

CAUDILL & ASSOCIATES, CPA'S
725 5TH STREET
PORTSMOUTH, OH 45662
(740) 353-5171

PRE-AUDIT MEETING – CITY OF PORTSMOUTH, OHIO
FOR THE AUDIT PERIOD: JAN 1, 2008 THROUGH DEC 31, 2008
THURSDAY, APRIL 23, 2009
TIME: 11:00AM
LOCATION: City Building in Portsmouth, Ohio

**Pre-Engagement Meeting with Client
City of Portsmouth
Audit Period 01/01/08 to 12/30/08**

1) KEY ENGAGEMENT TEAM MEMBERS:

Gregory Caudill, CPA
Engagement Partner

2) ESTIMATED ENGAGEMENT TIME FRAME:

The engagement period for the audit of the City of Portsmouth, Scioto County, is January 1, 2008 to December 31, 2008. We expect engagement planning and fieldwork to begin on or around April 27, 2009. We estimate the engagement will be concluded no later than June 15, 2009.

3) NEW ACCOUNTING OR AUDITING STANDARDS ISSUED SINCE 12/31/07 THAT MAY IMPACT THE CURRENT AUDIT:

A. Governmental Accounting Standards Board (GASB) :

GASB 43 – Financial Reporting for Postemployment Benefit Plans other than Pension Plans

GASB 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions.

GASB 43 & 45 will potential effect the footnote disclosures in the audit report. **This possibly affects footnote disclosures in the current audit period.**

GASB 48 – Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.

GASB 48 will potential effect recognition of revenue. **Such as tobacco settlements.**

B. Statements on Auditing Standards:

SAS 103 through 114 – New Auditing Standards recently issued

SAS 112 & 114 has the largest impact on the auditee.

SAS 112 - Communication of internal control – related matters identified in an audit

Note: *Audit adjustments and reclassifications that affect the financial statements result in an audit report comment.*

SAS 114 - The Auditor's communication with those charged with governance.

Caudill & Associates will issue a written letter to City Council outlining the items discussed below.

- The auditor's responsibilities under generally accepted auditing standards.
- The planned scope and timing of the audit.
- Significant findings from the audit.
- Qualitative aspects of the entity's significant accounting policies, including significant accounting policies, accounting estimates, and financial statement disclosures.
- Significant difficulties encountered during the audit.
- Uncorrected misstatements.
- Disagreements with management.
- Management's consultation with other accountants.
- Significant issues discussed, or subject to correspondence, with management.
- Situations that might impair the auditor's independence.

4) SIGNIFICANT ISSUES TO BE DISCUSSED:

A. Material non-compliance from prior audit:

2007-001 - 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.

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.

2007-001 (Continued)

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.

What has been done to correct this finding?

2007-002 - The Ohio Administrative 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 the budgeted amount would be a violation of law. This established by the level at which the legislative body appropriates. For all local public offices subject to the provisions of Chapter 5705 of the Revised Code, except school district and public libraries, the minimum legal level of control is described in Section 5705.38 of the Revised Code.”

The Ohio Revised Code Section 5705.38(C) requires the following minimum level of budgetary control for “subdivisions” other than school: “Appropriation measures shall be classified so as to set forth separately the amounts appropriated for personal services.”

Although the City appropriated at the minimum legal level of budgetary controls for the General Fund, all other funds were appropriated at the fund level, which does not represent the minimum legal level of controls as enumerated in Section 5705.38 of the Revised Code.

The City should ensure that all funds subject to budgetary controls be appropriated at the minimum legal level of control as defined by the Ohio Revised Code Section 5705.38.

What has been done to correct this finding?

2007-003 - Ohio Rev. Code Section 5705.41 (D) allows fiscal officers to prepare so-called “blanket” certificates for a sum not exceeding an amount established by resolution or ordinance adopted by the members of the legislative authority against specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificate may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular line item appropriation.

At December 31, 2007, the City had sixty-two blanket purchase orders that were outstanding and were not closed. In addition, the City did not establish a maximum amount for blanket purchase orders.

What has been done to correct this finding?

2007-004 - 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.

52% 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.

What has been done to correct this finding?

2007-005 – Issues with Capital Assets.

What has been done to correct this finding?

Management Letter Comments: See Attached.

What has been done to correct this finding?

- 4) SIGNIFICANT ISSUES TO BE DISCUSSED: (continued)
- B. SAS-70 (service organizations): Any functions outsourced to third party organizations, such as payroll to ADP?
 - C. Preparation of schedule of federal financial assistance; preliminary schedule needs to be complete by May 15, 2009.
 - D. Preparation of debt schedule also needs to be completed the last week of April.
 - E. Preparation of confirmations needs to be completed the last week of April.
 - F. Audit and/or compilation of component units: per review of the prior year audit report and the minute record, the City has no Component Units.
 - G. Municipal Court reconciliation (open items listing); All court items needed by May 15, 2009.

5) DESIRED CLIENT ASSISTANCE AND RECORDS NEEDED:

Listing will be e-mailed to the City Auditor in the near future.

6) AUDIT APPROACH:

The audit approach will focus on testing of accounting and federal administrative controls. If these controls are in place and working, then the level of testing required is substantially decreased, resulting in savings of audit time and cost.

7) NEW DEVELOPMENTS:

Has the City had any significant changes occur since prior audit?

- * Have there been any significant increases/decreases in funding sources?
- * Have there been any new federal programs? FEMA Grant, Homeland Security, HHS
- * Have there been any new debt issues?
- * Any potential material pending litigation?
- * Any new investments?
- * Any major construction projects?
- * Any illegal acts or fraud known or reported?
- * Any related party transactions?
- * Any errors or irregularities in the financial statements?
- * Any subsequent events, such as a debt issuance or major grant received in 2009?
- * Any changes in key personnel?
- * Any credit /purchasing cards or cell phones used?
- * Any leases entered into in 2008?
- * Any major equipment purchases or retirements?
- * Any significant property damage by Fire, Water or other events?
- * Any change in water, sewer and trash rates for 2008 or customer base?
- * Any change in the income tax rate or customer base in 2008?

8) AUDIT FEES:

The 3 year contract has already been approved and this is the third and final year of the contract.

9) WORK LOCATION

The City has provided audit staff with a work site. Working hours of the City are from 8:00 am to 4:30 pm; Audit staff will work comparable hours but will have the ability to stay at the end of the day and arrive earlier. Need space of up to eight individuals.

10) ENGAGEMENT DELIVERABLES - DUE AT OR NEAR June 30, 2009:

- * Report of Independent Accountants
- * Report of Independent Accountants on Compliance and on Internal Control Required by Government Auditing Standards
- * Report on Independent Accountants on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance In Accordance with OMB Circular A-133
- * Schedule of Findings and Questioned Costs - OMB Circular A-133, Section .505 (If Applicable)
- * Data Collection Form
- * Management Letter (If Applicable)

ATTENDEES FOR MEETING:

The officials and audit staff in attendance for this meeting were as follows:

Name/Position

Name/Position

Name/Position

Name/Position

Name/Position

Name/Position

Name/Position

Name/Position

Name/Position

Name/Position

Name/Position

Name/Position

CITY OF PORTSMOUTH
SCIOTO COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505

FOR THE YEAR ENDED DECEMBER 31, 2007

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

FINDING NUMBER 2007-001

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 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's Response:

No response was provided by client

**CITY OF PORTSMOUTH
SCIOTO COUNTY**

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

FOR THE YEAR ENDED DECEMBER 31, 2007

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

(Continued)

FINDING NUMBER 2007-002

Noncompliance Citation

The Ohio Administrative 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 the budgeted amount would be a violation of law. This established by the level at which the legislative body appropriates. For all local public offices subject to the provisions of Chapter 5705 of the Revised Code, except school district and public libraries, the minimum legal level of control is described in Section 5705.38 of the Revised Code.”

The Ohio Revised Code Section 5705.38(C) requires the following minimum level of budgetary control for “subdivisions” other than school: “Appropriation measures shall be classified so as to set forth separately the amounts appropriated for personal services.”

Although the City appropriated at the minimum legal level of budgetary controls for the General Fund, all other funds were appropriated at the fund level, which does not represent the minimum legal level of controls as enumerated in Section 5705.38 of the Revised Code.

The City should ensure that all funds subject to budgetary controls be appropriated at the minimum legal level of control as defined by the Ohio Revised Code Section 5705.38.

City Response:

The City will ensure that appropriations are made at the legal level of control in the future.

FINDING NUMBER 2007-003

Noncompliance Citation – Blanket Purchase Orders

The Ohio Revised Code Section 5705.41(D) allows fiscal officers to prepare so-called “blanket” certificates for a sum not exceeding an amount established by resolution or ordinance adopted by 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. The blanket certificate may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time of any particular line item appropriation.

At December 31, 2007, the City had sixty-two blanket purchase orders that were outstanding and were not closed. In addition, the City did not establish a maximum amount for blanket purchase orders.

**CITY OF PORTSMOUTH
SCIOTO COUNTY**

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

FOR THE YEAR ENDED DECEMBER 31, 2007

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

FINDING NUMBER 2007-003 (Continued)

Noncompliance Citation – Blanket Purchase Orders (Continued)

The City should establish procedures to ensure that blanket purchases orders do not exceed the current fiscal year end as required by the Revised Code. In addition, the City should pass an ordinance establishing the maximum amount for blanket purchase orders.

City Response:

The City Auditor will more closely monitor blanket purchase order procedures pertaining to violations of this nature in the future.

FINDING NUMBER 2007-004

Noncompliance Citation – Certification of Funds prior to expenditures

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 \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the “then and now” certificate, provided that expenditures are otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

The City did not properly certify the availability of funds prior to obligation for 52% of the disbursements tested.

CITY OF PORTSMOUTH
SCIOTO COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505

FOR THE YEAR ENDED DECEMBER 31, 2007

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

FINDING NUMBER 2007-004 (Continued)

Noncompliance Citation – Certification of Funds prior to expenditures (Continued)

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. Failing to comply with this requirement contributed to the City’s current financial difficulties

City Response:

The City Auditor will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

FINDING NUMBER 2007-005

Significant Deficiency/Material Weakness

The City maintains a standard policy for the treatment of capital assets, but does not monitor departments for abandoned, idle, missing or disposed of capital assets. This has resulted in fully depreciated capital assets that have unknown whereabouts or questionable locations.

For reporting purposes, departments with capital assets should take an inventory on an annual basis to identify any abandoned, idle, missing, or disposed of assets. Without a capital asset inventory policy, it may be impractical for employees to safeguard the company’s assets, resulting in a misappropriation or material misstatement of capital assets.

We recommend the City adopt a written capital asset inventory policy comprising of procedures to follow in accounting of fixed assets. A comprehensive written policy would safeguard the company’s assets by making them more identifiable and more easily traced.

City Response:

The City Auditor will ensure that a complete monitoring of fixed assets will be implemented going forward.

**CITY OF PORTSMOUTH
SCIOTO COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
FOR THE YEAR ENDED DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2006-001	Non-compliance with Ohio Revised Code Section 9.38 – Timely Deposit of public funds	No	Reissued as Finding # 2007-001
2006-002	Noncompliance of Ohio Rev. Code Section 735.051 – Contracts bidding	Yes	N/A
2006-003	Non-compliance with Ohio Revised Code Section 5705.41(D) (1) – Proper certification of expenditures	No	Not corrected. Reissued as finding # 2007-004
2006-004	Failure to reconcile bank accounts established by the Probation Department.	Yes	N/A

Caudill & Associates, CPA's

725 5th Street
Portsmouth, OH 45662

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

MANAGEMENT LETTER

City of Portsmouth, Scioto County
728 Second Street
Portsmouth, Ohio 45662

To the Members of City Council:

In accordance with *Government Auditing Standards* applicable to financial audits, we have audited the financial statements of the City of Portsmouth, Scioto County, (the City), as of and for the year ended December 31, 2007 and have issued our report thereon dated June 30, 2008.

Government Auditing Standards also require that we describe the scope of our testing of compliance with laws and regulations and internal control over financial reporting and report any irregularities, illegal acts, other material noncompliance, and significant deficiencies in internal controls. We have issued the required report dated June 30, 2008, for the year ended December 31, 2007.

We are also submitting for your consideration the following comments on the City's compliance with applicable laws and regulations and on its internal controls. These comments reflect matters that, while in our opinion do not represent material instances of noncompliance or significant deficiencies in internal control, we believe represent matters for which 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 the recommendations suggested below. However, these comments reflect our continuing desire to assist your government. If you have any questions or concerns regarding these comments please do not hesitate to contact us.

NONCOMPLIANCE CITATION

1. Ohio Rev. Code Section 9.10 & 9.11

The Ohio Revised Code Sections 9.10 and 9.11 state that any elected or appointed public official of this State or any political subdivision, who is permitted or required in the performance of their duties to affix their signature on any check, draft, warrant, voucher or other instrument for the payment of money may adopt a facsimile thereof, in lieu of such manual signature, and affix such facsimile to any such instrument. A facsimile signature includes, but is not limited to, the reproduction of any authorized signature by a copper plate or by a photographic, photo static, or mechanical device, but does not authorize the use of a rubber stamp signature by this official or authorized employee referred to in section 9.11 of the Ohio Revised Code.

During the course of our audit, we noted the City was using rubber stamps on several checks disbursed during the audit period.

The use of a rubber stamp could result in limited controls and accountability over the disbursement process and may lead to unauthorized use and/or misappropriation of the City's assets.

The City should discontinue the use of rubber stamps in the disbursement process as required by the Ohio Revised Code Section 9.10 and 9.11.

2. **Ohio Rev. Code Section 9.24**

Ohio Revised Code Section 9.24 states, a political subdivision may not award a contract before checking the unresolved findings for recovery database.

The City did not search the Auditor of State Findings for Recovery database regarding unresolved findings for recovery prior to entering into contracts. By not checking the database, contracts may be entered into with companies or individuals that have outstanding unresolved findings making them ineligible for those contracts.

We recommend the City search the AOS database regarding unresolved findings for recovery prior to entering into any future contracts.

3. **Ohio Rev. Code Section 2949.091(A)**

Ohio Rev. Code Section 2949.091(A) states that all monies collected during a month and owed to the State shall be transmitted on or before the twentieth day of the following month by the Clerk of the Court to the Treasurer of the State.

Monies collected were not remitted on or before the twentieth day of the following month by the Clerk of Court to the Treasurer of State.

We recommend the Clerk of Court transmit all monies owed to the State on or before the twentieth of each month as described by the Ohio Rev. Code Section 2949.091(A).

4. **Ohio Revised Code Section 5705.39**

The Ohio Revised Code Section 5705.39 requires that total appropriations from each fund shall not exceed the total estimated resources. Appropriating funds in excess of amended certificates, may lead to expenditures in excess of available fund balances.

In fiscal year 2007, the General, the Federal and State Cops Grant, the HIV Prevention, and the Sewerage System funds were all appropriated in excess of their estimated resources by \$26,048, \$1,145, \$147, and \$163,571 respectively.

The City should implement procedures to monitor its budget for each fund and appropriate funds only to the extent of their estimated resources.

5. **Ohio Revised Code Section 5705.36**

The Ohio Revised Code Section 5705.36 requires that total appropriations from each fund shall not exceed the total available resources. Appropriating funds in excess of available resources, may lead to expenditures in excess of available fund balances.

In fiscal year 2007, appropriations for the General, Federal and State Cops Grant, and the Sewerage System funds exceeded available resources by \$26,592, \$396, and \$162,703 respectively.

The City should establish procedures to ensure that reduced certificates of estimated resources are obtained and thereby that appropriations are reduced whenever revenues received will be less than the amount budgeted.

APPROPRIATE
GRANT
5705.42
5745.02

RECOMMENDATIONS

1. Outstanding Checks

The City was carrying outstanding checks on their reconciliation for both the Civil and Criminal Court accounts that were greater than 1 year old.

This cumbersome list can make reconciling difficult. The checks have been carried forward for a significant amount of time and should be investigated and cleared.

We recommend the Clerk of Courts contact vendors with long outstanding checks to determine if the checks should be reissued, and if necessary, obtain legal guidance on how to post the outstanding checks to an unclaimed monies fund to eliminate them from the reconciliation process.

2. Cell Phone/Credit Card Policy

The Ohio Revised Code allows most governmental entities the authority to provide cell phones, credit cards, and purchasing cards for the use of authorized employees and to provide government-owned vehicles and equipments (e.g. computers, internet and phone usage, etc.) The use of these items should be specified in a policy the government's legislative authority adopts. This policy should, at a minimum, identify authorized users, guidelines for allowable use, method of reimbursement (if personal use is allowed), specific unallowable uses, reporting, monitoring of use by appropriate level of management, and other guidelines the legislative body deems appropriate.

The City uses several credit cards and cell phones. However, the City has not adopted a policy governing the use of these items. The lack of a formal policy over the use of credit cards, cell phones, etc. may lead to inappropriate use and/or misappropriation of the City's assets.

The City should adopt and implement a written policy governing the use of credit cards and cell phones. The policy should at a minimum identify the authorized users, guidelines for allowable use, method of reimbursement (if personal use is allowed), specific unallowable uses, reporting, monitoring of use by appropriate level of management, and other guidelines the legislative body deems appropriate.

These comments are intended for the information and use of management, and the City Council, and are not intended to be and should not be used by anyone other than these specified parties.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
June 30, 2008