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MANAGEMENT LETTER

City of Belpre
Washington County
P.O. Box 160
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To the City Council:

We have audited the financial statements of the City of Belpre, Washington County, Ohio (the City), in accordance with *Government Auditing Standards*, as of and for the year ended December 31, 2018, and have issued our report thereon dated November 27, 2019.

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 27, 2019, for the year ended December 31, 2018.

We are also submitting the following comments for your consideration regarding the City's compliance with applicable laws, regulations, grant agreements, contract provisions, 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 City 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.

Noncompliance Findings

1. **Ohio Rev. Code § 135.182(M)** provides, in part, that the Treasurer of State may adopt rules necessary for the implementation of § 135.182 which establishes the Ohio Pooled Collateral Program (OPCP) under the Treasurer of State.

As defined in Ohio Admin. Code 113-40-01(17), a set of operational procedures, policies, and requirements for the use of Ohio Pooled Collateral System (OPCS) have been made available by the Treasurer of State. All participation in OPCP and use of OPCS shall be subject to the operating policies, maintained at the sole discretion of the Treasurer of State. Page 27 of those operating policies indicates: "PUs (Public Units or governments) are responsible for reviewing the reports posted on OPCS related to their deposits of public funds and for verifying the accuracy of the daily reports of their itemized deposits. PUs must report any discrepancies on their deposit accounts to their FIs (Financial Institutions). PUs shall inform their FIs of a significant change in the amount or activity of its deposits within a reasonable time before the change occurs. FIs may notify the Treasurer's Office if a PU repeatedly fails to inform them of a significant change in the amount or activity in deposits."

**Noncompliance Findings
(Continued)**

1. Ohio Rev. Code § 135.182(M)(Continued)

City of Belpre's financial institutions maintained insufficient collateral over the City's deposits for twelve days during 2018. The City Auditor did not contact the financial institutions to make them aware of the overage. Failure to contact the bank could result in under-collateralization.

The City Auditor should monitor balances and the Ohio Pooled Collateral System and contact the applicable financial institutions when the banks collateral balance is insufficient.

2. Ohio Rev. Code § 2981.13(C)(3) provides that any municipal corporation police department that receives amounts from property ordered forfeited during any calendar year shall file a report with the legislative authority of the municipal corporation not later than the thirty-first day of January of the next calendar year, verifying that the moneys were expended only for the purposes authorized by this section or other relevant statute and specifying the amounts expended for each authorized purpose.

The City's police department did not file a report with Council verifying that monies from the sale of forfeited property were expended only for the purposes authorized under the law. This could result in questions about the proper use of this funding source.

The Police Department should file the required report with Council, timely, for each year in which it receives amounts for property ordered forfeited.

3. Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing authority 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 is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There 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 Ohio Rev. Code §§ 5705.41(D)(1) and 5705.41(D)(3), respectively:

Then and Now Certificate – If the Fiscal Officer can certify that both at the time 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, properly appropriated and free from any encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance. Amounts of less than \$3,000, may be paid by the Fiscal Officer without a resolution or ordinance of the City 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 City.

Blanket Certificate – 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 time for any one particular line item appropriation.

**Noncompliance Findings
(Continued)**

3. Ohio Rev. Code § 5705.41(D)(1)(Continued)

Super Blanket Certificate – The City may also 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 current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During our testing for unrecorded encumbrances at December 31, 2018, we noted one instance (of five tested) where the certification date was after the vendor invoice date and there was no evidence that a Then and Now Certificate was issued. 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 ensure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, the City Auditor should certify that funds are or will be available prior to obligations being incurred by the City. When prior certification is not possible, "then and now" certificates should be used. City Council should establish an amount by resolution for blanket certificates. The City should certify purchases to which Ohio Rev. Code § 5705.41(D) applies.

Recommendations

1. Budgetary Amounts in the Accounting System

Sound accounting practices require accurately posting estimated receipts and appropriations to the ledgers to provide information for budget versus actual comparison and to allow the Council to make informed decisions regarding budgetary matters.

The appropriation resolution and subsequent amendments establish the legal spending authority of the City and the appropriation ledger provides the process by which the City controls spending. It is therefore necessary the amounts appropriated by the Council are precisely stated and accurately posted to the appropriation ledger.

The original certificate and amendments establish the amounts available for expenditures for the City and the receipts ledger provides the process by which the City controls what is available, it is therefore necessary the amounts estimated by the County Budget Commission are posted accurately to the receipts ledger.

At December 31, 2018, estimated receipts, as posted to the accounting system, differed from the amounts approved as follows:

| Fund | Estimated Receipts as Approved | Estimated Receipts as Posted | Posted Over(Under) Approved |
|---------------|--------------------------------|------------------------------|-----------------------------|
| General Fund | 3,174,975 | 3,183,728 | 8,753 |
| Street Fund | 388,000 | 384,000 | (4,000) |
| EMS Levy Fund | 210,000 | 200,000 | (10,000) |
| Sewer Fund | 1,604,000 | 1,852,000 | 248,000 |

**Recommendations
(Continued)**

1. Budgetary Amounts in the Accounting System (Continued)

Also at December 31, 2018, appropriations, as posted to the accounting system, differed from the amounts approved by the Council as follows:

| Fund | Current Year Appropriations as Approved | Current Year Appropriations as Posted | Posted Over(Under) Approved |
|------------|---|---|-----------------------------------|
| Water Fund | 804,008 | 768,824 | (35,184) |

The City did not have procedures in place to ensure accurate posting of the authorized budgetary measures to the accounting system. The appropriations approved by Council were not properly posted to the accounting system. Additionally, the approved Certificate of Estimated Resources and amendments thereof was not posted to the accounting system.

Failure to accurately post the appropriations and estimated resources to the ledgers could result in overspending and negative cash balances.

To effectively control the budgetary cycle and to maintain accountability over receipts and expenditures, the City should post to the ledgers, on a timely basis, estimated resources as certified by the budget commission and appropriations approved by the Council. The City should then monitor budget versus actual reports to help ensure amended certificates of resources and appropriations have been properly posted to the ledgers.

2. Bank Reconciliations

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) to the accounting system is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

The City Auditor is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis, and the Council is responsible for reviewing the reconciliations and related support.

The City's bank reconciliation contained minimal unknown reconciling items. Failure to reconcile monthly increases the possibility that the City will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

**Recommendations
(Continued)**

2. Bank Reconciliations (Continued)

The City Auditor should ensure the City has recorded all transactions and prepare monthly bank to book cash reconciliations, which include all bank accounts and all fund balances. Variances should be investigated, documented and corrected. In addition, the Council should review the monthly cash reconciliations including the related support (such as reconciling items) and document the reviews.

3. Mayor's Court Segregation of Duties

Management is responsible for designing and implementing internal control policies and procedures to reasonably ensure specific financial objectives will be achieved. A well-designed system of internal control will include monitoring of financial reports and information by management and City Council in order to compensate for any lack of segregation of duties.

The City's current procedures do not allow for adequate segregation of duties relating to the Mayor's Court. The Mayor's Court Clerk performed all duties of the Mayor's Court including record keeping, authorizing, asset custody, and reconciling without any established compensating controls that would prevent or detect errors. Failure to adequately monitor the activities of the City by management and City Council could result in errors or irregularities to occur and remain undetected.

Management and City Council should establish procedures and become more actively involved in monitoring Mayor's Court activity at the City. Further, the City Council and management should implement segregation of duties between employees relating to Mayor's Court to the extent possible.

We intend this report for the information and use of the City Council and management.



Keith Faber
Auditor of State
Columbus, Ohio

November 27, 2019