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Management Letter

City Council
City of Portsmouth
Scioto County
728 Second Street
Portsmouth, OH 45662

In accordance with *Government Auditing Standards*, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Portsmouth, Scioto County, Ohio (the "City") as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 22, 2007.

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 22, 2007, for the year ended December 31, 2006.

Office of Management and Budget Circular A-133 requires that we report all material (and certain immaterial) instances of noncompliance, and reportable conditions of internal control, related to major federal financial assistance programs. We have issued the required report dated June 22, 2007, for the year ended December 31, 2006.

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. We believe these comments represent matters for which improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audits, we have not fully assessed the cost-benefit relationship of implementing the comments suggested below. However, these comments reflect our continuing desire to assist your City. If you have any questions or concerns regarding these comments, please do not hesitate to contact us.

Noncompliance Citations:

1. **Ohio Rev. Code Section 2949.091(A)** states that all moneys 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 due as described in the preceding paragraph.

NONCOMPLIANCE CITATIONS
(continued)

2. **Ohio Rev. Code Section 5705.39** states that the total appropriation from each fund shall not exceed the total estimated revenue.

During test work of the City's compliance with laws and regulations we noted that several funds had original and final appropriations which exceeded its original and final certificates of estimated resources.

The City should monitor its estimated resources versus appropriations. This should be monitored on a regular basis to determine if an amendment is necessary.

3. **Ohio Rev. Code Section 5705.41 (B)** states that no subdivision or taxing unit is to expend money unless it has been appropriated.

There were several instances noted throughout the year and at year end in which expenditures exceeded appropriations.

The City Auditor should not certify the availability of funds and should deny payment requests exceeding appropriations. The City Auditor may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

4. **Ohio Rev. Code Section 5705.41 (D)(3)** states 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. The blanket certificates may, but need not be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular line item appropriation. In addition to regular blanket certificates, a subdivision's fiscal officer may also issue "super blanket" certificates for any amount for expenditures and contracts 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. More than one super blanket certificated may be outstanding at one time for a particular line-item appropriation account.

The City did utilize blanket certificates. However, City Council did not approve by resolution or ordinance a specific maximum amount. Instead, they utilized the previous limit of \$5,000.

City Council should approve the maximum amount at which blanket certificates may be issued. This approval should be done by an official resolution or ordinance.

RECOMMENDATIONS

1. Level of Appropriation

Ohio Revised Code 5705.38('c) requires the following minimum level of budgetary control for "subdivisions" other than schools: "Appropriations 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."

We recommend the City pass its appropriation measure not on the fund level, but in compliance with the ORC 5705.38('C) at least, at the office, department, and division, and within each, the amount appropriated for person services should be disclosed.

2. 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 Court 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.

3. Cell Phone/Credit Card Policy

Governmental entities have the authority to provide cell phones, credit cards and purchasing cards for use by authorized employees, government-owned vehicles and equipment (e.g., computers, internet and phone usage, etc.) for use by authorized users. 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; method of reimbursement (if personal use is allowed); specific unallowable uses; reporting; monitoring of use by appropriate levels of management; and other guidelines deemed appropriate by the legislative body.

The City has adopted the use of credit/debit cards and cell phones. However, there are no policies governing the credit/debit cards.

We recommend the City establish written policies, to include, at a minimum, identity of authorized users; guidelines for allowable use/purchases; method of reimbursement (if personal use is allowed) guidelines deemed appropriate by the legislative body. Further, we recommend that the cell phone accounts be established in the City's name so invoices can be monitored to protect the City from paying unnecessary phone usage charges.

RECOMMENDATIONS (Continued)

4. Disaster Recovery Plan

The City's Municipal Court does not have a formal disaster recovery plan. The existence of a written disaster recovery plan would reduce the possibility of the disruption of computer services for the Municipal Court department.

The Municipal Court should develop and maintain a written disaster recovery plan that identifies the procedures necessary for the court to continue processing information in the event of a disaster.

In event of a disaster, the court may experience a disruption in computer services and other inefficiencies due to its lack of a disaster recovery plan.

The Clerk of Courts should develop a formal disaster recovery plan outlining the procedures necessary for the Court to continue processing information in the event of a disaster.

5. Computer Controls

The Water Department does not have a formal policy regarding the changing of user passwords to gain access to computer programs.

By not having a policy for changing of passwords, computers are at risk of a security breach and data could possibly be comprised.

The City should adopt a formal policy regarding changing of passwords on a routine basis using both numerical and alpha characters.

6. Accounts Receivable

The Water and Sewer Department does not have a formal policy regarding allowance for doubtful accounts.

By not having a policy for allowance for doubtful accounts the City is unable to present an accurate and reasonable Accounts Receivable balance.

The City should adopt a formal policy regarding allowance for doubtful accounts. Accounts Receivable in the financial statements should be presented as net of City's allowance for doubtful accounts.

RECOMMENDATIONS (Continued)

7. Probation Department – Money Order Expiration

The Probation Department's old restitution process for collecting monies from the defendant was to have a money order paid to the order of the plaintiff.

Money orders have expiration dates and expire if not cashed on or before the date noted on the money order.

When the old restitution process was in use, all money orders were made payable to the Victim. In some cases, the victim may have changed his or her address or no address was available to the Probation Department (the Department). When this occurred, the money order would be returned to the Department and placed on file. The money order was available for the victim to pick up at any time, however, eventually the money order would expire and not be available to the victim.

The City has changed this process under the new system in which all money orders are made payable to Portsmouth Municipal Court and deposited into a checking account for subsequent disbursement to the plaintiff.

8. Probation Department – Penalties for Delinquent Restitution

Penalties are not placed on the defendant by the Courts for not making restitution. Furthermore, once the defendant goes off probation, they are no longer required by the Department to make restitution. The victim is advised to take the defendant to Civil Court if they wish to collect any further restitution from the defendant.

Defendants are able to miss payments and not be penalized for not making timely and/or the entire amount ordered by the court.

The City's Probation Department should ensure payments for the entire amount be repaid by the defendant and penalties enforced for not paying the amount ordered by the Court and for not making timely payments to the plaintiff.

9. Probation Department – Efficient Method of Tracking Delinquent Restitution Payments

There is no system in place to track delinquent restitution payments.

Per inquiry of Department staff and test work, usually the only a time a missed payment is followed up on is when the victim notifies the Department of the defendant's delinquency in making a payment

Victims are not being compensated for damages incurred and defendants are able to default on payments without being penalized.

The City's Probation Department should implement an effective method of tracking missed payments and the Chief Probation Officer should review all delinquencies and initial the report, signifying his review.

RECOMMENDATIONS (Continued)

10. Probation Department – System Passwords

The Department utilizes laser signatures on all checks that are printed and the signatures are password protected. However, Department personnel do not change passwords on a regular basis such as monthly or quarterly.

Failure to change passwords allow for the security of the system to become compromised.

Department personnel should change system passwords on a quarterly or monthly basis to ensure appropriate security of the signatures.

11. Probation Department – System Implementation

The Department is in the process of implementing a new software program. This program will produce checks payable to the Victim entitled to restitution. However, the system is not yet functioning, halting restitution payments to the Victims. Victims have not received payments since June due to the inability of the system to fully function.

The new software program is not yet fully functioning, halting restitution payments to victims.

The Department should implement the new software program immediately in order to provide victims with the restitution they are entitled to receive.

12. Probation Department – Required Restitution Folder Documentation

According to the Portsmouth Municipal Court Probation Department Employee handbook, all restitution folders should have at least the restitution payment record sheet, restitution agreement signed by the defendant, copy of case ordering restitution, and the victim information from the court case.

Several restitution folders did not contain all records required according to the Portsmouth Municipal Court Probation Department Employee handbook. This missing documentation could potential lead to errors in the disbursement process.

The Department should ensure that all required documentation is placed in the restitution folders.

This report is intended solely for the information and use of management, members of City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Caudill & Associates, CPAs

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June 22, 2007