund to the Road and Bridge fund, with this payment then being made from the Township's Road and Bridge fund.

The Township should first transfer General fund resources to the Road and Bridge fund prior to making disbursements for road and bridge related purposes.

3. Budget vs. Actual Performance Information

The Board is responsible for monitoring the financial activity of the Township. Effective monitoring includes regularly reviewing budget vs. actual performance data. Due to a deficiency in budgetary monitoring policies and procedures, the Board of Trustees do not receive and monitor budget vs. actual information. The lack of budget vs. actual performance information could result in errors and/or misappropriation of assets to occur and go undetected. Additionally, the lack of budget vs. actual performance information could prevent sound decisions from being made due to a lack of financial information.

The Township utilizes the Uniform Accounting Network system, which is capable of generating various management reports. The Trustees should periodically review budget vs. actual performance reports. The Board of Trustees should use this information to make informed decisions, such as whether or not actual activity is reasonable compared to budgetary estimates and whether or not anticipated receipts are being received.

These reviews should be documented in the minutes and through signatures on the reviewed reports and/or supporting documentation.

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



Dave Yost
Auditor of State

Columbus, Ohio

November 5, 2018