



Auditor of State
Betty Montgomery

CITY OF MONROE

PERFORMANCE AUDIT

AUGUST 4, 2005



**Auditor of State
Betty Montgomery**

To the Citizens of the City of Monroe:

On August 12, 2004, the Auditor of State released a Fiscal Emergency Analysis, pursuant to Ohio Revised Code (ORC) §118.03, declaring the City of Monroe in fiscal emergency. This analysis indicated that a fiscal emergency existed as defined in ORC § 118.03 (A)(5) and (6) and § 118.03 (B). The fiscal emergency declaration resulted from aggregate fund deficits totaling \$4,684,977 as of April 30, 2004. ORC §118.023 permits the Auditor of State's Office to conduct a performance audit of municipalities in fiscal emergency.

The performance audit contains assessments of the following areas: financial systems, human resources, and operations. The information contained within the report is intended to assist the City in identifying cost savings, revenue enhancements, and efficiency improvements. The City is also encouraged to continue to assess overall operations and develop other recommendations independent of this performance audit.

An executive summary has been prepared which includes the project history, objectives and scope, and methodology of the performance audit. The executive summary also includes a summary of significant findings and financial implications. This report has been provided to the City of Monroe and its contents have been discussed with members of City Council, the City Manager, and appropriate department management personnel. The City has been encouraged to use the results of the performance audit as a resource in improving its overall operations, service delivery, and financial stability.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this performance audit is accessible online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 4, 2005

Executive Summary

Project History

As provided by the Ohio Revised Code (ORC) § 118.04(A), the Mayor of the City of Monroe requested that a fiscal analysis be performed by the Auditor of State's Office (AOS) on December 31, 2003. This analysis indicated that a fiscal emergency existed as defined in ORC § 118.03(A)(5) and (6) and § 118.03(B). AOS placed the City of Monroe (Monroe) in fiscal emergency on August 12, 2004. To assist entities in improving their financial condition and in being removed from fiscal emergency status, ORC § 118.023 permits AOS to provide technical and support services to municipalities in fiscal emergency. In accordance with this authority, a performance audit was initiated on City of Monroe.

Based on AOS research and discussions with City officials, the following were identified as areas for study in the performance audit:

- Financial Systems and the Finance Department;
- Human Resources; and
- Operations:
 - The Police Department,
 - The Fire Department,
 - The Street Department,
 - The Income Tax Department,
 - Economic Development,
 - The Water Department, and
 - The Mayor's Court.

On October 17, 2004, AOS staff began fieldwork for the performance audit in the City of Monroe.

City of Monroe Overview

The City of Monroe is located in the southwestern part of the state, situated 20 miles north of Cincinnati and 30 miles south of Dayton. The City overlaps two counties: Butler and Warren. However, Monroe is primarily located in Butler County. The City is located near Interstate 75 and State Routes 63 and 4. Monroe first achieved city status in 1995 when its population exceeded 5,000 residents. In 2000, the City's population had grown to 7,133 and in 2003, its

population was estimated at 8,821 which is a 23 percent increase in population over the three-year period. The Ohio Department of Development is projecting Butler County's population to grow by 10 percent between 2000 and 2010.

In 2005, the unemployment rate for Butler County was six-tenths of a percent lower than the state average and the percent living in poverty was about 2 percent lower than the state average. Monroe's median household income in 2000 was \$56,012, which is higher than Butler County (\$47,885) and the national average (\$41,994). The majority of the industry base reported in the 2000 Census included management, professional, sales and office occupations. Monroe has a 1 percent municipal income tax which accounted for 62 percent of the City's General Fund revenues in 2004.

Monroe is a Charter City with a Council-Manager form of government. All legislative power is vested in a seven member council. The council appoints a City Manager who is responsible for the administration of all City affairs as well as the supervision of all City departments.

Although the City has experienced a high rate of growth, prior financial management problems caused the City to be placed in fiscal emergency. The City requested an AOS review of its financial circumstances in December 2003. The analysis identified that as of April 30, 2004, the City of Monroe was carrying deficits totaling \$4,684,977 in nine funds. Upon the AOS declaration of fiscal emergency, a Financial Planning and Supervision Commission (Commission) was established. The Commission consists of seven voting members and one of its responsibilities, as defined in ORC § 118.07 (A) (12), is to make recommendations for cost reductions or revenue increases to achieve balanced budgets and carry out the City's financial plan. A financial recovery plan was developed by the City and submitted to the Commission and AOS on March 14, 2005 to resolve the City's deficit funds through a combination of continued growth and a series of income and property tax initiatives. The City has developed and implemented a growth plan targeting 60 percent of the total land area for industrial and commercial uses, and assumes revenue will grow incrementally to reduce the reliance on future taxes.

However, the City has implemented tight spending controls in all departments and may not be adequately addressing some public safety and infrastructure needs. Likewise, although the plan contains assurances that the City will not fill vacancies, Monroe may not be adhering to these assurances in all areas and may not have fully anticipated the limited sustainability of its current staffing levels. This audit contains several recommendations for operational enhancements but few identified potential cost savings because of the leanness of current operations.

Objectives

A performance audit is defined as a systematic and objective assessment of the performance of an organization, program, function or activity to develop findings, recommendations and conclusions. The overall objective of the performance audit is to assist the City in identifying strategies for eliminating the conditions that brought about the fiscal emergency declaration. The following assessments were conducted in this performance audit:

- Financial Systems, including forecasting, budgeting, accounting methods, purchasing processes, finance department staffing, and a review of Council’s finance and audit committees;
- Human Resources, including the City’s organizational structure and staffing levels, salary and compensation levels, benefits, personnel policies and procedures, and labor agreements; and
- Operations, which included:
 - Police Department staffing, expenditures, reporting relationships, service levels, vehicle maintenance, and the contractual agreement with Lemon Township;
 - Fire Department staffing, service levels, expenditures, fee schedules, vehicle maintenance, grants, and the contractual agreement with Lemon Township;
 - Street Department policies and procedures, record keeping, street maintenance methods, snow and ice control functions, preventative maintenance, and capital planning;
 - Income Tax Department policies and procedures, internal controls, records maintenance, collection practices, and use of technology; and
 - Mayor’s Court revenues and operating costs.

In addition to the above, a high level assessment was conducted of the revenues and operating expenditures of the Water Department to ensure that the Water Fund and the Storm Water Fund were operating without financial support from the City’s General Fund. Since Monroe does not receive any community development block grants, a high level review was conducted to assess the effectiveness and efficiency of its current economic development practices. Initial assessments indicated that these areas were operating within expected or best practice parameters and they were therefore excluded from the report.

The performance audit was designed to develop recommendations that provide cost savings, revenue enhancements, and/or efficiency improvements. The recommendations comprise options

that the City can consider in the continuing effort to stabilize its financial condition while ensuring the continuity of services.

Scope and Methodology

The performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. However, because AOS may also act as fiscal supervisor for entities in fiscal emergency and may make management decisions to assist the City in resolving the current financial condition in violation of government auditing independence standards (GAGAS 3.14), AOS may have an impairment to independence in providing technical assistance to Monroe through this performance audit.

Audit work was conducted between October 17, 2004 and March 2, 2005, and data was drawn from fiscal years 2002, 2003, 2004, and 2005. To complete this report, the auditors gathered a significant amount of data pertaining to the City, conducted interviews with numerous individuals associated internally and externally with the various departments, and reviewed and assessed available information. Furthermore, periodic status meetings were held throughout the engagement to inform the City of key issues impacting selected areas, and share proposed recommendations to improve or enhance operations. Finally, the City provided written comments in response to various recommendations, which were taken into consideration during the reporting process.

In addition, several cities were selected to provide benchmark comparisons for the areas assessed in the performance audit. The cities of Harrison and Springdale (Hamilton County), and Tipp City (Miami County) were used as peers in the performance audit. These cities were selected based upon demographic and operational data. Furthermore, external organizations and sources were used to provide comparative information and benchmarks, including the Government Finance Officer's Association, the American Public Works Association, the State Employment Relations Board, the Ohio Municipal League, the United States Department of Justice, and the International City Managers Association.

The Auditor of State and staff express appreciation to the City of Monroe, the City of Harrison, the City of Springdale, and Tipp City for their cooperation and assistance throughout this audit.

Noteworthy Accomplishments

This section of the executive summary highlights specific City of Monroe accomplishments identified throughout the course of the audit. The key accomplishments are summarized below and all are detailed in their respective sections:

- The City of Monroe engaged the community in its deficit reduction efforts through the use of its web site to disseminate financial information.
- The City has maintained service levels to its residents while reducing the size of its workforce. It has also taken steps to negotiate zero percent pay increases and reduce health insurance costs through employee cost sharing, limiting coverage to single plans for elected positions and reducing its base plan benefits and permitting employees to “buy up” to higher benefit levels. The City, International Firefighters Association (IFFA), Fraternal Order of Police (FOP) and Teamsters have worked closely to minimize costs to City residents while preserving the employee base.
- The Police Department has taken steps to decentralize the chain of command to better serve the growing population of the City. The Department also uses auxiliary (volunteer) officers to support full and part-time officers and augment staffing levels through a low-cost method. Overtime expenses have been reduced by limiting patrol manpower in non-peak times based on a two year history of call activity. Lastly, the Police Department actively seeks grant revenues, recently bringing in an \$8,000 DARE grant, and has coordinated training through the Fire Department.
- The National Insurance Services Office recently rated fire suppression services provided by Monroe Fire Department with a 4 on a 1-10 scale (one being best). Only 15 percent of Ohio communities received a rating of 4 or better. ISO rankings directly impact property and casualty premium rates charged in a community. The Fire Department actively gathers, organizes, analyzes, and uses management data to enhance operations and reduce costs. The collection rate for billing its EMS services is significantly higher than industry averages, signaling the department and its vendor are aggressively working to recoup costs. Also, the Department recently adopted the practice of sending a small support vehicle along with the ambulance on emergency runs instead of a fire truck to reduce maintenance costs and delay replacement costs for the larger vehicles. Lastly, the Fire Department recently renegotiated its service contract with Lemon Township to better recoup the costs of service to the Township.
- In 2003, the City of Monroe Streets Department started using the byproduct from the water plant as a pretreatment for the roads. This brine solution has a 22 percent salt content and it is now used to coat the roads before a snow fall to prevent freezing. This eliminates the need for the City to purchase other pretreatment supplies. The City of Monroe also started cross-training employees from the Water and Street Departments, and has begun making some of its own equipment in order to reduce the cost of purchasing needed materials. Finally, Members of the Department and City Council have demonstrated exceptional cooperation during the heavy snow fall in the winter of 2004-2005. To provide MSD snowplow drivers

with rest periods, City Council members who held commercial drivers licenses worked plowing shifts.

- The City's income tax ordinance contains provisions which facilitate the identification of additional taxpayers. The ordinance requires contractors and rental property owners to submit employee and/or rental residence listings to the Monroe Income Tax Department. This requirement empowers the MITD to gain helpful information and helps maximize its efforts to identify additional taxpayers.
- The Clerk of the Mayor's Court has implemented improvements in the Court's filing system and initiated computerized reconciliations. The Clerk also improved spreadsheets already in use to better track data collected by the court.

Conclusions and Key Recommendations

In response to the City's financial status, city administrators developed a two-year financial plan on August 12, 2003. This plan outlined steps to reduce costs, including a reduction in the workforce. After being placed in fiscal emergency on August 12, 2004, the City developed a financial recovery plan which was approved by the City of Monroe Financial Planning and Supervision Commission on March 14, 2005. The City had a projected positive General Fund balance at the time of the fiscal emergency analysis; however, it had nine funds with projected deficit ending fund balances. The financial recovery plan outlines the steps the City will take to increase revenues while keeping overall expenditures at a minimal 2 percent annual growth. Voters approved a replacement 2 mill fire levy on May 3, 2005, which will generate approximately \$530,000 for fire operations. In addition, the City will seek a 0.5 percent increase in the City's income tax rate in November, 2005, which will generate approximately \$1.5 million to be used for deficit reduction.

The performance audit found that overall Monroe's departments were operating in an efficient manner. Staffing levels citywide were found to be at or below those of the peers and the City had already implemented steps to reduce health care costs. A review of historical expenditures demonstrated that the City has made efforts to reduce costs city-wide. The primary areas for improvement identified in this performance audit revolve around the City's internal controls, policies and procedures, and the need for improved budgeting, forecasting, and accounting methods. There are opportunities for increased efficiencies through the elimination of the Mayor's Court and combining vehicle maintenance for all of the City's fleet.

The performance audit contains several recommendations pertaining to the City of Monroe. The most significant recommendations are discussed below.

In the area of financial systems, the City should consider the following:

- **Implement a five-year financial plan that would forecast future revenues and expenditures, and enable the City to identify financial trends and consider the future consequences of current decisions.**
- **Enhance its budgeting process to ensure that expenditures do not exceed estimated revenues. City Council should not approve budgetary measures that might negatively affect the City's financial position.**
- **Actively involve department heads in the decision making-process regarding the financial position of their respective departments. Providing monthly financial position reports to department heads will encourage participation in the financial planning and decision-making process.**
- **Improve data collection and reporting processes by focusing on results (outcomes) rather than costs. In addition, the City should begin reporting the productivity and results for each department and program to its citizens.**
- **Ensure that prior years' financial audit comments are promptly resolved. Resolving financial audit management letter comments will help the City ensure that it is following prudent financial practices on a day-to-day basis.**

In the area of Human Resources, the City should consider the following:

- **Consider increasing staffing levels as determined by the City Manager based on input from departmental administrators. The ability to acquire additional human capital is important to maintain or increase effectiveness, avoid decreases in employee morale, and maintain service levels to a growing population.**
- **Control and limit salary increases in future contract negotiations, particularly since the potential cost savings resulting from performance audit recommendations may not fully offset future projected deficits. The City should seek to hold step increases flat in FY 2006 for both bargaining and non-bargaining unit employees and equitably administer any cost of living adjustments (COLAs) determined to be affordable, based on an annual review of financial conditions. The City should seek agreement from all bargaining units to make decisions regarding all wage increases based on fiscal stability.**

In City Operations, Monroe should consider the following:

- **Develop standard operating procedures for each department and function.**
- **Prioritize restoring police patrol resources. In the short-term, it should consider expanding the use of part-time officers as the most cost-effective means to recover this manpower.**
- **Renegotiate the contract with Lemon Township to better capture the cost of providing police services to township residents.**
- **Begin charging insurance companies for material non-EMS costs involving auto accidents. Similarly, the Department should institute fees for multiple false alarms.**
- **Implement a centralized garage to maintain all City vehicles, including police and fire vehicles. Centralizing this function will allow the City to establish consistent guidelines for maintenance and reduce costs through economies of scale.**
- **Ensure that the employees of the Income Tax Department receive the proper training on the City's income tax software.**
- **Discontinue the operations of the Mayor's Court and submit a courtesy letter of intention to disband the court to the Ohio Supreme Court. The City could then approach the Municipal Courts in Butler County and Warren County to process its cases.**

Assessments Not Yielding Recommendations

In addition to the analyses presented in this report, assessments were conducted on several other areas of Monroe operations that did not warrant recommendations. These assessments did not warrant recommendations because Monroe was performing at a level comparable to the peers or industry standards. Additional detail is presented in each section of the report.

- Several human resources management areas were examined that yielded no recommendations including compensation levels on a general and specific job function basis, workers compensation costs, fringe benefits management, overtime use, and key contractual terms like the classifications recognized, the probationary period, overtime rates, and sick and vacation leave accrual rates.
- In the area of operations, Monroe offers comparable services in most areas and does not offer services that would be categorized as exceptional. Like several of the peer cities, certain

functions are outsourced to reduce costs. The City does not operate a jail, which also reduces police costs. Fire Department staffing is adequate to meet minimum standards. The City is in the process of contracting with CDS Associates, Inc. to develop a pavement management plan to help address street maintenance and replacement. The Income Tax department has addressed internal control issues and maintains tax records in an appropriate manner. Collection practices are also in line with recommended practices.

Issues for Further Study

Auditing Standards require the disclosure of significant issues identified during an audit that were not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or the resources to pursue. AOS has identified the following such issues.

- MPD is not CALEA accredited and the chief has noted that the expense involved would not likely be offset by the benefits of accreditation for a department of Monroe's size. However, the CALEA standards offer direction to growing departments and MPD should consider using the standards as a model to increase the levels of performance and standardization within the Department as City finances improve. Also, some risk management organizations are offering discounts to member cities who are CALEA certified.
- MPD discontinued community based policing because of the City's current financial condition as well as the low staffing levels and high service ratios within the Department. As the City's finances improve, MPD should study the feasibility of implementing community based policing, particularly in identified high crime areas.
- The City should monitor its growth rate in relationship to staffing levels within the Fire Department. On an annual basis, or when deemed appropriate, MFD should evaluate its ability to respond to the increasing demands for its services in relation to manpower levels within the Department. It should use benchmark data to determine if the staff levels are appropriate to address the demand for services.

The Harrison and Springdale Fire departments, Tipp City EMS, and the Monroe Police Department, make substantial use of part-time staff to help supplement the full-time work force. As the Department considers the integration of part-time employees into the Fire Department, it must consider the strategic management issues related to their appropriate deployment, training and development requirements and needed core competencies, and recruiting strategies.

- Total expenditures for street sweeping are approximately \$1,000. Streets are only cleaned one time per year using a pick up truck with an attached *Sweepster* that has seven rotating heads. It takes one man approximately two months to sweep all roads in the City limits. The American Public Works Association's best management practices recommend that cities possess a comprehensive and integrated street cleaning plan. The quality of services should be defined by frequency and methods that best meet the needs and goals of the community. Although Monroe does not expend significant amounts for street sweeping, it is an important component of street maintenance. The City should consider development of a plan that sets goals for this service and describes how it will be provided.
- The Public Works Superintendent oversees both the Water and Street Departments. With overlapping functions, some confusion exists in terms of reporting relationships and the delineation of duties between the departments. The City should investigate the feasibility of establishing a fully combined Public Works Department. This may enable the use of its staff to the fullest advantage, especially in times of low staffing numbers. The Superintendent has begun to cross train the staff in these two Departments in order to maximize staff time in completing work projects.
- The City of Monroe is projecting continued growth and has given consideration to future development which includes entertainment establishments such as the Wild Creek Development. While the City's current tax ordinance appears to be adequate, it may want to consider additional revenue options if the proposed development comes to fruition. The City of Springdale has imposed a Cinema Admission Tax and an Entertainment Admission Tax to increase its revenues. As the City of Monroe grows, its officials should periodically review and amend, with voter approval, the tax ordinance to enhance future revenues. These taxes would increase revenues that could be used by the City to meet increasing costs associated with new development and the associated increases in service levels.

Summary of Financial Implications

The following table summarizes the performance audit recommendations that contain financial implications. These recommendations provide a series of ideas or suggestions that Monroe should consider. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

Table 1-1: Summary of Performance Audit Recommendations

Recommendation	Annual Revenue Enhancement	Annual Cost Savings	Annual Cost	One-time Costs
R2.1 Participation in training classes on financial planning and forecasting				\$990 - \$1,350
R2.2 Participation in education on budgeting processes			\$990 - \$1,350	
R2.5 Additional staffing in the Finance Department: <ul style="list-style-type: none"> • 1.0 FTE financial professional; • Elimination of consulting contracts • Reduce staff overtime 		\$17,000 \$18,000	\$66,000	
R2.8 Contract with a professional organization to prepare a formal study of indirect costs			\$8,000 - \$15,000	
R4.1 Hire additional police captain			\$71,500	
R4.2 Hire 7.5 FTEs in part time police personnel			\$250,000	
R4.3 Implement replacement plan for fleet.			\$80,000	
R4.4 Renegotiate contract with Lemon Township to better capture the cost of providing police services	\$240,000			
R4.6 Charge insurance companies for material non-EMS costs involving auto accidents	\$20,000			
R4.10 Implement a centralized garage <ul style="list-style-type: none"> • Hire a certified mechanic; • Purchase a lift 		\$54,000	\$49,000	\$31,000
R4.14 Disband Mayor's Court ¹		\$83,000		
Total Recommendations Not Subject to Negotiations	\$260,000	\$172,000	\$525,490 - \$532,850	\$31,990 - \$32,350
R3.3 Require employee premium contributions of at least 10.0 percent for Police Department employees		\$9,000		
Total Recommendations Subject to Negotiations		\$9,000		
Total Recommendations	\$260,000	\$181,000	\$525,490 - \$532,850	\$31,990 - \$32,350

Source: Financial implications identified throughout this performance audit

¹ The annual saving from disbanding the Mayor's Court would be approximately \$38,000 for FY 2005 if the Court was closed for the last half of the year. The annual savings shown in the table would be for FY 2006.

Comparative Statistics

Table 1-2 displays demographic statistics and ratios for Monroe and the three cities used as peers in this performance audit.

Table 1-2: Demographic Statistics and Ratios

	Monroe	Harrison	Springdale	Tipp City	Peer Average
2000 Population	7,133	7,487	10,563	9,221	9,090
2003 Population Estimates	8,821	7,478	10,129	9,285	8,964
Total Area (square miles)	15.5	3.7	5.0	6.2	4.97
Median Household Income	\$56,012	\$46,107	\$44,732	\$48,675	\$46,505
Population Below the Poverty Line	1.9%	6.8%	8.9%	5.2%	7.0%
Unemployed	1.5%	2.3%	2.9%	1.4%	2.2%
Housing Status					
% Owner	79.4%	72.0%	60.4%	66.1%	66.2%
% Renter	20.6%	28.0%	39.6%	33.9%	33.8%
Housing Occupancy Status	95.1%	95.4%	96.0%	95.6%	95.7%
% High School Graduate or Higher	90.9%	78.0%	85.7%	89.4%	84.4%
Industry Percent of Workforce					
Management/Professional	34.1%	25.5%	38.7%	34.6%	32.9%
Service	7.5%	17.2%	12.5%	11.2%	13.6%
Sales/Office	29.0%	31.7%	26.6%	28.1%	28.8%
Construction	12.7%	11.2%	5.8%	6.2%	7.7%
Production/Transportation/Material Moving	16.7%	14.3%	15.7%	19.8%	16.6%
Farming/Fishing/Forestry	0.0%	0.0%	0.6%	0.2%	0.3%

Source: US Census Bureau, Census 2000 and the Ohio Dept of Development 2003 Population Estimates

Table 1-2 demonstrates that Monroe is experiencing growth in its population that is above the rate of the peer cities. It should also be noted that there are differences in the operational structures and services provided by each city. For example, Tipp City has separate departments for fire services and emergency medical services (EMS), and its fire department is staffed primarily with volunteers. By comparison, Monroe has a combined Fire and EMS department and is the only city in this report that exclusively uses full time city employees to provide these services. To the best extent possible, the differences between the cities were factored into the analysis to ensure a fair and reasonable comparison, and to ensure that the recommendations were reasonable options for the City of Monroe.

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Financial Systems

Background

This section of the report examines the City of Monroe's (the City) financial management practices. Best and recommended practices are drawn from the Government Finance Officers Association (GFOA), the National Advisory Council on State and Local (NACSLB), and other organizations.

As provided by Ohio Revised Code (ORC) § 118.04 (A), the Auditor of State (AOS) performed a fiscal analysis of the City of Monroe, Butler County, as requested by the Mayor on December 31, 2003. The purpose of the analysis was to determine if the financial condition of the City justified the declaration of fiscal emergency. The City was placed in fiscal emergency under ORC § 118.03 due to year-end (December 31, 2003) and continuing (April 30, 2004) conditions at the time of the analysis as follows:

- Substantial deficit balances in city funds; and
- A sizeable deficiency in the city's treasury balance when compared to the positive cash balances of the city's funds.

In past years, the City's various funds have experienced operating deficits, meaning that expenditures have exceeded available resources, and the City has transferred moneys from other funds to cover the various deficits. On December 31, 2003, the City had seven funds with deficit fund balances totaling \$1,515,877. By April 30, 2004, these deficits had increased to nine funds with a deficit totaling \$4,684,977. The General Fund did not have sufficient revenues to cover the deficit funds.

Recent investigations by the City Manager showed that City Council did not receive copies of the annual audits and management letters, which discussed a number of issues of concern, and are highlighted in the background section of this report. The Mayor asked AOS to determine the extent of the City financial problems. On August 12, 2004, AOS declared the City of Monroe to be in fiscal emergency.

Although the declaration of fiscal emergency is based on the City's financial condition, administrative inefficiencies in internal controls and oversight caused the conditions that precipitated the deficit. In recent financial audits, the City was cited for accounting practices that could contribute to the current financial condition. These include:

- Appropriating amounts in excess of estimated resources;
- Having expenditures and encumbrances in excess of appropriations at the end of the year;
- Operating with deficit balances;
- Establishing financial duties without appropriate segregation;
- Certifying the availability of funds after the obligation was incurred;
- Using then-and-now and blanket purchase orders in an excessive and/or incorrect manner; and
- Developing budgetary information without sufficient detail to help in monitoring the financial activities of the City.

City administration presented a two-year financial plan to City Council on August 12, 2003, outlining the savings measures implemented March 2003 and in the 2004 budget reduction plan. Additional efforts have been made to resolve the City's financial condition. However, many of the oversight and reporting practices that may have led to the deficit situation remain unresolved.

Financial Recovery Plan

Table 2-1 presents the City's five-year recovery plan for the General Fund, developed by the City Manager and the Director of Development who was acting Finance Director, and approved by the City Council. One year of actual amounts and one year of budgeted amounts was used as the basis for the five-year recovery plan. General assumptions and explanatory comments accompany the projections. Due to extensive changes in the chart of accounts and cost savings implemented in 2003 and 2004, the City used the 2005 budget as a basis for the five-year recovery plan. The financial recovery plan in **Table 2-1** presents the expected revenues, expenditures and fund balances in the General Fund for each of the calendar years January 1, 2006 through December 31, 2010, with historical information presented for the year ended December 31, 2004.

Table 2-1: City of Monroe Recovery Plan (General Fund)

	Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	2004	2005	2006	2007	2008	2009	2010
Property Tax	\$539,490	\$555,675	\$711,242	\$629,579	\$648,467	\$713,313	\$734,713
Income Tax	\$2,875,287	\$3,019,051	\$3,319,051	\$3,619,051	\$3,919,051	\$4,219,051	\$4,519,051
Charges for Services	\$206,032	\$170,000	\$173,400	\$176,868	\$180,405	\$184,013	\$187,694
Fines, Licenses, Permits	\$454,564	\$610,000	\$622,200	\$634,644	\$647,337	\$660,284	\$673,489
Inter-governmental	\$518,425	\$533,627	\$533,627	\$533,627	\$533,627	\$533,627	\$533,627
Interest	\$35,480	\$30,000	\$30,600	\$31,212	\$31,836	\$32,473	\$33,122
Other	\$21,532	\$215,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
Total Revenues	\$4,650,810	\$5,133,353	\$5,420,120	\$5,654,981	\$5,990,723	\$6,372,761	\$6,711,696
Personal Services	\$4,427,013	\$4,734,434	\$4,854,606	\$4,948,315	\$5,041,182	\$5,134,075	\$5,226,993
Materials and Supplies	\$28,532	\$37,000	\$37,740	\$38,495	\$39,265	\$40,050	\$40,851
Contractual Services	\$702,993	\$817,900	\$831,378	\$845,136	\$859,180	\$873,516	\$888,150
Capital Outlay	\$17,869	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Other	\$183,323	\$121,000	\$121,000	\$121,000	\$121,000	\$121,000	\$121,000
Non-Departmental Accounts	\$37,632	\$17,250	\$17,250	\$17,250	\$17,250	\$17,250	\$17,250
Total Expenditures	\$5,397,362	\$5,752,584	\$5,886,974	\$5,995,196	\$6,102,877	\$6,210,891	\$6,319,244
Excess Revenues Over (Under) Expenditures	(\$746,552)	(\$619,231)	(\$466,854)	(\$340,215)	(\$112,154)	\$161,870	\$392,452
Transfers In	\$526,339	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000
Transfers Out	(\$76,183)	(\$177,644)	(\$753,271)	(\$744,268)	(\$744,783)	(\$716,937)	(\$718,922)
Total Other Financing Sources/Uses	\$450,156	\$997,356	\$421,729	\$430,732	\$430,217	\$458,063	\$456,078
Net Change in Fund Balance	(\$296,396)	\$378,125	(\$45,125)	\$90,517	\$318,063	\$619,933	\$848,530
Beginning General Fund Balance	\$796,396	\$500,000	\$878,125	\$833,000	\$923,517	\$1,241,580	\$1,861,513
Ending General Fund Balance	\$500,000	\$878,125	\$833,000	\$923,517	\$1,241,580	\$1,861,513	\$2,710,043
General Fund Carryover	\$0	\$0	(\$500,000)	\$0	\$0	\$0	\$0
0.6 Inside Millage	\$0	\$0	\$150,000	\$154,500	\$159,135	\$175,049	\$180,300
Effect of Inside Millage & Carryover	\$500,000	\$878,125	\$483,000	\$728,017	\$1,205,215	\$2,000,197	\$3,029,027

Source: City of Monroe Recovery Plan, March 14, 2005

Note: Total cumulative effect of millage and carryover are calculated by adding total cumulative balance in the prior year, plus net change in fund balance, plus collection of inside millage. The General Fund carryover remains the same throughout the forecast period.

Table 2-2 is a summary of the City's deficit funds for each year as well as potential new revenue the City plans to employ in order to recover from fiscal emergency. These deficits must be eliminated in order for the City to recover from fiscal emergency. The deficits and new sources of revenues are drawn directly from the City's recovery plan and subsequent events.

Table 2-2: Analysis of Deficit Funds

	Actual 2004	Budget 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010
Fund	Ending Fund Balance	Change in Fund Balance	Change in Fund Balance	Change in Fund Balance	Change in Fund Balance	Change in Fund Balance	Change in Fund Balance
Cumulative Effect of Deficit Funds		(\$1,923,418)	(\$1,911,655)	(\$356,281)	\$1,189,390	\$2,724,617	\$2,748,593
Police Operations & Maintenance	(\$376,287)	\$64,400	\$55,374	\$45,671	\$35,227	\$23,976	\$11,838
Capital Projects Fund	(\$179,995)	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service Fund	(\$1,367,136)	(\$52,637)	\$0	\$0	\$0	\$0	\$0
Total Deficit Funds	(\$1,923,418)	(\$1,911,655)	(\$1,856,281)	(\$310,610)	\$1,224,617	\$2,748,593	\$2,760,431
Additional 0.5% Income Tax			\$1,500,000	\$1,500,000	\$1,500,000		
Cumulative Effect of Income Tax	(\$1,923,418)	(\$1,911,655)	(\$356,281)	\$1,189,390	\$2,724,617	\$2,748,593	\$2,760,431
Fire Operations & Maintenance	(\$1,083,102)	\$70,960	\$51,096	\$40,795	\$30,025	\$18,751	\$6,935
Replacement 2 mill Fire Levy			\$530,000	\$530,000	\$530,000	\$530,000	\$530,000
Cumulative Effect of Replacement Levy	(\$1,083,102)	(\$1,012,142)	(\$431,046)	\$139,749	\$699,774	\$1,248,525	\$1,785,460

Source: City of Monroe Recovery Plan, March 14, 2005

Often, differences between projected and actual results occur because circumstances and conditions that are assumed in projections do not occur as expected. The following assumptions are based on information obtained from the City of Monroe through its recovery plan, and interviews with the City Manager and Director of Development.

Revenues

- **Property Tax:** Assessed valuation will grow at the annual rate of 3 percent, except for the triennial and sexennial updates. The triennial update in 2006 and the sexennial update in 2009 are forecasted to increase by 10 percent. The Butler County Auditor bases the estimated increases on an historical analysis of the past 8 years.

The City has a high property tax delinquency rate (about 24 percent) and is aggressively pursuing collections of the delinquencies. The City estimates about \$700,000 in delinquencies and anticipates collections of approximately \$100,000 for 2006 because several bankruptcies and sheriff auctions will be concluded.

- **Income Tax:** Income tax revenue projections are based on increases in wages and business income. These are forecasted to grow at an annual rate of \$300,000 per year beginning in 2006. The estimates are based on 9 years of historical data, a history of new jobs in the community, and an analysis of current undeveloped land and current zoning. The 2005 projection assumes a 5 percent increase over 2004 and does not include

\$250,000 collected in 2004 as a result of the 2003 income tax credit reduction that was later repealed by voters.

- **New Revenues:** Monroe will attempt to capture 0.60 inside millage, at an estimated increase in 2006 General Fund revenue of \$150,000 with annual increases of 3 percent and a 10 percent increase in 2009 due to the reappraisal year.

The City will place a 0.5 percent increase in the income tax on the November 2005 ballot. If passed, collections will begin in 2006 and the increase in income tax revenue will generate approximately \$1.5 million annually. The additional revenue will be used to eliminate fund deficits.

The City placed a 2 mill replacement fire levy on the ballot in May 2005, which was approved by the voters. The estimated proceeds for this levy are \$530,000 per year as shown in **Table 2-2** and it is for the exclusive use of fire operations and maintenance.

Monroe will encourage Lemon Township to pass a safety service levy to fund services provided by the City.

- **Reimbursement of Overhead Costs:** The General Fund is projected to receive reimbursements for overhead costs from the following funds:
 - Water Fund (\$200,000),
 - Sewer Fund (\$25,000),
 - Storm Water Management Fund (\$10,000);
 - Garbage Fund (\$5,000); and
 - Cemetery Fund (\$10,000).

The total estimated to be transferred to the General Fund from 2005 to 2010 is \$250,000 per year.

- **Other Revenues:** In 2005, the City sold a piece of land for \$215,000. Proceeds from the sale were placed in the General Fund.

Expenditures

- **Salaries and Wages:** Beginning in 2006, 3.0 percent annual increases are estimated for non-union and Public Works employees. The increases for the non-union employees must be approved by City Council. The contract with the Public Works employees expires in 2006. In 2005, the Fire Department agreed to no wage increases during the contract period or until fiscal conditions improve. The Police contract expires in June

2005 and negotiations are ongoing. The recovery plan assumes members of the Police Department bargaining unit will also agree to postpone wage increases.

The City filled the vacant Finance Director position in March 2005. No other planned or proposed staffing changes are included in the recovery plan. In addition, overtime expenses have been reduced by \$225,000 for 2005. The Fire, Police, and Public Works departments will ensure the decreased amounts are realized.

- **Employee Retirement and Insurance Benefits:** The City changed its policy from providing family coverage to providing only single coverage for elected officials and the Law Director. Health insurance is estimated to increase 20 percent each year. When the current contract expires, the City intends to pursue a lower rate.

The City's employees participate in the Ohio Public Employees Retirement System (OPERS), except police and fire employees who participate in the Ohio Police and Fire Pension Fund (OP&F) for retirement and disability benefits. The City contributes 13.55 percent and 19.5 percent, respectively, of the employees' salaries to OPERS and OP&F. A detailed discussion of benefits is found in the **human resources** section of the report

- **Contractual Services:** In 2005, the City budgeted for a reduction of 10 percent for non-personnel services except for utilities and fuel, which were budgeted to increase by 10 percent. For 2006 through 2010, the City forecasted a 2 percent annual increase except for utilities and fuel, which were forecasted to increase by 3 percent.
- **Supplies and Materials:** Expenditures in this line item are projected to increase by 2 percent throughout the forecast period.
- **Capital Outlay:** The City has a freeze on capital improvements for the forecast period with the exception of purchasing police cruisers each year, and, as monies are available, road repair.
- **Transfers In/Out:** Transfers out include the retirement of principle and encompass payments on debts owed by the City. The rate of payment is based on a schedule provided by the City's accounting department. The City transfers monies from the special revenue and enterprise funds into the General Fund to cover overhead expenses. **(See R2.9)**
- **Fund Balance:** In 2005, the City of Monroe forecasts a positive General Fund balance of approximately \$973,000. However, the General Fund has not been in a deficit position. The state of fiscal emergency was declared because other funds had deficit balances that could not be covered by the General Fund.

- **Additional Expenditure Reductions 2003-2004:** The City made substantial expenditure reductions in 2003 and 2004, which are shown in **Appendix A** of this section.

Summary of Operations

Sound financial management in the City is the responsibility of all City employees. Elected Council members and the Mayor are responsible for maintaining spending within available resources and adopting prudent, efficient practices to provide City services. According to the City of Monroe Charter, Section 8.05, the Finance Director performs the functions customarily performed by the auditor and treasurer under the general laws of Ohio. The Finance Director is responsible for keeping the books of the City, preparing accurate statements of moneys received and expended, and maintaining an inventory of all property owned by the City. At year-end, the Finance Director is required to audit the accounts of all departments within the City. The Finance Director prescribes the form of accounts and reports as well as the form and method of keeping accounts by all other departments. He or she can require that daily reports showing all money received and the disposition thereof, be made by each department and, subject to the powers and duties of AOS, has the right to inspect and revise all accounts. The Finance Director may not allow the amount set aside for any appropriation to be overdrawn, or the amount appropriated for one item of expense to be drawn upon for any other purpose. He or she also cannot allow a voucher to be paid unless sufficient funds are in the treasury in the fund upon which the voucher is drawn.

Monroe's Finance Department (Finance Department) is responsible for fiscal matters in the City. The Finance Department is made up of five sections: utility billing, income tax, purchasing, treasury, and accounting. General responsibilities include accounts payable and receivable, payroll, grant and project accounting, budgeting and financial monitoring, generally accepted accounting principles (GAAP) conversion (currently prepared by a consultant), and financial analyses. The Finance Department also keeps records of all moneys received and disbursed by the City. The treasury section is the custodian of all City monies. These monies are collected in a manner and place determined by the legislative authority and are paid out on warrants issued by the finance section. However, the maintenance of receipts and disbursements is not separate from the accounting function.

Noteworthy Accomplishments

- The City of Monroe has successfully used its website to disseminate information about its 2004 and 2005 budget and related discussions and plans. This is an excellent method for communicating with the public and generating interest in the City's financial condition.

Recommendations

R2.1 Council should require the development and implementation of a five-year financial plan that would forecast future revenues and expenditures, enabling the City to identify financial trends and consider the future consequences of current decisions. The forecast should be a dynamic document, which is revised at least annually or as the City's economic environment changes.

The forecast should be developed by the Finance Director with input from the City Manager. Formal policies and procedures for the development and dissemination of the forecast should also be implemented by the Finance Department with approval from City Council.

Although the City Manager and Director of Development have prepared a five-year recovery plan, the City does not have a formal forecasting methodology that involves City Council, senior management, department heads, and project managers. Similarly, the City has not developed a cash forecast or calculated any of the financial ratios often used as the basis for analysis of a municipality's financial health. City management has not implemented the financial planning, forecasting, and budgeting processes that are essential internal controls for sound financial management and the current process does not provide the information the City needs to make informed financial decisions.

According to the Government Finance Officers Association (GFOA), a government should have a financial planning process that assesses the long-term financial implications of current and proposed policies, programs and assumptions, and develops appropriate strategies to achieve its goals. A key component in determining future options, potential problems, and opportunities is the forecast of revenues and expenditures. Revenue and expenditure forecasting does the following:

- Provides an understanding of available funding;
- Evaluates financial risk;
- Assesses the likelihood that services can be sustained;
- Assesses the level at which capital investment can be made;
- Identifies future commitments and resource demands; and
- Identifies key variables that cause change in the level of revenue.

The forecast should extend at least five years beyond the budget period and should be regularly monitored and periodically updated (at least annually). The forecast, along with its underlying assumptions and methodology, should be clearly stated and made available to participants in the budget process. It should also be referenced in the final budget

document. To improve future forecasting, the variances between previous forecasts and actual amounts should be analyzed. The variance analysis should identify factors that influence revenue collections, expenditure levels and forecast assumptions. Forecasts play an important role in helping governmental entities establish long-term financial plans. The GFOA *Best Practices in Public Budgeting* recommends that long-term financial plans include:

- An analysis of past financial records;
- Long-term forecasts of revenues and expenditures using alternative scenarios and planning and policy assumptions;
- Capital planning and debt affordability analysis; and
- An assessment of future shortfalls, and an evaluation of the impact of strategies to address the shortfalls.

By presenting projected financial information and including detailed accompanying assumptions, explanatory comments and the methodology used in deriving the financial estimates, the City will provide management, as well as the general public, a more comprehensive understanding of its anticipated financial condition.

A financial forecast is a significant part of a city's strategic planning and should be used as a tool to help the City of Monroe emerge from fiscal emergency status. Trends in revenues, cash flows, expenses and key financial ratios can provide the basis for long-term forecasting of the City's resources and needs. Forecasting will also help in establishing appropriate controls on spending, which need to be in place through the budget and planning process to control expenditures.

As financial conditions permit, the City should consider sending management employees to GFOA training classes on financial planning and forecasting. GFOA offers courses such as *Financial Planning and Multi-year Budgeting*; *Capital Budgeting and Infrastructure Finance*; *Advanced Governmental Budgeting*; *Budgeting for Budget Analysis*; *Revenue Forecasting & Analysis*; *Treasury Management & Cash Flow Forecasting*; and *Best Practices in Budgeting*.

Financial Implication: The one-time cost of sending two administrators to this training would be approximately \$990 to \$1,350 depending on the training selected.

R2.2 The City should continue to enhance its budgeting process. The Finance Director should be involved throughout the budget process to ensure that estimated expenditures do not exceed estimated revenues. City Council should not approve budgetary measures that might negatively affect the City's financial position. A budget and forecast timeline and preparation package should be provided to all

department and project heads. Finally, the Finance Director and the City Manager should continue to enhance the budget summaries with additional information to assist City Council and Monroe residents in understanding the budget request.

City Council is in the process of adopting policies and procedures for developing a balanced budget through appropriate budgetary practices. The City has posted its 2004 and 2005 budgets and the recovery plan, with comments, on its web site. Additionally, the City posts Council and Finance Committee meeting minutes. Monroe also is striving to enhance the information provided through the budget and financial recovery plan through written summaries.

The purpose of a budget process is to help decision makers make informed choices about the allocation of resources. A budget should be based on the objectives established for each function or department and the estimated costs to accomplish the objectives. This method helps promote departmental responsibility for the funds spent. In past years, the budget presented to Council has not included departmental and project objectives, a list of approved, new, and deleted positions, or results from the prior year budget. The budget should also be tied directly to the forecast. Therefore, the City should formalize its timetable, outlining specific budgetary activities and allowing sufficient time for planning. The timetable should include the participation of all individuals involved in the budget process including the City Manager, Finance Director, department heads, project heads, and City Council.

According to The National Advisory Council on State and Local Budgeting Government Financial Review's *Putting the NACSLB Recommended Budget Practices into Action: Best Practices Budgeting* (April, 2000), to prepare a budget to meet the City's goals, service levels, and proposed project objectives for next year, the City should provide to departments a budget package that includes the following:

- A general discussion of the budget philosophy and methodology;
- Long-term goals of the City and major changes that will affect the budget year;
- City demographic and economic trends (inflation rate and bargaining agreements);
- City finances, including funding from outside sources and revenue projections;
- A chart of accounts, including fund descriptions and definitions of revenue and expenditure lines;
- Budget organization/classification, i.e.: safety services, leisure services, utility services, etc.;
- A timetable for the entire budget process, up to and including approval by Council;
- A summary, by department, of prior years' staffing, expenses and revenues (3 years actual);
- Forms to be used, including instructions, for completing the following:

1. Departmental program descriptions with goals and objectives,
2. Staffing positions with salaries, operating and capital expenditures;
3. New/completed programs and economic benefit to government; and
4. Performance measures/units of service, changes in service, and factors contributing to the service change.

The Finance Director should be involved throughout the budget process to ensure the final proposed budget does not exceed estimated resources. City Council must support sound financial management by not approving budgets that exceed projected revenues. The Finance Director should serve as a consultant to City Council to ensure prudent budgeting practices have been followed.

Because of the time and educational level required to read and understand the entire budget document, the City should continue to enhance its discussion summary and guide to key issues in the budget. These summaries are valuable tools to ensure the understanding and involvement of City Council and the public. According to GFOA, a summary should do the following:

- Summarize the major changes in priorities or service levels from the current year and the factors leading to those changes;
- Articulate the priorities and key issues for the new budget period;
- Identify and summarize major financial factors and trends affecting the budget, such as economic factors; long term outlook; current and future debt obligations; and significant use of, or increase in, fund balance or retained earnings;
- Provide financial summary data on revenues, other resources, and expenditures for at least a three-year period, including prior year actual, current year budget and/or estimated current year, and actual and proposed budget; and
- Define a balanced budget and explain state and local requirements for balancing the budget.

Preparing a well-planned, accurate budget and budget summary will allow the City of Monroe to better meet its responsibilities to manage services, programs, and resources as efficiently and effectively as possible, and to communicate the results of these efforts to the taxpaying public. The summary should be as non-technical and easy to read as possible. The City Manager and Finance Director should work together to prepare a summary for the City's budget document.

Although implementing a budgeting process has minimal direct costs, education on the budget processes will be necessary for department heads, Finance Director, City Manager, the Mayor, and City Council. There are a number of budgeting seminars available through GFOA, which could benefit the City, and would cost \$495 to \$675 per

person plus necessary travel expenses. Seminars include: *Financial Planning and Multi-year Budgeting; Capital Budgeting and Infrastructure Finance; Advanced Governmental Budgeting; Budgeting for Budget Analysis; Revenue Forecasting & Analysis; Treasury Management & Cash Flow Forecasting; and Best Practices in Budgeting*. The expense of training seminars should be included in a training budget.

Financial Implication: The annual cost of the city to send two individuals to training per year would be approximately \$990 to \$1,350. This cost is shown as an annual cost through the forecast period ensure that all administrators and City Council members have had the opportunity to attend.

R2.3 All department heads should be actively involved in the decision making-process regarding the financial position of their respective departments. The City Manager and City Council should require department heads to be responsible for their expenditures. Providing monthly financial position reports to department heads will encourage participation in the financial planning and decision-making process. It also will help ensure resources are used as intended and allow department heads to make recommendations for the reallocation of resources as needed.

The City of Monroe should continue to distribute monthly budget reports to department heads and actively involve department heads in decisions to reduce costs or reallocate resources within each department. Although the City distributes reports to department heads, in past years departmental expenditures exceeded appropriations.

Budgetary control is a primary management tool used for carrying out and controlling operations. It establishes predetermined objectives and provides a basis for measuring performance against these objectives. Organizations that adopt budgetary controls have better control of operations and are better able to modify them to meet changes such as decreases in tax revenue and emergency expenses. Budgetary control is implemented through regular monitoring of budget to actual reports. Monitoring can occur at the executive or department level within an entity, but department-level monitoring encourages greater departmental responsibility for resource allocation and use. Once regular monitoring is established, mechanisms for resource reallocation also must be implemented to allow department managers to direct resources to key areas when budgetary shortfalls occur.

City Council and the City Manager should require department directors to monitor their budget to actual expenditure activity. Furthermore, department directors should be required to live within the resources provided. As they will have been involved in the development of the budget, department directors should be familiar with the level of resources provided to them and should have planned expenditures to coincide with

funding levels. By requiring active participation by departments in the City's financial management processes, the City will increase departmental accountability for costs related to their specific operations. Monitoring expenditures provides city officials with a basis for measuring anticipated resources and determining whether operations are achieving management's objectives and goals. In addition, because senior management may be in a position to override internal controls, the review by department heads would help identify inappropriate or misclassified expenditures and/or errors that could otherwise go undetected.

R2.4 As the City regains financial stability, it should pursue a policy for reserve balances that would help to support operations over the long term. The Council should establish, in formal policy, the percentage level of unreserved fund balance desired by the City.

The Two-Year Financial Plan dated August 12, 2003, noted that the City wanted to develop a formal policy for maintaining an unreserved General Fund balance of \$500,000. However, current financial conditions did not allow the City to implement an unreserved fund balance policy at that time.

In order to sustain operations, GFOA recommends establishing a formal policy on the desired level of unreserved General Fund balance. The adequacy of the unreserved fund balance should be based on the specific circumstances of the City. GFOA recommends an unreserved fund balance of no less than 5 to 15 percent of the General Fund operating revenues, or no less than 1 or 2 months of regular operating expenditures.

In establishing a policy to govern the level of unreserved fund balance, the City should consider a variety of factors, including:

- The predictability of revenues and volatility of expenditures;
- The availability of resources in other funds as well as the potential drain upon the General Fund resources from other funds;
- The liquidity of resources versus liabilities; and
- Tentative designations of any portion of the unreserved fund balance for a specific purpose.

Any policy addressing the desirable level of unreserved fund balance should be consistent with legal and regulatory constraints.

As the City regains financial stability, Council should consider setting the unreserved fund balance at an amount equivalent to about two months operating expenses. While 10 percent of revenue (based on 2010 projections) would provide approximately \$700,000 in

reserve, a two-month reserve would provide the City with additional revenue to hedge against future financial downturns. Based on 2010 projections, a two-month reserve would provide approximately \$1.1 million. Any desired reserve amounts should be incorporated into the City’s financial planning through the forecast document.

R2.5 The City should consider adding 1.0 FTE to the finance staff. Some duties of the Finance Department, such as reconciliations and GAAP financial statements, are performed by outside professionals under contract. As the department performs the duties recommended in the financial audit comments and this report, and brings services in-house that are currently under contract, there will be an increased workload that requires additional staff. In addition, to ensure full segregation of duties, additional personnel may be required.

In comparison to peer cities, Monroe’s Finance Department appears understaffed. **Table 2-3** compares the staffing of the Finance Department with the peers.

Table 2-3: Comparison of Finance Department Staffing Levels

	Monroe	Harrison	Springdale	Tipp City	Peer Average ¹
Finance Director	1.0	1.0	0.5 ²	1.0	
Accounting/Finance Clerks	0.5	1.5	2.0	4.0	
Payroll, Accounts Payable, Purchasing	1.1	0.5	0	0	
Administrative Support	0	0.5	0	0	
Total FTE	2.6	3.5	2.5	5.0	3.7
Population	8,821	7,478	10,129	9,285	8,964
FTE per 1,000 Population	0.29	0.47	0.25	0.54	0.41

Source: Financial information supplied by Cities of Monroe, Harrison, Springdale, and Tipp City

¹ Because the arrangement of finance departments differs substantially, only the peer average of the total FTEs is shown.

² Springdale has a combined Finance Director/Income Tax Commissioner position

Monroe operates its Finance Department with about 71 percent of the workforce used by the peers. Although the City has reduced through attrition in several areas and is committed to maintaining current staffing levels, understaffing in the Finance Department may impede its financial recovery. In the long-term, Council and City management will have to be more proactive on financial matters, which will increase the demand for greater amounts of information in a timelier manner. The addition of 1.0 FTE Finance Assistant with a professional finance background, would greatly improve the City’s ability to implement the recommendations contained both here and in the financial audit report. Furthermore, the City should ensure that all financial personnel are housed within the Finance Department to enhance internal controls and the segregation of duties.

Financial Implication: The addition of a full-time financial professional, perhaps in the role of an assistant finance director, would add approximately \$66,000 to payroll and

benefit expenses. The cost of additional staff could be partially offset by the elimination of consulting contracts (reconciliations and GAAP 34 conversion) and reduction of staff overtime and compensatory time, which cost the City \$17,000 and \$18,000, respectively, in 2004. Net cost of staff increase after these savings would be approximately \$31,000 per year.

R2.6 The City should increase the lag time between the payroll end date and the actual pay date to allow the payroll clerk time to ensure the accuracy of the payroll. The City should increase the lag time to two weeks. Although subject to negotiation, the City should work with the collective bargaining units to determine an agreeable method that would allow for a reasonable extension of the payroll cycle, resulting in a negligible impact on employees. A two-week lag time would increase the time payroll has to process payroll, review for accuracy and completeness, and send deposits to the bank.

The City of Monroe prepares payroll checks and direct deposits on the Wednesday following the Saturday close of pay periods. This provides only two days for the payroll clerk to verify and process the payroll. The short time lag used by the City does not provide sufficient time to fully implement critical payroll controls, such as verifying payroll amounts and double-checking for errors.

According to PriceWaterhouse in *Effective Internal Accounting Control for Nonprofit Organizations: A Guide for Directors and Management (1997)*, the objective of internal controls for payroll is to ensure that payroll disbursements are made only on proper authorization to bona fide employees. Likewise, the controls ensure that payroll disbursements are properly recorded and that legal requirements are fulfilled. Preparation of payroll checks and direct deposits should reflect procedures similar to all other cash disbursements. Checks should not be written or distributed without appropriate supporting documentation, including supervisor approved time sheets showing absences, other time off, and overtime.

Undetected errors in over or under payment could cost the City valuable resources in employee time to resolve. Because of the short time frame allotted for resolution, the City has a higher likelihood of allowing errors to be processed without detection. Undetected errors would represent a direct cost to the City for incorrect payroll charges. In addition, the brief turnaround time could hinder the City's ability to accommodate unforeseen events such as the illness of the payroll clerk, emergencies, or computer problems.

The City could phase-in a two-week payroll lag by increasing turnaround one day each pay period until another full week of time has been added. A phased implementation will minimize any economic effects increasing the lag time could have on employees. In

negotiations with the collective bargaining units, the City should reiterate that employees would not experience reductions in wages. Rather, the disbursement of paychecks would be rescheduled so that employees receive regular pay checks while allowing the payroll clerk a longer processing time to reduce errors.

R2.7 The City of Monroe should seek to improve its data collection and reporting processes by focusing on results (outcomes) rather than costs. The City should change its accounting and reporting system to collect costs by department and/or program (responsibility reporting). In addition, the City should begin reporting the productivity and results for each department and program to its citizens. In this manner, the citizens will be able to determine the priorities of services provided by the City and determine their support of funding for these services.

The City reports all of its salaries and benefits, with the exception of enterprise funds, in the General Fund. Other related expenses and capital items are reported in various other funds. The City does not report, internally or externally, the costs for each department or costs by service type.

According to GFOA, measuring the cost of government services is useful for a variety of purposes, including performance measurement and benchmarking; setting user fees and charges; privatization; competition initiatives; and activity-based costing and management. The full cost of service encompasses all direct and indirect costs related to that service. Direct costs include identifiable costs exclusive to that service such as salaries, wages, benefits, materials and supplies, utilities, and rent. Other direct costs that are not fully funded in the current period are compensated absences, interest expense, depreciation, and pensions. Indirect costs include the shared administrative expenses of a department to support functions outside the department such as legal services, finance, human resources, facilities, and technology. Indirect or shared costs need to be apportioned by some systematic and rational allocation methodology and that methodology should be disclosed. **(See R2.8)**

Cost data can be extremely useful in identifying situations where a government should explore alternative service delivery options. However, costs should not be the sole factor used to determine how a government should provide a service. Efficiency and effectiveness are also essential components of any service-delivery decision.

It is important to use full cost data appropriately in decision-making. A government should distinguish between avoidable and unavoidable costs. The concept of avoidable costs encompasses not only those costs that can be eliminated immediately, but also costs that can be eliminated after a transition period. Decisions to privatize services or merge services with another government should take into account the cost of transition, as well

as any monitoring or oversight costs that are expected to result from a change in service or provider. Offsetting revenues are also a factor to be considered.

Care must be taken when comparing full cost information between governments to ensure the comparisons are valid. For instance, programs or activities using older assets may appear more efficient than the same activities using newer assets. Depreciation may significantly distort an analysis for capital-intensive activities. Furthermore, it is important to remember that accrual accounting recognizes revenues and expenses when the underlying events occur, regardless of timing of related cash flow. Thus, rates set to recover the cost of debt-financed capital assets through funding of depreciation expense may not be adequate to make timely debt service payments if the asset has a longer life than the maturity of the debt.

Reporting revenue and expenses by department or program will allow the City to analyze the cost of services provided to the citizens. Using this reporting method, the City can better analyze the cost effectiveness and efficiency of each set of City services.

R2.8 The City should consider contracting with a professional organization to prepare a formal study of indirect costs, which would allow correct charges to the appropriate departments, programs, and funds. The full cost of a program includes a share of the overall costs of the City. Knowing the full cost of a program or service sets a basis for the financial analysis of the program, for pricing fee-based services, and for requesting reimbursement from funders for the full cost of providing grant-funded services.

The City does not have a formal process for the recovery of indirect (shared or overhead) costs in projects, grants and enterprise funds. In the past, the City has absorbed these costs in the General Fund. Because indirect costs have not been fully charged to project and enterprise funds, an accurate accounting of profit or loss has not been maintained.

The amount of reduced expenses to the General Fund is contingent upon the City developing a detailed indirect cost allocation plan. This plan would describe the general services provided to grant, project, and enterprise funds and allocate the cost of these services in an equitable manner. In addition, the City needs to determine if additional accounting services can be reimbursed through grants. The indirect costs could then be passed on to the Federal or State government in the case of grants, and to the users of enterprise funds and projects.

Although the allocation of indirect costs is not a new accounting practice, it has generally been implemented only by governments actively and intensively involved in managing by objectives and other performance initiatives. Implementing indirect cost allocation

would help Monroe better managing its service costs and understand the full cost of providing certain services, and would help the City prepare for future growth. Similarly, it will help Monroe move into a performance management philosophy and better forecast long-term costs.

Financial Implication: The cost to contract for a cost allocation plan would range from \$8,000 to \$15,000. The cost decreases substantially after the initial year of implementation but maintenance costs cannot be estimated as cost is wholly dependent on the size and complexity of the organization.

R2.9 The City of Monroe, through the Council Finance Committee and the Finance Department, should ensure that prior years' financial audit comments are promptly resolved. Resolving financial audit management letter comments will help the City ensure that it is following prudent financial practices on a day-to-day basis.

The City of Monroe is responsible for establishing and maintaining internal controls to protect against the loss, theft, or misuse of its assets, as well as to reduce errors. The independent auditor, BKD, LLP, indicated concerns with several internal control areas in its financial audit reports. These areas include the following:

- **Prior Years Audit Noncompliance Citations (1999-2003):**
 - *Appropriations exceed revenues:* ORC § 5705.39 prohibits a city from appropriating amounts in excess of estimated resources plus available balances.
 - *Elimination of negative fund balances:* ORC § 5705.10 prohibits the city from operating with a deficit balance.
 - *Expenditures exceed appropriations:* ORC § 5704.41b prohibits a city from having expenditures plus encumbrances in excess of appropriations at the end of the year.
 - *Certification of expenditures:* ORC § 5705.41 (D) states no orders or contracts are to be made unless a certificate is attached that the amount required to meet the obligation has been lawfully appropriated and is in the treasury or in the process of collection. The exception to the rule is for amounts less than \$3,000 if a "Then and Now" certification is completed by the fiscal officer at the time of payment.

- **Material Weakness in Internal Control (1999-2003):**
 - **Segregation of duties** is limited within Monroe because of the small staff size in some offices. Financial audit recommendations included limiting access to cash

deposits by the employee posting cash receipts to the general ledger; requiring employees to take vacations, and requiring other personnel to be cross-trained and able to assume daily responsibilities of the absent employee; and where review procedures have been implemented to reduce risk from lack of segregation, demonstrating written evidence of the review process, either directly on the item reviewed or on a daily review log.

- **Access to signature stamp for checks** is not sufficiently restricted. The prior audits recommended limiting check-stamp access to only authorized check signors. When check signing is required, the authorized signor should be present to ensure all checks are accounted for and are supported by approved documentation.
- **Reconciliation of inter-fund advances and cash** was not performed. Under ORC § 5705, statutory authority is required to advance cash from one fund to another, and the advances must be clearly labeled as such. The City does not approve these advances and they are not clearly labeled. Advances are reconciled only at year-end for the purposes of financial statement preparation.
- **Fixed asset records** contain un-located differences between the detailed fixed asset reports and the amounts reported in the City's financial statements. The City should reconcile the location of fixed assets.
- **Purchase order** issuance within the City is lax and is in violation of the Ohio Revised Code related to fiscal officer certificates. Blanket purchase orders should only be issued for regular, predictable, recurring expenditures and purchase orders should be approved prior to expenditures being made.
- **Fraud risk assessment** has not been conducted by management to help understand areas where the City is exposed to potential fraudulent behavior. These assessments are critical to ensuring that adequate internal controls are in place to prevent misuse of City resources.
- **Communication of the City's mission and vision statement** has not been adequately addressed with all City employees. As part of the City's overall control environment, management's beliefs about values, integrity, and ethical business practices must be communicated to all levels of staff.

These reportable conditions indicate that the City has not implemented a strong set of internal controls. The United States General Accountability Office states: Internal controls are broadly defined as processes, affected by an organization's governing board,

management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Internal controls are tools that help organizations become effective and efficient while avoiding serious problems such as overspending, operational failures, and violations of law. Internal controls are the structures, policies, and procedures put in place to provide reasonable assurance that management meets its objectives and fulfills its responsibilities. Internal controls also facilitate the achievement of management objectives by serving as checks and balances against undesired actions.

A well-designed internal control structure reduces improper activity. Designing and implementing internal controls is a continuous process. As conditions change, control procedures may become outdated or inadequate. Management must anticipate that certain procedures will become obsolete and modify internal control systems in response to these changes.

The internal control process has five components: control environment, risk assessment, control activities, information and communication, and monitoring. Major internal control areas include budget management, payroll administration, procurement and disbursement, property management, and personnel (conflicts of interest, acceptance of gifts, and employment of relatives). Most internal controls are classified as either preventive or detective. Preventive controls are designed to discourage errors or irregularities, while detective controls are designed to identify an error or irregularity after it has occurred.

The City should use its Finance Committee and Finance Director to ensure full implementation of internal controls. This can be accomplished within current resources but may require an additional finance person (see **R2.5**) to carry out the internal control functions.

R2.10 City management should formally communicate its commitment to internal controls. Senior management and elected officials should articulate the importance of internal controls in writing to employees at all levels of the organization. The City should prepare formal internal control objectives and issue a formal statement on the importance of internal controls. Internal control activities and monitoring should be centralized in the Finance Department and supported by the City Manager and City Council.

The absence of strong internal controls within the City of Monroe has communicated to employees that financial policies are arbitrary and do not reflect the practices of the City. Although the City has started implementing some procedures to address these issues, its current controls are largely procedural and have not been formalized in written form or approved by City Council. Furthermore, City management must communicate its intent to implement strong controls to all members of City government to ensure support for their efforts and adherence to new policies.

Internal controls are likely to function more effectively if management believes that those controls are important and communicates that view to employees at all levels. An effective internal control environment:

- Sets the tone of an organization, influencing the control consciousness of its people;
- Establishes a foundation for all other components of internal control, providing discipline and structure;
- Describes the organizational culture;
- Includes a commitment to hire, train, and retain qualified staff; and
- Encompasses both technical competence and ethical commitment.

If management views controls as unrelated to the achievement of citywide objectives, or worse, as an obstacle, this attitude prevail throughout. Despite policies to the contrary, employees may then view internal controls as procedures that can be circumvented to expedite work processes.

Management support of internal controls is best measured by the operational practices and outcomes of a city. In organizations with effective internal controls, programs and functions achieve their intended results (are effective). Likewise, resource use is consistent with the agency mission (is efficient) and laws and regulations are followed (meet compliance requirements). Finally, accurate and timely information is prepared and reporting is reliable. Effective internal controls begin with written goals and objectives including:

- Operational objectives;
- Financial reporting objectives; and
- Compliance objectives.

Objectives should be formalized and documented in writing. In addition, objectives should be included in formal planning documents and taken into account when developing the City's vision and goals.

In light of the recent independent audit reports on City financial activities, formal support for identifying internal control needs, implementing internal control procedures, and monitoring those procedures will be an important component of ensuring organizational compliance with laws and regulations.

R2.11 The City should develop a formal risk assessment program in accordance with its overall mission. The risk assessment program should include an annual self-evaluation to identify possible deficiencies within each specific area of responsibility and should identify the source and any factors contributing to potential risks facing the City. As a result of these findings, internal control policies may need to be revised to appropriately address any new or previously uncontrolled risks as they are identified.

The City's internal controls are weak and, when employed, tend to be voluntary in nature. In many cases, serious internal control weaknesses have been identified in the City's annual financial audits. Likewise, continuing internal control weaknesses were identified through the performance audit (see **R2.6**, **R2.10**, **R2.12**, **R2.13**, and **R2.16** through **R2.20**). The City has not independently identified areas of internal control weakness outside of these reports.

Risk assessment is the process used to identify, analyze, and manage potential risks that could hinder or prevent a city from achieving its objectives. Risks can arise or change for a number of reasons and risk assessments can be used to measure these risks and evaluate existing internal controls. Risk increases during a time of change, for example, turnover in personnel, rapid growth, changes in the operating environment, new technology, or establishment of new services. Other potential high risk factors include complex programs or activities, cash receipts, direct third party beneficiaries, and prior problems. Risk assessments should include recognition of crime aspects other than money (time, information, threat to safety, gratuities, conflict of interest, or other unethical activities), as well as recognition of vulnerability to other serious criminal activities, like the abuse of influence, corruption, secret commissions, and dishonest advantage. Any risk assessment should take into account the past history of crime or unethical activity in the organization and also include the results of internal and external audits of the organization.

Connecticut's Office of the State Comptroller, Office of Policy and Management, and Auditors of Public Accounts cooperatively developed a formal risk assessment program to help Connecticut State agencies evaluate and strengthen their internal controls. Part of the formal risk assessment program includes the development of an annual self-evaluation which is performed between regular audit cycles. Connecticut's comprehensive risk assessment program takes the form of internal control questionnaires,

written narratives, and flow charts (purchasing, cash receipts, property control, payroll and personnel, and receivables and revenues). The intent of the questionnaire is to obtain a working knowledge of the existing internal control structure. The existence of flow charts of agency functions and narratives describing the transaction cycles gives management an opportunity to better understand operations in their areas of responsibility, however simple or complex. Connecticut's self-evaluation process allows each agency to discover what has changed and how that change has affected the potential for negative implications. The self-evaluation process also allows Connecticut to identify and address potential problems before they occur.

The following are attributes of a strong risk management program:

- Consistently applied across the organization's operations;
- Provides a risk rating for each type of fraud;
- Amenable to fine tuning;
- Capable of being replicated;
- Examines risks as if there are no controls in place; and
- Measures the effectiveness of existing controls.

The risk management assessments are used to help ensure internal controls are effectively implemented across the organization.

From an internal control perspective, a risk assessment program should identify and evaluate the internal and external factors that could adversely affect the achievement of the City's operational, informational, and compliance objectives. To establish a risk assessment program, the City should set organizational goals and objectives to help identify, measure, and set limits on possible risk exposures that the City will accept in order to achieve its objectives. The formal internal control processes should be developed from risk assessments to ensure objectives and policies are communicated and implemented, that compliance is monitored, and that deviations are corrected in accordance with management's policies. Establishing a formalized risk assessment program will provide the City with the planning and communication mechanisms for identifying risks before circumstances occur. Additionally, a formal risk assessment program will eliminate any ambiguity and provide the means by which effective internal controls can be established, maintained, and communicated.

The City should revisit its risk assessments on an annual basis. An annual self-assessment will allow the City to discover what has changed and how that change has affected its mission and internal control system. Whatever the findings from an annual self-evaluation, it is a beneficial process to identify and become aware of potential internal control problems before such problems become overwhelming.

R2.12 City departments should develop formal, written Standard Operating Procedures (SOPs) or policies for all functions. SOPs will allow the City to effectively standardize and communicate internal controls to be implemented in all departments. Furthermore, the Finance Director should oversee and assist in implementing formal SOPs and their corresponding internal controls. Finally, SOPs should be reviewed on an annual basis in conjunction with annual risk assessments.

The City does not have SOPs for its departments. The development and use of SOPs is an integral part of a successful quality system as it provides individuals with the information to perform a job properly, and facilitates consistency in quality and integrity. Organizations establish policies and procedures so that identified risks do not prevent them from reaching their objectives. In *Guidance for Preparing Standard Operating Procedures (SOPs)*, the United States Environmental Protection Agency states that policies and procedures provide operational direction but should also provide the following:

- Clear identification of activities to minimize risk and enhance effectiveness;
- Built-in internal controls that are not separate from the policies and procedures but an integral part of them;
- Preventive and detective processes to support strong internal controls; and
- Sufficient, but not onerous, control as excessive controls result in increased bureaucracy and reduced productivity.

According to Indiana University *Internal Controls a Guide for Managers*, October 2003: When developing policies and procedures for functional areas not currently covered under existing documents, or reviewing existing policies and procedures, City management must stay abreast of changes and understand their responsibilities and should ensure the following areas are included:

- **Personnel Information:** including skill requirements, competencies, lines of authority, and responsibilities.
- **Authorization Procedures:** including a review of supporting information, to confirm the validity of transactions.
- **Control Override:** noting exceptions to established policies are sometimes necessary to accomplish a specific task, but can pose a significant risk if not effectively monitored and limited.
- **Segregation of Duties:** stating that an individual should not have responsibility for more than one of the three transaction components (authorization, custody, and recordkeeping) to reduce the likelihood of errors and irregularities.

- **Physical Restrictions:** outlining these first line of protective measures and include safe combinations, critical forms and documents, and alarms systems.
- **Documentation and Record Retention:** providing reasonable assurance that assets are controlled and transactions are correctly recorded.
- **Monitoring of Operations:** verifying that controls are operating properly. Reconciliation, confirmations, and exception reports can provide this type of information.

The purpose of SOPs is to ensure a uniform decision-making process and to document activities to facilitate consistent conformity with regulations and technical requirements, and to support data quality. Access to SOPs ensures continuity and consistent application of all City regulations.

R2.13 The Finance Department should prepare a departmental policy and procedures manual to specifically document accounting policies and procedures. The responsibility for this function should be assigned to one employee to enhance accountability and consistency within the function. A formal, written policy and procedures manual is essential to the implementation of adequate internal controls.

The Finance Director should ensure the policy and procedures manual is distributed to departmental employees, as well as City management. Employees should acknowledge receipt and understanding of the policy and procedures manual through a signed statement that should be maintained in the employee's personnel file.

The City Manager has recently started writing Finance Department policies and procedures. However, the Finance Department policy and procedures manual is not complete and has not been approved by City Council. A review of the draft policies and procedures indicated they did not provide for an adequate level of internal control.

GFOA recommends that accounting policy and procedures manuals delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. The manual should indicate which employees/positions are to perform which procedures. Procedures should be described as they are actually intended to be performed and should explain the design and purpose of control-related procedures. This would enhance employee understanding and support of controls. The manual should be reviewed on an annual basis to determine if changes, deletions, or additions are needed. Changes in policies and procedures that occur between review dates should be made to the manual as they occur.

The City of Monroe should consider using a format similar to that used by the City of Sidney or the State of Connecticut Comptroller's Office. The format used by the City of Sidney includes the following components:

- Purpose and Scope;
- Review of Policies;
- Budgeting and Financial Planning;
- Capital Improvement Program/Capital Budget;
- Budgetary Compliance and Expenditure Control;
- Interfund (Cash) Transfers;
- Fund Balance Reserves;
- Internal Control Policies;
- Financial Reporting;
- Audit;
- Debt Management;
- Investments and Deposit of Funds;
- Asset Management;
- Risk Management (insurance);
- Enterprise Funds; and
- Internal Service Funds;

A manual will establish a uniform decision making process for daily operations. Additionally, access to a policy and procedure manual is important to ensure continuity and consistent application of the Finance Department, City, and other departmental regulations. Clarity in departmental policies minimizes opportunities for miscommunication and, helps preserve institutional memory when turnover occurs. In addition, documented and enforced policies and procedures would increase the level of internal control and accountability throughout the City. The absence of a policy manual has led to inconsistencies in the management of purchasing procedures, payment of invoices, management of accounts receivable, funds transfer, and financial reporting. (See **R2.10** for Prior Year Audit Noncompliance Citations and Material Weakness in Internal Control.)

R2.14 The City should establish duties and roles prescribing the functions of its Finance Committee. In addition, Committee members should be invited to take part in government financial training to enhance the performance of their finance committee duties.

In 2003, City Council established a Finance Committee, comprised of three Council members who collectively possess expertise and experience in accounting, auditing, and financial reporting. However, Finance Committee members are not required take part in

official government financial training, which may limit the effectiveness and collective expertise of the Committee (see **R3.5** in the **human resources** section for further discussion). The Finance Committee does not have any formal duties or roles to guide its functions.

The City should establish duties and roles for the following finance committee functions, such as those used by Champaign County:

- Determine a process with City Manager for annual budget preparation;
- Plan overall City long-range needs, in consideration of information technology systems and infrastructure;
- Plan overall budget, in view of departmental proposal and City needs;
- Convene a public hearing on the preliminary budget in compliance with legal requirements;
- Review departments budgets and report to the Council any recommendations necessary for the reasonable adherence to the budget;
- Prepare and submit final budget to the Council;
- Confer with the City's Finance Director to determine the proper and legal investment and deposit of City funds;
- Review and approve monthly budget to actual statements;
- Approve the transfer of funds within legal requirements on line items as necessary;
- Review and recommend for approval, amendments to appropriations throughout the year as necessary;
- Evaluate distribution of funds and appropriation of expenditures within the City with the goal to achieve maximum efficiency and economy with the government structure;
- Receive periodic reports on status of employees' bargaining units: review collective bargaining contracts prior to expiration and recommend approval of negotiated tentative agreements to Council;
- Review all contracts for approval for legal compliance: including Lemon Township contracts for services provided;
- Receive, review, and consider recommendations to the Council from the City Manager and departmental supervisors regarding position classification, evaluation, salary administration and staffing needs; and
- Review and recommend City's financial policies at least annually.

The Finance Committee should develop duties and roles to ensure that its functions are fulfilled. Using the Champaign County examples as a guide, the Committee could implement this recommendation within current resources. The Champaign County information is available at www.co.champaign.il.us/COUNTYBD/comms.htm.

R2.15 The City should ensure that the primary responsibility of the Audit Committee is to oversee the independent audit of the City’s financial statements, including the resolution of audit findings. The Committee should regularly report to Council on financial matters.

City Council has established an Audit Committee, which includes three professionals who are not part of City Council or City management but who are knowledgeable of City financial operations. However, annual City financial audits contain numerous citations and audit findings over a period of several years. The City Manager recently learned that Council was unaware of the reports and did not know they were supposed to receive the audit reports. While the Council relies on professionals to operate the daily functions of its government, it has an obligation to serve the community and protect the public interest through oversight of City government activities. Council members also have a fiduciary responsibility for city assets, finances an investments and must exercise good faith, due diligence, care and caution.

The National Committee on Fraudulent Financial Reporting (the Treadway Commission) has stated that audit committees can serve as “informed, vigilant and effective overseers of the...reporting and internal controls process.” The Securities and Exchange Commission also recommends the implementation of audit committees and has furnished guidance on what the proper and effective functioning of an audit committee should constitute. An Audit Committee must have three important qualities: control of its agenda, ability to exercise diligence, and ability to ask the hard questions.

According to AOS Audit Advisory Memo 97-10, the Audit Committee should organize annually and do the following:

- The committee should meet with the audit team or its appropriate representative prior to the audit to review the scope and terms of the engagement.
- The committee should meet with the audit team or its appropriate representatives to review the results of the audit, preferably during the post audit conference.
- The committee should review and comment upon any material changes to internal control systems and accounting policies/procedures addressed in the engagement letter and audit reports.
- The committee should assist in selecting the independent professional accounting firm where the governmental agency has decided to pursue this option.
- The committee should review and evaluate any potential conflict of interest and ethical conflicts.
- The committee, in addition to pre-audit and post-audit meetings, should schedule meetings on an as-needed basis.

The Audit Committee should be knowledgeable about the financial and operational aspects of the city and, should receive sufficient and timely information. Audit committee members must devote sufficient time to obtain an adequate understanding of what the city's financial statements represent. To be vigilant, the Audit Committee should ask probing questions about the quality of the City's internal controls. This task requires the Committee maintain a current knowledge of developments affecting the city.

To be an effective independent oversight body, the Audit Committee must be positioned between senior management and the external auditors. This organizational structure allows the Audit Committee to question management's judgments about financial reporting matters and to suggest improvements in the internal control system. The Committee's charter should define its mission, duties, and responsibilities, and describe the processes for planning its annual agenda and documenting its findings and conclusions.

KPMG's Audit Committee Institute (ACI) recommends that audit committees be designed to fit the needs of a city. Members of the Committee should be selected with particular attention to those members with the skills and vigilance to be effective and objective. The Committee should continually evaluate the tone projected by management to ensure that city ethics and integrity are foremost in financial and operational reporting. ACI also recommends that audit committees develop processes that support internal controls, transparency, and reporting.

Creation of a strong Audit Committee as a sub-committee of the Council will help to ensure the integrity of the City's internal controls and the quality of the City's financial and operational reporting.

R2.16 The City should develop and implement a comprehensive policy to increase its ability to properly account for fixed assets, and ensure they are adequately safeguarded from loss, theft, or unauthorized use and reconciled with the financial statements. The implementation and maintenance of fixed asset tracking will assist the City with GASB 34 compliance.

The City does not have a written fixed asset policy or a formal process to address capital expenditures and repairs. The City also lacks a perpetual inventory and does not have a listing of assets with physical location, department, tag identification, date of purchase, amount of purchase, depreciation, enhancements or changes to the asset, and other information that agrees to the financial statements. (See **R2.9 Material Weakness in Internal Control**). Fixed assets represent a large investment by the City and, without a means to track these items and their condition, the City is at risk for theft and loss.

The Finance Director should include fixed assets in the purchasing policy and procedures manual. The manual should include a definition of fixed assets and the procedures for buying, receiving, recording, tagging and transferring assets. The development of a formal policy will promote the consistent treatment of similar assets and help to ensure accurate reporting of the fixed assets and related depreciation on the financial statements.

GFOA recommends that the City's fixed assets, with the information contained in its database, should be reconciled with purchases at least annually. When assets are disposed of in a manner consistent with the City's disposal method, the disposition and sale proceeds should be recorded. Someone other than the person maintaining the fixed asset system should perform the annual reconciliation.

GFOA also recommends that every local government perform a physical inventory of its tangible capital assets, either simultaneously or on a rotating basis, so that all of a government's tangible capital assets are physically accounted for at least once every five years. While a well-designed and properly maintained perpetual inventory system can eliminate the need for an annual inventory of a government's tangible capital assets, no inventory system is so reliable as to completely eliminate the need for a periodic physical inventory.

Furthermore, the completion of a physical inventory, by an entity independent from the department heads, will ensure accurate accounting records and decrease the risk of undetected loss or improper use.

R2.17 In order to adequately secure the finance offices, access to the Finance Department office should be controlled and critical items like cash and signature stamps should be secured in a safe. Restricting access to the office, especially when Finance Department personnel are not present, will help improve the City's physical internal controls.

Because of confidentiality and internal control issues, access to the finance office should be restricted to Finance Department personnel. The practice of not locking the doors to the finance department undermines physical internal controls. The absence of effective physical controls in the finance office results in an unsecured atmosphere for sensitive information, check signing machines/stamps, storage of blank checks, and other financial records.

The Finance Department does not have a secure place to store money from the Tax Department, Mayor's Court, and front desk. Blank checks are stored in a cubicle area in the Finance Department and check-signing stamps are stored in the Finance Director's desk. The City's independent auditor's report has repeatedly discussed the material

weaknesses of internal controls and specifically, access to the signature stamp for checks. The Finance Department does not have a safe that can be used for this purpose.

The *Accounting Desk Book* (Plank and Blensly, 1989) states that internal controls comprise a plan of organization and procedures that are concerned with the safeguarding of assets. Included in internal controls is to development of controls for the reasonable assurance to maintain accountability of assets and limit access in accordance with management's authorization. Because these items (checks, money, and check-signing stamps) are easy to take and use, these cash like items should be placed in a safe every evening.

Keys should be distributed only to those persons who work in the office. One key should be held in a secure location outside the office, such as in the City of Monroe Police Department, and should be made available to City officials only in emergencies. Any spare keys should be stored in a Finance Department safe. Additionally, mailboxes for City Council, currently located in the finance offices, should be moved to another area that can be available to Council members This would reduce the traffic in and out of the Finance Department and limit access to that area to only authorized employees.

Likewise, the City should ensure that all cash, blank checks, check-signing stamps, and cash related items are locked in a safe every night. Safeguarding the assets of the City requires that access to cash and cash related items be permitted only in accordance with management's authorization. The City has a large safe in storage that is not being used. The purchasing agent might be able to sell the large safe to a safe company and in return get a smaller safe that can be stored in the Finance Department. Locating the safe in the Finance Department would provide access to persons that handle cash daily.

R2.18 The City should ensure that all departmental revenues are deposited in accordance with ORC § 9.38. The Finance Director should review the cash management procedures in all departments and recommend changes as needed to establish appropriate internal controls. Once the procedures are reviewed, the City Manager and Council should support the recommendations of the Finance Director for any required changes to current practices.

The City's draft financial policies and procedures do not address the issue of securing or handling cash. In the absence of a policy, the City should follow the ORC. A review of the cash deposits reveals that deposits are completed once a week or once a month.

ORC § 9.38 states that all money should be deposited with a properly designated depository on the day of receipt if the total amount exceeds \$1,000. If the total amount does not exceed \$1,000, money may be deposited on the business day following the day

of receipt. However, Council may adopt a policy permitting a different period, not to exceed three business days following the day of receipt, for making deposits. The person handing the cash must be able to safeguard the money until it is deposited. An amended City policy should include provisions and procedures to safeguard public money until it is deposited.

R2.19 To avoid overspending and limit the likelihood of departments exceeding budgeted amounts, the City should consider reducing purchasing authorization levels. Reducing authorizations for entering into purchasing agreements to \$1,000, and eliminating the provision for emergency purchases without approval, would enhance the City's purchasing controls.

The charter of the City of Monroe states that the Finance Department purchasing agent has the authority and responsibility for formal purchasing activity. However, the City does not centralize purchasing with the purchasing agent. Instead, each department purchases supplies and equipment needed to manage operations. Authorization to enter into purchase agreements or contracts on behalf of the City (up to \$2,500) lies with the City Manager, purchasing agent, and department heads.

City guidelines state that items under \$2,500 may be purchased with the approval of supervisory personnel without competitive bidding. City guidelines encourage department heads to purchase items within the Monroe city limits. Purchases from \$2,501.01 to \$15,000 must be approved by Council, either in the appropriations ordinance or subsequent amendments, and secured on a competitive bid basis with three written bids. Purchases over \$15,000.01 must be made through the formal bidding process. These purchases are awarded by the City Manager based on the recommendations of department heads. If funding has not been appropriated for the purchase, the bid award is made by Council.

Emergency purchases constitute an immediate need for a good or service that (1) was unable to be anticipated, (2) has time as a crucial factor, and (3) would be a disservice to the citizens of Monroe if the item were not purchased. The City Manager has authority to approve emergency purchases up to \$50,000. For purchases over \$50,000, the Mayor must be notified prior to purchase.

Records of all purchases are kept in the Finance Department with accounts payable. Original bids are stored in the City Manager's office and a copy is retained in the Finance Department.

In order to improve controls on purchasing, the City should consider lowering the approval limits to \$1,000 at the department level. This would encourage better planning

for purchases and increase the likelihood of departments adhering to their authorized budgets.

R2.20 The City should enforce policies and procedures for purchasing from requisition through approval. The City should also consider implementing policies to address encumbrances, receipt of goods, and record keeping. Policies should be communicated by senior management to those staff responsible for purchasing through a purchasing manual. City administration should ensure all department heads are aware of and follow the established policies and procedures.

The City does not enforce its policies and procedures for purchasing. The City has some policies and procedures, but department heads by-pass the procedures on a regular basis. By bypassing its purchasing procedures, the City exceeded its appropriations, resulting in audit citations from 1999 through 2003. These excess expenditures contributed to the City's financial condition. By failing to enforce its procedures, the City is unable to ensure consistency and adherence to City regulations in the purchasing process.

It is the responsibility of the Purchasing Agent to oversee purchasing records. The Purchasing Agent has stated that a large number of purchase requisitions are processed after departments have ordered and received the goods and services. If the City does not insist that departments follow policies and procedures, the ability of the Purchasing Agent to maintain appropriate records and documentation is limited.

A purchasing manual could provide departments and staff involved in the purchasing process with a better understanding of the procurement cycle. A purchasing manual should formalize dollar thresholds, delineate approval paths, reiterate statutory requirements for competitive bidding, and describe emergency purchasing procedures. The definition and appropriate use of blanket purchase orders as well as capital and fixed assets would also assist users in the purchasing process. Within the purchasing cycle explanation, the manual should provide users with step-by-step instructions and examples for filling out requisitions.

The Finance Director or designee should provide each department with at least one copy of the purchasing manual. The manual should be distributed during a meeting in which the contents are reviewed in detail to familiarize the attendees with correct purchasing procedures. Support and enforcement of the procedures by the City Manager, department heads, the Law Director, and City Council are critical because of the decentralized nature of the purchase requisition process.

Absent established and enforced policies and procedures dictating the process for City purchases, establishing dollar thresholds and procedural requirements, and defining what

items can be purchased, there is an increased risk that employees and departments may mispend City funds. For example, an employee could use an open purchase order at a local retailer to purchase items not intended for City use, or a department head could direct purchases to one favored vendor, regardless of price. Formalized policies and procedures would decrease this risk and provide City officials a guide for determining allowable expenses and procedures for purchases.

The lax application of the City's procedures limits its ability to maintain adequate records and ensure the best suppliers and prices for goods and services. Similarly, it hinders the ability of the Purchasing Agent to improve and streamline processes. Last, in the case of grants and contracts, the process does not comply with Office of Management and Budget Circular A-102 "Grants and Cooperative Agreements with State and Local Governments" or the Code of Federal Regulations, Title 24, Volume 3, Part 570, which establishes consistency and uniformity among Federal agencies in the management of grants and cooperative agreements.

R2.21 The City of Monroe should use the proposed financial recovery plan outlined in Table 2-1 and Table 2-2 to evaluate the recommendations presented within this performance audit and determine the impact of the related cost savings or increases on its financial condition. The City should also carefully consider implementation of the recommendations in this performance audit to improve its current and future financial situation. It should consider amending some of the assumptions to be more realistic in light of the City's growth rate and expansion plans. In addition to its recovery plan, the City should prepare and update a forecast on an ongoing basis as critical financial issues are addressed.

The City's financial recovery plan provides a blueprint for emerging from fiscal emergency. However, the financial recovery plan may not include realistic projections. While the City has made every effort to cut costs in the short term, it may not be able sustain these reductions through the five year period and maintain services to the citizens. In continuing to update the recovery plan and develop a comprehensive five-year forecast, the City should address the following issues:

- **Staffing:** The City's recovery plan includes no new positions and the filling of no vacancies. However, interviews with city administrators and analysis completed for this performance audit indicate that additional staffing is needed (see **Human Resource** section for a summary of staffing recommendations).
- **Salaries:** The recovery plan does not include salaries increases for the Fire and Police departments prior to 2009; however, the language in the new Fire Department bargaining agreement calls for a 2 percent increase plus step

increases once the City is removed from financial emergency status. The Police Department bargaining agreement expires in 2005 and City administrators indicated that an increase is likely to be negotiated.

- **Capital:** The City's recovery plan does not plan for capital needs. Maintaining a constant level of capital outlay during the five-year period does not account for update, maintenance, and replacement of fixed assets.
- **Materials and Supplies:** The recovery plan assumes that costs for materials and supplies will only increase by 2 percent despite having budgeted for a 30 percent increase in 2005. The recovery plan does not include detail on how the City will achieve this low level of spending. The projected amounts do not appear to follow historical trends or allow for anticipated growth or inflation.

Table 2-4 demonstrates the effect of the performance audit recommendations in this report and includes the beginning cash balance for each year as well as the adjusted cash balance reflecting the effect of the recommendations. The revised recovery plans contain the City's original recovery plans presented in **Table 2-1**, with additional lines to incorporate the financial savings and implementation costs associated with the performance audit recommendations.

Table 2-5 summarizes the financial implications associated with the recommendations contained within this report. The City could implement some recommendations immediately, while others will require further management action to realize the proposed savings. **Table 2-4** shows the effects of proposed recommendations for the General Fund and **Table 2-6** shows the amount of General Fund subsidy necessary to eliminate the deficits in the other funds.

**Table 2-4 Five-Year Recovery Plan with Performance Audit
Recommendations (in 000's) for the General Fund**

	Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
	2004	2005	2006	2007	2008	2009	2010
Property Tax	\$539,490	\$555,675	\$711,242	\$629,579	\$648,467	\$713,313	\$734,713
Income Tax	\$2,875,287	\$3,019,051	\$3,319,051	\$3,619,051	\$3,919,051	\$4,219,051	\$4,519,051
Charges for Services	\$206,032	\$170,000	\$173,400	\$176,868	\$180,405	\$184,013	\$187,694
Fines, Licenses, Permits	\$454,564	\$610,000	\$622,200	\$634,644	\$647,337	\$660,284	\$673,489
Inter-governmental	\$518,425	\$533,627	\$533,627	\$533,627	\$533,627	\$533,627	\$533,627
Interest	\$35,480	\$30,000	\$30,600	\$31,212	\$31,836	\$32,473	\$33,122
Other	\$21,532	\$215,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
<i>Effect of Performance Audit Recommendations</i>	<i>\$0</i>	<i>\$0</i>	<i>\$260,000</i>	<i>\$260,000</i>	<i>\$260,000</i>	<i>\$260,000</i>	<i>\$260,000</i>
Total Revenues	\$4,650,810	\$5,133,353	\$5,680,120	\$5,914,981	\$6,250,723	\$6,632,761	\$6,971,696
Personal Services	\$4,427,013	\$4,734,434	\$4,854,606	\$4,948,315	\$5,041,182	\$5,134,075	\$5,226,993
Materials and Supplies	\$28,532	\$37,000	\$37,740	\$38,495	\$39,265	\$40,050	\$40,851
Contractual Services	\$702,993	\$817,900	\$831,378	\$845,136	\$859,180	\$873,516	\$888,150
Capital Outlay	\$17,869	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Other	\$183,323	\$121,000	\$121,000	\$121,000	\$121,000	\$121,000	\$121,000
Non-Departmental Accounts	\$37,632	\$17,250	\$17,250	\$17,250	\$17,250	\$17,250	\$17,250
<i>Effect of Performance Audit Recommendations</i>	<i>N/A</i>	<i>N/A</i>	<i>\$384,110</i>	<i>\$342,050</i>	<i>\$342,580</i>	<i>\$342,609</i>	<i>\$342,572</i>
Total Expenditures	\$5,397,362	\$5,752,584	\$6,271,084	\$6,337,246	\$6,445,457	\$6,553,500	\$6,661,816
Excess Revenues Over (Under) Expenditures	(\$746,552)	(\$619,231)	(\$590,964)	(\$422,265)	(\$194,734)	\$79,261	\$309,880
Transfers In	\$526,339	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000
Transfers Out	(\$76,183)	(\$177,644)	(\$753,271)	(\$744,268)	(\$744,783)	(\$716,937)	(\$718,922)
Total Other Financing Sources/Uses	\$450,156	\$997,356	\$421,729	\$430,732	\$430,217	\$458,063	\$456,078
Net Change in Fund Balance	(\$296,396)	\$378,125	(\$169,235)	\$8,467	\$235,483	\$537,324	\$765,958
Beginning General Fund Balance	\$796,396	\$500,000	\$878,125	\$858,890	\$1,021,857	\$1,416,475	\$2,128,848
Ending General Fund Balance	\$500,000	\$878,125	\$708,890	\$867,357	\$1,257,340	\$1,953,799	\$2,894,806
0.6 Inside Mileage	\$0	\$0	\$150,000	\$154,500	\$159,135	\$175,049	\$180,300
Revised Ending General Fund Balance	\$500,000	\$878,125	\$858,890	\$1,021,857	\$1,416,475	\$2,128,848	\$3,075,106
Reserved General Fund Balance			(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)	(\$500,000)
Net Available General Fund Balance			\$358,890	\$521,857	\$916,475	\$1,628,848	\$2,575,106

Source: City of Monroe Recovery Plan, March 14, 2005

Table 2-5 presents the General Fund financial implications from the recommendations contained in this report.

Table 2-5: Summary of Performance Audit Recommendations: General Fund

	Recommendation	2006	2007	2008	2009	2010
Revenue Increases						
R4.4	Renegotiate contract with Lemon Township to better cover the service costs to the Township	\$240,000	\$240,000	\$240,000	\$240,000	\$240,000
R4.6	Implement Fire Department charges for material non-EMS costs involving auto accidents	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Total Revenue Increases		\$260,000	\$260,000	\$260,000	\$260,000	\$260,000
Cost Savings						
R3.3	Require 10.0 percent monthly premium contributions for Police Department plan participants (subject to negotiation)	\$9,000	\$9,900	\$10,900	\$12,000	\$13,200
R4.11	Centralize garage functions within MSD	\$54,000	\$54,000	\$54,000	\$54,000	\$54,000
R4.14	Disband the Mayor's Court and use County court services	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000
Cost Increases						
R2.1	Budgeting training for Administration	(\$1170 ¹)	(\$1,170)	(\$1,170)	(\$1,170)	(\$1,170)
R2.2	Budgeting training for City Manager, Finance Director, Mayor, and City Council	(\$1170 ¹)	(\$1,170)	(\$1,170)	(\$1,170)	(\$1,170)
R2.5	Increase Finance Department Staff by 1.0 FTE	(\$34,270)	(\$36,110)	(\$37,640)	(\$38,769)	(\$39,932)
R2.8	Contract for cost allocation plan	(\$12,000)	N/A	N/A	N/A	N/A
R4.1	Increase Supervisory staffing within MPD through the addition of a captain's position	(\$71,500)	(\$71,500)	(\$71,500)	(\$71,500)	(\$71,500)
R4.2	Increase staffing levels using part-time officers by 7.5 FTE	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)
R4.3	Implement replacement plan for fleet	(\$80,000)	(\$80,000)	(\$80,000)	(\$80,000)	(\$80,000)
R4.11	Centralize garage functions within MSD	(\$80,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)
Total²		(\$384,110)	(\$342,050)	(\$342,580)	(\$342,609)	(\$342,572)

Source: Performance Audit Recommendations

Note: Costs related to staff increases (salaries and benefits) are appreciated each year based on the COLA and step increases in the Five-Year Forecast.

¹ This represents the average of the \$990 to \$1,350 cost estimate.

² The total costs displayed in this table are shown as additional expenditures in **Table 2-4**.

Table 2-6 presents the projected ending fund balances for the three remaining deficit funds shown in **Table 2-2**. The Fire Operations & Maintenance Fund is not included due to the passage of the replacement fire levy in May, 2005. **Table 2-6** shows that without the passage of the income tax increase, as reflected in the recovery plan, the City will continue to have deficit fund balances until the end of 2010. With the revenue from the income tax increase, the City could eliminate its deficit in 2007.

Table 2-6: Remaining Deficit Funds

	Actual 2004	Budget 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010
Fund	Ending Fund Balance	Change in Fund Balance	Change in Fund Balance				
Cumulative Effect of Deficit Funds		(\$1,923,418)	(\$1,911,655)	(\$356,281)	\$1,189,390	\$1,224,617	\$1,248,593
Police Operations & Maintenance	(\$376,287)	\$64,400	\$55,374	\$45,671	\$35,227	\$23,976	\$11,838
Capital Projects Fund	(\$179,995)	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service Fund	(\$1,367,136)	(\$52,637)	\$0	\$0	\$0	\$0	\$0
Revised Total Deficit Funds	(\$1,923,418)	(\$1,911,655)	(\$1,856,281)	(\$310,610)	\$1,224,617	\$1,248,593	\$1,260,431
Additional 0.5% Income Tax			\$1,500,000	\$1,500,000		\$0	\$0
Revised Cumulative Effect of Income Tax	(\$1,923,418)	(\$1,911,655)	(\$356,281)	\$1,189,390	\$1,224,617	\$1,248,593	\$1,260,431

Source: City of Monroe Recovery Plan, March 14, 2005

Appendix A

City Initiated Reductions (2003 Financial Plan)

Savings in the 2003 budget, as provided by City officials, included the following:

- Elimination of capital improvements of \$639,500;
- Unfilled positions of \$306,000
- Bond restructuring of \$297,175;
- Decreased professional services of \$157,500;
- Decreased supplies and materials of \$52,000;
- Radio lease refinancing of \$48,952;
- Reduced contractual services of \$45,900; and
- Travel for \$15,500.

Based on these reductions, Monroe reportedly was able to save \$1,562,527 in 2003.

Savings, in the 2004 budget, provided by City officials, include the following:

- Bond restructuring of \$295,000;
- Radio lease refinancing of \$130,364;
- Park mowing contract termination of \$10,000;
- Phone service conversion of \$13,200;
- Health care benefit reductions of \$50,000; and
- Public works restructuring for \$255,000.

The City administrators stated that the total savings from these 2004 reductions was \$753,564. Additionally, Monroe increased fees in two enterprise funds by increasing storm water fees (for \$140,000) and water tap fees (for \$262,500), combined these total \$402,500 of increased revenues.

In 2005, the City delayed investment in capital projects, and reduced police and fire overtime to 5 percent of payroll.

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Human Resources

Background

This section of the report focuses on various human resource operations within the City of Monroe. Best practice data from the State Employee Relations Board (SERB), peer cities, and other best practice research organizations were used for additional comparisons throughout this section of the report.

Organizational Structure

Within the current organizational structure, human resource (HR) operations are primarily the responsibility of the City Manager. The administration and management of human resource capital includes the following:

- Coordinating activities and programs for the recruitment and selection of employees;
- Monitoring compliance with employment standards (criminal background checks and certification requirements);
- Facilitating employee performance evaluations;
- Administering and monitoring grievance policies and procedures;
- Negotiating and administering collective bargaining agreements;
- Conducting disciplinary hearings;
- Maintaining personnel files; and
- Maintaining staffing levels to meet required service levels.

The City Manager reports to City Council and is responsible for the administration of all municipal affairs placed in his charge by the City Charter. Due to decreased staffing levels within most functional areas and departments, additional day to day HR activities are performed with assistance from administrative staff, and the finance and utility (payroll) clerks. The Finance Clerk, with input from the department heads, processes worker's compensation issues.

Summary of Operations

Monroe does not use an HR software program to assist in operations. Department heads are responsible for approving time and attendance sheets for their direct reports and for signing off on leave requests. The City Manager approves the final payroll. However, the City uses a financial system that includes payroll capabilities. This system houses data such as employee start date, pay rate and step schedule, as well as sick and vacation leave and accrual. The Utility Clerk performs all data entry and payroll processing. She also processes I-9 forms and conducts

payroll edits. Payroll processing encompasses calculations of insurance contributions according to the employer and employee share requirements. The Finance Clerk assists with HR related duties like enrolling new hires in the group insurance plan. (See the **financial systems** section for more information regarding payroll operations.)

The City does not have a standardized employee orientation program. However, department heads assume the responsibility for explaining important information to new employees and are required to go over the personnel policy manual with each new employee and ensure understanding of requirements of the job. According to the City Manager, job descriptions were updated approximately three years ago, although no formal written policy regarding the review and update of job descriptions is in place.

Staffing

Table 3-1 illustrates the actual full time equivalent (FTE) staffing levels by department for the City of Monroe and peer cities during 2004. All of the peers provide a larger array of services than those provided by Monroe. For example, Springdale has a Health Department and a recreational program that includes child care and fitness instruction. Total staffing for the peers in **Table 3-1** is reflective of the peer staffing levels used to provide the same services as Monroe. Therefore, the actual total staffing levels for the peers may be higher than what is shown in the table. Because the organization of departments varies substantially between cities, the administrative staffing data is broken down by position to show the varied use of executive-level managers and staff. The Public Works Department comprises employees of the streets and water divisions illustrated individually. Where safety-service staffing issues may exist, the data is broken down by classification in the **operations** section. As of 2005, Monroe uses outside contracting to provide building inspections, public works inspections, garbage collection, custodial services, receptionist duties, and some financial services, including bank reconciliations and year-end government auditing and accounting principles (GAAP) 34 conversions. Contracting for these services provides a further explanation of staffing level variances compared to the peers.

Table 3-1: FTE Staffing Levels for FY 2004-05

Department	Monroe	Harrison	Springdale	Tipp City	Peer Average
City Manager	0.75 ¹	0.00	1.00	1.00	1.00
Assistant City Manager	0.00	0.00	1.00	0.50	0.75
City Engineer	0.25	0.00	0.00	1.00	N/A
Development/Planning/Zoning ²	1.25	1.50	5.00	2.50	3.00
Clerk of Courts	0.75	1.00	0.00	0.00	N/A
Finance Director	1.00	1.00	0.50	1.00	0.83
Finance/Billing Clerk	2.10	2.00	2.00	5.00	3.00
Income Tax	2.50	2.00	6.50	1.00	3.17
Clerical/Administrative Support	2.50	1.50	4.00	2.50	2.67
Police ³	22.50	23.00	37.00	18.00	26.00
Dispatchers/Records Clerk	5.40	2.00	8.00	3.50	4.50
Fire ⁴	30.00	23.20	32.0	3.00	27.60
Streets	8.10	8.83	10.0	12.33	10.39
Water	3.90	12.66	7.50	11.66	10.61
Total⁵	81.00	78.69	114.50	62.99	85.39
Adjusted Total Staff Peer Average Without Tipp City	N/A	N/A	N/A	N/A	96.60

Source: City of Monroe and peers

¹ The City Manager estimated he spends 75% of his time on city management and 25% of his time on engineering duties.

² Monroe contracts with National Inspection Corporation (NIC) to perform building plan reviews, and schedule and conduct inspections.

³ Includes sworn employees; does not include non-regular, part time employees. Regular part-time employees calculated as 0.5 FTE for purpose of this analysis. See the **operations** section.

⁴ Tipp City does not use full-time fire fighters and is not included in the peer average for fire. Both Harrison and Springdale use part-time staff and FTEs were calculated based on hours worked in 2004. See the **operations** section for further discussion on fire department staffing.

⁵ Employees working in peer departments that are not featured at Monroe (i.e. senior center) were excluded in this analysis. Figures may not sum due to rounding. The peer average totals were calculated horizontally

Table 3-1 shows an adjusted peer average excluding Tipp City as this city uses a primarily volunteer fire department which skews the total staff comparison.

In August 2003, city administrators developed a two-year financial plan which detailed 2004 staffing changes to address the City's financial instability. While staffing levels in most departments have held constant, a reduction of five positions was made in the public works departments as a cost-cutting measure to help stabilize financial conditions.

In addition to comparing actual FTE figures by department, staffing levels are analyzed on a per 1,000 resident basis since staffing levels for municipalities vary depending upon census data and population. **Table 3-2** illustrates the staffing levels per 1,000 residents compared to the peer cities for 2004.

Table 3-2: City Staffing per 1,000 Residents

Category	Monroe	Harrison	Springdale	Tipp City	Peer Average
Population ¹	8,821	7,478	10,129	9,285	8,964
City Manager	0.09	0.00	0.10	0.11	0.11
Assistant City Manager	0.00	0.00	0.10	0.05	0.08
City Engineer	0.03	0.00	0.00	0.05	N/A
Development/Planning/Zoning	0.14	0.20	0.49	0.27	0.33
Clerk of Courts	0.09	0.13	0.00	0.00	N/A
Finance Director	0.11	0.13	0.05	0.11	0.09
Finance/Billing Clerk	0.24	0.27	0.20	0.54	0.33
Income Tax	0.28	0.27	0.64	0.11	0.35
Clerical/Administrative Support	0.28	0.20	0.39	0.27	0.30
Police	2.55	3.08	3.65	1.94	2.89
Dispatchers/Records Clerk	0.61	0.27	0.79	0.38	0.48
Fire ²	3.40	3.10	3.16	0.32	3.13
Streets	0.92	1.18	0.99	1.33	1.16
Water	0.44	1.69	0.74	1.26	1.18
Total ³	9.38	10.59	11.70	7.05	9.78
Adjusted Total Peer Average Without Tipp City					11.14

Source: City of Monroe and the peers.

¹ 2003 population estimates accessed 11/09/2004 at <http://www.odod.state.oh.us/research/files/p103000004.xls>

² To ensure like comparison, the total for Tipp City was omitted for the purpose of calculating the peer average.

³ Figures may not sum due to rounding. The peer average total was calculated horizontally.

As illustrated in **Table 3-2**, the City of Monroe has 0.4 FTEs per 1,000 residents less than the peers when Tipp City is included in the peer average. However, when Tipp City is removed from the peer average for total staff, Monroe is 1.76 FTEs per 1,000 residents below this adjusted peer average. The most notable differences appear within the clerical area in Administration, and Police and Public Works departments. In all City administration classifications, Monroe has only 1.17 FTEs per 1,000 residents compared to the peer average of 1.70. The low staffing level in this area contributes to issues with separation of duties and financial management discussed in the **finance** section.

For the Police Department, the figures represent all sworn employees. However, Monroe has 2.55 FTE patrol officers per 1,000 residents compared to the peer average of 2.89; a difference of 0.34 FTEs per 1,000 residents. See the **operations** section for further discussion of Police Department staffing.

The figures presented for the Streets and Water categories represent employees in the Public Works Departments. Tipp City also provides an additional utility, electricity, and while staff directly involved in this department are not included in the staffing analysis, this impacts the administrative needs for that city. Combined, the analysis shows that Monroe has approximately 1.0 less FTE per 1,000 residents in its Public Works division compared to the peers. The primary variance in the aggregate staffing total is likely due to the types of services and duties performed. Employees of Monroe's Streets Department also oversee parks and cemeteries while those of the peers focus primarily on street projects. In addition, Monroe contracts for public works inspections. However, Springdale and Tipp City have 1.0 FTE and 2.0 FTE public works inspectors, respectively, and these positions are included in **Tables 3-1** and **3-2**. In addition, Tipp City has 3.0 FTEs in public works superintendent or higher classifications whereas Monroe and the other two peers have only 1.0 FTE performing superintendent duties. For additional discussion regarding responsibilities of the streets division employees, and potential future staffing needs, see the **operations** section.

Based on the assessments performed, Monroe has higher FTE staffing allocations compared to the peer average only in Fire Department operations staff and dispatchers. As of 2005, Monroe has 27.0 full-time Fire operations staff compared to 17.0 and 18.0 FTEs for Harrison and Springdale respectively. (Tipp City uses only volunteer fire fighters.) Additional details regarding staffing levels and service level demands of fire department employees can be found in the **operations** section of the performance audit. Monroe has 4.4 FTE dispatchers or 0.61 FTEs per 1,000 residents whereas the peers outsource dispatch operations. However, for this assessment, the classifications were combined since Monroe's dispatchers also perform records-keeping duties similar to the peers.

Collective Bargaining Agreements

The City Manager acts as liaison between the bargaining units and represented employees. The Director of Development is also involved in bargaining unit negotiations. The following four bargaining units have contracts with the City of Monroe:

- **Local Union No. 100, an affiliate of the International Brotherhood of Teamsters.** (Effective July 1, 2003 – June 30, 2006.) This agreement is for all employees in the classification of operator, laborer, meter installer/reader, and crew leader within the City Street and Water Departments.
- **The Fraternal Order of Police, Ohio Labor Council, Inc.** (Effective June 1, 2002 – May 31, 2005.) This contract represents patrol officers.
- **The Fraternal Order of Police, Ohio Labor Council, Inc.** (Effective June 1, 2002 – May 31, 2005.) This agreement governs sergeants working full-time within the police department. Preliminary labor negotiations began in February 2005 for both police

department bargaining units in an effort to reach a new agreement before the current contract expires on May 31. However, according to the City Manager, a new agreement had not been reached prior to the current contract's expiration date. Formal negotiations are set to begin on June 1, 2005

- **Local No. 3824 International Association of Fire Fighters.** (Effective January 1, 2005 – December 31, 2007.) This contract represents full-time employees in the classifications of firefighter/EMT and lieutenant and was re-negotiated for another contract term during the performance audit.

Because contractual issues directly affect the City's operating budget, many of the contract terms have been assessed for their financial impact on the City's General Fund. A comparison of Monroe's contracts to those of the peers was conducted to reveal or highlight discrepancies that could potentially be areas for cost reductions. Areas where disparities were noted are addressed in the recommendations. For the most part, contract terms are similar and equitable across all contracts, with the exception of required health insurance premium contributions for Police Department employees.

Noteworthy Accomplishments

Monroe has proactively taken steps with regard to human resources administration and management to help achieve fiscal stability. The following actions represent noteworthy accomplishments by the City:

- Reductions in staffing have been made without a significant loss in service levels in various departments including Administration and Streets.
- Successful negotiation of a zero percent increase in wages for Fire Department employees for 2005 was accomplished by the City. The City is in the process of negotiating with both Police Department bargaining units.
- Successful negotiation of a 10.0 percent employee share requirement for group medical insurance premiums for fire and teamsters bargaining units and for all non-bargaining unit employees was accomplished by the City. Negotiations for both Police Department contracts (set to expire May 31, 2005), are underway and the City hopes to achieve agreement on the same cost sharing requirement already in place for other employees.
- Equity has been established by the City among all employees with regard to their share of fringe benefit costs. For example, the City ceased paying 100.0 percent of the cost for family medical insurance coverage for the law director position and instead, now offers only single benefit coverage at the same 10.0 percent premium contribution rate required of other employees.

- Significant cost savings were achieved by the City by negotiating lower medical benefit levels for its base health insurance plan for employees electing to enroll in single or family group medical insurance. The plan allows employees to “buy up” to levels previously offered by making higher monthly premium contributions.

Assessments Not Yielding Recommendations

In addition to the analyses presented in this report, assessments were conducted on several areas within the human resource function which did not warrant changes and did not yield any recommendations. These areas include the following:

- **Salaries:** General compensation levels were reviewed and found to be comparable to the peers. Specific salary levels for administrators and department heads were also reviewed and found to be either lower than, or comparable to the peers and/or market standards. While current salary levels did not warrant any recommendations, practices with regard to granting cost-of-living-adjustment (COLA) increases are addressed in **R3.6**.
- **Workers Compensation:** The City participates in a co-operative group rating plan for Workers Compensation Insurance which is administrated through Gates-McDonald Company at a cost of \$45,000 for 2005. This represents a lower annual premium than the peer average of \$59,070.
- **Health Insurance Premiums:** Monthly premium rates were reviewed and compared to 2004 SERB survey results and peer information. Monroe’s core plan benefit levels were also compared to peers. The City’s management of fringe benefits, including insurance premium costs, employee sharing requirements, and key plan benefits were determined to be commensurate with regional standards and industry best practices, and in some cases, better than the peers. See **R3.3** for discussion regarding enforcement of employee sharing requirements.
- **Overtime Expenditures:** A review of overtime use and associated costs was conducted and compared to the peers. Overtime for Monroe was 4 percent of total personal services expenses in 2004.
- **Selected Collective Bargaining Terms:** Key contractual items were reviewed and compared to the peers. The following collective bargaining terms yielded no recommendations:
 - Classifications recognized (exclusion of supervisory personnel)
 - Probationary period
 - Overtime compensation rates

- Sick leave accrual
- Vacation accrual

Contract terms yielding recommendations are found in **R3.7**.

Recommendations

R3.1 The City of Monroe should revise its organizational chart to accurately reflect the structure and reporting relationships based on day to day operations. The organizational chart reviewed during the performance audit (as presented in the 2003 CAFR) does not show the existence of boards and/or committees, an indication of primary functional areas including payroll and purchasing, or where position vacancies exist. A revised chart that shows a comprehensive picture of the City's organizational structure can serve as a useful tool to both internal and external stakeholders, including city and state-level administrators or regulatory bodies, employees and citizens.

Over the past three years, the City of Monroe has undergone changes in its organizational structure through reductions in force or reluctance to fill vacancies based on its financial condition. While the organizational chart published in the city's CAFR appears to show more of the staff positions, each of the peer organizational charts indicate oversight by boards and commissions in relation to the overall structure (such as the Personnel Review Board). In addition, the organizational chart does not show the number of staff employed within each classification or vacancies that exist (particularly in high level management positions such as the Finance Director or City Engineer positions.)

Managing a Non-profit Organization in the 21st Century (Wolf, 1999) stresses the importance of an accurate organization chart with appropriate spans of control since direct supervision of each and every employee (particularly external employees reporting to various off-site locations) is impossible. An organizational chart that accurately depicts reporting relationships and levels of responsibility communicates who within the organization carries certain levels of responsibility and who to approach if operations go awry. Reporting and authority lines must be set up carefully to ensure that they meet internal control standards and are respected and followed (see the **financial systems** section). Whenever possible, employees should not be required to report to more than one supervisor. Leaders should be confident and capable, inspiring confidence in their employees. By adhering to this type of structure, leadership skills of management can be developed and conflicts that could arise out of poorly defined lines of authority can be avoided.

This becomes particularly true in situations similar to Monroe in which reduced staffing levels have necessitated increased workloads for the remaining employees. Over time, this can take its toll on employee morale and motivation. Based on past issues of leadership, accountability, and enforcement, which left the City vulnerable to mishandling of finances, Monroe should not underestimate the importance of updating and enforcing the organizational structure it approves.

R3.2 As financial stability increases, the City should consider increasing staffing levels as determined by the City Manager based on input from departmental administrators. The ability to acquire additional human capital is important to maintain or increase effectiveness, avoid decreases in employee morale, and maintain services levels to a growing population.

During 2004, the City reduced 5.0 FTE positions within Public Works through layoffs. The City has also delayed filling vacancies but has recently taken steps to fill two vacancies: 1.0 FTE Firefighter/EMT/Paramedic and 1.0 FTE Patrol Officer.

In the past, the City has had a full-time planning/zoning clerk. However, when the Administrative Secretary to the City Manager became vacant, the Planning/Zoning Clerk was given those responsibilities as well. In January of 2005, the Clerk of Courts started performing duties surrounding property maintenance (instead of outsourcing these) and also took on duties of overseeing sign code. According to the City Manager and Director of Development, all of the remaining employees have taken on additional responsibilities and duties in order to meet workload demands within the reduced staffing levels. During the performance audit, the Director of Development indicated that staffing would be increased to restore the full-time planning/zoning clerk.

Based on the analyses performed as part of this performance audit, a number of staffing changes are recommended. While the overall staffing changes primarily focus on areas in which staffing levels should be increased, one assessment yielded a recommendation for reduction. These areas are summarized as follows:

Proposed Staffing Additions

- 1.0 FTEs in finance (see **R2.5**)
- 1.0 FTE in police (preferably in a supervisory rank) (see **R4.1**)
- 7.5 FTEs in police officer classifications (either through expanded use of part-time staff or addition of full-time employees) (see **R4.2**)
- 1.0 FTE certified mechanic in the Streets Department (see **R4.10**)

Proposed Staffing Reductions

- 0.75 FTE in the clerk of courts (see **R4.14**)

By making these proposed staffing changes as financial conditions improve, the City will enhance its ability to maintain or increase service levels to the public and will bring departmental staffing levels more in line with the peers. (See **Tables 3-1** and **3-2** to view detailed staffing data by department.) In particular, by adding officers and supervisory personnel within the Police Department, the City could enhance its law enforcement

program and take steps to address recent increases in part I crimes. See the **operations** section for additional key statistical data.

Ultimately, the City should prioritize staffing needs in accordance with a formalized long-term strategic plan which includes mission and vision statements. For example, adding police officers in an effort to reduce crime rates may be seen as a priority over the addition of administrative support staff for planning and zoning activities. Systematic prioritization for increased staffing levels will help Council and City administrators make informed and well thought-out decisions regarding where resources should be focused and will increase the likelihood of eventually achieving desired service level goals.

Financial Implication: The financial implication for the staffing additions are contained in the **financial systems** and **operations** section of this report (see **R2.5, R4.1, R4.2, R4.10** and **R4.14**)

R3.3 The City of Monroe should seek to negotiate at least a 10.0 percent employee contribution requirement for Police Department employees enrolled in single or family medical coverage. The City recently negotiated this policy for all other bargaining and non-bargaining groups to help offset rising health care insurance premium costs. The City should also conduct regular reviews of employee contribution requirements, as well as key benefit levels, to ensure they are commensurate with peers and market standards. Lastly, the City should consider increasing the minimum number of hours worked to be eligible for insurance benefits from 24 hours to 40 hours per week.

Until this year, the City had not required employee premium contributions for health insurance coverage. According to the City Manager, as of 2005, all non-bargaining employees and members of the teamsters and Fire Department bargaining units were required to contribute 10.0 percent toward the monthly premium cost to help offset rising costs. Negotiations are underway to obtain the same terms for Police Department bargaining unit members whose contract expires in May of this year.

Although one of the fully insured peer cities do not have participant premium sharing requirements (Harrison), most public employers have implemented employee cost sharing. According to the 13th *Annual Report on the Cost of Health Insurance in Ohio's Public Sector*, a report on the 2004 survey results by the State Employment Relations Board (SERB) research and training section, premium contributions average 11.8 percent of the cost of single plan premiums and 12.3 percent of the cost of family premiums. For the Cincinnati region, contribution requirements are slightly lower at 8.7 and 9.9 percent, respectively.

In 2004 Monroe managed to save 9.0 percent in overall health care insurance costs over 2003 by switching from Humana to United Healthcare and negotiating slight reductions or changes in key benefit levels. Employees now have an option to enroll in a base plan or to “buy-up” to previous benefit levels by contributing more per month. The City should continue to work closely with its benefit plan consultants and carrier in an effort to help control expected annual increases in health insurance costs while monitoring fees and commissions paid for such services. According to the City Manager, the City is exploring the possible option of joining a consortium for its group health plan needs. The City should continue to pursue this option as a potentially cost effective way to manage rising health care costs. In the future, the City may consider implementing additional employee contribution requirements for dental insurance coverage when designing cost-efficient health care insurance plans.

Table 3-3a illustrates monthly premium costs for Monroe and the peers.

Table 3-3a: Health Insurance Premium Comparisons

City	Provider	Single Plan Monthly Premium	Single FTE Share	Employer Share	Family Plan Monthly Premium	Family FTE Share	Employer Share
Monroe ¹	United Healthcare (Base Plan)	\$210.17	\$21.02 (10.0%)	\$189.15	\$630.50	\$63.05 (10.0%)	\$567.45
Harrison	Humana	\$261.59	\$0 (0.0%)	\$261.59	\$837.09	\$0 (0.0%)	\$837.09
Springdale ²	Self-funded	\$115.96	\$25.00 (22.0%)	\$90.96	\$206.43	\$50.00 (24.2%)	\$156.43
Tipp City	Anthem	\$332.97	\$39.96 (12.0%)	\$293.01	\$911.44	\$109.39 (12.0%)	\$802.05
Peer Average	N/A	\$236.84	\$21.65 (7.0%)	\$215.19	\$651.65	\$53.13 (8.2%)	\$598.52
SERB Average ³		\$319.73	\$27.97 (8.8%)	\$291.76	\$862.27	\$85.38 (9.9%)	\$776.89

Source: City of Monroe and peers; 2004 SERB Report.

¹ Reflects cost for base plan. Employees may choose to purchase higher benefit plan levels at additional cost per month. This contribution rate is in force for all employees except bargaining unit members in the police department as of March 2005.

² Springdale is self-funded, therefore, monthly fixed costs are lower than for entities that are fully insured. Costs may skew the peer average.

³ Based on Table 1: Monthly Insurance Premiums – Medical Coverage for the Cincinnati region (pg. 6) of the 2004 SERB Report

As illustrated in **Table 3-3a**, Monroe's health insurance premiums are lower than the peer averages for both single and family plans. Employees enrolled in single plan coverage contribute 10.0 percent to the monthly premium which is more than the peer average of 7.0 percent and the SERB average of approximately 9.0 percent. Family plan participants also contribute 10.0 percent to monthly medical plan premiums which is above the peer average of 8.2 percent is commensurate with the SERB average of about 10.0 percent for the Cincinnati region. Overall, according to the City Manager, the annual cost to the City to provide medical insurance coverage is approximately \$480,000 or approximately \$40,000 per month.

In a separate group plan, the City provides dental insurance to full-time employees. **Table 3-3b** provides a comparison of dental insurance premiums.

Table 3-3b: Dental Insurance Premium Comparisons

Benefit	Monroe	Harrison	Springdale ¹	Tipp City	SERB
Premium cost – single/family					
Employee share- single/family	\$22.30/\$63.97 \$0/\$0	\$26.77/\$81.98 \$0/\$0	N/A \$7.50/\$15.00	\$18.33/ \$52.35 N/A ²	\$34.87/\$66.11 \$4.11/\$8.10 ³
Minimum number of work hours per week to meet benefit eligibility requirements	24	40	40	40	N/A
Deductible – single/family	\$50/\$150	\$0	N/A	\$100/\$200	N/A
Annual Maximum	\$1,500 (\$1,000 lifetime maximum)	\$1,000 (\$1,000 lifetime maximum)	N/A	\$1,000 (\$1,000 lifetime maximum)	N/A

Source: Client and peer negotiated agreements; 2004 SERB Report

¹Self-insured program; benefit levels are not predetermined.

²Employee share is included in the 12.0 percent monthly contribution for health insurance premium noted in **Table 3-3a**.

³Based on statewide contribution rates of 11.8 and 12.3 percent for single and family medical premium share reported in 2004 SERB report.

As shown in **Table 3-3b**, the monthly premium cost for dental coverage appears to be in line with the peers and the SERB average. As of 2005, Monroe employees are not required to make a monthly contribution toward dental insurance premiums.

In the future, the City may need to consider implementing a minimal contribution toward dental insurance premiums to help offset rising costs associated with providing this benefit. Based on the statewide average employee contribution rate reported in the 2004 SERB survey, the employee share of the premium cost for single and family dental coverage is \$4.11 and \$8.10 respectively. Similarly, the City should consider increasing the minimum number of hours worked for eligibility for insurance coverage to 40 hours per week, as is the case in peer cities. The City should continue to work closely with its benefit plan consultants and carrier in an effort to help control expected annual increases in health insurance costs while monitoring fees and commissions paid for such services.

Financial Implication: Implementing a 10.0 percent employee contribution requirement for Police Department employees enrolled in single or family medical coverage would save the City about \$759 per month in health insurance premium costs or approximately \$9,000 per year. According to the City Manager, negotiations are already underway to seek agreement on this matter.

R3.4 The City should review its policies outlined in the personnel policies and procedures manual and include specific guidelines by which management decisions should be made. A number of policies reviewed leave decisions up to the sole discretion of either the City Manager or department head. The City should update the manual to include sufficient specificity with regard to how determinations will be made by administrators or supervisors.

The City has developed a personnel policies and procedures manual to govern non-bargaining unit employees. The manual has not been updated to clarify or redefine policies, where appropriate, to ensure consistency between bargaining and non-bargaining unit employees. For example, the manual states that the regular work week shall consist of forty (40) hours, Monday through Friday. However, according to the City Manager, employees working at least 24 hours per week were considered full-time and, thus, eligible for health insurance benefits. While the City does not currently employ anyone working less than 40 hours per week who is receiving health insurance benefits, maintaining an eligibility requirement of only 24 hours of work per week to qualify for benefits could potentially become problematic and costly to the City. Therefore, Monroe should clarify, redefine, or otherwise amend its manual accordingly, perhaps by adding a “definitions” section which specifies the meaning of terms such as “full-time” and “part-time” to avoid confusion.

Tipp City provides an example within a city ordinance which outlines terms and conditions for employment of non-bargaining unit employees in which full- and part-time employees are defined as follows:

“An employee of the city regularly scheduled and expected to work 40 hours per week or more on a year-round basis and entitled to certain fringe benefits...”

“An employee of the city who is regularly scheduled to work less than 40 hours per week on a year-round basis and is not entitled to fringe benefits...”

While the contents of the personnel manual are presented as a means of providing information intended to help all employees better serve the public, some additional policies may lack specific information to govern employee behavior and guide management decision-making practices. For example, the personnel manual states that “approved lunch periods may or may not be considered as work time or as non-work time as each department head specifies.” While occasional matters or circumstances require the discretion of management, the City should update its policies and procedures manual to apply consistently and equitably to all employees and reduce management discretion where applicable. Finally, the manual should incorporate the City’s mission, vision and value statements and, as best practice standards for HR management indicate, the City

Manager should require personnel to sign and acknowledge receipt and understanding of its contents.

R3.5 Monroe should establish a policy which supports the value and importance of training for City Council members. Members of Council should avail themselves of training available through resources such as the Ohio Municipal League (OML) or other government or academic resources to enhance their understanding of matters

pertaining to municipal government and finance. The policy should charge the Council Clerk with maintaining a list of training resources available to Council members.

According to the Mayor, four members are relatively new to City Council (about 1 year of experience) and only two have been involved in some level of training related to municipal government, finance, or other areas linked to their duties as a Council member.

Among the officials serving on the 39,000 city councils today, a significant portion are unprepared to fulfill their authority roles. The task of educating city councils in governance requires a coordinated effort that takes advantage of resources from universities, the philanthropic community, and other government organizations to help prepare them for their governance obligations. The OML is a non-profit corporation developed to serve the interests of Ohio municipal government. The League provides training and a variety of special programs and services to cities.

In light of past financial problems that have resulted in the City being placed in fiscal emergency, Monroe should take advantage of training and resources offered by the OML to enhance knowledge and skills, and increase credibility with the public. Limited understanding of such issues could potentially leave the City in a more vulnerable position that could potentially lead to poor decisions or activities. By emphasizing training and education for its members, Council can learn to govern the City in a manner consistent with citizens' expectations of competent decision making.

R3.6 Monroe should seek to control and limit salary increases in future contract negotiations, particularly since the potential cost savings resulting from performance audit recommendations may not fully offset future projected deficits. The City should seek to hold step increases flat in FY 2006 for both bargaining and non-bargaining unit employees and equitably administer any cost of living adjustments (COLAs) determined to be affordable based on an annual review of financial conditions. The City should seek agreement from all bargaining units to make decisions regarding all wage increases based on fiscal stability.

According to the City Manager, employees received a 5.0 percent pay increase in 2004. In light of the fiscal emergency designation, efforts have been underway to limit wage increases as a cost-saving measure. In early 2005, the City negotiated a zero percent wage increase in its renewed contract for Fire Department employees. Negotiations are now underway to obtain the same wage agreement for Police Department employees whose contract expires May 31, 2005. Water and Street department employees covered under the Teamsters contract are scheduled to receive a 2.0 percent increase in January 2006 prior to contract expiration. According to the City Manager, eligible non-bargaining unit employees are scheduled to receive a 5.0 percent increase on the employee anniversary

date in 2005, at a net cost of approximately \$4,500. Employees at the top of the step schedule have not received an increase since the last COLA was approved by Council in 2002.

Even though salaries and wages are at or below the peer cities, Monroe recognizes it cannot continue to grant the same step and COLA increases as in previous years because of its current financial condition. To remedy the current issue regarding the granting of step increases, the City Manager would like to transition to a merit-based pay range structure which ties annual wage increases to employee performance evaluations. However, this proposal is still under development and has not yet been presented or approved by Council or the City's bargaining units.

Based on 2005 budgeted figures, the annual cost to the City for wages is over \$3.4 million. The proposed financial recovery plan incorporates a 3.0 percent COLA increase for all employees except those in the Police and Fire departments at a cost of \$26,730. However, based on the City's current and projected financial condition, it should seek to negotiate step increases conditioned upon an improvement in the City's financial condition. It should review financial conditions each year of the forecast period and then equitably allocate any approved COLA increase to all City employees. In 2006, a 1.0 percent COLA increase to all employees would cost the City approximately \$26,689. This does not include the cost for irregular use of part-time employees or overtime costs. See the **financial systems** section for further details regarding fund revenues and expenditures.

R3.7 During the next round of negotiations, Monroe should consider negotiating a reduction in the number of paid holidays by one day in order to ensure contract terms which are commensurate with the peers.

A review of Monroe's collective bargaining unit contracts revealed that the number of paid holidays was more generous than the peers. Monroe pays employees for eleven paid holidays compared to the peer average of nine. In order to bring its contract terms more in line with the peers, Monroe should consider negotiating a reduction of one paid holiday. While implementation of this recommendation would not represent a large cost savings to the City, by reducing out-of-office time, overall productivity could potentially be increased. Likewise, a small cost savings could be realized by reducing the amount of holiday pay to Police and Fire Department employees scheduled to work on holidays.

Financial Implications Summary

The following table is a summary of estimated cost savings resulting from the recommendations in this section of the performance audit. Implementation of recommendations subject to negotiations would require agreement from the affected collective bargaining units.

Summary of Financial Implications for Human Resources Subject to Negotiations

Recommendations	Estimated Cost Savings
R3.3 Require 10.0 percent monthly premium contributions for police department plan participants	\$9,000
Total	\$9,000

Operations

This section of the performance audit focuses on the City of Monroe's services and operations and includes performance reviews of the following departments:

- (A) Police Department,
 - (B) Fire Department,
 - (C) Streets Department,
 - (D) Income Tax Department, and
 - (E) Mayor's Court.
-

A. Police Department

Background

This section provides recommendations to enhance service levels and maximize efficiencies related to the City of Monroe's Police Department (MPD). The analysis includes comparisons with the police departments in the following cities: the City of Harrison (HPD) in Hamilton County; the City of Springdale (SPD) in Hamilton County, and Tipp City (TCPD) in Miami County. Additional comparisons were made with the data from the U.S. Department of Justice. Analyses of salaries, benefits and contractual issues are contained in the *human resources* section.

The City of Monroe's Police Department (MPD) serves to protect its citizens as well as those in the adjoining area of Lemon Township through a contract agreement, by enforcing federal, state and local laws. MPD is comprised of 21.5 full-time equivalent (FTE) sworn officers and 6.6 FTE non-sworn personnel. The Department serves a population of about 11,200 citizens in an area covering 18.3 square miles. The City lies in both Butler and Warren counties.

Sworn MPD personnel include the patrol and detective sections. The uniformed patrol section is responsible for the patrolling of the streets in the City of Monroe and Lemon Township. Uniformed patrol officers seek to prevent crime and to apprehend violators. The detective section is the investigative section of MPD which works to support the patrol section. Detectives are responsible for investigating all crimes within the City.

Dispatch, administrative support and other collateral duties are performed by non-sworn personnel. The Department is the only one among the peers to employ in-house dispatchers,

although these personnel also perform a significant number of clerical functions. Finally, several unpaid volunteers comprise an auxiliary unit, performing non-patrol tasks including assistance at community events, home vacation checks and transporting cruisers for maintenance.

Financial management within MPD is shared between the Chief and the City's Finance Director. As the City began experiencing financial problems within the Police Fund, reductions in expenditures were made to offset the deficit. These reductions in expenditures are reflected in **Table 4-1**.

Table 4-1: Monroe Police Department Expenditures, Three Year History

Organizational Code Description	FY 2002 Actual	FY 2003 Actual	% Change FY 2002 to FY 2003	FY 2004 Actual	% Change FY 2003 to FY 2004	Cumulative Change
Salaries and Benefits	\$1,336,650	\$1,431,110	7.07%	\$1,401,235	(2.09%)	4.80%
Services	\$227,358	\$160,803	(29.27%)	\$193,726	20.47%	(4.79%)
Supplies	\$73,628	\$77,238	4.90%	\$69,629	(9.85%)	(5.43%)
Capital Improvement	\$128,005	\$200,162	56.37%	\$45,434	(77.30%)	(64.50%)
Miscellaneous	\$792	\$2,132	169.19%	\$5,983	180.63%	655.42%
Total	\$1,766,433	\$1,871,445	5.94%	\$1,716,007	(8.31%)	(2.85%)

Source: Expense Account Reports for FY 2002 through FY 2004

MPD has reduced expenditures by 2.85 percent over the three year period with the bulk of the reductions occurring in FY 2004. Cost increases in salaries and benefits have been very modest, reflecting efforts to reduce overtime and maintain low staffing levels. **Table 4-2** shows several operating ratios for MPD and the peers.

Table 4-2: Police Department Operations Comparison, FY 2004

	Monroe	Harrison ¹	Springdale	Tipp City	Peer Average	% Over (Under) Peer Average
Cost	\$1,716,007	\$1,859,505	\$4,173,766	\$1,783,324	\$2,605,532	(34.1%)
Population	11,276	7,478	10,129	9,221	8,943	26.1%
Geographical Area	18.3 sq mi	4.0 sq mi	5.0 sq mi	7.5 sq mi	5.5 sq mi	232.7%
Cost per Call	\$134	\$420	\$262	\$285	\$322	(58.4%)
Cost per Citizen	\$152	\$249	\$412	\$193	\$285	(46.6%)
2004 Calls Received ²						
Total Number of Calls Received	12,974	4,424	15,948	6,267	8,880	46.1%
Calls per Patrol Officer FTE	961	305	608	440	451	113.2%
Calls per 1,000 Citizens	1,151	592	1,574	675	947.0	21.5%
2004 Part I and Simple Assault Crime Rates						
Violent Crimes	100	5	35	8	16	525.0%
Simple Assaults	218	N/A	37	23	30	626.7%
Property Crimes	670	271	1,117	284	557	20.2%
Part I Crimes per Officer	40	13	29	16	19	106.9%
Part I Crimes and Simple Assaults per Officer	51	N/A	30	18	24	112.5%
Part I Crimes per 1,000 Citizens	68	37	114	31	61	12.5%
Arrests and Citations						
Total Arrests	977	882	719	650	750	30.2%
Arrests per Officer	50.8	42.0	18.0	36.1	32.0	58.5%
Total Traffic Citations Issued	1,385	2,760	2,675	850	2,095	(33.9%)
Traffic Citations per Patrol Officer	102.6	190.3	101.9	59.7	117.3	(12.5%)

Source: Service Call information; Part I and Part II Crime reports; and arrest and citation reports for Monroe, Harrison, Springdale and Tipp City.

Note: Patrol Office ratios include patrol sergeants.

¹ Reflects 2003 crime data. Complete 2004 data unavailable at the time of reporting.

² Springdale could not separate calls received from the general public and those initiated by its own officers. However, the Springdale Chief reports the vast majority of calls represent those from the general public.

On a cost per call and cost per citizen basis, MPD is well below the peer average by 58.4 and 46.6 percent respectively. Likewise, efficiency levels are high as MPD officers respond to more than twice as many calls per officer than the peer average. Furthermore, Monroe experiences a higher number of calls per 1,000 citizens, about 21.5 percent more than the peer average. Only Springdale exceeds Monroe in the number of calls per 1,000 citizens. Part of the high call volume is attributable to the contract agreement and services provided to Lemon Township (see R4.4).

Monroe also exceeds the peer average in all Part 1 and Simple Assault crime indicators. Although Part 1 crimes per 1,000 citizens only exceed the peer average by 12.5 percent, the

number of Part 1 crimes per Officer and Part 1 Crimes and Simple Assaults per Officer exceed the peers by 106.9 and 112.5 percent respectively. This large variance is indicative of the low staffing levels within MPD and the corresponding high workload.

Finally, Monroe leads the peers both in terms of arrests and arrests per officer. Total arrest rates were 30 percent greater than the peer average, and arrests per officer (FTE) were 58 percent greater than the peer average. This reflects a small, general increase in crime which has been addressed with more effective investigation techniques. The MPD Chief stated that, despite the City's current financial condition, detective FTEs were increased over the past three years which has helped MPD maintain a high arrest rate. However, Monroe lags the peers in terms of traffic citations issued. This is attributed to reduced patrol manpower and the need to prioritize activities by addressing the most severe calls first. The MPD Chief indicated that he is encouraging officers to become more pro-active in traffic enforcement.

Noteworthy Accomplishments

During the course of the audit, several best and recommended practices were identified within the Department. These include the following:

- The Chief has started the process of redesigning the organizational chart to more effectively decentralize the chain of command. Although the process is not complete (see **R4.1**), the Chief is addressing the need to focus his time on the higher-level issues associated with his office.
- MPD uses auxiliary personnel (volunteer officers) to support full and part-time officers and augment staffing levels. Auxiliary officers provide the City with a low cost option to expand manpower for routine tasks or events that require a high degree of police presence, such as City events.
- MPD has reduced overtime expenses by limiting patrol manpower in non-peak times. MPD used a two year history of call activity to identify non-peak times and help mitigate the impact of overtime reductions on Department services. (See also **R4.2**).
- The Department actively searches for grants to support its activities. MPD recently received an \$8,000 DARE grant to help fund its school resource officer position.
- The Department uses cost-effective options to enhance officer professional development. For example, it recently coordinated with the Fire Department to provide training on first-aid and defibrillator use.

Assessments not Yielding Recommendations

During the course of this audit, several areas were reviewed that yielded no recommendations. These are highlighted below:

- **Jail Operations:** MPD does not operate a jail. It has a temporary holding facility that is rarely used. In almost all cases, officers transport prisoners directly to the Butler County jail.

Issues for Further Study

Additional areas were identified during the audit that may warrant examination by the City but were outside the scope of the audit. These are shown below:

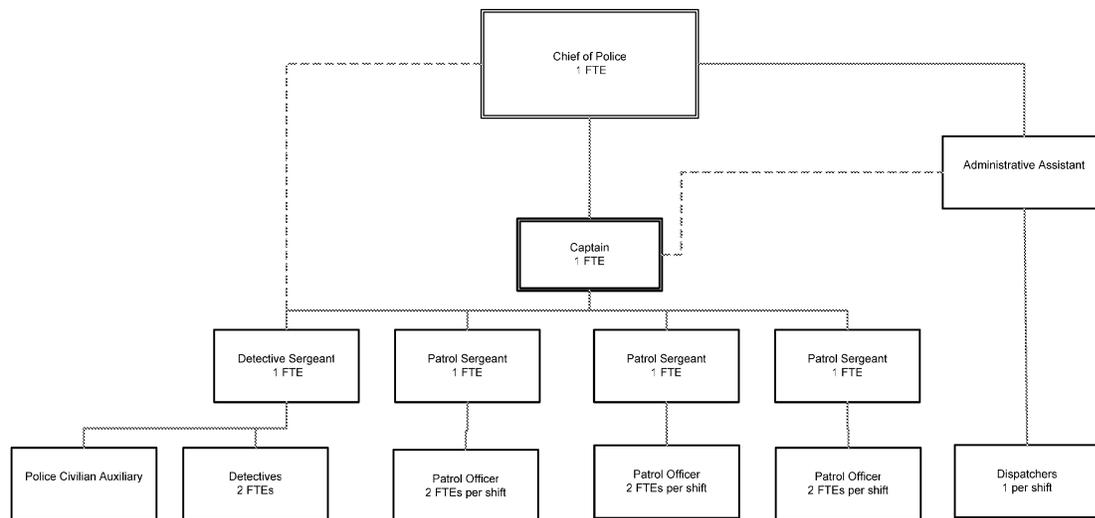
- **Commission on Accreditation for Law Enforcement Agencies (CALEA) Standards for Law Enforcement Agencies:** MPD is not CALEA accredited and the Chief has noted that the benefits of accreditation would not likely offset the cost for a Department of this size. However, the CALEA standards offer direction to growing departments and MPD should consider using the standards as a model to increase the levels of performance and standardization within the Department as City finances improve. (see R4.5)
- **Community Based Policing:** MPD discontinued community based policing because of the City's current financial condition and the low staffing levels and corresponding high service ratios. As the City's finances recover, MPD should study the feasibility of implementing community based policing, particularly in identified high crime areas.
- **Dispatch Operations:** MPD operates its own dispatch center for both fire and police. Its dispatchers are not 911 certified, so calls are initially received by Middletown dispatchers who stay on the line if medical instruction is needed, or transfer the call immediately to Monroe. Monroe's Dispatchers also perform records clerk responsibilities. Monroe does not track the costs associated with operating its own dispatch service and could not provide the amount of time staff spend in dispatch functions compared to records clerk functions. In addition, none of the peers provide dispatch services. Instead each of the peers is part of a county-wide dispatch service in their respective counties. However, at this time, no such county-wide system exists in Butler County. Monroe should take a leadership role in working with other cities in Butler County to explore the potential benefits of developing a county 911 system that would eliminate the need for separate entities to use valuable resources to provide this service.

Recommendations

R4.1 MPD and the Police Chief should continue to focus on span of control, supervision, and chain of command within the organizational structure. In the short-term, the Department should consider having the Administrative Assistant report directly to the Captain. In the near future, Monroe should consider the addition of a supervisory position, such as a Captain or a Lieutenant, to improve span of control, division of duties, and employee supervision within MPD.

Prior to November 2004, all MPD staff reported directly to the Police Chief. However, given the increase in Department size and workload over time, the Chief began to decentralize reporting relationships to more effectively delegate oversight. Non-rank officers now report to sergeants, who in turn report to the Captain. However, the Detective Sergeant maintains a dual report to the Captain and Chief, as the Chief has more experience in investigatory issues. Dispatchers are supervised by the Administrative Assistant. The civilian auxiliary unit is supervised by the Detective Sergeant. **Chart 4-1** depicts current reporting relationships.

Chart 4-1: MPD Organizational Chart



Source: MPD

When examining the reporting relationships in comparison to the peers, the MPD Police Chief has more direct reports. In addition to directly supervising the Captain, the Chief also shares direct oversight of the administrative assistant and detective sergeant. The two

larger peer departments, Harrison and Springdale, have only the captain/assistant chief position directly reporting to the chief.

While the Administrative Assistant assists the Chief, a sole report to the Captain would better clarify the chain of command for reporting issues and concerns. This is especially crucial given the recent decision to have the Administrative Assistant oversee dispatch personnel.

Given the growth of the city and Department responsibilities, as well as its current staffing levels (see **R4.2**) an additional supervisory position may be warranted, potentially at the captain level. The additional supervisory position should be used to cover absences among the shift sergeants to minimize overtime; oversee the detective bureau (reducing the amount of time the Chief spend on this division); and oversee collateral duties like supervising the auxiliary unit, and undertaking grant writing. The City should consider having this new position rotate shifts (such as Tipp City's relief sergeant) or create the position as a second shift position (such as Harrison's captain position) to help cover absences and otherwise provide supervisory assistance to second shift personnel.

Financial Implication: At the current pay levels, an additional captain would cost the City about \$71,500⁴⁻¹ annually. If the City elected to add a lieutenant position, the cost to the City would be slightly less.

R4.2 Given the growth of the City and the general increase in crimes per citizen, Monroe should prioritize restoring police patrol resources. In the short-term, it should consider expanding its use of part-time officers as the most cost-effective means to recover this manpower. However, the City should consider adding the equivalent of 7.5 full-time positions to ensure adequate police protection to its citizens.

Because of the city's financial condition, MPD began reducing patrol manpower in 2004. It eliminated the Department's juvenile/community officer position and stopped calling in a part-time officer to fill a fourth patrol slot when busy shifts were expected. MPS also has not filled a patrol officer vacancy, although it may fill this position pending an arbitration decision.

The MPD Chief continued reducing shift manpower in 2005 to reduce overtime. In 2004, all shifts were guaranteed three officers; any absence was covered through overtime or by calling in a part-time employee. Beginning January 2, 2005, absences falling within non-peak periods (3 a.m. to 7 a.m.) were not covered using overtime with the exception of emergencies. As a result, 56 hours each week may now be covered by only two officers.

⁴⁻¹ Assumes benefits at 30 percent of salary.

MPD's staffing levels are below the peer averages in most categories and overall. Likewise, the Department has fewer full-time employees than the peers on a per 1,000 resident and square mile basis. **Table 4-3** shows the staffing levels and key staffing ratios for Monroe and the peers.

Table 4-3: Staffing Levels and Key Staffing Ratios

Positions	Monroe ¹		Harrison	Springdale	Tipp City	Peer Average
	Budgeted	FTE	Actual FTE	Actual FTE	Actual FTE	
Sworn FTEs						
Rank FTEs						
• Chief	1	1	1	1	1	1
• Asst. Chief/ Captain/ Lieutenant	1	1	3	5	0	2.7
• Sergeants	4	4	2	3	4	3.0
Sworn, Non-Rank FTEs						
• Detectives	2	2	2	5	1	2.7
• Road Patrol Officers	11.5	10.5	11.5	23.25	11.25	15.3
• School/Community Officer	0.75	0.75	1.5	2.75	0.75	1.7
<i>Subtotal</i>	20.25	19.25	21.0	40.00	18.00	26.3
Non-Sworn FTEs						
• Clerical	1	1	3	8	2.5	4.5
• Dispatchers	5.8	5.8	0	0	0	0.0
• Other	0	0	1	1.5		0.8
<i>Subtotal</i>	6.8	6.8	4	9.5	2.5	5.3
Total Police Department FTEs						
Total Police Department FTEs	27.05	26.05	25	49.5	20.5	31.7
Police Department FTEs per 1,000 Residents	2.4	2.3	3.3	4.9	2.2	3.5
Sworn Officers per 1,000 Residents	1.8	1.7	2.8	3.9	1.9	2.9
Non-sworn FTEs per 1,000 Residents	0.6	0.6	0.5	0.9	0.3	0.6
Patrol Officers per Square Mile	0.8	0.8	3.6	5.3	2.2	3.7

Source: Monroe and peer HR and Police Department records.

¹ Includes 1.25 FTE part-time officers

² Includes civilian auxiliary staff that work routine hours.

Table 4-3 shows that MPD has 31 percent fewer police positions per 1,000 citizens than the peer average, including 38 percent fewer sworn officers per 1,000 residents. Adding to this workload is Monroe's large service area, as the number of patrol officers

(including sergeants) per square mile is 78 percent below the peer average. Although MPD has an equal number of non-sworn staff when compared to the peers, it employs dispatchers in-house whereas the peers contract out this service. When staffing levels are examined in relation to historical and current crime rates, the low staffing levels in MPD may have a negative effect on crime prevention and deterrence within the City. **Table 4-4** compares crime rates within the City of Monroe for the past four fiscal years.

Table 4-4: Monroe Crime Rates, Four Year History

	2001	2002	2003	2004	2004 Increase Over 2001
Total Part 1 Violent Crimes	44	48	88	100	127.3%
Simple Assaults	211	227	222	218	3.3%
Total Part 1 Property Crimes	554	597	579	670	20.9%
Total Part 1 Crimes per 1,000 Citizens	58.0	60.1	59.2	64.2	10.6%
Total Part 1 Crimes and Simple Assaults per 1,000 Citizens	78.5	81.3	78.8	82.3	4.9%

Note: 2004 assumes a population increase of 6.4 percent, which is the average annual increase since 2000. This would total 11,998.

Assuming that population increased at the same rate in 2004 as in prior years, **Table 4-4** indicates a notable increase in significant felonies and misdemeanor assaults per citizen. Part 1 crimes per 1,000 citizens have risen 10.5 percent since 2001, and part 1 crimes plus simple assaults have risen 4.9 percent. However, Part 1 violent crimes have more than doubled in the four-year period.

Table 4-3 illustrates the low patrol staffing levels within MPD. When compared to the peers, MPD staffing and crime indicators differ significantly in the following areas:

- Sworn officers per 1,000 citizens and patrol officers per square mile are 38 percent and 78 percent less, respectively, than the peer average;
- Calls for service per patrol officer and per 1,000 citizens are 113 percent and 22 percent greater, respectively, than the peer average;
- Part 1 crimes per sworn officer per sworn officer and Part 1 crimes plus simple assaults per sworn officer are 107 percent and 113 percent greater, respectively, than the peer average;
- Part 1 violent crimes, which consume significant police resources, are 525 percent greater than peer averages;
- Arrests per officer are 58 percent above the peer average; and
- Part 1 crimes per 1,000 citizens have increased 11 percent since 2001.

The United States Department of Justice annually surveys police departments for crime and other statistics. In 2003 it reported that Midwestern police departments serving

10,000 to 25,000 citizens employed an average 1.8 FTE police officers per 1,000 population. Monroe fell below this average in 2004 at 1.7 FTE.

The MPD has demonstrated that it is efficiently managing its limited resources, with costs per FTE, per resident, and per call for service far below the peer averages. It has limited departmental budget growth to less than 3 percent from 2002 to 2004 through reductions in shift manpower. It further intends to reduce overtime from 9 percent of personnel costs in 2004 to only 5 percent in 2005. However, evidence indicates that these cost and manpower reductions are impacting service levels. The total number of citations issued fell 45 percent from 2003 to 2004 to the lowest level since 2001. Also, arrests fell 7.3 percent from 2003 to 2004.

Consequently, the City must focus resource increases on expanding safety service levels. A short-term option for increasing manpower while minimizing costs entails expanding the use of part-time resources. Monroe significantly decreased the use of part-time staff in 2004 as a result of shift manpower reductions, although it still incurred overtime equaling nearly 9 percent of staff salaries and benefits to cover absences and emergency needs. However, in the 2005 budget, overtime has been limited to 5 percent of salaries and benefits.

Expanding the use of part-time staff would allow the Department to place officers on the street at a much lower cost than overtime or hiring a new full-time employee. For example, a part-time officer costs the city an average \$129.52 per shift, compared to a \$242.96 cost for a first-year full-time officer. The MPD Chief noted that there are challenges using part-time staff, including a high frequency of call-offs, logistical training difficulties and scheduling availability. The City also must invest the same initial training resources as needed for a full-time officer, but part-time officers are more likely to leave MPD employment for full-time employment elsewhere. To forestall a loss of resources, MPD should seek to convert part-time officers to full-time employment as finances allow. The MPD Chief indicated that, because of the initial costs associated with hiring part-time officers and reportedly higher turnover in part-time employees, the City might benefit more in hiring fewer full-time officers and increasing overtime for current officers.

In order to reach the peer average of sworn officers per 1,000 residents, MPD would need to add 13.5 sworn officer FTEs. Excluding Springdale, which has the highest staffing level of the peers, MPD would need to add 7.5 additional FTEs in the sworn officer category. This equates to 4.5 or 2.5 FTEs per shift respectively.

Financial Implication: The cost to MPD to add the equivalent of 7.5 FTEs in part time personnel would be about \$250,000 excluding costs for training, uniforming, and

equipping the officers. If these positions were filled with full-time employees the approximate cost would be \$474,000.

R4.3 MPD should develop and implement a capital replacement plan to ensure that, during lean financial times, critical capital needs are considered in the budgeting process. The capital replacement plan should include police cruisers (vehicle replacement) as well as smaller items such as computers, radar equipment, and personal equipment for officers. MPD should also consider, in conjunction with other City departments, using an in-house vehicle maintenance function. Because of the mileage and age of its vehicles, in-house maintenance could help MPD reduce costs for fleet maintenance (see also R4.10 in the Street Department section).

MPD does not have a capital replacement plan. Because of the City’s financial condition, capital and equipment purchases have been largely deferred. Also, through its contract with Lemon Township (see **R4.4**) MPD has received new police cruisers on a regular basis. However, when compared to the peers, MPD has an older fleet and higher mileage vehicles. **Table 4-5** shows the current fleet in comparison to the peers.

Table 4-5: Police Fleet Indicators, 2004

	Monroe	Harrison	Springdale	Tipp City	Peer Average ¹
Total vehicles	16	11	N/A	11	11
Total maintenance and repair costs	34,095	30,000	48,838	13,144	30,661
Average mileage	66,400	41,818	N/A	48,530	45,174
Average fleet age	5.0	2.5	N/A	2.8	2.7
Square Miles per Vehicle	1.1	0.4	N/A	0.7	0.5
Automated maintenance system used	Automated	Manual	Manual	Automated	N/A
Maintenance completed in house or outsourced	Outsourced	Outsourced	In house	Outsourced	NA

Source: MPD and Peer Police departments

¹ Peer average only includes those cities that provided data.

Table 4-5 shows that, when compared to the peers (excluding Springdale), MPD has an older, higher mileage fleet. Overall maintenance costs are higher than the peer average by about 10 percent. In part, this can be attributed to the age of the fleet and mileage (about 30 percent higher than the peer average). Furthermore, the large geographical area patrolled by MPD contributes to wear and tear on the vehicles. MPD patrols more than twice the geographical area per vehicle than the peer average.

The International City Managers Association (ICMA) in *Vehicle Replacement Planning 101: A Key to Meeting Challenges on the Road Ahead* (November 2003) recommends starting the development of a replacement plan by identifying key benchmarks (such as vehicle age and mileage) that would indicate a need for replacement and then

determining the time frames for replacement of the current vehicles in the fleet based on the benchmarks. In general, most police department try to replace patrol cruisers after 3 years or about 80,000 miles because of the high degree of wear and tear on the vehicles and the corresponding increase in repair costs for aging patrol cars. After benchmarks and replacement timeframes have been identified, the annual cost for replacement should be determined and discussed with City administration to determine feasibility. To ensure that smaller equipment is not ignored in the funding discussion, MPD should incorporate equipment replacement into its plan to cover smaller items like computers for the station and patrol cars, traffic enforcement equipment, and personal equipment for officers.

According to ICMA, the key challenge to any replacement plan is developing a funding strategy that supports the projected average expenditure requirements. Even with a detailed analysis and adjustment of replacement dates, there is still likely to be substantial volatility in year-to-year expenditure requirements. The use of a reserve fund is an increasingly popular method of financing replacement costs. Reserve funds overcome some of the drawbacks of using direct appropriations. The advantage of using reserve funds is the ability to limit the large swings in appropriation requirements that can result from using cash. However, maintaining an adequate fund balance is a challenge, particularly in years when the replacement plan does not call for large expenditures.

Financial Implication: Assuming MPD set-aside funds to replace four cars each year, the cost would be approximately \$80,000 annually.

R4.4 The City should renegotiate its contract with Lemon Township to better capture the cost of providing police services to township residents. Contract payments have not increased since the first agreement in 1993, although the township is placing an increasingly substantial demand on MPD resources. If township residents are unable to pass a safety services levy to contribute their share of costs to the City, the City should consider alternatives for collecting sufficient revenue to cover the cost of contracted services. Lastly, the Police Chief should document and seek to recoup all costs associated with providing services to the Township.

MPD has provided full police protection to Lemon Township through a service contract since 1993. Lemon Township comprises approximately 21 percent of the MPD's service population and 12 percent of its service area. However, Monroe is growing at a faster rate than the Township so these ratios are decreasing.

The terms of the original 1993 contract negotiated between the City and Township are still in effect, including a \$6,000 monthly payment to the city. The township has also voluntarily purchased two new cruisers for the Department every year outside of the contract (valued at approximately \$45,000). However, even with this contribution, Lemon Township payments comprised only 6.8 percent of all MPD expenditures in 2004.

Table 4-6 compares several aspects of service demands between Lemon Township and the City of Monroe.

Table 4-6: City of Monroe/Lemon Township Contract Analysis

	2003			2004		
	Total	Monroe Percentage	Lemon Township Percentage	Total ¹	Monroe Percentage	Lemon Township Percentage
Service population	11,276	78.2%	21.8%	11,998	79.2%	20.8%
Service area (sq. miles) ²	N/A	N/A	N/A	18.3	88.0%	12.2%
Calls received	13,400	70.9%	29.1%	12,974	70.2%	29.8%
Assault calls	72	51.4%	48.6%	78	43.6%	56.4%
Burglary calls	97	55.7%	44.3%	99	49.5%	50.5%
Domestic violence calls	175	40.0%	60.0%	210	49.5%	50.5%
Juvenile complaint	207	50.2%	49.8%	240	61.3%	38.8%
Sex offense calls	20	65.0%	35.0%	22	63.6%	36.4%
Theft calls	592	61.8%	38.2%	593	57.5%	42.5%
Citations issued	2,581	83.0%	17.0%	1,422	77.2%	22.8%
DUI citations issued	45	62.2%	37.8%	45	62.2%	37.8%
Driving under suspension citations	165	54.5%	45.5%	192	56.8%	43.2%
Arrests	1,054	65.7%	34.3%	977	62.9%	37.1%
Total cost per call	\$139.70	\$99.00	\$40.60	\$132.30	\$92.90	\$39.40
Revenue per call	\$139.70	\$131.00	\$8.70	\$132.30	\$123.30	\$9.00

Source: City of Monroe

¹ AOS population estimate based on average Census increases.

² 2003 square miles were not available for either entity, although Monroe officials stated the city has grown through annexation while the township has lost property.

Table 4-6 indicates MPD is dedicating substantially more resources to service Lemon Township than the City on a population and service area basis. Nearly 30 percent of calls for service originate in Lemon Township. Many of the service calls are attributable to major crimes which occupy larger amounts of police time. In these areas, Lemon Township call rates are almost equal to those for the City of Monroe (e.g. assault, burglary, domestic violence and juvenile complaints). The percentage of major citations and arrests within in Lemon Township are also much higher than the percentage of total population the township represents. Likewise, the percentage of calls, citations, and arrests attributable to Lemon Township increased from 2003 to 2004.

These increasing demands are placing a strain on an already understaffed Department (see **R4.2**), and diverting Department attention away from serving City of Monroe citizens. Lemon Township represents only a small section of one of the City's two patrol zones, yet the MPD Chief estimates a substantial majority of calls for service in this zone

originate from Lemon Township. He stated that the service level demands originating in the Township are hindering MPD efforts to conduct proactive activities like patrolling and radar enforcement which has contributed to the drop in citations issued.

Although the City could dissolve the contract and allow police service to revert to the Butler County Sheriff's Office, MPD would likely have to provide substantial services to Lemon Township through the mutual aid agreement among Butler County agencies, for which it would receive no compensation. Further, the potential lack of consistent patrolling could put Lemon Township and City of Monroe residents at greater public safety risk.

Lemon Township pays the City of Monroe for public safety services through local government funds it receives from the state, and would not likely be able to increase contract payments from this limited resource. Consequently, the City has approached Lemon Township trustees about placing a safety services levy on the Township ballot to help fund police and fire services. The City should use data gathered in this performance audit to educate Lemon Township trustees and citizens on the critical need to increase police funding support.

When the City renegotiates the contract with the Township, it should ensure that all intended payments are documented, as the City currently has no legal recourse to compel the Township to purchase police cruisers. Further, it should follow the example of the recently adopted fire contract with Lemon Township and negotiate annual percentage cost increases, as well as quarterly payment dates for improved cash flow planning. Lastly, it should base contracted amounts on actual service levels. The Chief should document service costs attributable to the Township using a "billing" model similar to that in use by the Fire Department.

Financial Implication: In order to reach a level of funding commensurate with its population served (a per capita basis), Lemon Township should triple its annual contracted service payment to about \$360,000 (an increase of \$240,000)⁴⁻². This assumes Lemon Township continues its contribution of about \$117,000 in payments and equipment contributions.

R4.5 MPD should finalize and implement standard operating procedures (SOPs) through its policy manual. SOPs should outline a clear mission for the Department and detail general guidelines and processes for personnel to follow. Additionally, MPD should ensure SOPs are distributed to all employees. Employees should acknowledge receipt and understanding of SOPs through a signed statement

⁴⁻² If the City chooses to adopt a service cost model, the increased cost to Lemon Township would be approximately \$119,000 based on the unrecovered cost per call of \$30.40 and approximate annual calls of 3,900 originating in Lemon Township.

maintained in the employee's personnel file. Finally, SOPs should be reviewed on an annual basis to determine if changes, deletions or additions are needed.

MPD does not have SOPs although the Chief is in the process of updating the Department's policy manual. The absence of SOPs, particularly in an understaffed department in a rapidly growing jurisdiction, may lead to inconsistencies in the application of federal, state and city laws and in policing processes. MPD risks increased liability as officers, without a standard to follow, may make individual decisions contrary to expected practices. This is particularly true in the case of part-time and auxiliary officers who may not receive the same level of on-the-job training in these areas as full-time employees.

The Commission on Accreditation of Law Enforcement Agencies, Inc. (CALEA), a leading authority on law enforcement operations, offers an accreditation program for the purpose of helping law enforcement agencies improve service delivery by offering a body of standards, developed by law enforcement practitioners, covering a wide range of up-to-date topics. Chapter 12 of CALEA's standards manual outlines what law enforcement agencies should implement as written directives for personnel. CALEA standards for law enforcement accreditation are useful to agencies regardless of whether they are undertaking accreditation.

CALEA states that the purpose of SOPs should be to establish a uniform decision making process and help make daily operations routine. Clarity in departmental policies reduces the chance of misunderstandings and also helps preserve institutional memory. Components of the written directive system should be suited for the specific communications needs and capabilities of the agency. The agency's written directive system should evolve from its legal authority, core values and mission statement. All agency personnel should have a clear understanding of their individual discretionary powers in carrying out their duties in accordance with agency written policy, procedures, rules and regulations. Clarity and rapid access to information are essential to effective implementation of agency written directives. Therefore, personnel should have easy access to SOPs to help ensure continuity and consistent application of the City's and Department's regulations.

The City of Belpre Police Department has developed SOPs that are very much like those outlined by CALEA's accreditation standards. The manual is comprehensive; covering a broad range of subjects such as personnel, use of force, patrol operations, communication procedures, and public/media relations. Each topic area is broken into sub-topics whereby the reader can gain quick access to information relevant to the matter at hand by simply turning to the appropriately indexed page. Likewise, the City of Trotwood, an agency that recently achieved accreditation, developed its SOPs in electronic format and has assisted other departments in their region in implementing aspects of the standards.

Finally, the City of Springdale is in the process of finalizing its accreditation materials and expects to obtain accreditation in 2005.

MPD should establish a SOP manual to ensure that staff has knowledge of all general orders, policies, procedures, and regulations pertaining to their work. A formal written directive system should provide employees with a clear understanding of the constraints and expectations relating to the performance of their duties. SOPs will also enable employees unfamiliar with all the Department's activities to be aware of the steps required to complete job functions. Furthermore, documented and enforced policies and procedures would serve to increase the level of accountability throughout the Department. MPD would need additional resources to implement a formal, written operating procedures manual as its current staffing and expenditure levels appear insufficient to sustain basic operations. MPD should seek to obtain sample SOPs to speed the development process. A cost for completing and implementing SOPs could not be determined, although the City of Springdale has a part-time employee dedicated to this function and the Springdale Chief noted that many departments allocate a full-time employee to develop and implement accreditation materials.

B. Fire Department

Background

This section provides recommendation to enhance service levels and reduce costs related to Monroe City Fire Department (MFD or Department) operations and to improve levels of service. Comparisons are made with the City of Harrison (HFD); Tipp City (TCFD); and City of Springdale (SFD), which have been selected as the Monroe Fire Department peers.

On October 1, 2000, the Monroe Fire Department became a division of the City of Monroe. Prior to becoming a division of the City, the Monroe Volunteer Firefighters Association was contracted by the municipality to respond to fire and EMS calls within the Monroe City limits. The Department currently covers 18.3 square miles which includes a contractual agreement to cover the unincorporated areas of Lemon Township.

Monroe Fire Department's primary role is fire suppression and hazardous situation mitigation. In addition to Fire Rescue and Emergency Medical Services, the Department provides many other valuable resources to the community. These resources include the following services:

- CPR classes;
- First Aid classes;
- Fire Extinguisher classes;
- Annual Fire and Life Safety inspections (includes equipment inspection/maintenance);
- Child Safety Seat Inspections;
- Smoke Detector Program activities;
- Fire Prevention activities; and
- Community events presentations.

The Department is active in educating the community. Fire extinguisher training, exit drills, fire safety evaluation and other requested training is provided to the community at no cost. Annually, smoke detectors and carbon monoxide detectors are given to the residents (in conjunction with the American Red Cross). Also, Monroe's Inspection Bureau is responsible for the annual inspection of over 250 businesses. In addition to this responsibility, the Bureau also reviews all industrial and commercial development and subdivision street plans, and monitors fire apparatus egress and fire suppression water lines.

MFD employees 23 Firefighter/EMT/Paramedic FTEs with 1 vacancy (authorized level of 24). The Department employees a Chief, an Assistant Chief, a Medical Director, an Administrative Assistant, 3 full-time lieutenants in addition to the firefighters, and an authorized level for a

Captain (currently vacant). According to the City Manager there is no immediate plan to fill the Captain vacancy.

Table 4-7 illustrates the Department's actual expenditures for FY 2002, FY 2003, and FY 2004.

Table 4-7: Monroe Fire Department Operating Expenditures ¹

Organizational Code Description	FY2002 Actual	FY2003 Actual	% Change FY 2002 to FY 2003	FY2004 Actual	% Change FY2003 to FY 2004	Cumulative Change FY2002 to FY 2004
Salaries and Benefits ²	\$1,640,964	\$1,884,739	14.86%	\$1,923,529	2.06%	17.22%
Services ³	\$556,242	\$318,080	(42.82%)	\$248,783	(21.79%)	(55.27%)
Supplies ⁴	\$71,311	\$15,768	(77.89%)	\$61,427	289.56%	(13.86%)
Capital Outlay ⁵	\$205,108	\$378,149	84.37%	\$26,555	(92.98%)	(87.05%)
Miscellaneous ⁶	\$25,837	\$6,117	(76.32%)	\$14,717	(140.57%)	(43.04%)
Total	\$2,499,462	\$2,602,855	4.14%	\$2,275,011	(12.60%)	(8.98%)

Source: Expense Account Reports FY 2002 through FY 2004

¹ Monroe had a \$1,733,397 advance out (loan payment) in FY 2003 and a \$24,000 refund in FY 2004 that were not included in this expenditure report

² Includes salaries/wages and benefits

³ Includes dues and subscriptions, utilities, communications, professional services, repair and maintenance, insurance and bonding, advertising, and contract services

⁴ Includes uniforms and materials/supplies

⁵ 2003 Capital Outlay was calculated using the capital outlay for Fund 205 Fire/EMS and Fund 206 Fire Levy

⁶ Includes travel/training, interest, tax delinquency, State fees, and misc. expenses

As shown in **Table 4-7**, expenditures for the Department increased slightly in FY 2003 then decreased in FY 2004. The overall decrease from FY 2002 to FY 2004 is about 8.46 percent. The decreases are directly related to spending controls implemented by the City to resolve its deficit. More notable decreases included a 55.27 percent cumulative decrease in services (such as attorney fees), an 87.05 percent cumulative decrease in capital outlay (reflecting the completion of the Main Street station) and a 43.04 percent cumulative decrease in miscellaneous expenditures.

Noteworthy Accomplishments

During the course of the audit, several best and recommended practices were identified within the Department, including the following:

- The Monroe FD recently enhanced its revenues by renegotiating its service contract with Lemon Township. The contract includes annual percentage cost increases and specific quarterly payment dates for improved cash flow planning.

- The National Insurance Services Office recently rated fire suppression services provided by Monroe FD with a 4 on a 1-10 scale (one being best). Only 15 percent of Ohio communities received a rating of 4 or better. ISO rankings directly impact property and casualty premium rates charged in a community.
- The Fire Chief meticulously gathers, organizes and analyzes management data related to the Department. Tracking operational data has helped the Department balance the demands of reducing costs while mitigating the impact on fire and EMS services to the community.
- The Monroe FD's collection rates for billing its EMS services are significantly higher than industry averages, indicating that the Department and its vendor are aggressively working to recoup costs.
- The Monroe FD recently adopted the practice of sending a small support vehicle along with the ambulance on emergency runs instead of a fire truck. This will save maintenance costs and delay replacement costs for the larger vehicles.

Assessments Not Yielding Recommendations

During the course of this audit, areas were reviewed that yielded no recommendations. These are highlighted below:

- **Fire Department Staffing Levels.** Staffing levels appear adequate for minimum manpower standards promulgated by the firefighting industry but are high when compared to the peers. However, as the City expands, the current personnel levels may be needed to ensure service levels continue at current standards. While initial staffing assessments appeared slightly high and indicated that the Monroe FD might be able to reduce personnel, given the rapid growth, MFD should maintain current levels and monitor services in relation to growth (see *Issues for Further Study* below).

In the past three years, service calls have grown by about 14 percent, while funding and staffing has decreased by 23 percent and 3 percent respectively. Monroe Fire Department averages 2.57 FTE per 1,000 residents compared to the peer average of 1.97. Monroe receives approximately 131 EMS calls per 1,000 residents compared to the peer average of approximately 111. Monroe receives about 34.5 fire calls per 1,000 residents compared to the peer average of about 49.5.

Issues for Further Study

Additional areas were identified during the audit that may warrant examination by the City but were outside the scope of this engagement. These are shown below:

- **Fire Department Staffing Levels.** The City should monitor its growth rate in relationship to staffing levels within the Fire Department. On an annual basis or when deemed appropriate, MFD should evaluate its ability to respond to the increasing demands for its services in relation to manpower levels within the Department. It should use benchmark data to determine if the staff levels are appropriate to address the demand for services.

The Harrison and Springdale Fire departments, Tipp City EMS, and the Monroe Police Department make substantial use of part-time staff to help supplement the full-time work force. If the Department considers the integration of part-time employees into MFD, it must consider the strategic management issues related to deployment, training, and development requirements, as well as needed core competencies and recruiting strategies.

Recommendations

R4.6 The City of Monroe Fire Department should begin charging insurance companies for material non-EMS costs involving auto accidents. The Department already follows best practice methods for billing of hazardous materials cleanup. Applying the same principles to non-EMS costs for auto accidents would help the Department better recoup service costs and offset operating expenditures. Similarly, the Department should institute fees for multiple false alarms.

The MFD applies service fees to basic (BLS) and advanced (ALS) life support for EMS services. City Council approves BLS and ALS rates and the Department works with a contractor to determine appropriate rates in relation to industry standards and Medicaid reimbursement rates. The Department also charges fees for hazardous material (hazmat) clean up. Charges for hazmat services are based on the hourly cost of personnel and basic per-hour rates for heavy equipment and are in-line with best practice standards. However, as shown in **Table 4-8**, MFD does not charge for auto accident services, as is the practice of two of the peers and an emerging service fee trend among municipal governments.

Table 4-8: Service Fee Comparison, Monroe and Peers

	Monroe	Harrison	Springdale	Tipp City	Peer average
False Alarm Fees	\$0	\$300	\$0	\$0	\$300 ¹
Auto Accident	\$0	L1: \$453 L2: \$495 L3: \$1,800 L4: 2,100	\$0	L1: \$435 L2: \$930 L3: \$2,235	L1: \$444 L2: \$712 L3: \$2092 ²
Inspection	\$0	\$0	\$0	\$0	\$0
Prevention	\$0	\$0	\$0	\$0	\$0
EMS Total	\$1,179	\$675	\$490	\$469	545
BLS	\$503	\$200	\$140	\$197	\$179
ALS	\$676 ³	\$475	\$350	\$272	\$366
Mileage	\$10.21	\$0	\$0	\$4.00	\$4.00 ⁴

Source: MFD and peer departments

¹ Only Harrison currently collects False Alarm Fees, however, in practice the city waives this fee if the entity can show proof that the alarm system was corrected.

² Only Harrison and Tipp City reported service fees for auto accidents. As L1 and L2 are relatively comparable but L3- L4 comprise different aspects of clean up depending on the City, the L3-4 amounts have been averaged.

³ Monroe ALS fee amount reflects its ALS1 fee. In addition to the ALS1 fee, Monroe has an ALS2 fee of \$865.

⁴ Only Tipp City currently charges mileage for EMS transportation.

As shown in **Table 4-8**, MFD's billing rates for EMS are the highest of the peers, indicating the City's effort to recoup service costs for EMS. Also, the Department charges mileage to ensure it recoups the cost of operating ambulance or transportation services for BLS and ALS clients. However, MFD is not recouping costs for providing services at auto accident sites nor is it recouping costs for lost time spent responding to

false alarms. In comparison to the peers, Monroe receives 17 percent fewer false fire alarm calls. However, these false alarms in FY 2004 totaled 117 for the City and 22 for Lemon Township. Also, though MFD tracked false alarm calls, it did not provide information on how many of the calls represented second, third or fourth calls to the same address.

The Fire Chief should approach City Council about setting rates for accident cleanup, scene stabilization, and other services associated with auto accidents that require Fire Department staff assistance. The Department should define service levels in a manner consistent with industry standards and Harrison and Tipp City. Likewise, it should request that Council apply false alarm fees to recoup service costs and encourage responsible use of alarms.

Several cities have instituted false alarm fees in recent years. The City of Cincinnati estimated that in 2003, responses to false alarms cost the City about \$500,000. Cincinnati, like Indianapolis, Seattle and many other large cities, has instituted graduated fines to recoup the costs for responding to false alarms. Most fee programs waive costs for the first two false alarms in a 12 month period. However, beginning with the third false alarm, fees averaging \$125 (for burglar alarms) and \$250 (for fire alarms) are applied and may escalate up to \$800 for multiple false alarm occurrences. Excessive false alarms or unpaid fees can result in non-response. Coral Springs has also instituted an alarm school to help teach citizens about responsible alarm use. Instituting a false alarm fee structure similar to Harrison and industry standards could help the City off-set response costs for false alarms and encourage responsible alarm use. If false alarms continue to escalate as the City grows, the Department might consider, in conjunction with the Police Department, implementing an alarm school to encourage appropriate alarm use.

Financial Implication: The Monroe Fire Department could collect a minimum of \$20,000 annually for its auto accident services based on the 50 accidents recorded in 2003 and the lowest peer service level cost of \$435. Because MFD could not provide information on how many false alarm calls represented repeated calls to a single address, a financial implication could not be calculated for false alarm fees.

R4.7 As the City emerges from fiscal emergency, it should consider a long-term strategy for replacing fire trucks and EMS vehicles. This should include a comprehensive capital needs assessment to prioritize replacement needs. Establishing a capital replacement plan would help MFD better prepare for large scale funding needs in future years.

The City of Monroe does not have a long-term capital plan for purchasing replacement fire trucks or EMS vehicles. The City replaces vehicles based on experience rather than

policy. **Table 4-9** shows that the City of Monroe's EMS runs have increased by 8.13 percent from 2003 to 2004 and 14.85 percent from 2002 to 2004. This will likely continue to increase given the community's growth and the high number of senior citizens, resulting in nearly 13,000 average miles annually for Department rescue squads. The number of runs has a direct impact on the longevity of EMS vehicles.

Table 4-9: City of Monroe EMS Runs from 2002-04

Year	Number of EMS Runs	Difference	Percent Difference from Prior Year
2002	1286	N/A	N/A
2003	1366	80	6.22%
2004	1477	111	8.13%
2002-04	N/A	191	14.85%

Source: City of Monroe Fire Department

The increased number of calls and the fact that the city also covers a large geographic area (18.3 square miles) is putting high mileage on the ambulances which may contribute to higher maintenance costs. **Table 4-10** shows the City of Monroe's vehicle maintenance statistics compared to the peers.

Table 4-10: City of Monroe and Peer Fire Dept. Vehicle Maintenance Table 2004

	Monroe ¹	Springdale	Harrison ²	Tipp City	Peer Average
Average Fleet Age	9.08 ³	8.58	9.86	9.8	9.41
Average Fleet Mileage	52,536.83	44,543.33	66,272.43	25,086.13	45,300.63
Total Maintenance and Repair Costs	\$36,075.93	\$11,519.11	\$52,269.75	\$1,469.17 ⁴	\$21,752.68
Average Maintenance Cost per Vehicle	\$3,006.33	\$959.93	\$3,733.55	\$146.92 ⁴	\$1,613.47

Source: City of Monroe Fire Department and peer reports and interviews

¹ The Monroe Fire Department has a 1923 Model T Ford for which they do not list the mileage. This vehicle was not taken into consideration in any of the calculations on this chart.

² The Harrison Fire Department is assigned, and runs at their discretion, three additional vehicles not used in any of their calculations because they belong to Harrison Township.

³ Included in the data for Monroe Fire Department is a 2000 Chevrolet Staff (Vehicle 43FD) that was noted in the data to be sold by sealed bid.

⁴ The amount of total maintenance/repair cost and average maintenance cost per vehicle for Tipp City is for their fire vehicles only. Maintenance over the last three years was taken for each vehicle and divided by three to get the average maintenance per year.

As shown in **Table 4-10**, the City of Monroe's average fleet mileage exceeds the peer average by 7,236.3 miles. The total maintenance/repair cost and cost per vehicle also exceeds the peer average by \$1,392.86 per vehicle, which could be attributed to the high mileage being put on the vehicles. Removing Tipp City from the peer average, as the city did not provide maintenance costs for EMS vehicles, increases the peer average to

\$2,347. Monroe is 22 percent above this adjusted peer average. In order to ensure the long-term viability of the fleet and control maintenance costs, the City should develop and implement a replacement plan.

There are numerous considerations to be taken into account when composing a formal vehicle replacement plan⁴⁻³. The plan should stipulate the criteria to be considered when making a replacement decision (e.g., minimum age and mileage requirements). In addition to age and mileage requirements, economical replacement plans also consider total maintenance/repair and fuel costs. These varying criteria need to be examined to determine the logical replacement of a vehicle. For example, a vehicle might have lower mileage and be of a newer vintage, but because of the amount of time it has idled on scene, the engine might be more problematic than vehicles that are older with more mileage. The varying criteria stipulated by a vehicle replacement plan would allow the City to make effective decisions regarding vehicle replacement.

The City must determine through service demands, vehicle condition, anticipated repair costs and other factors, which vehicles should be replaced first and how they should be funded. Funding options the City should consider include:

- **Long-term financing.** The City used this option with its last major vehicle purchase. While this allows payments to be spread over several years, it results in a higher overall cost due to interest payments.
- **Funded depreciation.** This option would allow the City to set aside purchase amounts in a special reserve, where it can earn interest toward the eventual purchase price. While this would allow the City to minimize interest payments (depending on how much is financed), it also delays replacing the asset.
- **Grant supplements.** More than 50 Ohio fire departments have supplemented the purchase cost of firefighting vehicles through the Assistance to Firefighters Grant Program from the Homeland Security Department, awarded annually since 2001. While many represented less affluent communities, some, such as Marysville and Olmsted Falls, have similar demographics. While the City is formulating the long-term purchase strategy, the Department could continually resubmit for this grant.

The City of Monroe's Fire Department cannot effectively budget for vehicle replacement without a formal plan. Although replacement criteria cannot account for all factors inherent in the decision-making process, a formal vehicle replacement plan provides organizations with an effective mechanism for linking criteria to projected budgets.

⁴⁻³ Pollack, Moody and McCaslin. *Light Vehicle Replacement Strategies – Meeting Your Company's Transportation Needs at the Lowest Cost.* (2001). Exley. *Fleet management: vehicle rotation criteria - law enforcement agencies.* (2002)

R4.8 The Department should continue to actively apply for grants, such as the Assistance to Firefighters Grant Program which assists rural, urban and suburban fire departments throughout the United States. Grant funding will continue to help support operations and equipment replacement.

Since 2000, the Monroe Fire Department has received approximately \$46,000 in grant funding for its operations. During the performance audit, the Monroe Fire Chief indicated the Department had applied for two federal grants. The department should continue to actively seek out and apply for grant funding such as the Assistance to Firefighters Grant Program (AFG). Funds from the Assistance to Firefighters Grant Program are dedicated to increasing the effectiveness of firefighting operations, firefighter health and safety programs, new fire apparatus, emergency medical service programs, and fire prevention and safety programs in local departments. Nearly 1,000 grants resulting in over 70 million dollars have been awarded to Ohio departments since 2001, including a \$114,000 grant to Springdale Fire Department, a \$55,271 grant to Harrison Fire Department, and grants to several Butler County communities.

Monroe Fire Department should consider and market its unique needs in applying for these grants, such as its fast-growing elderly population from the two large senior communities it services. For example, one AFG grant is specifically targeted toward fire prevention and safety for high-risk groups such as seniors. By marketing unique aspects of the community, Monroe Fire Department justifies a concern and rationale for additional funding for the Fire Department.

Some suggestions for writing grants according to <http://www.firegrants.info/> include:

- Be specific in your budget;
- Be judicious in involving others in your project;
- Make sure your letters of support for the project demonstrate real commitment;
- Be sure your narrative and budget are consistent;
- Customize each proposal;
- Specify who will do what by when and why;
- Use statistics to document need;
- Make your objectives measurable and realistic;
- Learn everything about the funding entity before submitting a proposal; and
- Submit good reports on time.

By continuing to participate strongly in grant seeking activities, MDF will increase its likelihood of receiving funds. Likewise, additional funding can be applied to critical equipment needs and continuing services valuable to City residents.

C. Streets Department

Background

This section provides recommendations to enhance service levels and maximize efficiencies related to the City of Monroe's Streets Department (MSD or the Department). Comparisons were made with the data from the American Public Works Association and the Salt Institute. Analyses of salaries, benefits and contractual issues are contained in the *human resources* section.

The primary responsibility of MSD is to maintain the City's infrastructure in a manner which ensures quality service to its citizens and prevents loss of useful value. The Department's responsibilities include maintaining public roadways, maintaining and mowing cemeteries and parks, and maintaining public street lighting and signs, and City vehicles (excluding police and fire vehicles). The majority of the Department's work is reactive -- addressing road conditions, potholes, and vehicle repairs on an as-needed basis. The City has entered into contracts for refuse collection, and cemetery mowing. Refuse collection for the City was contracted out to Waste Management, Inc. for a five-year period which started in February, 2001.

The Public Works Superintendent oversees both the Streets Department and the City's Water Department. Additional staffing in the Streets Department includes one crew leader and six operator/laborers. As part of the City's efforts to reduce costs, it eliminated five operator/laborer positions. The Public Works Clerk provides administrative support for both the Streets and the Water Department. In 2004 the Department did not use seasonal employees as part of the City's efforts to reduce expenditures. In 2005, MTD plans to hire four full-time seasonal employees to work during the summer months. The Superintendent has cross-trained Water Department employees to perform Street Department functions in order to maintain service levels. The Streets Department is also able to use community service workers from the courts⁴⁻⁴.

MSD maintains 142 lane miles of roads within Monroe's 16.1 square miles. It also maintains 10.8 lane miles through a contract with Lemon Township. The Department has a fleet inventory of 14 vehicles and 60 pieces of equipment. These include dump trucks, pickups, and specialized service equipment. Some of the equipment is shared between the Streets and Water departments, but are all maintained by MSD.

Table 4-11 details Monroe's Governmental Fund expenditures for activities related to streets, parks, and cemeteries for FY 2002, FY 2003, and FY 2004.

⁴⁻⁴ Those individuals sentenced to community service.

Table 4-11: Monroe Street Department Expenditures, Three-Year History

	Actual 2002	Actual 2003	Percentage Change	Actual 2004	Percentage Change
Salaries/Wages	\$ 437,693	\$421,806	(3.6%)	\$294,606	(30.2%)
Fringe Benefits	\$ 128,268	\$ 178,042	38.8%	\$100,164	(43.7%)
Contractual Services	\$ 374,725	\$ 368,371	(1.7%)	\$438,997	19.2%
Utilities	\$ 77,419	\$ 69,712	(10.0%)	\$101,106	45.0%
Supplies/Materials	\$ 179,526	\$179,741	0.1%	\$131,015	(27.1%)
Capital Outlays	\$ 522,307	\$36,150	(93.1%)	\$9,898	(72.6%)
Professional Services	\$37,025	\$132,359	257.5%	\$38,954	(70.6%)
Snow & Ice Clearing	\$ 22,501	\$88,809	293.8%	\$3,607	(95.9%)
Traffic Signs/Signals	\$7,294	\$12,051	65.2%	\$2,910	(75.9%)
Other	\$ 8,106	\$7,111	(12.3%)	\$6,829	(4.0%)
Total Expenditures	\$1,794,914	\$1,494,152	(16.8%)	\$1,128,086	(24.5%)

Source: Monroe's Expense and Revenue Reports for 2002, 2003, and 2004.

Table 4-11 shows that expenditures for MSD decreased in 5 of the 10 line items in 2003 and in 8 of the 10 line items in 2004. This is a result of the City's efforts to reduce expenditures across departments. Significant reductions occurred in salaries and wages, fringe benefits, and uniform costs because the City laid off four employees from MSD. Contractual expenditures increased as a result of the lower staffing levels. Supplies and Materials and Snow and Ice Clearing costs decreased because the former Streets Superintendent had built up a large inventory of salt and road repair supplies that were then used in 2004. Capital Outlay, Professional Services and Traffic Signs and Signals all decreased because the City imposed a moratorium on capital and nonessential expenditures.

Table 4-12 displays comparative data for Monroe and the peers' street departments.

Table 4-12: Comparison of Operating Ratios for Street Departments

	Monroe	Harrison	Springdale	Tipp City	Peer Avg.
Superintendent/Director	0.60	0.33 ¹	1.00	1.33	0.89
Crew Leader	1.00	1.00	2.00	N/A	1.50
Laborer ²	6.00	5.00	9.00	4.00	6.00
Inspector	N/A	N/A	1.00	N/A	N/A
Total Street Worker FTE	7.60	6.33	13.00	5.3	8.22
Lane Miles	153	90	110	101	100
Lane mile per FTE	20.13	14.22	8.46	18.95	12.21
FTE per 1000 population	0.67	0.85	1.28	0.57	0.92
Total Expenditures for Street Maintenance ³	\$638,839	\$451,533	\$846,756	\$441,168	\$579,819
Lane miles	153	90	110	101	100
Cost per Lane Mile	\$4,175	\$5,017	\$7,698	\$4,368	\$5,779
Total Department FTEs ⁴	8.10	6.66	16.00	5.53	9.4
Cost Per FTE	\$78,869	\$67,393	\$52,922	\$80,212	\$61,683

Source: Monroe and Peers, 2004 Expenditure Reports, and interviews

¹Harrison has a director of public services responsible for water, waste water and streets. For this analysis, his time is assumed to be split evenly between these departments.

²This classification includes Equipment Operators, Maintenance Specialist, and Laborers.

³Total expenditures does not include capital outlay or expenditures for parks and recreation.

⁴Total department FTEs includes administrative support and mechanics. Springdale has 2.0 FTE mechanics who service vehicles for other city departments.

Noteworthy Accomplishments

During the course of the audit, several best and recommended practices were identified within the Department. These include the following:

- In 2003, the City of Monroe Public Works Superintendent started using the byproduct from the water plant as a pretreatment for the roads. This brine solution has a 22 percent salt content and can be used to coat the roads before a snow fall to prevent freezing. The use of this byproduct eliminates the need to purchase pretreatment supplies.
- The City of Monroe Public Works Superintendent started cross-training employees from the Water and Street departments. The City also makes its own equipment in order to reduce costs of purchasing needed materials.
- Members of MSD and City Council have demonstrated exceptional cooperation during the heavy snow fall in 2004-2005. To provide MSD snowplow drivers with rest periods, City Council members who held commercial drivers licenses worked plowing shifts.

Assessments not Yielding Recommendations

During the course of this audit, several areas were reviewed that yielded no recommendations. These are highlighted below:

- **Service Levels** When compared to the peer cities, MSD offers comparable services and does not offer services that would be categorized as exceptional. Like several of the peer cities, certain functions are outsourced to reduce costs.
- **Staffing Levels:** When compared to peer averages, MSD employs 7.6 FTEs compared to the peer average of 8.2 FTEs. On a per lane mile basis, MSD has 20.1 lane miles per FTE compared to the peer average of 12.2. Also, MSD has 0.67 FTEs per 1,000 residents compared to the peer average of 0.92. Support employees also are comparable to the peers and total Department staffing is 0.72 FTEs per 1,000 residents compared to the peer average of 1.05 FTEs per 1,000 residents.
- **Pavement Management:** The City is in the process of contracting with CDS Associates, Inc. to develop a pavement management plan. The plan will detail the streets in the poorest conditions and identify process and funding priorities needed to keep roads in an adequate condition. At MSD, a four man crew uses tar kettles, dump trucks, and a pavement grinder on a skid loader in order to patch potholes and seal cracks. MSD uses grinding and repairing more frequently which is more expensive than crack-sealing but lasts longer. Hot patch is used except in winter months when it is not possible.
- **Street Maintenance Costs:** Monroe's street maintenance costs are below the peer averages. The cost per lane mile is \$4,175 compared to the peer average of \$5,779. However, these costs do not include capital outlay amounts (e.g. resurfacing and replacement).
- **Snow and Ice Control:** Monroe is comparable to the peers in its snow and ice control activities. Monroe has a higher number of miles per route than the peers and uses less salt per lane mile. In addition, Monroe does not use any single use salt trucks which means that the equipment can be used for other road maintenance activities. MSD is the only entity in the analysis using both a pre-wetting agent and substitute ice control materials. MSD's policy on prioritizing primary roads for snow removal is consistent with the Salt Institute's publication, *The Snowfighter's Handbook (4th Edition)*, which describes a sensible salting plan as one that provides for clearing snow and ice as soon as possible.

MSD uses two 12-hour shifts of four men each for snow and ice control. If a snow fall starts in the middle of a shift, then that shift works twelve hours from that point. While

this incurs overtime, MSD under-used its overtime by 2 percent in 2004 (3 percent of salaries as opposed to a budgeted amount of 5 percent of salaries). The City implemented a new policy requiring all residential areas to be cleared during daytime hours (7:30am to 3:30pm) as fewer cars are parked on the streets and less overtime is expended on secondary and tertiary roads. Bare road policies are in effect for primary roads only. All purchasing and equipment set-up and maintenance practices are in line with recommended practices.

Issues for Further Study

Additional areas were identified during the audit that may warrant examination by the City but were outside the scope of the audit. These are shown below:

- **Street Sweeping:** Total expenditures for street sweeping are approximately \$1,000. Streets are only cleaned once per year using a pick up truck with an attached *Sweepster* that has seven rotating heads. It takes one man approximately two months to sweep all roads within the City limits. The American Public Works Association's best management practices recommend that cities possess a comprehensive and integrated street cleaning plan. The quality of services should be defined by the frequency and methods of service that best meet the needs and goals of the community. Although Monroe does not expend significant amounts for street sweeping, it is an important component of street maintenance. The City should consider development of a plan that sets goals for this service and describes how these services will be provided.
- **Public Works Department:** The Public Works Superintendent oversees both the Streets and the Water Departments which can cause some confusion in terms of reporting relationships and the delineation of duties between the departments. The City should investigate the feasibility of establishing a fully combined Public Works Department. This may enable the City to use its staff to the fullest advantage, especially in times of low staffing numbers. The Superintendent has begun to cross train staff to maximize staff time available to complete projects for each Department.

Recommendations

R4.9 To ensure operational continuity, the Street Department should develop standard operating procedures (SOPs) that formally articulate key functions. Critical processes should be assessed, formalized and documented in a form similar to those developed in the City's other major departments. Comprehensive and relevant SOPs can serve as a management control and help further define processes that involve multiple departments, such as bookkeeping functions.

The MSD currently operates without written procedures stipulating how certain functions should be performed. Most activities, including street plowing and vehicle maintenance, are performed without the aid of procedural guidelines. Without SOPs, both the Water and Streets departments must rely on the institutional knowledge of the director and administrative assistant to effectively carry-out their duties.

The GFOA's, *Accounting Issues and Practices: A Guide for Smaller Governments* states that a policy and procedures manual can be a valuable tool in circumstances where a key employee is unexpectedly absent for an extended period of time. The manual can also be a tool for new staff when used for internal training purposes. According to the American Public Works Association (APWA), definitive guidelines should be provided to employees to accomplish their assigned tasks. Procedures are usually written documents that outline exactly how something will be accomplished. Routine functions within the following areas should be assessed, formalized, and documented in the form of SOPs:

- Pavement condition evaluation;
- Pavement management;
- Snow and ice control;
- Foliage control;
- Vehicle maintenance;
- Sign and signal maintenance; and
- Park and right-of-way maintenance.

SOPs will help ensure that uniform and routine processes exist within the Department in the absence of those staff members who maintain extensive institutional knowledge. Additionally, the formalization of overlapping functions in the form of SOPs could help define reporting relationships and delineate duties.

R4.10 The City of Monroe should implement a centralized garage to maintain all City vehicles, including police and fire vehicles. The City has garage space that is not being fully used that could be employed as a City garage. Centralizing this function

will allow the City to establish consistent guidelines for maintenance and reduce costs through economies of scale.

MSD employees perform all equipment maintenance in-house, except for engine replacement and other major repairs. MSD expenditures on fleet maintenance and repair were not reported in the City's 2004 expense account report. MSD's garage currently has unused space and the Department could accommodate other vehicle repairs without undue hardship.

The Monroe Police Department has been taking the police vehicles to Auto Technics, located just a block from City Hall, since 1990. While conveniently located, the Monroe Police Department spent over \$34,000 on vehicle maintenance and repair in 2004. The Monroe Fire Department sends vehicles back to the dealer if still under warranty or uses the local shop in other cases. The Fire Department spent nearly \$20,000 on vehicle maintenance in FY 2004.

In order to provide vehicle maintenance services for all City vehicles, MSD would need to clean the unused space and ensure compliance with all safety and fire codes. Also, if this recommendation were implemented, the increased workload would necessitate hiring an ASE certified mechanic. Likewise, diagnostic equipment, a lift, and a limited amount of inventory, including oil, filters, etc., would need to be obtained. MSD would need to purchase a four-post, 72,000 pound capacity, mobile column lift with 12" extensions and an auto frame to allow it to service larger vehicles. A State Purchasing Vendor estimated the lift cost at \$31,000. Employing an ASE certified mechanic would allow MSD to complete major repairs that are currently outsourced.

Financial Implication: Based upon the information from the Bureau of Labor Statistics, the average salary of a certified mechanic in local government services is \$18.04 per hour. Assuming that this individual would work a forty hour week, the financial implication would be approximately \$49,000 per year, including benefits at 30 percent. The lift would be an additional one-time cost of approximately \$31,000. The City would also incur expenses of an indeterminate amount to purchase additional supplies and diagnostic equipment. Based on the annual costs of \$54,000 for the Police and Fire departments, this recommendation would initially be revenue neutral but would allow the City greater control over vehicle maintenance activities and potential savings in the future as the City expands its services.

R4.11 The Streets Department should implement a formal preventive maintenance program for the maintenance of City vehicles. MSD should increase the level of preventive maintenance services and implement a more sophisticated work order tracking program to better monitor vehicle maintenance and associated costs.

The Street Department does not have a comprehensive maintenance plan for City vehicles and does not appear to have an effective preventative maintenance plan. The Department does not use any type of specialized computer tracking system for recording scheduled vehicle repair, work-in-progress, or tracking the of maintenance history of equipment. The Street Department maintains a manual work order system. Work order requests for vehicle maintenance are submitted to the technical service manager. Using a spreadsheet, the Public Works Administrative Assistant records all vehicle maintenance. However, the data lacks specific work details such as when the job was started and completed, or which mechanic performed the work. Moreover, the spreadsheet does not identify all parts used or total labor hours applied to the repair job. In addition, parts, fluids, or supplies that are purchased and used are not tracked by an inventory system. Monroe also does not use benchmark performance standards for vehicle repair work.

A vehicle preventive maintenance plan is important because it ensures that service will be minimally disrupted by vehicle breakdowns, reduces repair costs, and extends the useful life of vehicles. A quality preventative maintenance program should include these minimum procedures:

- Inspect the engine and related systems;
- Inspect and lubricate the complete chassis according to the manufacturer's specifications;
- Check the tires for pressure and condition (this will aid in improving vehicle fuel efficiency and tire wear); and
- Inspect all lighting and safety equipment.

As noted above, when preventative maintenance is performed, it should include more maintenance work than just changing the vehicle oil and filters. City trucks, vans and heavy equipment are major investments that need proper attention to all components and systems.

MSD should also consider purchasing a computerized fleet management software program. A specialized application would allow MSD to record and monitor vehicle and equipment processing as well as service and repair order information. Such a system would also provide various management reports to assist with parts, supply and inventory management. Additionally, the application could be used to maintain vehicle repair documentation and identify all repairs completed, parts used, vehicle mileage and comments regarding the condition of the vehicle. Last, the types of repairs completed should be tracked by vehicle to allow repeat repairs to be identified and explanations provided.

Without a preventative maintenance plan, the City may pay too much for repairs, not maintain an appropriate inventory, be unaware of vehicles needing to be serviced, and be unaware of prior repairs that have been made to a vehicle. This can increase the cost to maintain vehicles and equipment and potentially render the equipment unavailable for use in emergency or critical situations.

D. Income Tax Department

Background

This section provides recommendations to maximize efficiencies related to the City of Monroe's Income Tax Department (MITD or Department). The analysis includes comparisons with the income tax departments of the following cities: the City of Harrison in Hamilton County, the City of Springdale in Hamilton County, and Tipp City in Miami County.

The City of Monroe has a 1.0 percent income tax which applies to all income-generating persons who live, work, or operate a business in Monroe. All Monroe residents are required to file a tax return each year. The returns are calculated based on qualifying wages, commissions, and other compensation, as well as other taxable income earned or received by a resident or by a non-resident for work done or services performed in the City. Monroe has sought to increase the income tax rate by 0.5 percent on three different occasions. The proposed increase was rejected by voters in November, 2003; August, 2004; and November, 2004.

The Department is responsible for collecting taxes in accordance with the Monroe Income Tax Ordinance, as well as checking the accuracy of income tax returns and employer withholdings. Previously, the City outsourced income tax collection to the City of Hamilton. In 2002, the MITD was created to provide the City with more control over the collection, tracking, and remittance of taxes owed. The significance of the operations of the MITD to the City's overall financial status is apparent in the annual income tax collected which represented 62 percent of the City's General Fund revenues in 2004.

MITD staff consists of a Tax Commissioner, Tax Auditor and part-time clerical employee for a total of 2.5 FTEs. The Department is supervised by the finance director. The Tax Commissioner is responsible for the collection and enforcement of the City's municipal tax code. Additional duties include overseeing daily operations and preparing Tax Department reports for the finance director. The Tax Auditor is responsible for assisting the Tax Commissioner in carrying out daily operations, record keeping, and tax auditing. The part-time clerical position performs routine office duties. **Table 4-13** shows a comparison of the tax ordinances for the City of Monroe and the peers.

Table 4-13: Tax Ordinance Comparison

	Monroe	Harrison	Springdale	Tipp City
Year 2004 Tax Rate	1%	1%	1.5%	1.25%
Credit for Taxes Paid to Another Municipality	100%	100%	100%	100%
Mandatory Filing	Yes	Yes	Yes	Yes
Maximum for Employee Wages to Submit Quarterly	\$300 per month	\$200	All are quarterly	Per discretion of administrator
Age Limit	No	No	19	16
Late or Non-Filing Penalty	\$250	\$25	\$25	\$20
Penalty for Failure to Pay/Remit Taxes Due	3% of tax liability per month or \$50 whichever is greater Withholdings – 6% per month or \$100, whichever is greater	5% of tax liability per month	\$25 if fails to pay 70% of tax liability Withholdings – 2.5% per month	1% per month or 10% whichever is greater Withholdings-3% per month or 10% whichever is greater
Additional Penalties	Failure to file declaration : 10% of difference between 90% of actual tax due and the amount paid Failure to report new tenant occupancies: \$100	Failure to file declaration : 10% of difference between 90% of actual tax due (less credits) and the amount paid Failure of new residents to register within 30 days: \$100	Failure of employers to withhold and/or file a withholding return: \$25	Failure to file declaration : 10% of difference between 90% of actual tax due (less credits) and the amount paid
Interest Charges	Federal rate plus 3% per annum	8% per annum	1% per month	1% per month

Source: City of Monroe and peer income tax departments.

The tax ordinance comparison in **Table 4-13** shows that Monroe's income tax rate is lower than two of the peers. This is a result of recent actions taken by the two peers to increase tax rates. Tipp City's income tax rate increased from 1.0 percent to 1.25 percent on January 1, 2003. This 0.25 percent increase is for a period of 10 years and is to be used solely for the purposes of acquiring, expanding, improving, preserving and equipping municipal parks, facilities and associated recreational and historical assets. Springdale's earnings tax rate increased from 1.0 percent to 1.5 percent on July 1, 2004. In addition to the tax ordinance information listed in **Table 4-13**, Springdale also assesses a Transient Occupancy Tax, a Cinema Admission Tax, and an Entertainment Admission Tax. Monroe does have a Transient Guest Tax while the other two peer cities do not collect any additional taxes (see *Issues for Further Study*).

Key statistics and information related to the operations of the MITD and the income tax departments of the peer cities are shown in **Table 4-14**. The table includes both a peer average and an adjusted peer average that does not include Springdale. The adjusted peer average was calculated because Springdale's numbers skewed comparisons on staffing and collections due to the number of business accounts in its large retail center.

Table 4-14: Income Tax Operational Statistics

	Monroe	Harrison	Springdale	Tipp City	Peer Average	Adjusted Peer Average
2004 Tax Rate	1%	1%	1.50%	1.25%	1%	1.13%
2003 Population	8,821	7,478	10,129	9,285	8,964	8,382
Business Accounts	1,301	832	2,837	2,429	2,033	1,631
Individual Accounts	4,605	4,542	4,391	4,486	4,473	4,473
Withholding Accounts	938	534	1,681	N/A ¹	1,108	N/A
Total Tax Accounts	6,844	5,908	8,909	6,915	7,244	6,412
Total # FTE's	2.5	2.0	6.5	2.0	4	2
Total Personnel Costs	\$115,373	\$101,677	\$293,188	\$128,934	\$174,600	\$115,306
Personnel Cost per FTE	\$46,149	\$50,839	\$45,106	\$64,467	\$53,470	\$57,653
Accounts Processed per FTE	2,738	2,954	1,371	3,458	2,594	3,206
Personnel Cost per Account	\$17	\$17	\$33	\$19	\$23	\$18
Personnel Cost per Dollar Collected	\$0.04	\$0.04	\$0.03	\$0.04	\$0.04	\$0.04

	Monroe	Harrison	Springdale	Tipp City	Peer Average	Adjusted Peer Average
Collections						
<i>Residential</i>	\$601,803	\$414,055	\$420,360	\$365,670	\$400,028	\$389,862
<i>Business</i>	\$334,670	\$225,592	\$1,658,689	\$330,632	\$738,304	\$278,112
<i>Withholding</i>	\$1,846,374	\$1,812,380	\$7,353,205	\$2,428,633	\$3,864,739	\$2,120,507
Total Collections	\$2,782,847	\$2,452,028	\$9,432,254	\$3,124,935	\$5,003,072	\$2,788,481
Collections Per Capita	\$315	\$328	\$931	\$337	\$532	\$332
Collections Per Account	\$407	\$415	\$1,059	\$452	\$642	433
Delinquencies as of December 2003	\$46,724	\$18,083	\$380,640	N/A	\$199,362	NA
Delinquencies as a Percent of Total Collections	1.68%	0.74%	4.04%	N/A	2.31%	N/A
Per Capita Delinquency Cost	\$5.30	\$2.42	\$37.58	N/A	\$19.77	N/A

Source: Monroe and peer city income tax departments

Note: The number of accounts as of the end of 2003; collections based on the 2003 tax year, personnel costs are for 2004.

¹Tipp City was unable to report the number of withholding accounts or delinquency rates due to time restraints.

Table 4-14 shows that the City of Monroe was comparable to the peer averages in the following ratios: personnel cost per FTE, accounts processed per FTE, personnel cost per account, and personnel cost per dollar collected. In terms of collections per capita, MITD is 5 percent below the adjusted peer average. However, the collections amount for Tipp City is impacted by the increase in its income tax rate in 2003. Adjusting for this difference in rates, the peer average decreases to \$299 for collections per capita and to \$388 for collections per account. When an adjustment is made for the differences in rates, Monroe is higher than the peer average in both collections per capita and collections per account..

Noteworthy Accomplishments

During the course of the audit, a best practice was identified within the Department. These include the following:

- **Taxpayer Identification:** The City's ordinance contains provisions which facilitate the identification of additional taxpayers. The ordinance requires contractors and rental property owners to submit employee and/or rental residence listings to the MITD. This

requirement empowers the MITD to gain useful information to help maximize its efforts in identifying additional taxpayers.

Assessments not Yielding Recommendations

The following assessments were conducted but did not warrant changes or yield any recommendations:

- **Delinquency Rate:** Monroe's delinquency rate is 1.68 percent, and within expected tolerances. MITD employs many standard practices to ensure a low delinquency rate and high collection rates (see below).
- **Segregation of Duties:** A prior financial audit finding indicated the MITD lacked proper separation of duties during the 2003 financial audit period. MITD has implemented new procedures to segregate accounting duties between the Tax Clerk and the Tax Auditor. In addition, a staff person in the Finance Department reconciles the daily receipts to the actual deposit. These new steps provide improved internal controls within the MITD.
- **Records Maintenance:** MITD maintains tax records for 7 years which is 1 year beyond the time period recommended in the Ohio Municipal Income Tax Manual. Timelines for maintaining tax records are consistent with the recommended timelines.
- **Collection Practices and Additional Taxpayers:** MITD's collection practices are comparable to the peers and in line with recommended practices. The tax commissioner uses a number of external documents to ensure every person working and living in Monroe pays taxes. The Department receives copies of building permits, a list of utility customers, and uses a street map with all addresses to cross match the addresses in the computer system. Notices are sent when tax payments are past due by one month. A second reminder is sent after an additional thirty day period if no payment has been received. If a third notification is needed, an *Order to Appear before the Tax Commissioner* is sent. If there is no response, a summons to appear in the Mayor's Court is delivered by a Police Officer. If the party does not appear in court, a warrant is issued.

Issues for Further Study

An additional area was identified during the audit that may warrant examination by the City but was outside the scope of the audit.

- **Future Opportunities for Revenue:** The City of Monroe is projecting continued growth and has given consideration to future development which includes entertainment establishments such as the Wild Creek Development. While the City does have a

Transient Guest Tax, the City may want to consider additional revenue options if the proposed development comes to fruition. The City of Springdale has imposed a Cinema Admission Tax and an Entertainment Admission Tax to increase its revenues:

As the City of Monroe grows, officials should periodically review and amend, with voter approval, the tax ordinance to enhance future revenues. These taxes would increase revenues that could be used by the City to meet increasing costs associated with the new developments and associated increases in service levels.

Recommendations

R4.12 The Finance Director and the Tax Commissioner should develop standard operating procedures (SOPs) to properly prescribe the operations and duties of the Income Tax Department. By using SOPs, the Department staff will be well informed of City expectations. This will enable them to operate the Department in a manner to maximize efficiency in operations while mitigating risk of misstatements in financial reporting.

The MITD does not have written SOPs. The Department should have written procedures to serve as a guide on how to operate efficiently, accurately, and in compliance with laws and regulations. The City of Springdale has developed a comprehensive policy manual for its Tax Department. Springdale's policies and procedures include the following areas:

- General Tax Information,
- Type of Accounts/Account Status,
- Office Work Schedule,
- Mail Procedures,
- New Accounts/Questionnaires,
- Closed Accounts,
- MLNA (Moved Left No Address),
- Cash Receipts/Deposits/Separation of duties,
- Credit Card Procedures,
- First of the Month Procedures,
- Month-End System Close-Out,
- Extensions,
- Penalties/Interest,
- Penalty/Interest Waivers and Reductions,
- Tax Review Board,
- Mayor's Court,
- Pay Plans,
- Bankruptcy Procedures,
- Tax Letters/Follow-up Letters,
- Collections,
- Tax Refunds,
- Withholdings/Withholding Reconciliations and
- Records Maintenance.

Monroe's Finance Director and Tax Commissioner should use Springdale's manual as a template to begin its development of a similar document. The absence of a SOPs puts the Department at risk of being operated inefficiently.

R4.13 The Finance Director should ensure that the employees of the Income Tax Department receive the proper training on the use of the City's income tax software. By providing ongoing training, the staff can better perform the required job duties and maximize the functionality of the City's software. The City should use its software package agreement to obtain software training for the staff. In addition, the City should communicate to its vendor any software limitations it experiences to help develop future software enhancements that would benefit the operations of MITD.

The City of Monroe purchased a software system from Software Solutions, Inc. (SSI), which includes a financial system used by the Finance Department and the income tax module used by the MITD. The City's agreement with Software Solutions, Inc. includes the following training and support services at no additional cost to the City:

- Annual onsite technical visits which includes two visits per year that can be used for additional training;
- Training credits of \$750 that can be used for classroom or online training sessions;
- Dedicated support assistance to monitor support issues and provide assistance; and
- Annual fees paid by SSI for two people to attend the annual SSI convention.

Table 4-15 compares the capabilities of the SSI income tax software and the current level of use as reported by the Tax Commissioner.

Table 4-15: Software Capabilities vs. Usage

Task	Software Solutions	MITD Usage
Accept On-Line Returns	No (Available Spring 2005)	N/A
Generates Various Canned & Modified Letters	Yes	Yes
Track Property Owners & Tenants	Yes	Yes
Track by Street Address	Yes.	Yes
Document Imaging	Yes	Yes
Compare Residents to State Tax Files	No (Planned for future release)	N/A
Calculate Penalties & Interest	Yes	Yes
Export into Excel Spreadsheet	No	N/A
Joint Account Tracking	Yes	Yes
Statistical Management Reporting	Yes	Yes
Process and Track Refunds	Yes	Yes
Automatically Calculates Returns	Yes	Yes
Print 1099 G's	Yes	Yes
Reconciliation of W-2s with Withholding Accts.	Yes	Yes
Payment Plan Tracking	Yes	Yes
Monthly Penalty & Interest Posting	Yes	Yes
User Defined Field	Yes	No
Loss Carryover History	Yes	Yes.
Installment Plans	Yes	Yes
Querying and Reporting	Yes	Yes
User Level Security	Yes	Yes
Notes	Yes	Yes
Non-Compliance Tracking	Yes	Yes
Daily Reminder/Calendar/Scheduler	No	N/A

Source: Monroe's Tax Commissioner and Software Solutions, Inc.

Note: In addition to the Software Solutions capabilities listed, the software system has report writing function that enables the user to extract whatever date they desire to compile a report.

As shown in **Table 4-15**, MITD uses most of the features included within the software. However, the MITD staff has experienced difficulties in using the software system and described the software as not user friendly. The limitations noted by MITD include the following:

- **Various Canned and Modified Letters:** User must re-type letter if the letter needs to include information from combined years. The software processes a separate letter for each year.
- **Calculation of Returns:** User must manually total W-2 forms if the tax payer has multiple W-2 forms.
- **Carryover History:** User must manually input the carryover because the software retains information but does not automatically carry over data to the next year's return.

As a result, the staff is performing some functions manually instead of using the software. Increasing software use would create efficiencies in the Department and discontinue some of the current manual work. Many of the problems encountered by the MITD staff could be overcome through additional training.

The Minnesota's Office of the Legislative Auditor in *Managing Local Government Computer Systems: A Best Practices Review* (April, 2002) noted that local governments should ensure that the computer systems are managed by staff who have sufficient expertise and have received ongoing training to better use their software system capabilities. Since 2002, the Income Tax Department has received approximately 14 hours of onsite training by the software provider. While adequate, the training has not addressed some issues MITD staff has encountered.

Monroe could better maximize the software package support agreement and use it to provide training to the income tax staff. Additional on-site training would help ensure that MITD is effectively using the software system. Limited training opportunities have affected the employees' ability to perform tasks with ease by using the capabilities offered by the system. This has created employee frustration and led to retention of manual processes within the Department.

E. Mayor's Court

Background

This section provides recommendations to maximize efficiencies related to the City of Monroe's Mayor's Court (Mayor's Court or Court). Ohio Revised Code (ORC) Section §1905.01 allows Mayors of municipal corporations to establish a mayor's court. The court is restricted by Ohio statute to the types of cases it is allowed to hear, such as misdemeanor offenses and traffic cases. All other cases are required to go to municipal court or a higher court within the jurisdiction as set forth by the ORC. The City Council approves resolutions to set the rate of fines for City violations, such as traffic and criminal citations, zoning violations and tax delinquencies. The City's Mayor is responsible for submitting quarterly reports on the activities of the Mayor's Court to the Ohio Supreme Court (OSC).

Monroe's Mayor's Court is in session two times per month. The City's Law Director acts as the Prosecutor for the Court. The City contracts with a Magistrate to hear court cases and the Monroe Police Department supplies two officers who serve as bailiffs for the court. The court also employs one 0.75 FTE Clerk of Courts. The Clerk processes both traffic and criminal cases and is responsible for the day to day functioning of the court. The Clerk's responsibilities include:

- Issuing docket numbers;
- Recording and filing citations;
- Collecting, receipting, and posting bonds, court costs and fines;
- Reconciling and completing bank deposits; and
- Compiling reports for submission to the OSC.

Payment options permitted by Monroe include credit card, cash, personal check, and money order. The Clerk offers a payment plan to those unable to pay the balance of their fines. If the fine is not paid within the time frames specified on the citation or in agreement with the payment plan set up with the City, a bench warrant is filed. Ultimately if no payment is made within 30 days, a block warrant or license forfeiture is filed with the Ohio Bureau of Motor Vehicles. Individuals with block warrants cannot renew license plates until the past-due fines are paid in full. Also, individuals with license forfeitures cannot review their driver's licenses until the past-due fines are paid in full.

In the City's 2003 financial audit, concerns were noted regarding segregation of duties in the Mayor's Court. The audit report noted that the Clerk receives payments, records these receipts, and reconciles the cash receipts to the bank statements. In response to this concern, a staff person from the Finance Department began to review and sign off on the cash intake. For a

further discussion on issues related to the City's system of internal controls see the **financial systems** section of this report.

Noteworthy Accomplishments

During the course of the audit, the following commendable practice was identified within the Department:

- The Clerk of Courts has implemented improvements in the Court's filing system and initiated computerized reconciliations. The Clerk also improved spreadsheets already in use to better track data collected by the Court.

Recommendations

R4.14 To reduce City expenses while maintaining a similar revenue stream, the Mayor should consider discontinuing operation of the Mayor's Court. The Court can be disbanded at the Mayor's discretion. If the City pursues implementation of this recommendation, the Mayor should work with the City's Law Director to ensure all compliance procedures are met and establish a method to resolve pending cases. The City could then approach the County Municipal Courts in Butler County and Warren County to process its cases.

The Mayor's Court is not a required function of the City. Many cities and villages in Ohio do not have a mayor's court and instead rely on another court, such as a county municipal court, to handle cases from their jurisdictions. If Monroe elected to disband its Mayor's Court, the cases could be heard in the appropriate county court. Per the OSC, there is no written procedure for disbanding a mayor's court; however, it recommends the City, as a courtesy, could provide written notification to the OSC of its decision to disband the court.

Table 4-16 displays the Court's revenues and operating costs for the prior three years along with its budget for 2005. The operating costs do not reflect all costs associated with the Mayor's Court as the City does not have a cost allocation process to correctly allocate indirect costs to each department. **Table 4-16** also does not include the cost related to the police officers who serve as bailiffs for the court. These individuals are paid over-time for each court session for an average of eight hours per month.

Table 4-16 –Mayor’s Court’s Revenues and Operating Costs for FY 2002 through 2005

	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Budgeted
Mayor’s Court Revenues (General Fund)	\$59,999	\$109,593	\$85,393	\$100,000
Operating Costs ¹				
Wages	\$46,929	\$41,545	\$47,394	\$50,000
Benefits	\$10,651	\$11,446	\$12,230	\$12,000
Travel/Training	\$0	\$0	\$150	\$250
Contractual Services	\$9,709	\$11,330	\$11,171	\$15,000
Mayor’s Court/Supplies Etc.	\$831	\$601	\$460	\$1,250
Total Operating Costs	\$68,120	\$64,992	\$71,406	\$78,500
Net Revenue	(\$8,121)	\$44,601	\$13,987	\$21,500
Operating Costs as percent of Revenues	114%	59%	84%	79%

Source: City of Monroe’s financial reports

¹ Operating costs do not include police overtime or any administrative overhead costs.

Table 4-16 shows that most of the revenue collected by the Court is used to cover the cost of the Clerk of Court, the Magistrate and supplies. The City is generating little income to cover either the additional indirect costs of operating the Court or the costs related to the police officers who serve as bailiffs. In 2002, the Mayor’s Court operated at a loss, while in 2004, direct costs increased to 84 percent of the revenues collected.

Tipp City does not have a mayor’s court. The municipal court in that jurisdiction handles all court proceedings and citation remittances. According to the Miami County Municipal Court, all fines collected based on Tipp City ordinance are sent to the city in full, as long as the citations are not parallel to State ordinances. The Village of Baltimore in Fairfield County also recently disbanded its mayor’s court. After the Baltimore Council reached its decision to close its mayor’s court, the village notified the OSC and contacted County officials⁴⁻⁵. The Village entered into an agreement with the Fairfield County Prosecutor’s Office to process remaining cases.

Some of the identified benefits of closing the Mayor’s Court include the savings from eliminating costs of the Clerk, the Magistrate and other operating costs, including a reduction in the amount of time spent by other City administrators in overseeing the

⁴⁻⁵ According to the OSC, the mayor’s court can only be disbanded by the mayor of the municipality. The City should submit a written statement to the OSC notifying them of the entity’s decision to discontinue the court. All cases have to either be closed or transferred to another court (usually a County Court) by agreement.

Court. These costs would be eliminated while still maintaining the revenue stream. Additionally, disbanding the court would ensure that Monroe is not faced with operating deficits for this function as it was in 2002.

Financial implication: By disbanding the Mayor's Court, the City could save at least six months of the annual operating costs in 2005 which would be approximately \$39,000. Annual savings, including the cost for the bailiffs, would be approximately \$83,000. The City would continue to collect the revenues generated by the Court.

Financial Implications Summary

The following table summarizes estimated annual savings, costs and revenue and one-time implementation costs from the recommendations discussed in this section.

Summary of Financial Implications

Recommendations	Annual Savings	Annual Costs	Annual Revenue	One-time Implementation Costs
R4.1 Increase supervisory staffing within MPD by 1 FTE		\$71,500		
R4.2 Increase staffing levels using part-time officers by 7.5 FTEs. ¹		\$250,000		
R4.3 Implement replacement plan for fleet.		\$80,000		
R4.4 Renegotiate contract with Lemon Township to better cover the service costs to the Township. ²			\$240,000	
R4.6 Implement Fire Department charges for material non-EMS costs involving auto accidents.			\$20,000	
R4.10 Centralize garage functions within MSD.	\$54,000	\$49,000		\$31,000
R4.14 Disband Mayor's Court and use County court services	\$83,000 ³			
Total	\$137,000	\$450,500	\$260,000	\$31,000

¹ If these positions were filled with full-time employees the approximate cost would be about \$474,000. These costs exclude costs for training, uniforming, and equipping the officers.

² Cost range estimated based on per call cost (\$119,000) and per capital (\$240,000) basis. This represents an increase over the current contribution of about \$117,000 in payments and equipment contributions.

³ Starting in 2006



Robert E. Routson
Mayor

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William J. Brock
City Manager

July 8, 2005

Ms. Betty Montgomery
Auditor of State
One First National Plaza
130 W. Second Street
Suite 2040
Dayton, Ohio 45402

Dear Ms. Montgomery

City Council, the staff of the City of Monroe and I have reviewed the Performance Audit conducted by your staff. Being proactive, we have already begun to discuss how to implement several of the recommendations outlined in the report to supplement the positive changes that we have already made, which were outlined in the report. Further, we plan to supplement the audit by including departmental progress reports to ensure that the plan is being implemented.

We are glad to have had the opportunity to work with your staff, as they were very knowledgeable and conscientious in their efforts of our time and staffing constraints. Their work will be beneficial to the City in its recovery from fiscal emergency and its continued goal to operate in an efficient manner, providing the best services possible to our citizenry.

The City hopes that by following the recommendations put forth in this report and taking other positive and necessary steps that we will prove to be a good example of how the recovery process is to be managed. We will be glad to assist any future needs of your staff as they develop reports for other jurisdictions throughout the State.

Sincerely

William J. Brock
City Manager