

The City of Portsmouth

"Where the Ohio and Scioto Meet"

Department of Finance

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M. Trent Williams
City Auditor



State of Ohio

TO: HONORABLE HOWARD BAUGHMAN, PRESIDENT
HONORABLE MEMBERS OF PORTSMOUTH CITY COUNCIL

FROM: M. TRENT WILLIAMS, PORTSMOUTH CITY AUDITOR

DATE: NOVEMBER 27, 2007

RE: 2006 AUDIT RELEASED

COPY: MAYOR, CITY SOLICITOR

Please find attached a press release dated November 27, 2007 from Auditor of State Mary Taylor. The referenced audit had originally concluded June 22, 2007 and was included along with the submission of the City's Comprehensive Annual Financial Report to the Auditor of State. However, due to some later discovered issues within the Probation department, the release of the audit was postponed pending additional audit procedures of that division that were conducted later in the year in October. The audit contains the following matters of concern that are being corrected as outlined in the following detail:

Finding #2006-001

This finding states that the Utility and Probation departments did not make timely deposits with the City Auditor by the next business day. This is not fully accurate. Actually the Probation department does not make its deposits with the City Auditor's office. Its deposits are within an independent depository account made directly with the Clerk of Courts or with its own financial institution. The Utilities department however is required to make its deposits with the City and although Ohio Revised Code specifies the depository requirements, a separate City policy will be made available to the Utilities department as well as all other departments outlining these specific City depository regulations.

Finding #2006-002

This finding in 2006 provides that the City Utilities/Service departments did not properly advertise for bid as required for projects over \$25,000 unless deemed an emergency. These projects, including roof repairs at the Water Filtration plant, hydraulic pump replacement at the Transfer Station and a Flood Defense system gate replacement, were apparently deemed as emergencies by the department directors but were never subsequently brought back to City Council as the legislative authority for its approval as emergencies. Obviously in some cases of emergencies, a department must deal with an emergency situation without the luxury of time needed to request prior Council approval, as in the cases with these findings. This procedure has been corrected in 2007 as evidenced by proactive actions taken place earlier this year. The case of the collapsed sewer line under Kinney's Lane/Baird Avenue earlier this year is a prime example of a situation that required immediate emergency action by the department and then left to deal with the procedural issues after the emergency had been mitigated. The situation was then brought back to Council for emergency designation in order to comply with emergency procedures obviating the formal bidding process compliance. Current City policies are in place and the departments have been reminded of these requirements for future issues. Additionally, forms and procedures are being prepared that will attach with payment requests that certify that any bidding requirements have met compliance.

Finding #2006-003


This finding states that 25% of expenditures tested in 2006 were not properly certified. This has actually been reduced from 60% the prior year and is improving this year. This really means that departments are obligating City funds (procuring, placing orders for and receiving invoices for goods or services) prior to the requisition and fiscal certification being approved. A current City policy (attached) is in place to prevent this and has been circulated again to reduce these instances. This will be readdressed immediately.

Finding #2006-004

Finding #4 deals with Probation department bank reconciliation issues through additional audit procedures in October that took place after the regular had been completed this past June. The Probation department is a division of the Municipal Court and its independent bank accounts and procedures are not within the jurisdiction of the City Auditor under the City Charter. However, it is my understanding that the Probation department has made corrections to many of its issues and working toward policies to prevent further reoccurrences.

Any other issues of concern are being addressed on an ongoing basis to provide for continual improvement when and wherever possible.

Respectfully submitted,


M. TRENT WILLIAMS, AUDITOR

Attachments



Mary Taylor, CPA
Auditor of State

For Immediate Release:

November 27, 2007

Contact:

Steve Faulkner
Deputy Press Secretary
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Taylor Releases City of Portsmouth Audit

Portsmouth – Auditor of State Mary Taylor released the audit of the city of Portsmouth for fiscal year 2006 today. The audit reveals inefficient accounting practices within certain departments and indicates that city officials failed to follow state law when entering into certain contracts.

“It is imperative that city officials follow proper accounting practices when conducting city business,” Taylor said. “Implementing and following strict policies and procedures improves accountability when managing public funds and reduces the potential for fraud or theft of taxpayer dollars.”

The audit reveals that city officials did not follow a formal bidding process, required by Ohio law, when entering into contracts for at least three city funded projects. Those contracts include:

- \$48,232 for roof repairs
- \$31,839 for a hydraulic pump
- \$28,000 for a storm sewer gate

The audit also identifies certain accounting practices that need improvement including depositing funds daily within the city’s utility and probation departments and balancing the books more often in the probation department. City officials say they are working to correct these issues.

The Ohio Auditor of State’s Office is one of the largest accounting offices in the nation. The office strives to ensure that all public funds are spent legally and appropriately and works aggressively to root out fraud, waste and abuse in public spending. Taylor encourages anyone suspecting fraud or misspending of public dollars to contact her office toll free at 1-866-FRAUD-OH (1-866-372-8364).

A full copy of the audit is available online at www.auditor.state.oh.us.

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NOTICE TO DEPARTMENT HEADS AND PURCHASING PERSONNEL

FROM: CITY AUDITOR

DATED: AUGUST 21, 2000

RE: PURCHASING PROCEDURES

A regular nonrecurring purchasing is any purchase of goods or services that can be anticipated in advance of the actual need and a separate requisition can be prepared specifying the individual items or services to be purchased. The goods or services may be purchased more than once during the year, but each purchase is planned in advance and is ordered on a separate Requisition/Purchase Order.

Steps

1. The need to purchase goods or service is determined by the operating department.
2. The originator determines the specific item(s) that are required and develops specifications for the item(s).
3. Multiple potential vendors are contacted to determine the availability of the goods or services and the price to be charged. If there is more than one vendor, then a separate Requisition/Purchase Order must be made out for each vendor involved.
4. The individual that has identified the need completes the top portion of the Requisition/Purchase Order provided they are all being supplied by a single vendor. The appropriation account to be charged should be entered for each item.
5. If the originator wants to deliver the Vendor copy of the approved P.O., such as when the goods are picked up at the Vendor's place of business, the originator should check the block indicating "Deliver Vendor Copy". If the goods are not going to be picked up at the vendor's place of business, the originator should check the block indicating "Mail Vendor Copy".
6. The originator submits the Requisition/Purchase Order to the appropriate Department Head for review and approval.
7. The Department of Division Head reviews the request and either approves or disapproves the request.
 - A. If the request is approved, the Department Head checks the "Approved" block and signs the form. He retains the Department copy for his records and forwards all remaining copies to the Mayor. Upon approval, the Mayor forwards the P.O. to the City Auditor for certification of funds and assignment of a P.O. number. Do not separate any of the remaining copies.
 - B. If the request is not approved, the Department Head checks the "Disapproved" block on the Requisition/Purchase Order and returns it to the originator. It is suggested that a brief explanation for the disapproval accompany the form.
8. The City Auditor receives the approved Requisition/Purchase Order from the Department Head and determines whether or not there is sufficient funding in the designated appropriation account to permit the purchase.
 - A. If there is sufficient funding, the City Auditor assigns a P.O. number, certifies the availability of funds, and encumbers the money. The Receiving copy of the Requisition/Purchase Order is forwarded to the Department Head verifying that funds have been appropriated and encumbered for the purchase.
 - B. If sufficient funds are not available in the approved budget account, the Requisition/Purchase Order will be returned to the Department Head indicating insufficient funding for the purchase. The Requisition/Purchase Order may be resubmitted by the Department Head after the funding problem has been resolved.
9. Upon receipt of the goods or services, the Originator will acknowledge the receipt by attaching the packing slip, receiving slip and invoice to the Receiving copy of the Requisition/Purchase Order, stamping the same approved for payment and forwarding it to the City Auditor. Only an original invoice will serve as the basis for processing payments to the vendor. Statements, packing slips and/or receiving slips alone will not serve as sufficient basis for the processing of payments.

SUMMARY

The preceding procedures should serve as a guide to each department for all City of Portsmouth purchases. Please remember that fiscal officer certification must be received **prior to** entering into any contract for goods or services or confirmation of any order placed for goods or services. Any such contract or order may, at the discretion of the Auditor, be made void and no warrant shall be issued in payment of any amount due thereon. Please take steps to ensure all purchases made are compliant with these procedures.

**CITY OF PORTSMOUTH
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 §.505**

FOR THE YEAR ENDED DECEMBER 31, 2006

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

FINDING NUMBER 2006-001

Noncompliance Citation

Ohio Rev. Code Section 9.38 requires, in part, that a person who is a public official other than a state officer, employee, or agent shall deposit all public moneys received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars.

A government employee other than the fiscal officer collecting funds and issuing a receipt must deposit the funds with the government's fiscal officer on the business day following the day of receipt. As an alternative to depositing funds with the government's fiscal officer, the employee instead may deposit funds with the government's designated depository on the business day following the day of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school districts), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

The Utility Department and Probation Department did not deposit utility receipts and restitution receipts on the next business day following the day of receipt with the City Auditor for sixty three percent and one hundred percent respectively of the utility batch receipts and restitution receipts tested and the City does not have a policy to permit their officials to hold money as indicated above.

We recommend the Utility Department and Probation Department deposit receipts with the City Auditor by the next business day. Alternatively, if the amount of the daily collection does not exceed \$1,000, City Council could adopt a policy allowing departments to deposit receipts with the City Auditor within three business days as long as the receipts can be safeguarded.

City Response:

City officials will work on a written policy to correct this situation.

**CITY OF PORTSMOUTH
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
*OMB CIRCULAR A-133 §.505***

**FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

FINDING NUMBER 2006-002

Noncompliance Citation

Ohio Rev. Code Section 735.051 states that in case of real and present emergency arising in connection with the operation and maintenance of the department of public safety, including all municipally owned utilities, the department of public safety, or any other department, division, commission, bureau, or any other department, division, commission, bureau, or board of the municipality, the legislative authority of the municipality may by a two-thirds vote of all the members elected thereto, authorize the director of public service, director of public safety, city manager, board of public affairs, or other duly authorized contracting officer, commission, board, or authority, to enter into a contract for work to be done or for the purchase of supplies or materials without formal bidding and advertising.

The City did not bid nor advertise contracts for the following: (1) Contract for the Storm Sewer Gate to Ohio Pipe and Supply in the amount of \$28,000; (2) Contract for Roof Repairs to Stevens Construction in the amount of \$48,232; and (3) Hydraulic Pump to A&L Compaction EQ in the amount of \$31,839.

We recommend the City comply with all bidding procedures according to Ohio Rev. Code Section 735.051.

City Response:

City officials will monitor more closely applicable contracts to ensure a proper bidding process in order to be compliant with Ohio Rev. Code Section 735.051.

**CITY OF PORTSMOUTH
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 §.505**

**FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

FINDING NUMBER 2006-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (D)(1) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract 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 encumbrances.

The following exceptions to this basic requirement are provided by Ohio Rev. Code Section 5705.41 (D)(1):

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, 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 taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

25% of the expenditures tested were not properly certified.

We recommend the City implement policies to ensure that all purchases first have monies certified by the City Auditor before purchasing or ordering an item. We also recommend the use of a "then and now" certificate in instances of emergency or absence of proper authority.

City Response:

City officials will monitor the proper certifying of expenditures more closely.

**CITY OF PORTSMOUTH
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
*OMB CIRCULAR A-133 §.505***

**FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

<p>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</p>
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FINDING NUMBER 2006-004

Significant Deficiency

Monthly bank reconciliations were not performed on the checking account established by the Probation Department. Failure to perform monthly bank reconciliations could lead to unauthorized or inaccurate transactions occurring and going undetected.

We recommend that monthly bank reconciliations for the Probation Department checking account be conducted and performed in an accurate and timely manner. The bank reconciliations should be properly monitored by management personnel to ensure the funds are used in an appropriate manner.

City Response:

The Probation Department will begin performing monthly bank reconciliations.